

Corporate Social Responsibility

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A TLWNSI ISSUE ESSAY

Consumer Power in the Logic of the Market: Real and Direct Democracy in Pursuit of CSR

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Periodically, TJSGA publishes essays of relevance for The Living Wages North and South Initiative (TLWNSI). This essay argues that, given that governments have been co-opted by those who finance their electoral campaigns, there is currently no possibility of making corporate social responsibility (CSR) a comprehensive, mandatory and sustainable business practice. Today, fundamental issues, such as living wages, are systematically excluded from CSR practice. Hence, the pursuit of an ethos that genuinely responds to the demands of society has to follow the logic of the market. The power of consumers over corporations to stop harming people or the environment is far more likely to bring meaningful results than parliaments or multilateral organisations, which lack the political will or the power to establish a valuable CSR framework. In fact, corporations can become very competitive by securing consumer support whilst enduring a consumer boycott can be far more costly than incorporating sustainable business practices. The author illustrates his arguments by showing the natural disposition of consumers to support social causes and with real cases where consumer power has forced corporations to improve business practice and cases where their refusal to change their ways has cost them dearly.

□ INTRODUCTION

This paper is prepared from the perspective of civil society and under the context of true democracy, where civil society directly participates in the public matter on a permanent basis, so that

the public and private interests are reconciled and governments are made to truly work for all ranks of society and not for the owners of capital. Under this context, in real democracy, CSR is the major resource to make corporations behave in a socially-responsible manner, in the same way that individuals are expected to not harm others in the pursuit of their self-interest. Thus, good corporate citizens pursue their business without profiting over people or the environment. In the pursuit of their business goals, they must incorporate into their system the social, economic and environmental dimensions of their activity, so that their impact does not harm in any form all other stakeholders that interact in their business environs.

Yet this aspiration is still only a dream. Indeed, in the current representative democracy, CSR continues to be in its infancy due to the unwillingness of governments to regulate the natural excesses of capitalism. This lack of political will from governments to change this situation is the very reason why civil society needs to get directly involved in the public matter and act forcefully to change the current ethos. The so-called democratic governments and their multilateral agencies refuse to create an international CSR standard, legally binding and with teeth to bite corporations that misbehave. We remain with a mere set of principles and guidelines that are partial and clearly lacking in fundamental elements, and governments and businesses insist on a voluntary approach to CSR. Thus, corporations have taken the initiative. They typically create their own standards or use some other developed by coalitions of NGOs or multi-stakeholder initiatives. If they choose to use their own standards, these cover only the areas where they want to behave adequately. If they elect other standards or guidelines, these are usually so flexible that they leave it up to the user to discriminate the areas that they do not want to report to civil society. Furthermore, even if a corporation includes all the topics in the guidelines, this only occurs because the developers of the guidelines have typically avoided the areas of strong contention. And, to be

sure, there is no social penalty, much less any legal instrument, to penalize corporations if they choose not to report other areas where their activity is harming any of the three dimensions. In this way, CSR is becoming an *a la carte* instrument for corporations to look good without doing the public good: a mere public relations tool built into their communications strategy to capitalize on the supposedly good image that the gimmick will generate. In consequence, the only alternative that civil society has to create a genuine ethos of good corporate citizenship practice is, precisely, to practice direct democracy. This translates into getting directly involved to take the initiative and press hard on corporations in order to achieve a true and comprehensive CSR.

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□ THE STRATEGIC VALUE OF CONSUMER POWER

In the light of this reality, for civil society, consumer power becomes a fundamental and strategic CSR resource to make corporations become responsible corporate citizens. Some civil organisations have been advocating for years with legislators in different countries to pass legally-binding legislation on CSR with no success. Others have engaged different UN agencies, the EU, the OECD, or they have approached the responsibilities of corporations from a human-rights perspective.¹ But all we have are principles and voluntary guidelines and a clear signal that there is no political will whatsoever to go beyond this threshold. On the contrary, many nations, especially in the South, continue to pass legislation meant to make labour markets more flexible and environmental legislation more lenient for the benefit of corporations. Thus, it is clear that there is no opportunity whatsoever to currently make CSR, at the national level, part of business law to force corporations to change their current short-term, financial-markets-driven Darwinian business culture.

Yet, consumer power has the leverage to make corporations think differently and change their free-profit-seeking ways, because, by using the logic of the market, it can chip away bits of business that, in these times of savage competition, are extremely valuable when a fraction of a point of global market share may be worth hundreds of millions of dollars. Indeed, consumer power hits where it really hurts. Corporations are extremely sensitive to the perceptions, attitudes, values, preferences and decision-making process –and actual outcomes– of their target markets because this weighs in heavily on the eternal battle for market share, revenue and, ultimately, shareholder value. This is precisely why corporations attempt to maintain the initiative and make their customers perceive them as good corporate citizens.

¹ For further reference about CSR and Human rights see: The Jus Semper Global Alliance, The UN Sub-Commission on the Promotion and Protection of Human Rights has drafted norms that signal a possible advent of compulsory CSR but continue to legitimize a structure that generates sheer inequality between North and South, © September 2003 TJSGA.

Hence, if we make consumers aware about both the good and bad deeds of the owners of the brands they favour, the companies will react far more expediently and commit to sustainable business practices. If we have good deeds to expose, corporations will not waste the opportunity to bank on them to gain consumer good will and their patronage. If we have bad behaviour to expose, consumer awareness will make it harder for corporations to ignore the truth than to change their robber-baron practices. I must emphasize that this does not entail reaching hundreds of millions of consumers, it only entails strategy and creativity to move away a small fraction of their market share to make it more worthwhile for corporations to behave in a socially-responsible manner and benefit from it than to look the other way. In this way, consumer power is the most valuable resource to make CSR a meaningful and truly democratic discipline to change the current Darwinian capitalist ethos.

The Cost for Corporations of Consumer Boycotts

To illustrate this argument, I will use the case of the demand for payment of living wages. Multinational corporations (MNCs) pay diametrically different wages in their operations in the South vis-à-vis the wages paid in the North to equivalent workers that do the exact same task

in the production of items that are exported globally and marketed at global prices. MNCs – in real terms based on purchasing power parities (PPP)– do not pay equivalent wages to their workers in the so-called developing world as in the North, so that all of their workers can enjoy an equivalent quality of life with their salaries. In countries such as Mexico, Brazil and Argentina workers of global corporations earn between one fourth to as low as one eighth of what they should be earning in PPPs terms to be equally compensated, relative to their Northern counterparts. But, in countries such as Haiti and China, workers are paid a tenth or less of what they deserve. The gap is so wide that it would be completely unrealistic to demand that it be closed in one or even a few years. Thus, realistically, it would take one generation to gradually close the gap by increasing the real wages of workers in the South on an annual basis until the labour endowments are at par in PPP terms.

We assume in the example below that an MNC and civil society agree to a thirty-year plan to close the gap through small annual real wage increases. The case shows that losing a fraction of a point in market share –because of a consumer boycott– is far more costly than gradually paying living wages.

Cost of Investment in Responsible Labour Endowments Versus Cost of a Consumer Boycott

(in millions of dollars)

- *Industry's market value in sales revenue = \$20.000*
- *MNCs, Inc. Market share = 10% = \$2.000*
- *MNCs' South's production value = 50%*
- *MNCs' North's labour cost 30% = \$300 (of North's sales revenue)*
- *MNCs' South's labour cost 3,7% = \$37 (of South's sales revenue)*
- *South's equalized –in PPP terms– labour cost should be 16.5% = \$165*
- *Investment cost to close the gap by equalizing real wages in PPP terms = \$128 (PPP) (over 30 years). (This is how much the corporation would need to invest, at current prices, in order to compensate their workers in the South at par with equivalent workers in the North in terms of purchasing power).*
- *Cost of losing 0.50% (half a point) of global market share (in sales revenue) = \$100/year*

**Comparative Analysis of a Global Corporation's
CSR Investment Versus Refusal to Invest:**¹

- In the above example, the MNC has a business worth \$2 billion dollars, equivalent to a global market share of 10% in a \$20 billion industry;
- The MNC generates 50% of its global production in manufacturing plants in the South, which includes production outsourced with contractors located in several developing countries eager to offer cheap labour;
- The cost of labour in the North is equivalent to 30% of sales revenue, whereas it is only of 3,7% in the South because the MNC is exploiting its southern workers and paying less than one-fourth of what they should be earning in terms of purchasing power to be at par with their northern counterparts;
- In order to equalize compensations –in PPP terms– the company would need to increase its labour cost to 16,5% of the South's sales revenue –at current prices– or about \$165 million instead of the current \$37 million. The cost is still significantly lower than in the North because costs of living –using PPPs reported by the World Bank and the OECD– in the South are substantially lower;
- The additional investment (gap's size), at current prices, is of \$128 million, which will need to be increased very gradually under a thirty-year program. Since the economies of countries are dynamic and change constantly, the actual annual real wage increase needs to be revised every year by applying the revised PPPs that the World Bank and the OECD publish;
- The average annual CSR investment in nominal wage increases in the South is of 5% or \$4,3 million –at current prices
- If, instead, the corporation refuses to commit to closing the gap in thirty years, and civil society drives away one half of a point of its global market share of 10%, the annual cost in sales revenue would be of \$100 million;
- The breakeven point between the cost of the company's average annual investment of \$4,3 million, and the cost of losing \$4,3 million of sales revenue would represent a loss of 0,02% of global market share or a loss of 0,20% of global sales revenue.

¹For further reference about gradual wage equalization see The Jus Semper Global Alliance, The Living Wages North and South Initiative (TLWNSI), a strategic program to commit the private sector. © 2003 TJSGA. Available at www.jusemper.org.

The above example clearly illustrates that it does not take much in a boycott to make it far more expensive for corporations to refuse to be responsible than to gradually close the gap in thirty years, for it is not difficult to take away a quarter point or half a point of global market share through a consumer boycott. In the example, investing five thousandths (\$4,3 million) of global market share, equivalent to five hundredths of sales revenue, on an annual basis, until the gap is

closed in the span of thirty years, is an extremely reasonable investment in CSR. The example assumes that 50% of the production comes from the South. This is a high ratio. Thus, if the percent were to be lower, then the investment cost would be proportionally lower. Note that corporations should view the whole issue as a strategic business investment and not as a cost, for it has clear and tangible gains that can be made financially and otherwise.

Benefits

The choice of corporations to work with civil society on a comprehensive CSR program instead of risking a consumer boycott is a win-win situation for all stakeholders. There are specific and sound short and long-term gains to be made from good corporate citizenship practice:

Multinationals and Shareholders:

- Short-term: a positive endorsement of their actions before their target markets by organized civil society;
- Short-term: A competitive edge that can be exploited by incorporating it into the marketing and corporate communications' strategies to increase consumer loyalty, market share, sales revenue and ultimately shareholder value. A genuine and comprehensive CSR practice always contributes to the bottom line and more so with the support of consumers and civil society;
- Long-term: If most corporations become socially responsible, they can enjoy an expanded and far stronger and sustainable global market with many more consumers, a universal living wage and a global middle class. If the wage gap between North and South workers – following the principle of equal pay for equal work rendered– is gradually closed, the same principle of Keynesian-Fordist economics will take place –to put money in consumers' pockets, so that they can have access to products and services available–, which will generate aggregate demand through an increase in disposable income in the southern countries. Thus, global markets will expand; this is the only alternative to sustain the growth of a global market system;
- Long-term: A far stronger and sustainable direct market, guaranteeing sustained growth for the corporations with much stronger stock price to earnings ratios and dividend returns on investment.

Governments:

- Home countries (North): Trade and investment take a sustainable growth. Global debt decreases and is put under control as individual economies take off with a sustainable path;
- Host countries (South): Their social responsibilities are increasingly being fulfilled, reducing the gap between rich and poor and their middle class taking the central focus. The economy takes off at a sustainable pace, and as tax revenue increases and inflation and domestic interest rates decrease, domestic and foreign debts are reduced substantially.¹ Millions formerly excluded from the system are now included, generating a clear decrease in a wide array of social and environmental problems. Tangible results in social justice empower governments to remain in power through genuine democratic social support.

Workers:

- Short term: A less unfair compensation in the South, a reduction in the pace of transfer of jobs to the South and a release of downward pressure on wages in the North;
- Long term: A gradual equalization in total compensation in the South, over a reasonable period of time, relative to the standard of living of workers in the North;
- The complete disappearance of job losses in the North because of labour comparative advantages in the South;
- The generation, both North and South, of many new jobs due to the multiplying effects of a sustained growth of aggregate demand as a result of wealth re-distribution through wage equalization.

Consumers:

- A much stronger, more stable and sustainable global economy with its inherent benefits;
- An awareness of the companies that were socially responsible and of those refusing to cooperate, so that consumers can exercise their right of choice and vote their conscience in their consumer preferences;
- The perception that consumer power contributes meaningfully to create a truly democratic ethos on a global basis –a feel good experience about shopping responsibly.

Civil Society:

- A much less unfair global society at large;
- A far more participative democracy, with governments accountable to their people;
- A better world.

¹ Because economies take off at a sustainable pace, inflation and interest rates paid by banking systems to investors decrease. This increase central banks' reserves and enables them to stop borrowing further and paying off foreign and public debts as agreed or ahead of schedule.

From a strictly business perspective, consumer power is a double-edged sword. It can be a very beneficial strategic element for corporations or it can be a real obstacle in meeting profit goals and shareholder value. If corporations commit to a real sustainable practice of their business, they can increase their competitiveness by increasing consumer loyalty by incorporating the endorsement of civil society into their marketing strategy. Refusing to act responsibly can cost them far more in their bottom line than the investment required to change their current business practices.

Given the soft CSR that governments, multilateral organisations and corporations are advancing, the conclusion that the only way to have enough leverage to enforce a truly democratic CSR is through the power of consumer spending is rapidly emerging. If corporations work with global civil society, we would endorse them and drive consumers to support them through their spending. If they refuse to participate, we would call on consumers to act responsibly and take their business away from irresponsible companies and support those in the same line of business that are behaving responsibly. The rationale is anchored on the logic of the market.

The Case of Business-to-Business (B2B) Enterprises

The strategy of gaining consumer support through the practice of a genuine and comprehensive CSR would only work with consumer brand names, to be sure. Yet, there are tens of thousands of multinationals in this category. The B2B sectors where consumers are not the end users of their products or services obviously cannot be called to adopt socially-responsible business practices through consumer power. Nonetheless, these sectors can adopt good CSR through the pressure of civil society and, especially, through the pressure of their end users, who, in most cases, are many global business-to-consumer (B2C) corporations with big consumer brand names that are, in turn, very sensitive to consumer pressure.

One indication can be found in a British survey where 57% of small and medium-size companies have been asked by a large company customer for details of health & safety working practices, 43% have been asked about environmental

standards, and 17% have been asked for details on their commitment to or involvement with society and the community in which they operate.² Even in the current Darwinian business ethos, responsible business behaviour and practices help the bottom line of all companies.

The Strategic Value of Northern Consumers

A recurrent issue in the debate is that any degree of pressure to make global corporations commit to the practice of a genuine CSR carries the inherent risk of making corporations leave for friendlier heavens. Indeed, the traditional and preferred threat of corporations with host governments and/or civil society is that if they are bothered they will close the plants and move to any of the dozens of alternative countries where governments are eager to give them all they want and protect them from such nuisances as labour demands. However, through consumer pressure, this threat is absolutely a moot point. This brings us to another key strategic factor in consumer power. For MNCs their northern markets constitute 70% to 80% of their global market because of the lack of sufficient demand in the impoverished South. Many companies care little more than nothing about the potential in the South for market expansion. Many are quite content to bank on northern consumers to meet their business objectives and any additional business is seen as the icing on the cake. Many care about the South only for production at hunger labour costs and ship the bulk of the output to northern markets. Yet, these factors are a weakness in global corporate strategy that provide us with a key strategic strength, for we can focus on mobilizing northern consumers regardless of whether MNCs have plants in the South or whether they threaten to leave. Since northern consumers constitute the bulk of their global markets, if an MNC refuses to cooperate and moves to another country, it will be denounced in the exact same fashion and endure a consumer backlash with the same results as if it had stayed but refused to be a good corporate citizen.

Another strategic advantage is that northern consumers are far more educated, organised and aware about the need to eliminate robber-baron

² Business in the Community/ DTI Research, May 2002.

corporate behaviour than southern consumers. Northern consumers know that bad corporations prey on southern nations and hurt their own societies by moving plants to cheaper labour markets. Thus, they also have a vested interest in good CSR, other than altruism, and are far better organized than southern consumers. Hence, the results obtained in the North would be far more costly to the MNCs than in the South. In this way, if corporations refuse to adopt a genuine CSR or if they move their operations to other southern countries, consumer boycotts in the North, where it counts by far the most, would be launched all the same. With global corporations, the strategy is to focus on the mobilisation of northern consumers on a global basis; nothing to do with mobilizing the southern consumers of each country where corporate predators are active, because the former lack enough consumer power leverage and typically are less socially conscious. If northern consumers act as responsible citizens by shopping in an informed and socially-responsible manner, since they account for 70% - 80% of the MNCs' business, MNCs would no longer be able to threaten a southern country with moving a plant; for regardless of where they go, corporations would still be penalised with the same strength. Furthermore, the same strategy is valid against corporations that want to take northern jobs to the South to exploit southern workers.

Consumer Attitudes Toward Corporate Behaviour

MNCs miss the point that true CSR does not mean higher costs but a real investment opportunity to increase productivity through consumer support in order to achieve a sustainable market expansion. To be sure, leveraging consumer support to increase competitiveness and market share is a real and valuable business strategy to increase productivity. If civil society mobilizes to educate consumer behaviour from a social and sustainability perspective, we can leverage the double-edged sword of consumer power to make corporations behave responsibly. Consumers will give the competitive edge to good corporate citizens and penalize competitors that behave as robber barons. Corporations using CSR as a key element of business strategy to increase competitiveness can gain valuable market share

and productivity against those refusing to behave socially responsibly. Thus, from a purely market logic, educating consumers, with the help of unions and organized civil society, is a far smarter business strategy than the current speculative one.

From a consumer perspective, people want choices in their consumer decisions; and, in making those decisions, they appreciate knowing about the CSR behaviour of the corporations they buy from, so that they can include this dimension in their decision-making process and support those endorsed by civil society and reject those that do not. In a 2003 UK survey, 71% of all participants said they are positively influenced at the point of purchase or decision-making by a Cause Related Marketing programme.³ A central feature in the consumer mindset in democratic societies is that corporate greed cannot be placed above the welfare of society. Indeed, there is growing research evidence showing the natural disposition of consumers to support good companies if they are provided with the information regarding their social, economic and environmental behaviour.

In a 2002 survey of U.S. consumers by Cone, Inc., when asked about their reaction to acts of corporate social irresponsibility, 76% said they would boycott the offenders, and 91% said they would consider switching brands.⁴ In Europe, CSR Europe found that 70% of European consumers say that a company's commitment to CSR is important when buying a product or service, and 44% would be very willing to pay more for products that are socially and environmentally responsible.⁵ In the Millennium Poll, 17% of the general public across 23 countries reported that they had actually avoided the products of companies they perceived as not being socially responsible.⁶ This reflects the natural tendencies of consumers, with negligible effort from society and business to educate them,

³ Business in the Community, Brand Benefits 2003, supported by Research International, Dunnhumby and Lightspeed.

⁴ Cone, Inc. 2002 Cone Corporate Citizenship Study, Boston, United States

⁵ CSR Europe, The First Ever European Survey of Consumer's Attitudes towards Corporate Social Responsibility, MORI, September 2000.

⁶ Environics/IBLF, 1999.

in favour of good corporate citizenship. Hence, there is tremendous potential to tap unto consumer support for good corporate citizenship. It is a question of business savvy and political will to tap into the consumers' natural disposition to support the good guys and punish those insisting on predatory practices.

Consumer Organisations

A positive event in the consumer arena is the increasing involvement of consumer organisations worldwide that have the protection of consumer interests as their mission. They are beginning to participate in the current debate and in how standards and reporting should best be advanced from a consumer perspective. The vision expressed during the last UNCTAD of the largest of all consumer organisations, Consumer International (CI), a federation of 250 consumer organisations in 115 countries, is that the current state of CSR is weak with respect to the implementation of codes of conduct and remains convinced that voluntary codes have been and will continue to be insufficient. CI believes that consumer organisations can play an important role in improving consumer information and understanding of the social dimension of consumption and therefore put pressure on producers through their buying choices. CI also believes government and inter-government action is very necessary.⁷ CI is currently seriously considering the need for the development of a CSR standard from the International Organisation for Standardisation (ISO) and is working with ISO to decide whether an ISO standard will be developed. CI is vying for a comprehensive CSR standard that takes from other initiatives and acts as a bridge between national legislation and international Norms. Yet, CI believes that a possible ISO standard can only be a supplement to the many other tools and requirements for companies working with CSR; thus, it has made clear that it does not exclude the need for national legislation and the many other voluntary initiatives from civil society.⁸

⁷ Consumers International, Preparatory Statement for UNCTAD XI, 23 February 2004.

⁸ Consumers International position on Corporate Social Responsibility activities in ISO, June 2004

Fair Trade and Consumers

A case beyond the realm of this essay is the contribution that many organizations are doing to influence consumer behaviour by creating awareness in favour of the fair trade concept. The goal is to develop a consumer preference for fair-trade products, usually commodities such as coffee, from the South at minimally decent prices. These products are, otherwise, marketed massively by global MNCs that make a huge profit by controlling the price they pay to producers in the South, which is always a miserable price.

Changing the Business Mindset

In the current debate, some people argue that not using CSR to become competitive can make corporations put in risk the support of shareholders. Despite the absence of key business practices, such as living wages, there is an increasing number of so-called social-investment funds and other fund managers and shareholders demanding from corporations that they incorporate a variety of CSR practices into their business culture. In a 2000 UK Social Investment Forum Survey, of the top 500 pension funds, 59% of funds, representing 78% of assets, were now seeking to incorporate socially-responsible investment decisions into their investment strategies.⁹ For instance, the Association of British Insurers demands from insurance companies that they adopt CSR practices and has developed reporting guidelines in order to protect shareholder value.¹⁰ In another survey, over half of analysts and two-thirds of investors believe a company that emphasises its environmental and social performance is attractive to investors.¹¹ Nonetheless, addressing the needs of shareholders but not using CSR to address the needs of civil society risks losing the support of both consumers and, subsequently, shareholders when the costs of ignoring civil society hurts shareholder's interests. True CSR is a good thing for all players, for it is designed to achieve true global sustainability in the economic, social and environmental dimensions both North and South.

⁹ Ethical Investment Research Service, 2000.

¹⁰ Mark Thomsen. British Insurers Demand Corporate Social Responsibility. Social Funds.com, 30 October, 2001

¹¹ Investing in the Future, BiE's survey of City attitudes to environmental and social issues, BiE, May 2001.

The obvious question is that, if CSR is such a win-win situation, why is there so much reluctance among corporations to truly commit to a genuine and comprehensive CSR, since, in the best of cases, they only want to practice a selective CSR mostly to look good without doing the public good? The answer lies with the extremely short-term business mentality dominating the current business ethos. Global capitalism is dominated by a completely speculative mentality imposed by the managers of the world's financial markets. Institutional investors and individual shareholders demand results on a quarterly basis, forcing corporate managers to think extremely short term. Thus, the key element in pursuit of true CSR is to gradually change the corporate mindset from short term to long term. This change would be daunting if it were not for the power of consumer leverage. Consumer support, as explained above, will make the difference because it can contribute positively or negatively to the bottom line of shareholder value. The corollary is that the short-term business mentality can be gradually changed through consumers to include both short-term as well as long-term business strategy, imbued with CSR practices, which will increase the probability of the long-term sustainability of the business, for not doing so would be financially too risky.

□ DEMOCRACY, CIVIL SOCIETY AND CONSUMER POWER

Until now, little has been done by civil society to mobilize consumers in support of good corporations and against bad ones, despite the research evidence of the natural disposition of consumers to support good causes through their consumer decisions. One reason is that many civil society organizations consider consumer backlash or boycotts as a politically-incorrect strategy to force corporations to become responsible. Yet, the mere idea of being politically correct means that those segments of civil society that refuse to use consumer power are, on the other hand, allowing corporations to behave irresponsibly because MNCs know beforehand that these civil organisations will not resort to denouncing bad corporations before consumers and calling for boycotts. These social actors are placing political

"correctedness" above a truly-responsible corporate citizenship. Hence, many NGOs let corporations develop their own CSR concept at their convenience and, in a very irresponsible manner, after a questionable verification of a partial CSR report, they endorse them regardless of whether corporations exclude the areas where they know they are not being responsible. Other civil organisations put together multi-stakeholder initiatives that avoid "touchy issues", such as the issue of living wages, and make them readily available for the liberal use of corporations. This sector is not a true representative of the citizenry because it is playing the game that corporations want to play. As a consequence, for corporations, consumer boycotts are a remote and calculated risk, and indeed a very little risk so far. In this way, they consider their mock CSR only a tactical investment for public image.

To be sure, in today's CSR ethos, the issue of using consumer power is very divisive and polarised. Some NGOs refuse to deal with corporations and exclusively devote themselves to boycotts and denunciation of corporate social, economic or environmental misdeeds. Others want to establish an inclusive CSR ethos where all stakeholders, including corporations, are represented. And others go to the extreme of inviting corporations onto their boards and of even accepting grants from them, falling into an obvious conflict of interest, whilst, at the same time, pretending to be unbiased members of civil society that can verify the CSR reports of the same corporations and be objective about them. Corruption and hypocrisy do contribute a great deal to the current feebleness of CSR.

The fact is that it is indispensable to include the participation of corporations in the development of CSR, for their views should be conveyed. Including corporations does not entail capitulating to the demands posed by their very private business interests. It means giving them the opportunity to do the right thing and enjoy the benefits while becoming aware as well about the consequences if they do not.

Notwithstanding the above arguments, who determines what is the right thing? It should not be difficult to figure it out. It is a question of basic

common sense. If corporations profit over people because their earnings come at the expense of the welfare of the communities that they interact with directly or indirectly, such practice is not acceptable. In real democracy, the welfare of all ranks of society must always prevail over the private interests of corporations. Thus, they must change their business ways or be confronted by organized civil society, which represents the people and their communities. In this way, it is the communities and their civil organizations that should determine the proper codes of corporate social behaviour for a sustainable market system. In order for a market-economy social system to be sustainable all must receive an equitable benefit, and mainly the members of the social communities before the corporate shareholders. In real democracy it is the people who must define what is the right thing in terms of CSR, otherwise, we will continue in an oligarchy.

For civil society, it must not matter if, on the other hand, corporations have a big philanthropic program of charities and community involvement or even if they have a selective CSR program, only in the areas where they are willing to behave responsibly. Such actions do not give corporations the right to profit over communities in any way and, thus, they must eliminate their harmful practices. More succinctly: if corporations, in order to meet the demands of institutional investors to achieve the shareholder value that financial markets want, pay misery wages to some or all of their workers in any of their facilities, or they violate local labour legislation, or they sub-contract workers through outsourcers, or sub-contract their production in order to avoid responsibility, or they pollute in any form, or they destroy or put in peril the cultural heritage of the communities where they operate, or bribe government agencies that are supposed to enforce any type of business-related legislation; in sum, if they hurt in any way the economic, social or environmental dimensions of the communities where they operate, then they are liable before civil society and are obliged to completely eliminate these practices or suffer the consequences of calling on consumers to stop patronizing their business. In this way, to do the right thing, corporations must honour a CSR concept where no corporate practices harm in

any meaningful way the economic, social or environmental dimensions of their activities, as a result of the pursuit of any corporate goal. And, assuming that we uphold democracy as our social system, then the communities embodied in organized civil society are those who must determine what is the right thing and establish the proper CSR framework.

Corporations should never regard a comprehensive CSR as a cost. It is their social responsibility, which offers meaningful benefits if they fulfil it. If they honour a true CSR framework, they can use it as a powerful competitive tool to increase their business. It is only the perverse very short-term culture of quarterly shareholder value that makes managers reluctantly approach CSR. However, in a true democracy, the common good always prevails over the private good: the corporate good.

Upholding True Democracy in the Development of True CSR

In truly democratic societies the end is not the market, the market is only a medium to achieve the welfare of all ranks of society. The starting point is to determine what is and what is not acceptable in corporate practice. This has to be determined exclusively from a democratic perspective and not from a business perspective. The sole purpose of the emergence of what is called civil society is to place true democracy above all other interests. In these times where the world has been transformed into a global market place where global corporations are set free to thrive and achieve their maximum productivity and wealth, we are doomed to live in a market "corpocracy" unless democracy is upheld above the global market. True democracy is meant to establish a social contract where all stakeholders benefit from the system in a reasonably equitable manner. Thus, the sole purpose of democratic societies is to pursue the welfare of all ranks of society. Instead, in today's societies, governments work predominantly or exclusively to procure the welfare of the owners of capital, especially MNCs. Money has corrupted the entire political spectrum by allowing corporations and other capitalists to fund the campaigns of the majority of elected officials, and thus, the owners of capital set the public agenda according to their

interests. As it often happens currently, the market is allowed to impose the structure that generates the most benefit for those who control the market: the institutional investors and their corporations, at the expense of the vast majority of people. The legislative branches of most countries are increasingly passing legislation specifically designed to allow corporations to pursue their business at the expense of most other stakeholders. This is not true democracy but its mockery, where, in practice, *corpocracy* allows corporations, blatantly, to profit over people. Therefore, civil society is the only one who can change this course through direct democratic practice; and, in the specific case of CSR, it can only do so by wielding its consumer power.

To look at this problem from the perspective of the day-to-day real struggle between civil society and corporations, in defining a good corporate social responsibility framework, we can use once more the case of living wages, for it is emblematic of the connivance between many civil organizations and corporations to uphold soft CSR codes of conduct. Living wages is without a doubt the CSR element that generates the greatest degree of contention and disagreement between civil society and business. This is because wages is usually the single most important factor in determining the degree of productivity and efficiency for business as well as the most important element in determining whether workers are being fairly compensated and whether they can achieve a dignified quality of life. Wages also have a direct impact on the state of the economy. Misery wages depress the economy whilst living wages energize it.

Simply put, if corporations are making a profit whilst paying their workers misery wages, then they are exploiting people. If workers earn wages that barely allow them to survive, this is hurting not only workers and their families, but also the communities where they live and the economy at large because paying hunger wages works against the generation of aggregate demand and the overall growth of the economy through the multiplying effects. If disposable income at the household level is depressed, no growth of demand can be sustained and the economy will not expand. Moreover, from a democratic

perspective, allowing corporations to profit over people is going against the very principle of democracy: to procure the welfare of all members of society. On a global scale, if global corporations pay living wages in developed economies because democracy has advanced enough to achieve fair labour endowments, but the same corporations pay hunger wages to workers they hire in developing countries for doing the exact same job in the manufacturing of products that will be marketed on a global scale at a global price, then they continue to profit over people. They are a renewal of the robber barons of the Gilded Age in the U.S. of the XIX century.

Nonetheless, all Corporate-social-responsibility frameworks that I am aware of conveniently avoid the issue of living wages in any form. Currently there is no CSR standard requiring the payment of living wages. The CSR standards that require corporations to abide by the International Labour Organisation (ILO) conventions do not address the issue of living wages because these conventions only refer in a very vague way to the payment of minimum wages that should address the needs of workers and their families and the cost of living. But they do not state that minimum wages should be equal to a living wage, much less do they attempt to define a living wage, and when defining a minimum wage they use the general level of wages in the country and the relative living standards of other social groups in the same economy as the benchmark.¹² Thus, if the country's economy pays misery wages as a whole, there is no demand to change this ethos. The ILO does not address the injustice of thousands of MNCs profiting at the expense of workers by paying a tenth or less of what they pay in other countries for doing the exact same job, which in no way provides these workers an equivalent quality of life to that of their luckier counterparts in other latitudes. There is no ILO concept of equal pay (in real wage terms) for work of equal value in a global economy, especially in regards to global corporations. There is only the concept of equal pay for men and women for work of equal value, using as the benchmark the local economy.¹³ According to

¹² ILO Convention 131 and Recommendation 135

¹³ ILO Convention 100.

this logic, if men are being exploited, women should also be exploited at the same level but not more.

Another example clearly exposes the lack of political will prevalent among governments to uphold even current labour legislation. This is the case of Mexico with the North American Free Trade Agreement (NAFTA). Mexico actually has relatively good labour laws on the books, albeit there is no mention of a living wage; but the laws it has are predominantly not enforced. To make a real difference in the lives of Mexican workers, it would take outside pressure directly on corporations by consumers in the North to change the status quo. The illusory exertion of pressure on governments, to uphold their laws, through trade sanctions, heavy fines, or other mandatory penalties imposed by multilateral agencies will not take place because with all of them corporations rule. They are all permanently in connivance.

NAFTA was supposed to apply such pressure. The side agreement on labour requires Canada, Mexico and the U.S. to enforce their labour laws in 11 key areas. On paper, a pattern of non-compliance could trigger the appointment of an outside panel of experts to mandate a solution. However, the provision lacks an independent oversight body and real sanctions to be applied when violations occur –the leverage needed that NAFTA negotiators conveniently failed to include.¹⁴

The corollary is that civil society has to take a stand and demand corporations to provide fair labour endowments universally or suffer the consequences, for governments and their multilateral organizations will not change the current ethos. They will not pass any legislation that attempts to put in peril corporate welfare because corporations are their real constituents. Only the people, organized as civil society, can change this course. And the greatest leverage that it can wield is the flexing of the power of civil society as consumers.

¹⁴ Michael Massing, From Protest to Program. The American Prospect, 2 July, 2001

□ HOW MUCH LEVERAGE CAN CONSUMERS ACTUALLY DELIVER?

To regard the value of consumer pressure as politically incorrect is, in itself, a cynical argument when corporations and governments are constantly violating legislation and destroying any chance of sustainability. In reality, consumer spending is becoming a very legitimate and effective resource in forcing corporations to change their ways. There is a growing list of cases where consumer backlash forced MNCs to sit down with trade unions and NGOs to work out a plan to change their standards in some of their operations in the South and sometimes in the North. The behaviour of supermarket chains in developed economies illustrates good cases of robber barons' like-minded behaviour that extends into the realm of corporate governance. In the South, the behaviour of Nike, Mattel, Disney and other major brands in the Chinese province of Guangdong as well as in other Asian countries and Iberian America have been well documented by various NGOs.¹⁵

College Students as a Consumer Lobby

A good example is the case in central Mexico of Mexmode, an in-bond plant working for Nike. Mexmode, along with Mexican federal and local labour authorities, was forced to accept the right of workers to freely organize and replace a corrupt corporate-controlled union with their own free union. This was possible because Nike was selling all of its production with this contractor to many university campus stores in the U.S., and students –as consumers– organized a coalition in over 80 universities to boycott all Nike products. The strategy worked, and Nike, Mexmode and the Mexican government were defeated. The amount of business involved was very small for Nike, but the bad publicity and the fact that one of its more valuable markets –U.S. college students– became directly involved, proved to have more leverage than the benefit of maintaining a corrupt union. It should be pointed out that albeit Nike does not own the plant, it was forced to take responsibility for the business practices of this contractor, for it was the Nike brand and Nike business that

¹⁵ Business Ethics. Sweatshop Wars, The Economist, February 25th 1999

generated this practice in the first place. Nike contracted with Mexmode because, above all, it offered cheap labour. In fact, Mexmode is not even owned by Mexican entrepreneurs; it is owned by South Koreans who went to Mexico in search of cheap labour and a location close to the biggest market in the world.¹⁶

Companies tend to immediately react positively to civil society pressure even if they are not committed to observing good CSR. In another case associated with U.S. college students acting as a consumer lobby, PT Dada, a Korean-owned garment manufacturer in Indonesia, began to give in to organized civil society pressure. PT Dada produces goods that bear the names and logos of over twenty-five universities affiliated with the Worker Rights Consortium (WRC). WRC is an NGO created by U.S. college and university administrations, students and labour rights experts to assist in the enforcement of manufacturing Codes of Conduct adopted by them. The companies that buy college logo goods from PT Dada include Top of the World, Inc. and American Needle and Novelty, Inc. PT Dada also produces non-collegiate goods for several well-known manufacturers and retailers, including Adidas, Disney, Old Navy and the Gap, among others. The Assessment Team, put together by WRC, from Indonesia, Australia, South Korea, and the U.S. audited the factory. The group sought evidence to confirm allegations that PT Dada fails to comply with WRC's Codes of Conduct in areas such as health and safety, sick leave, annual leave, homework, maximum hours, overtime pay, medical benefits, verbal, physical and sexual harassment, and retaliation against the exercise of rights of association. The preliminary assessment found that PT Dada was beginning to make progress to comply with WRC standards¹⁷ and, six months later, it was still improving labour conditions in the plant.¹⁸ To be sure, the

¹⁶ Student Support on U.S. Campuses for Workers at Nike/Reebok Factory in Mexico Helps Secure Unprecedented Union Victory. United Students Against Sweatshops. Press release of October 11, 2001

¹⁷ Worker Rights Consortium. WRC Assessment re PT Dada Indonesia. Preliminary Findings and Recommendations, pp 3-10. March 26, 2002

¹⁸ Worker Rights Consortium. WRC Assessment re PT Dada Indonesia. Remediation Progress Report, pp 4-5. September 29, 2002

assumption is that the plant will stay under permanent monitoring as long as it continues to supply goods for the university coalition. The real possibility of the universities cancelling the contracts is the leverage that WRC is using to force the brands involved and the plant to comply. This does not mean that the WRC includes all the right standards or that all standards are currently met, but it is a step in the right direction, far more effective than attempting to force compliance through government agencies. In fact, at the time of the audits in 2002, the Indonesian government was working in the opposite direction to make labour legislation even more flexible by passing laws that, for instance, would eliminate the right to strike by allowing employers to fire workers going on strike.¹⁹

To be sure, this is no easy task to do, especially in the apparel industry where one major brand may use hundreds of contractors around the world. But the point is that as long as civil society organizes and keeps the surveillance pressure, global brands and vendors in their supply chain will work to comply with the demanded standards.

A Strike by Supermarket Workers and the Weight of Consumer Support

A different and quite recent case of the effects of consumer boycotts against powerful corporations refusing to act in a socially-responsible manner is the California Supermarket Strike. For nearly five months between October 2003 and February 2004, supermarket workers represented by the United Fruit and Commercial Workers (UFCW) went on strike against three major grocery store chains. Initially launched against Vons and Pavilion's Stores, owned by Safeway, Inc., the strike expanded the next day when Ralph's, owned by Kroger, Co. (the largest supermarket chain in the U.S.), and Albertson's locked out their employees and joined Safeway. About 59,000 workers and 852 stores from the three chains were involved in the strike.

Hundreds of thousands of consumers stayed away from these stores in solidarity with workers as well as for simple convenience to avoid the

¹⁹ *ibid*, page 4.

worker's picket lines at the stores.²⁰ However, despite the heavy toll that workers and grocers suffered, the three chains ended up achieving their goal "in principle", which was to significantly undermine the labour endowments of their workers both short and long-term. In a new three-year contract, all new hires will earn substantially less than California's \$13 an hour average wage as well as the \$17,90 an hour that senior workers currently earn, and they will enjoy substantially less benefits than current workers. Additionally, current workers will not enjoy any wage increases in the new contract, and the grocers contribution to their health plan will cap at \$4,60 an hour, regardless of how much more health insurance providers manage to raise their fees in the third year. Furthermore, the grocers plan to put new hires in a different healthcare pool where the grocers' contribution cap will be about \$1,35 an hour, a dramatic difference with that of current workers and a clear discriminatory practice against new future workers. By the same token, the new contract discriminates against current workers because store managers have bonus plans tied to saving money. Thus, they will be very tempted to choose new workers for overtime work because that will clearly be the cheaper way to go. The two-tier scheme puts new workers against veterans.

The argument used by the grocers for their new plan was that they needed to trim their labour costs so that they could be prepared to compete with Wal-Mart that, according to a report commissioned by two Los Angeles city councilmen, pays equivalent workers \$8 an hour less than unionised workers.

Thanks to consumer support, the grocers' stand cost them initially \$1.5 billion in lost sales and

²⁰ Unlike in many countries, U.S. labour law does not allow workers to shut down their place of work when they exercise their right to strike. In fact, the company under strike can actually lockout union workers and replace them with new workers until the conflict is solved or permanently if they wish. Moreover, by making use of the "permanent-replacement doctrine" in U.S. law, it is quite legal for the new workers to form their new union and vote the old union out of existence. For further reference see: Human Rights Watch, UNFAIR ADVANTAGE – Workers' Freedom of Association in the United States under International Human Rights Standards, August 2000.

more than \$350 million in profits. Yet, the grocers' strategy is still a risky bet into the future. Despite the apparent victory of the greedy grocers, the end of the story is far from being written. First, the savings that the three grocers could expect per year would take several years, for first they need to recover the losses from the strike. Even if we use as an example an extremely unlikely scenario where grocers are able to immediately replace 20% of their work force (11,800 workers) with second-tier new hires, their savings will be around \$118 million a year – assuming savings of \$6 an hour per new hire and all new hires working 32 hours per week. This would force them to wait a minimum of three years to recover the more than \$350 million in preliminary lost profits –just during the fiscal quarter under strike. Since immediately replacing 20% of their work force, through early retirement offers and other schemes, is impossible, the recovery of their losses will take substantially more than three years. But it will take even more years because part of their losses were not yet accounted for, in the initial assessment, since they belong to the fiscal quarter of the last month of strike. Moreover, the grocers expected to incur extra operating costs in the foreseeable future due to the need to execute heavy promotions and advertising programs in their attempt to recover their customer base.²¹

Indeed, since the end of the strike, there have been a number of press reports confirming that the losses keep mounting. Kroger reported at the end of May that, for its first 2004 fiscal quarter, it lost \$88,7 million in overall net profit, equivalent to 25% drop over the previous year. The losses continued despite the quarter enduring only one week of the strike.²² Safeway reported, for its second fiscal quarter ending in June, a further drop of 4% in profits and, as a result, a 3% drop in the price of its stocks. This strike had ended before the beginning of Safeway's second fiscal quarter. This indicates that there has been a permanent erosion of its customer base.

²¹ James F. Peltz, Strike Took Heavy Toll on Grocery Chains, 9 March 2004, Los Angeles Times

²² James F. Peltz, CALIFORNIA; Kroger Blames Labor Dispute for Profit Drop; First-quarter net income declines 25% from a year ago as a result of the grocer strike and lockout in California, 23 June 2004, Los Angeles Times

Financial analysts estimate that Safeway suffered a 10% to 15% permanent loss of its customer base. A projection reinforced in a survey that found out that 14% of consumers who had been regular shoppers of the three supermarket companies indicated that they will no longer continue shopping with them, switching their buying habits for the long haul.²³ As for Albertson's, it suffered during its second fiscal quarter ending on 29 July –this quarter began two months after the end of the strike– a loss of \$182 million in sales and of \$58 million in profits, equivalent to a drop of 36% in the bottom line. The company was forced to spend substantially on additional advertising and promotions to bring back its former customers. Yet, financial analysts estimate that it has already permanently lost 10% of its customers to other grocers.²⁴ In this way, the fight against their workers in order to supposedly compete with Wal-Mart looks like it is going to be far more costly than what the grocers were arguing. Safeway has lost \$275 million in profits so far. Since Safeway said that maintaining the same labour endowments of its union in the new contract would have cost \$130 million over the three-year contract, the losses so far have cost Safeway more than twice what it had bargained for in labour costs savings. So it has been a lose-lose strategy. To be sure, financial analysts are not banking at all on any future change for the better, and the stock prices of all three grocers are down sharply, outpacing the general downturn of the market.

This is a real case, showing that if companies reject their social responsibilities and get penalised by consumers, financial markets, to be sure, will penalise them as well. In contrast, many competing grocers have captured many former shoppers of the three chains. In this case Costco, which does not have the bad reputation of Wal-Mart –it does not mean that it is a good corporate citizen–, appears to be the biggest

²³ James F. Peltz, Profit Drops at Safeway After Strike; Quarterly sales inch up, but it spent more to woo shoppers. Some of them may be gone for good, 28 July 2004, Los Angeles Times

²⁴ Melinda Fulmer, Albertsons Profit Drops 36%. The grocery chain took a hit by offering bigger discounts to draw customers back after the lengthy strike in Southern California, 1 September 2004, Los Angeles Times

winner with a permanent increase of 11% in sales. But this is not all; the press is talking about the rising bad public image of the three grocers and the damage to the bottom line that it is generating. Even worse, there is talk about the possibility, due to illegal re-hiring practices performed by Ralph's, that labour authorities would declare the entire lockout illegal and order Ralph's to pay months of back wages to 20.000 workers.²⁵ The strike is a big factor in the losses that the robber-baron grocers are enduring. Yet, this would have not been possible without the response of consumers supporting the strike. Many shoppers did not support strikers out of conviction but rather out of convenience to avoid the conflict. Many others kept shopping in the same stores. Nonetheless, the temporary move to alternative stores of a big portion of shoppers and the permanent migration of loyalties of 10% to 15% of shoppers was the essential factor for the still growing costs that the grocers are suffering. In the case of trade union strikes against business-to-business employers, customer support would be impossible to materialise, but with grocers or many consumer marketers, consumers can make the difference. The case also shows that a small loss in market share can prove far more costly than becoming socially responsible. To be sure, the three grocers will continue to lick the wounds of their mistakes in pursuit of "shareholder value" for a long-time, and financial markets will certainly not appreciate their strategic blunder.²⁶

Consumers, Shareholders and Corporate Governance

Another case in the North emerged in the Netherlands in 2003 when Ahold, the Dutch multinational supermarket conglomerate, was threatened by angry shareholders and a consumer boycott. Ahold is still emerging from scandals relative to the exercise of financial creativity, in

²⁵ Michael Hiltzik, GOLDEN STATE; Costs of Dispute Hang Over Grocers, 5 August 2004, Los Angeles Times

²⁶ For further reference about the California supermarket strike, see: Álvaro J. de Regil, California's Supermarket Strike: Corporate Social Responsibility nowhere to be found, © January 2004 TJSGA; and Álvaro J. de Regil, California's Supermarket Strike: National Grocers Trash any Trace of Corporate Social Responsibility, © March 2004 TJSGA; both available at: <http://www.jussempor.org/Resources/Corporate%20Activity/tlwnsi'scsr.html>.

the line of Enron and Parmalat, of as much as one billion dollars in just one subsidiary and, until late 2003, it had been unable to produce audited consolidated fiscal year financial statements for 2000, 2001 and 2002. To rescue Ahold, its board appointed as new CEO the Swede Anders Moberg, who in turn negotiated a deal so outrageous that it guaranteed him a huge package regardless of performance. The new scandal prompted protests from key investors and a consumer boycott of Ahold's Albert Heijn's supermarket chain. The pressure from key shareholders and the boycott of the chain, which accounts for only ten percent of total revenue were sufficient to renegotiate the new CEO's compensation package and make it merit based. Once again, a threat of a small consumer backlash had enough leverage to change corporate behaviour, this time with respect to corporate governance.²⁷

Consumer or Government Pressure – Two Opposing Choices for Civil Society

In the current voluntary ethos, the practice of CSR is at its best not only bleak but also erratic. Despite the fact that the many guidelines, norms, codes of conduct and other instruments ignore fundamental aspects, such as living wages, part of the debate argues that the demands of different instruments are not the problem but rather the observance, reporting, monitoring, etc. Those who do not want to leverage consumer power keep leaning towards dialogue and negotiation through endless engagements through governmental and other public entities including executive branches, parliaments, courts, multilateral agencies and so on. Yet, the progress made with them is minimal. Caught in a bureaucratic web of public entities that have no will to put the public interest above the private interests, civil society remains virtually empty handed with an array of toothless norms that have not made corporations socially responsible in any meaningful way. In the current voluntary ethos, out of at least 60.000 MNCS and 700.000 subsidiaries, only a few hundred practice some

sort of CSR.²⁸ Furthermore, the public instruments that civil society can use as complaint mechanisms are frequently a moot point. A case in point is the National Contact Points (NCPs) that the OECD has put in place for the observance of the OECD's Guidelines for Multinational Enterprises. According to the OECD, the NCP – often a government office – is responsible for encouraging observance of the Guidelines in a national context and for ensuring that the Guidelines are well known and understood by the national business community and by other interested parties.²⁹ The problem is that the NCPs are left up to national governments to manage and, in most cases, they have been rendered irrelevant along with the Guidelines.³⁰ In a conference that I attended in Mexico City in 2003, intended to create awareness among corporations, trade unions and civil society about the OECD Guidelines and the mechanism of the NCPs, the Mexican government official responsible for the NCP did not care to participate. In another case reported, the NCP at the German Government said that it was not consulted a single time throughout the 1990s.³¹ I wondered if the German government has been interested in creating awareness about the NCP and in promoting its use.

The fact is that in the current voluntary ethos the number of business entities that somehow have incorporated any kind of CSR practice into their business model is minimal, and the quality and comprehensiveness is mostly lacking. The other fact is that governments oppose regulation and do not want to bother their true constituents. The technocrats who have filled the halls of governments worldwide in the last two decades

²⁸ Uwe Kerkow, Jens Martens and Tobias Schmitt, The Limits of Voluntarism, Corporate self-regulation, multi-stakeholder initiatives and the role of civil society, p. 24. World Economy, Ecology & Development Assoc. (WEED), Bonn 2003.

²⁹ National Contact Points for the OECD Guidelines for Multinational Enterprises. Available at http://www.oecd.org/documentprint/0,2744,en_2649_34889_1933116_1_1_37461,00.html

³⁰ TUAC Initial Submission on the 1999 review of OECD Guidelines for Multinational Enterprises. Available at <http://www.tuac.org/statemen/communiq/guidel99e.htm>

³¹ Uwe Kerkow, Jens Martens and Tobias Schmitt, The Limits of Voluntarism, Corporate self-regulation, multi-stakeholder initiatives and the role of civil society, p. 17. World Economy, Ecology & Development Assoc. (WEED), Bonn 2003.

²⁷ Hans de Vreij, Risky business, risky pay, 18 September 2003, Radio Netherlands

have reduced the government role to guardian of corporate interests. Thus, this choice has no future for CSR as long as we do not replace mock democracy with the genuine one. In this way, the effective alternative to truly make progress with CSR is leveraging consumer power, which, by the way, is a real form of direct, participatory and genuine democracy in itself. If governments and their international multilateral organisations do not want to establish legislation –at the national, regional and global level– for the observance of a sound and comprehensive CSR framework of norms on a mandatory basis, then civil society must take CSR into its own hands and use the power of consumers to build a true CSR ethos. If representative democracy has become a mockery of what it should be in virtually all areas of the public matter, then we should work to replace it with bottom-up participatory and direct democracy. This does not mean that we should disregard the current structures of so-called democratic governments, but we should transform them to make them work for civil society and the public interest and never for the private interest. Consequently, we need to get involved permanently on the public matter and not only participate but also initiate many of the actions that are required in the pursuit of the common good. It is our right to demand that the so-called democratic governments work in the pursuit of the common good, which can only be the welfare of all ranks of society. Nonetheless, we must bear in mind that both natural rights and democratic rights will not come to us by divine grace, they will only come if we fight for them. In this very imperfect human existence we must earn our rights by struggling for them.

In this way, with respect to the development of a true CSR, we must always choose consumer power, used in a rationale and strategic manner, as our primary vehicle to achieve true CSR. Lastly, leveraging consumer power is also the most practical way to establish a quasi-mandatory CSR ethos and let corporations decide if they want to abide by civil societies' comprehensive demands and get praised or refuse and be denounced. They are still free to make a choice.

The Strategic Benefits of Using Consumer Power to Promote Good Corporate Citizenship

From the perspective of true democracy, the benefits as well as the practicality that consumer power carries to build a genuine and comprehensive CSR ethos are sound, meaningful and numerous and render both short and long-term results. In summing up the arguments presented in this essay, following is a non-exhaustive list of the benefits of consumer power that, in my opinion, bear the most value, conceptually, strategically and tangibly, in terms of measuring results.

❖ **Legitimacy.** The practice of democratic life is anchored on a framework of values that have as their essence the pursuit of the welfare of all ranks of society. This entails having a set of moral values that uphold the rights and responsibilities of all members of society. Business entities are frequently portrayed as amoral with no other goal but the pursuit of the reproduction and accumulation of wealth. But if this amorality damages society it must be denounced and publicised by civil society. In true democracy the market is not the end but only the vehicle, subservient to civil society, to create material wealth for both its individual members and its groups. This includes the right of individual members to pursue their self and very private interests. Yet, in true democracy, public interests always prevail over private interests. This is a central value of democratic life. Thus, corporations must answer to civil society for their social behaviour because individual members of society create the enterprises and they exist and derive their wealth from society, which acts as markets that consume the enterprises' products and services. In this way, consumer power legitimises the right of societies to conform corporate social behaviour to society's values by making corporations comply with their social responsibilities;

❖ **Regulatory practice.** Consumer power fills the void left by the so-called democratic governments, which have abandoned their duty to protect the common good and procure the welfare of all ranks of society. Since these governments have corrupted themselves –creating a mock democracy by allowing corporations to

fund their electoral campaigns in return of setting the public agenda— they have pursued with great zeal their neoliberal mantra that reduces governments' roles to the military and to act as agents and guardians of the private interest of the centres of economic power. Therefore, civil society needs to step-in and fulfil the regulatory role of true democracies and shape business social behaviour; and this role is most effectively fulfilled by civil society as the corporations markets;

❖ **Natural Disposition.** Consumers are naturally predisposed to utilize information regarding corporate social behaviour to shape their consumer preferences and decisions in a discriminatory fashion. The common sense of consumers enables them to know when corporate practice is harmful to society and detrimental to true democratic practice. Most consumers know that corporations should be accountable to society and act their civic conscious in their dual role as citizens and consumers;

❖ **Valuable incentive.** Consumer good will is a very powerful tool to support good corporate citizenship. Corporations are to gain far more by practicing good CSR than by ignoring it, even in the event of no consumer backlash;

❖ **Competitive business strategic Investment.** Practicing good corporate citizenship can become a powerful competitive tool for corporations that become responsible, by incorporating it into their marketing. One possible scenario is that civil society creates international, regional and national labels that good corporations can incorporate into their entire communications strategy including both marketing and corporate communications programs. These labels may convey messages such as “ranked a top performer in corporate social responsibility practice”. This will provide a clear competitive edge against bad corporate citizens that, in contrast, will be denounced by civil society. It is an effective double-edged sword;

❖ **Mandatory in practical terms.** Despite the lack of legal frameworks to make CSR mandatory, the risk of consumer boycotts makes compliance

an indispensable business tool to remain competitive and protect shareholder value. Consumer power can penalise bad corporations as if they were breaking a mandatory rule;

❖ **Realistic and executable.** Because it is not necessary to create huge boycotts to generate a positive reaction among corporations, consumer boycotts can be successfully organised in a rational and strategic manner and deliver enough costs to bad corporations to trigger a positive reaction. A loss of a small percent of market share can be far more costly than the cost of behaving responsibly;

❖ **Strategically immune to threats.** Consumer power disables the traditional threat of global corporations of moving to safe havens to give free reign to their irresponsible practices by mobilising northern consumers regardless of where MNCs threaten to move;

❖ **Efficient tool to protect shareholder value.** Becoming a good corporate citizen is a better tactic to boost and protect shareholder value by increasing market share. In contrast, enduring a consumer backlash will not only cut market share but also shareholder value, which will trigger in turn a shareholder backlash;

❖ **Expediency.** Wielding the power of consumers can elicit a positive reaction from corporations far more expediently than advocating the development of a mandatory regulatory CSR framework with governments and their multilateral agencies;

❖ **Support of organised consumer organisations.** There is an increasing number of consumer organisations worldwide, including some of the largest, that are already involved in the development of a mandatory framework and that will be supportive of consumer awareness campaigns;

❖ **True democratic practice.** Consumer involvement in the development of a true and comprehensive CSR by using its consumer power and getting involved in the debate is an emblematic example of true and direct democratic practice from the bottom up.

□ CONCLUSIONS

The current practice of democracy worldwide is far from embodying the true meaning of democratic life. A formal democracy that reproduces an ethos that benefits a minority at the expense of the majority does not uphold a democratic but rather an oligarchic system. The path to true democracy requires the direct involvement of the citizenry in the public matter on a permanent basis, both as individual members and as organised civil society. This means that it is our responsibility to transform the current structures to make the system always work for the common good: the welfare of all and every rank of society. We, the citizenry, must take the initiative and bring to the forefront, from the bottom up, the issues that we want to address and resolve in the pursuit of the common good.

In this way, the social responsibilities of business are a fundamental matter of public life that we must address in such a way that the private interests of corporations and their shareholders do

not harm in any way the welfare of all social strata and the environment. We must make corporations conduct their business in a truly socially-responsible fashion determined by us and not by managers and financial markets. Since governments refuse to develop, in true democratic practice, a set of mandatory and comprehensive corporate responsibility norms that guarantee no harm to society, we must act in consequence to transform this area of public life to make it work for us. Therefore, to change the current CSR ethos, we must use the leverage that we, the citizens, have as consumers to make CSR a positive business practice that can increase profitability and shareholder value without profiting over people and the environment. In this way, by utilizing the logic of the market, we can wield our most powerful force to build true participatory democracy and establish true corporate social responsibility practice.

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