Developing a Professional Mindset

Pearson

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CHAPTER 5

CORPORATE RESPONSIBILITY

Aims

To introduce the dilemmas of ethical and responsible behaviour, and offer some analytical tools.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Outline aspects of the context of corporate responsibility (CR)
   - examples of corporate malpractice and of philanthropy
   - values people use to evaluate individual (CW) and corporate actions
2. Explain three processes relevant to CR
   - an ethical decision-making model
   - the interaction of stakeholders and CR
   - the interaction of CR and strategy
3. Outline examples of the tasks of managing CR activities (CW)
4. Use clear thinking to evaluate these practices and theories, and as you begin to develop the skill of clarifying your values

Key terms

This chapter introduces these terms:

philanthropy
enlightened self-interest
corporate responsibility
social contract
ethical decision-making models
ethical relativism
ethical investors
ethical consumer

Companion website

The companion website includes additional material on:

Perspectives on individual responsibility

Ways to manage corporate responsibility

Case study

The Co-operative Group www.co-operative.coop

The Co-operative Group (the Co-op) is the UK's largest mutual business, owned by the 4.6 million active members. It is a major food retailer (as measured by its 8 per cent of the market) and has the largest number of convenience stores (about 2600): annual sales are over £10 billion. The Co-op sets financial and social goals. Unless it makes a profit, it cannot meet the social goals – and would soon cease to exist. Results for the 2018 financial year (ending 5 January 2019) showed a profit before tax of £73 million, compared with £72 million the previous year. It attributed the better financial performance to higher sales, lower costs, and cutting all links with the loss-making Co-op Bank. The Chairman Alan Leighton claimed that the £79 million paid to members and charities showed the business was about more than 'just good financial returns'.

The Co-operative began in 1844, when groups of workers in Yorkshire's new industrial towns decided to set up shops, rather than depend on those owned by others (often linked to the mine or factory where they worked). The idea spread and by 1900 there were over 1400 co-operative societies, many of which gradually merged into regional groups.

This consolidation was largely completed in 2000 when the Co-operative Wholesale Society and Co-operative Retail Services merged to become The Co-operative Group. This controls 80 per cent of all co-operative retail outlets in the UK, with independent societies controlling the rest.

It has expanded the retail business by buying stores from other companies (in 2018 it paid £143 million to buy the NISA chain). It faces tough competition from 'the big four' (Tesco, Sainsbury's, Morrisons and Asda), and from aggressive discounters Aldi and Lidl. It has more small stores than its competitors – but they are now opening these, some very close to a Co-op.

The Co-op has had several turbulent years, during which it experienced financial losses, a major scandal, lost control of the Co-operative Bank, changed senior management and implemented new governance structures. Until 2010, the group was expanding both in retailing and banking (see later).

The collapse of the Co-op Bank left the group with a debt of £1.5 billion. It has begun to repay this by selling assets – some farms and a pharmacy chain. It now focuses on convenience food retail (three-quarters of turnover), alongside funeral (1000 homes), insurance and legal businesses. The plan is to open 100 convenience shops annually, and sell larger outlets.

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As well as sharing profits with members by issuing shopping vouchers, it aims to meet the needs of communities. An example of this was when members proposed that the group should stock more Fairtrade goods as part of their social aims. These are products where growers (usually in low-income countries) who meet specified environmental and labour standards receive a certificate. In return they receive higher prices than they would in the open market, and other benefits.

Sources: Company website; *Co-op Annual Report 2018*.

Case questions 5.1

Go to the Co-op website and find out about recent developments in the business.

- Which changes in its context may be helping, and which hindering, the Co-op?
- As a store manager responsible for meeting tough sales targets, what questions would you raise about the proposal to stock Fairtrade products, in terms of the tasks and processes of your role?

5.1 Introduction

Managers at the Co-op balance two objectives – to make a profit, and to meet social goals. These express the founders' vision of a fairer and more democratic society. Making the profit necessary to meet the social objectives is challenging in the intensely competitive retail sector. Following Co-op principles will not in itself ensure the business survives. While some customers are consistently loyal to the Co-op and its principles, others are not: they compare the Co-op offer with others and can easily switch. Stocking Fairtrade (www.fairtrade.org.uk) products supports the social aims, but not necessarily the business ones.

Many managers acknowledge that the financial wealth their activities generate comes at a price. Meeting rising public demand for goods and services requires energy, and the rapid growth in demand for this brings climate change and other environmental damage. That in turn threatens living standards. Practitioners respond by making processes more sustainable – retailers cut packaging; airlines buy fuel-efficient aircraft; public bodies use less space and energy; energy companies invest in renewable sources.

There are many examples of corporate malpractice, and also of generosity. Between such extremes are countless examples of organisations attempting to look beyond financial targets towards a wider range of outcomes. Even if well-intentioned, these may be ambiguous:

> there is no consensus on what constitutes virtuous corporate behaviour. Is sourcing overseas to take advantage of lower labor costs responsible? Are companies morally obligated to insist that their contractors pay a 'living wage' rather than market wages? Are investments in natural resources in poor countries with corrupt governments always, sometimes or never irresponsible? (Vogel, 2005, pp.4–5).

The chapter begins with examples of corporate malpractice, philanthropy and responsibility. It then offers three 'contextual' perspectives on corporate responsibility behaviour – ethical decision making, stakeholders, and strategy. It shows how some organisations try to manage their policies in these areas, and concludes with an opportunity to develop the skill of clarifying your values.

5.2 Corporate malpractice, philanthropy and responsibility

Malpractice

Controversial issues of malpractice arise when, for example:

- companies reward senior executives who have damaged the business
- banks sell customers unnecessary insurance
- retailers source goods from factories which disregard workers' well-being.

These practices erode trust and damage reputation – which can lead investors, potential employees and customers to withdraw their support. 'Management in practice' features an example and Table 5.1 lists others.

Management in practice

Bernard Madoff – the biggest fraud ever?

In 2009 Bernard Madoff (71) was sentenced to 150 years in prison for running a fraudulent investment scheme in the United States that took £40 billion from thousands of investors around the world. He attracted them by offering unusually high returns and by cultivating an image of competence and trustworthiness – clients were eager for him to accept their money. Instead of investing it, he used it to pay dividends to earlier investors – so the scheme depended on continually attracting new ones. During the financial crisis in 2008 some investors asked for their money back: it was no longer there.

A remarkable feature of the story was that regulatory bodies set up to prevent fraud failed to do so. The agency responsible for regulating that part of the financial services industry was understaffed, and never inspected his accounts.

FT Sources: *Financial Times* 24 June 2009, 17 December 2010; Henriques (2011).

Philanthropy

There is a long tradition of individual **philanthropy**, when people who have made money in business give part of their wealth to charities, including universities. They do not expect this to increase sales or profits: it is a goodwill gesture to activities they support. Notable examples are:

Philanthropy is the practice of contributing personal or corporate wealth to charitable or similar causes.

- Bill Gates (founder of Microsoft) and his wife Melinda have given very large sums to health and education.
- Jeff Skoll (ex-president of eBay) gave £5 million to the Said Business School at Oxford University.
- Lord Sainsbury (former head of Sainsbury's) has given £400 million to his Gatsby Charitable Foundation and plans to give another £600 million before he dies.

Table 5.1 Recent examples of corporate malpractice

Company	Incident	Outcome
Carillion (2018), UK services contractor	Collapsed, with £79bn liabilities while paying £78m dividends. Auditors did not challenge directors	Suppliers and customers lost money. Auditors closing the company received further high fees
Barclays (2015), UK bank	For five years, traders added secret mark-ups to the prices they charged for foreign exchange trades	Traders dismissed. Bank pleaded guilty, and US and UK regulators fined Barclays $2.32bn
Volkswagen (2015), German car maker	Fitted illegal software into diesel-powered cars which turned off emissions controls, except during official tests	Chief executive resigns, and other executives suspended. Company faced prosecutions and large fines
The Royal Bank of Scotland (2008), UK bank	Used short-term borrowing to fund high-risk investments. These failed, and the company almost collapsed	UK Government bought majority stake. Fred Goodwin, chief executive, retired with £800,000 annual pension

They recognise their business success was in part due to the society in which they work, and choose to return some of their wealth. They experience the intrinsic pleasure of giving, and enhance their status and reputation.

Some corporations give substantial sums to charities, make gifts in kind (donating free drugs to health programmes, or free software to universities and schools), encourage employee volunteering, and generally try to be a good neighbour. They hope this will improve their reputation, brand image or access to government. It may also reduce the risks of bad publicity if they are in mining and construction businesses – a form of insurance. Acts like this are not philanthropy but are probably better described as **enlightened self-interest**.

Enlightened self-interest is the practice of acting in a way that is costly or inconvenient at present, but that is believed to be in one's best interest in the long term.

Responsibility

Between these extremes lies the broad area of **corporate responsibility (CR)**, which refers to the awareness, acceptance and management of the wider implications of corporate decisions. It implies taking account of criteria other than financial ones when making decisions. This covers a range of practical changes that organisations of all kinds – charities and public bodies as well as companies – can make to counter climate change and other damaging aspects of economic activity – see Table 5.2.

Corporate responsibility (CR) refers to the awareness, acceptance and management of the wider implications of corporate decisions.

Activity 5.1 Looking for responsible business activity

Collect *one* example of an organisation taking responsible business seriously by introducing a specific policy about something in Table 5.2. Ask people you know, or check company or BITC websites for examples and links.

- What aspects of the business (e.g. inputs, transformation, outputs or communities) does the policy cover?
- What processes did management use to develop it – who did they involve?
- What systems are in place to monitor the policy – do people conform? Does it work?
- Compare what you find with colleagues on your course and present a short summary of what you have found, and of any questions this has raised.

Table 5.2 Common ways to improve operations

Content (or substance) of corporate responsibility	
Topics	**Examples**
Inputs and resource supplies	Dealing fairly with producers and suppliers, buying raw materials from suppliers who produce them sustainably, requiring suppliers in developing countries to meet minimum employment standards
Workforce activities	Promoting diversity, equality, health and safety, work–life balance, and other elements of the employment relationship; fair pay, bonus and pension schemes
Operations	Reducing materials and energy used in production and transport, using resources efficiently to reduce waste
Product and service impacts	Responsible customer relations, including advertising and promotion ('Drink responsibly'), protecting children, limiting harmful ingredients, clear and accurate labels, less packaging, easy recycling

CWS More on perspectives on individual responsibility

5.3 Perspectives on corporate responsibility

Figure 5.1 shows four responsibilities which may guide managers' actions.

Economic

Milton Friedman believed that managers should satisfy shareholders.

> [In a free economy] there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud (Friedman, 1962, p.133).

As an economist, Friedman believed that operating business 'without deception or fraud' provided social benefit by creating wealth or employment. In terms of Figure 5.1, managers should meet their economic and legal responsibilities. Giving money to charity is self-imposed taxation. The directors should concentrate on generating wealth, and distributing it to shareholders – they can decide how to use it.

Many agree, claiming that environmental or other regulations increase costs, and make a business less competitive. When Burberry, the luxury goods retailer, decided to close a UK factory, the finance director said:

> Ultimately if a factory isn't commercially viable you have to take the decision to close ... that's what your obligations to your shareholders dictate. When you know you've made the right decision commercially, you have to stay true to that. These are the facts – commercial realities reign (*Financial Times*, 15 February 2007, p.3).

Legal

Society expects managers to obey the law – by not misleading investors, exploiting staff or selling faulty goods. Some companies take these responsibilities seriously – but go no further. They do what is legal: as long as a decision meets that test they will take it, even if others question the morality. When Starbucks, Google and other multinationals admitted paying very little UK tax, they claimed (correctly) that their tax payments were within the law at the time.

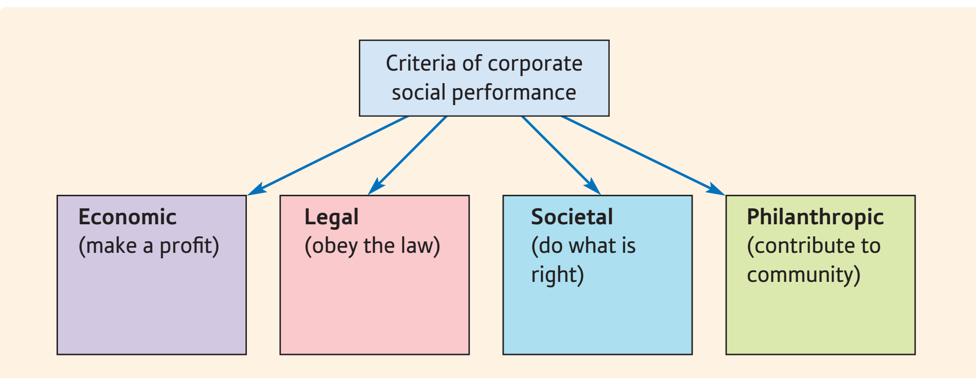

Figure 5.1 Four corporate responsibilities

Source: Based on Carroll (1999).