

what's wrong with

# corporate social responsibility?



complete sidelining of reality

csr

companies spouting rubbish

csr

corporate slippery rhetoric



corporate watch report 2006

## Dear Stakeholder

Corporate social responsibility (CSR) evolved as a response to the threat anti-corporate campaigns pose to companies' license to operate. But corporate social responsibility is a contradiction in terms. Companies are legally bound to maximise profits to shareholders. This duty to make money above all other considerations means that corporations can only be 'socially responsible' if they are being insincere. Any doubtful social benefits from CSR are outweighed by the losses to society in other areas. CSR is an effective strategy for: bolstering a company's public image; avoiding regulation; gaining legitimacy and access to markets and decision makers; and shifting the ground towards privatisation of public functions. CSR enables business to propose ineffective, voluntary, market-based solutions to social and environmental crises under guise of being responsible. This deflects blame for problems caused by corporate operations away from the company, and protects companies' interests while hampering efforts to tackle the root causes of social and environmental injustice.

CSR does not pose any sustainable solutions. It can easily be reversed if the economic climate changes. As well as being voluntary, it reinforces rather than challenges the power of corporations. A genuinely socially responsible company would look so different from today's corporations as to be unrecognisable.

Tackling the big issues of overconsumption, climate change and massive economic inequality requires major shifts in our lifestyles and systems of social organisation. CSR seems to present us with an easy alternative – using corporate power as a lever for social change rather than seeing it as an obstacle.

Ultimately, CSR is not a step towards a more fundamental reform of the corporate structure but a distraction from it. Exposing and rejecting CSR is a step towards addressing corporate power.



A handwritten signature in black ink that reads "Claire Fauset". The signature is written in a cursive, flowing style.

**Claire Fauset**  
Corporate Structures Researcher

# Corporate Watch CSR Report 2006: Contents

## Introduction - 2

### Part 1: What is CSR? - 3 - 8

- Defining the concept - 3 - 5
- The business case for CSR - 5
- The evolution of CSR - 6 - 8

### Part 2: The case against CSR 9 - 21

#### *Problems with the concept of CSR: Can a company be socially responsible? - 9*

- What is responsibility? - 9
- What is a corporation? - 9

#### *Problems with the practice: CSR isn't delivering - 10 - 11*

- The leaders are highly unethical companies - 10 - 11
- Voluntary codes don't work - 11
- Socially Responsible Investment isn't enough - 11

#### *Corporations gain more from CSR than society does - 12 - 16*

- CSR as Public Relations - 12
- CSR as a strategy for avoiding regulation - 13
  - Box: Lobbying against regulation
- Lobbying *for* regulation - 14
- The market has no morality - 15
  - Box: Carbon trading as a solution to climate change?
- Can the consumer really change the market? - 16
  - Box: 'Race to the Top'

#### *CSR gives corporations legitimacy and access - 17 - 20*

- Corporate citizenship: With responsibilities come rights - 17
- CSR as Public Private Partnerships - 17
- From privatisation to governance - 17
- Access to emerging markets - 18
  - Box: Business Action for Africa
- It's good to talk? Why dialogue is not an appropriate response to corporate power - 19 - 20

#### *The limits of CSR - 21*

- CSR isn't a sustainable solution - 21
- CSR can't challenge corporate power - 21
- Business as unusual? - 21

### Part 3: What would a socially responsible company look like? - 22

### Part 4: Why do we buy it? - 23 - 24

- NGOs - 23
- CSR workers - 24
- Consumers - 24

### Conclusion - 25

### References - 26 - 28

### Further Reading



## Introduction

Corporate Social Responsibility is one of the hot corporate strategies of our era, but should we trust companies to live up to their newly professed 'values'?

This report aims to critique not only the practice of CSR, but also the concept. Many commentators, despairing at the fact that companies have failed to clean up their act despite so many claims of social responsibility, say that companies need to return to the point of what CSR was supposed to be all about, to remind themselves of the social and environmental objectives that we are all supposed to be working towards. These commentators miss the fact that CSR was, is and always will be about avoiding regulation, covering up the damage corporations cause to society and the environment and maintaining public co-operation with the corporate dominated system.

This report looks at:

**Why CSR exists.**

**Arguments put forward by business to convince us that they are serious about social responsibility.**

**What it would mean for a corporation to be socially responsible.**

**Why this is incompatible with the way the corporation is structured.**

**Why the corporation can never disinterestedly work for the public good.**

As a criticism of CSR, this report aims to provide readers with the tools to see through the spin. It also aims to be provocative, to challenge those involved in the CSR industry, as NGO workers, CSR professionals or consumers, to question the underlying assumption that companies as currently constituted can be part of a shift to a more sustainable and socially just society. This report aims to push a more radical edge in the debate around CSR. As such it does not claim to have all the answers and invites open exchange.



## Part I: What is CSR?

### Defining the concept

#### Corporate Social Responsibility is...

...a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. European Commission<sup>1</sup>

...the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.' World Business Council on Sustainable Development<sup>2</sup>

CSR describes the principle that companies can and should make a positive contribution to society. CSR is the practice of managing the social, environmental and economic impacts of the company (dubbed by SustainAbility the 'triple bottom line'<sup>3</sup>), being responsive to 'stakeholders' (those who are affected by a business operation) and behaving according to a set of values which are not codified in law. In practice the term can refer to a wide range of actions that companies may take, from donating to charity to reducing carbon emissions.

This report looks primarily at CSR as practised by major companies, rather than what the New Economics Foundation has termed 'ethical pioneers'<sup>4</sup>: smaller companies which are set up with social and environmental concerns as their primary motivation in doing business, such as Fairtrade companies or social enterprises.

#### The type of activities companies undertake in an attempt to be seen as socially responsible include:

**Corporate philanthropy** – Donating to charities is a simple and reputation enhancing way for a company to put a numerical value on its CSR 'commitment'. McDonald's network of Ronald McDonald Houses to 'improve the health and well being of children', and BP's sponsorship of the National Portrait Award are two high profile examples. Because it is easy and very PR friendly, corporate giving is more easily dismissed as a PR exercise than other forms of CSR. In an effort to respond to this criticism companies are shifting to making larger donations to a smaller number of charity 'partners' and combining giving with other activities.



**Cause-related marketing**– Cause-related marketing, such as Tesco's highly successful 'computers for schools' promotion, is a partnership between a company and a charity, where the charity's logo is used in a marketing campaign or brand promotion. Companies choose charities which will attract target consumers. The charity gains money and profile, and the company benefits by associating itself with a good cause as well as increasing product sales.

**Sponsoring awards** – The Reebok Human Rights Awards, Nestlé's Social Commitment Prize and the Alcan Prize for Sustainability are high profile examples of corporate sponsored award schemes. Through award schemes, companies position themselves as experts on an issue and leaders of CSR simply by making a large donation.



**Codes of conduct** – Corporate codes of conduct are explicit statements of a company's 'values' and standards of corporate behaviour. Codes vary in content and quality from company to company, and cover some or all of the following issues: the treatment of workers, consumer reliability, supply chain management, community impact, environmental impact, human rights commitments, health and safety, transparency and dealings with suppliers, and other issues. Some codes are monitored by external verifiers. In many cases these are large accounting firms such as Ernst & Young or PricewaterhouseCoopers. This has led to the criticism that monitors will place the aims of the company, and not the environment or society, at the forefront when carrying out their assessment. Junya Yimprasert of the Thai Labour Campaign accuses these monitoring consultancies of 'turn[ing]workers' lives into business opportunities'<sup>5</sup>.



**Social and environmental reporting**– Linked to codes of conduct, reporting on social and environmental performance, as pioneered by Shell<sup>6</sup>, is a mainstay of a company's CSR efforts. 77 of the world's 100 largest companies now produce CSR reports<sup>7</sup>. Reports purport to improve corporate accountability to stakeholders, but their value is increasingly being questioned for a number of reasons: there are no common benchmarks with which to compare the performance of different companies; the content is down to the discretion of the company, leading to allegations of spin; there are problems with verification; and the expectation that a wide variety of stakeholders would make use of the reports is proving incorrect. The readership of reports is largely restricted to the socially responsible investment community.

**Community investment**– Many companies develop community projects in the vicinity of their sites, to offset negative impacts or 'give back' to the community and local workforce. Community investment covers a whole range of initiatives including: running health programmes, sponsoring schools, playgrounds or community centres, employee volunteering schemes, or signing a memorandum of understanding with communities affected by a company's impacts. However, this creates concerns around companies taking on public functions, and public spaces becoming private. (See section on privatisation.)



**Stakeholder engagement** –Stakeholders are the individuals or groups affected by the activities of the company, for example: the company's employees, shareholders, customers, communities living in the vicinity of the company sites, and staff in the supply chain. In some stakeholder dialogues, an empty chair is left, representing stakeholders that cannot speak for themselves (e.g. the environment or future generations). However, decisions on which groups of people count as stakeholders and the mechanisms through which they are engaged, are entirely at the discretion of the company. (See section on dialogue.)

**Eco-efficiency** – Eco-efficiency was the phrase coined by the Business Council for Sustainable Development in advance of the Rio Earth Summit to describe the need for companies to improve their ecological as well as economic performance<sup>8</sup>. Minimizing the company's environmental impact, particularly around highly visible aspects of its operations or in areas where it makes financial savings, is a particularly popular tactic amongst companies whose products are inherently destructive to the environment. For example, an oil company installing solar panels on the roofs of its petrol stations and reducing the carbon emissions of its operations whilst remaining committed to a continual increase in oil and gas production.

**Investing in socially focused companies** - A current trend sees large multinationals buying up smaller companies that have been set up with ethics as a primary guiding motivation, for example Unilever's purchase of Ben and Jerry's or BP's buy-outs of solar companies. In these cases the multinational is able to buy up the smaller company's reputation once the risks have been taken.



## The business case for CSR

**Companies engage in CSR because, for a number of reasons, they think it will be good for their profit margins. The business case for CSR emphasises the benefits to reputation, staff and consumer loyalty plus maintaining public goodwill.**

**Reputation management**– Increasingly, corporations are trading not on products or services but on their reputations, brand value, 'goodwill', and 'intellectual capital'. These are termed 'intangibles' and have an actual numerical value on the company balance sheet. For example, 96% of Coca Cola's total value is intangibles<sup>9</sup>, and an estimated 53% of the total value of the Fortune 500 companies, worth \$24.27 trillion, is made up of intangibles<sup>10</sup>. With 85% of consumers reporting that they have a more positive image of a company that is seen to make the world a better place<sup>11</sup>, CSR is an essential strategy for ensuring the company's reputation.

**Risk management**– Investing in a company is a gamble and investors want to see that a company is a safe bet. CSR means that companies have to be aware of the issues which might cause them to be targeted by campaigners. This doesn't necessarily mean cleaning up their act. It can equally mean trying to occupy the ideological space around an issue or getting decision makers to agree with their point of view with a few strategic donations. One Ethical Corporation article, entitled 'Stealing the NGO's Thunder'<sup>12</sup> advised companies, as part of their CSR work, to 'develop at an early stage intellectual leadership in public on issues that in the future may present NGOs with opportunities for critical campaigns', by, for example, developing corporate positions and speeches for CEOs, presenting the issue in interesting and innovative ways to generate positive headlines and commissioning research from 'credible institutions', and funding corporate front groups - supposedly independent research groups funded and controlled by the company<sup>13</sup>.

### CORPORATE FOCUS: BP

BP's strategy of appropriating the language of environmentalists and positioning itself as a socially responsible company on the issue of climate change by buying up a solar company (for a fraction of the amount it spends on oil acquisitions) is a clear example of a company attempting to take intellectual leadership of an issue where it finds itself criticised, and has been well documented elsewhere.<sup>14</sup>



**Employee satisfaction**– With 3 out of 5 people reporting that they want to work for a company whose values are consistent with their own<sup>15</sup>, being seen by employees as a responsible company as well as a fair employer helps to attract and retain the best staff. This only applies, however, when a company cares about the quality of its staff. Companies will go to great lengths to appear socially responsible to white collar or skilled workers in their offices in Northern countries. Unskilled workers in developing countries, and casual workers in the North, are rarely afforded the same labour rights, not to mention the volunteering schemes or welfare packages that the same company offers its more privileged workers.

**Investor relations and access to capital**– Many investors consider more 'socially responsible' companies to be more secure investments. 86% of institutional investors believe that CSR will have a positive effect on business<sup>16</sup>. Also, a growing number of institutional investors have some kind of socially responsible investment portfolio and therefore favour companies that are seen as socially responsible. (See section on socially responsible investment).

**Competitiveness and market positioning**– CSR is still breaking into the mainstream. Investing in CSR now means that a company can position itself as the market leader in its field, and will be ahead of the game if regulations are brought in or when other companies in the sector take up CSR as a business strategy. Buying out ethical alternative businesses, for example Cadbury's recent purchase of Green & Blacks, supermarket sales of organics or Nestlé's move into fairtrade coffee, is one way that companies are able to cement their market position, and also control profits from niche markets.

**Operational efficiency**– CSR can save money. Some environmental measures such as minimising waste or saving energy can also reduce operational costs. These are often the type of measures prioritised by companies. But what happens if measures necessary to protect the environment are not profitable?

**Maintaining the license to operate** – Mistrust of corporations is widespread, if for no other reason than that few people even in the rich world actually gain from the level of power corporations have been granted in society. More and more people report increased stress, harder work and greater insecurity as they chase elusive gains. Companies see that the tacit license to operate society grants them is under threat. Their response is to attempt to convince society that they have a positive impact. CSR consultancy SustainAbility has described CSR as 'helping to prevent the unfolding backlash against globalisation and reverse the recent erosion of trust'<sup>17</sup>.



# The evolution of CSR

Just as the corporation's history of social and environmental damage dates back to the East India Company, equally the concept of corporate responsibility is not new. While some corporations have taken every opportunity to make profit regardless of the impacts on society, benefiting from the slave trade, colonialism and war, there is equally a history of a small minority of companies taking a more philanthropic approach by (to some extent) considering the needs of employees or assisting the poor<sup>18</sup>. The creation of co-operatives and mutuals as alternative forms to the corporation reflects the long-standing concerns around the impacts of corporations. There has never been a heyday when corporations acted for the benefit of society. But the unprecedented power of corporations in recent decades, together with an informed and educated general public, has created a real threat to the legitimacy of the corporation, which CSR seeks to counteract.

## Evolution of the concept

The phrase Corporate Social Responsibility was coined in 1953 with the publication of Bowen's 'Social Responsibility of Businessmen', which posed the question 'what responsibilities to society can business people be reasonably expected to assume?'<sup>19</sup>. Writing on the subject in the 1960s expanded the definition, suggesting that beyond legal obligations companies had certain responsibilities to society<sup>20</sup>. In 1984, the celebrated management consultant Peter Drucker wrote about the imperative to turn social problems into economic opportunities<sup>21</sup>. Throughout the 70s and 80s academic discussion of the concept of CSR grew, but the first company to actually publish a social report was Ben and Jerry's in 1989<sup>22</sup>, and the first major company was Shell in 1998<sup>23</sup>.

## The first international code of conduct

In the late 70's both the Organisation of Economic Co-operation and Development (OECD), and the United Nations Centre on Transnational Corporations (UNCTC) began developing codes of conduct in an attempt to control different aspects of corporate globalisation. In 1976, the OECD, a grouping of 30 powerful industrialised countries, recognising the complications associated with companies operating across borders, established a set of guidelines to ease the workings of globalisation; setting the 'rules of the game' for foreign direct investment, and creating an atmosphere of confidence and predictability in overseas corporations. The OECD 'Guidelines for Multinational Enterprises' covered areas such as accounting, tax payments, and operating in accordance with local laws. The guidelines are aimed at countries rather than companies, and compliance with them can be

important for gaining listings in certain stock exchanges and export credits.<sup>24</sup>

The UNCTC code of conduct, however, aimed to regulate corporate abuse rather than to facilitate corporate access to new markets, and unsurprisingly was less successful. The code might have been a useful tool for controlling corporate excess, but the body was dismantled under pressure from corporations and instead merged into the UN Conference on Trade and Development - a body which promotes foreign investment<sup>25</sup>.

## Anti-corporate backlash

The rise in anti-corporate activism over environmental and human rights issues made a shift in corporate attitudes towards social and environmental issues essential. The 70s and 80s saw major international boycotts of companies investing in South Africa, notably Barclays Bank, and the Nestlé boycott over the company's aggressive milk formula marketing strategies in the global South. This period was typified by confrontational campaigning that forced change from companies by attacking the brand<sup>26</sup>. In the 1990s corporate lobbying effectively undermined attempts to regulate their activities at a global level. Instead it achieved an extension of corporate power both logistically, through improved transport and communications, and legally, through international agreements such as the General Agreement on Trade in Services (GATS), and the Trade Related Intellectual Property Rights (TRIPS), which extended and enshrined rights for corporations<sup>27</sup>.

## De-railing the Earth Summit

The 1992 Earth Summit in Rio was a key moment in the evolution of CSR as corporate involvement succeeded in impeding the Summit's ambitious task to 'find ways to halt the destruction of irreplaceable natural resources and pollution of the planet.'<sup>28</sup>. During the build up, proposals put forward by Sweden and Norway for regulation of multinationals, based on the work of UNCTC, were crushed in favour of voluntary corporate environmentalism<sup>29</sup>. The level of corporate involvement in the summit was unprecedented, with a coalition of 48 companies formed specifically to influence its outcomes. This new coalition, the Business Council for Sustainable Development (BCSD, later to become the World Business Council on Sustainable Development WBCSD) was established by Swedish millionaire Stephan Schmidheiny, at the invitation of Maurice Strong, the chair of the Summit<sup>30</sup>. The BCSD and International Chamber of Commerce (ICC) took a tandem approach which effectively shifted the debate. From one side the ICC attacked any measures that moved towards corporate regulation, and the BCSD trumpeted the 'changing course of industry' towards voluntary self-regulation<sup>31</sup>. This type of strategy has come to typify corporate lobbying against progressive regulation.<sup>32</sup>



## Shell's PR disaster, and the turning point for CSR

The anti-corporate backlash reached a climax in 1995, as the spotlight turned on Shell. That year the company stood accused of complicity in the execution of Ken Saro Wiwa and eight other activists in Nigeria, as well as being hounded by Greenpeace over the decision to sink the Brent Spar oil platform. Shell temporarily lost the confidence of investors and the public. Shell's annus horribilis was a sign of things to come and woke up many in the business world to the importance of their public reputations and the ability of campaigners to damage them. With their license to operate on the line, a strategy to convince the public that corporations played an important and meaningful role in society was essential. Capitalism had to be given a human face. Step forward CSR.



Shell spent £20 million on its PR offensive to rebuild its reputation<sup>33</sup>, contracting PR company Fishburn Hedges to co-ordinate its strategy<sup>34</sup>. Shell published a statement of business principles outlining its core values of 'honesty, integrity and respect for people'<sup>35</sup>. The company's strategy focused on the 'magic keys' - 'openness and dialogue'<sup>36</sup>, pioneering the practice of producing CSR reports with its 'Profit and Principles - Does there have to be a choice? The Shell Report' in 1998<sup>37</sup>. The report was produced by Associates in Advertising and endorsed by the environmental consultancy SustainAbility<sup>38</sup>. The involvement of SustainAbility, who had previously been critical of Shell, was key to the re-brand. The production of the report was coupled with a global advertising campaign focusing on environmental issues and a new website encouraging stakeholders to 'Tell Shell', enabling the company to appear to involve the community in its decision-making whilst making no definite commitments<sup>39</sup>. The strategy was successful in rebuilding the company's reputation amongst key opinion formers and decision makers<sup>40</sup>.

So, CSR came as a direct response by corporations to anti-corporate activism and the reputational damage campaigns were able to cause. It represents a success for corporations in resurrecting their public image and colonising the issue space around the social and environmental impacts of business. Tom Delfgaauw, former vice president for sustainable development at Shell, described the company's problems in the mid 90s as 'the best thing that ever happened to us, first because we've come out of it much, much stronger as a company, and second because it accelerated a great many needed corporate developments.'<sup>41</sup>

It is doubtful whether Ken Saro Wiwa would share the sentiment, particularly considering the continued environmental devastation, poverty and human rights abuse in the Niger Delta.

## The rise of the CSR industry

The 1990s saw CSR become an established industry with major companies such as PricewaterhouseCoopers, KPMG and Burson Marsteller entering the CSR service provision market. New consultancies, such as SustainAbility (1989), Business for Social Responsibility (1992) and CSR Europe (1996), also sprang up over this period, all promising to protect industry from protest<sup>42</sup>. Specialist university research centres and the CSR conferencing circuit also emerged in the late 90s.<sup>43</sup> Similarly CSR evolved beyond simple codes of conduct and reporting to include more extensive dialogue with stakeholders, NGO engagement and 'multistakeholder initiatives' such as the Ethical Trading Initiative (1993) and the Forest Stewardship Council (1998), bringing together companies, NGOs and in some cases governments. Similarly trade unions began negotiating and signing global framework agreements<sup>44</sup>.

## The Global Compact and other corporate codes of conduct

The following years saw a plethora of voluntary initiatives and codes of conduct being developed, by individual companies as well as sectoral codes and international frameworks. Codes included the International Organisation for Standardization's ISO14001 in 1996<sup>45</sup>, the Global Reporting Initiative Sustainability Reporting Guidelines in 1997<sup>46</sup>, Social Accountability International's SA8000 in 1998<sup>47</sup>, the Accountability AA1000 Assurance Standard in 1999<sup>48</sup>, and the United Nation's Global Compact in 1999<sup>49</sup>.



THE GLOBAL  
COMPACT

The most high profile of these is the UN's Global Compact. The Global Compact was designed by the office of the Secretary General, Kofi Annan, with considerable input from the International Chamber of Commerce (which did its utmost to ensure a 'business friendly' approach). The Compact is a set of nine principles on human rights, environmental sustainability and labour rights (now expanded to 10 with the inclusion of a principle on corruption). Many NGOs have been highly critical of the Compact as it has no monitoring or enforcement mechanism and so allows companies to appropriate the name of the United Nations to reinforce their reputations without requiring them to change any aspect of their activities<sup>50</sup>. Deborah Doane, of the Corporate Responsibility (CORE) Coalition, argues in 'Red Tape to Road Signs' that 'by promoting these instruments as substitutes for international governance institutions, the UN and OECD effectively undermine the ability of national governments to put forward a different approach.'<sup>51</sup>

## Enron and a failed move towards mandatory social and environmental reporting in the UK.

In 2001, the collapse of Enron, once a paragon of CSR, showed just how deeply a corporation's claims of social responsibility can differ from the reality. As Joel Bakan argues in *The Corporation*, 'Enron's story... suggests, at a minimum, that scepticism about corporate social responsibility is well warranted.'<sup>52</sup> Enron's collapse, and the mistrust of corporations that the whole saga galvanised in the public consciousness, led to some soul-searching within the CSR movement. However, much of the public discussion centred on protecting investors, and the main concrete change brought about by the episode was the introduction of the Sarbanes Oxley Act in the USA. This has tightened up accounting regulations and introduced new reporting standards which include some aspects of non-financial risk reporting, but no substantive change on the issue of companies' wider social impacts.



The UK government went down a similar line with the Operating Financial Review (OFR), in which all stock market listed companies would be required by law to produce a yearly review of their business operations and future developments and risks. This was to include information on environmental matters, employees and social and community issues, though the content of that reporting would be entirely at the company's discretion. However, in December 2005, Gordon Brown announced that the OFR would be abolished, a decision which is currently being challenged by Friends of the Earth in the High Court.<sup>53</sup> Though the OFR was watered down to a point where it meant little more than mandating companies to produce more PR, it would have represented a tentative shift towards mandatory social and environmental reporting.



## From CSR to corporate accountability?

The 2002 World Summit on Sustainable Development (WSSD) marked the crowning of CSR. Friends of the Earth led calls for a Convention on Corporate Accountability<sup>54</sup>, instead the summit delivered much the same outcome as Rio, with over 280 'new' partnerships between government and industry announced as 'outcomes' of the summit<sup>55</sup>, the first time such initiatives have been endorsed in this way. Christian Aid has documented the way in which discussion of the issue of corporate regulation in the summit's agenda, changed from working towards a 'multilateral agreement', to developing a 'framework', to simply 'promoting best practice'<sup>56</sup>. Amongst activists and NGOs, however, dissatisfaction with the CSR model was clear.

While most NGOs continue to engage with business, the calls for corporate accountability are growing with campaigns such as International Right to Know Campaign in the USA, the CORE Coalition in the UK and other initiatives internationally pressing for more legally binding rather than voluntary regulation.

## Part II: The case against CSR



### Problems with the concept – can a company be socially responsible?

Many organisations criticise CSR because they don't see business delivering on its promises. However, the problem isn't simply that companies aren't practising CSR very well, it's that the corporate structure is not capable of social responsibility.

#### What is responsibility?

Responsibility suggests responsiveness, obligation, control, authority and a duty of care<sup>57</sup>. So is the word really appropriate in this context? Through CSR companies seek to engage with stakeholders, but without implying a duty to respond.



They claim credit for positive, or simply less harmful actions, without taking on any obligation. They prefer the word 'commitment' to 'duty'. For example, corporate and government definitions invariably make reference to the idea that CSR means actions taken by companies which go beyond legal requirements – in other words actions which they have no obligation to carry out. The scope of a company's 'responsibility' is therefore self-defined and not socially defined. Also it cannot be measured, so value can be assigned arbitrarily: perfect PR.

In *For Business Ethics*<sup>58</sup>, Jones, Parker and ten Bos contend that by cherry-picking which stakeholders they engage with, corporations are misusing the term responsibility and trading on its positive connotations. They contend that responsibility means 'unconditional openness in response to the other, without knowing in advance who the other might be or how to respond', whereas companies engage only with those that are useful to them, and rather than responding, they distract or placate.

#### What is a corporation?

A company is the property of its shareholders. Company directors are legally bound to act solely in the best interest of the company's owners. As Joel Bakan argues in *The Corporation*, this creates a structure which is pathological in its pursuit of profit. Corporations aren't just greedy, the only concern they can have is to concentrate wealth in the hands of their shareholders<sup>59</sup>. Through CSR companies trumpet their 'values', but a company can only have one value: its share-price.

Economist Milton Friedman says that because a company is the property of its shareholders, CSR can only be insincere<sup>60</sup>. In other words, companies can only make a decision which favours the wider social good if the outcome is also the most profitable one. So, the wider social good can only ever be incidental to the interest of making a profit. This is a total reversal of conventional moral priorities that place the interests of society over self-interest.

It is also quite different from the picture of the altruistic and community-minded corporation-that-cares which is presented to the public. CSR only works if the public accepts the notion that corporations can make moral choices. If the public believed that 'socially responsible' companies are simply acting in a way which advances their own interests, would they reward them for doing so?

If profits are primary, then can CSR really make a difference to the problems corporations are causing? What happens when tackling social or environmental problems does not support economic growth? As Corporate Watch's *Corporate Law and Structures* report asserts, 'for the corporate 'environmentalist' ... the first aim is to make as much money as possible, but given two ways to make that money they choose the one that requires the least murder, blatant theft or environmental destruction'. Since CSR will not bring an end to destructive activities for as long as they are profitable, can it really be described as 'responsibility'?



Corporations have highly destructive impacts on society and the environment, and they are the dominant institution in our society, so if the only type of actions that they can take to mitigate their destructive impacts are the most profitable ones, then prospects for the planet do not look good. Something in this equation has to change, and CSR does not look like the vehicle through which to do it.

## Problems with the practice: CSR isn't delivering



### The leaders are highly unethical companies

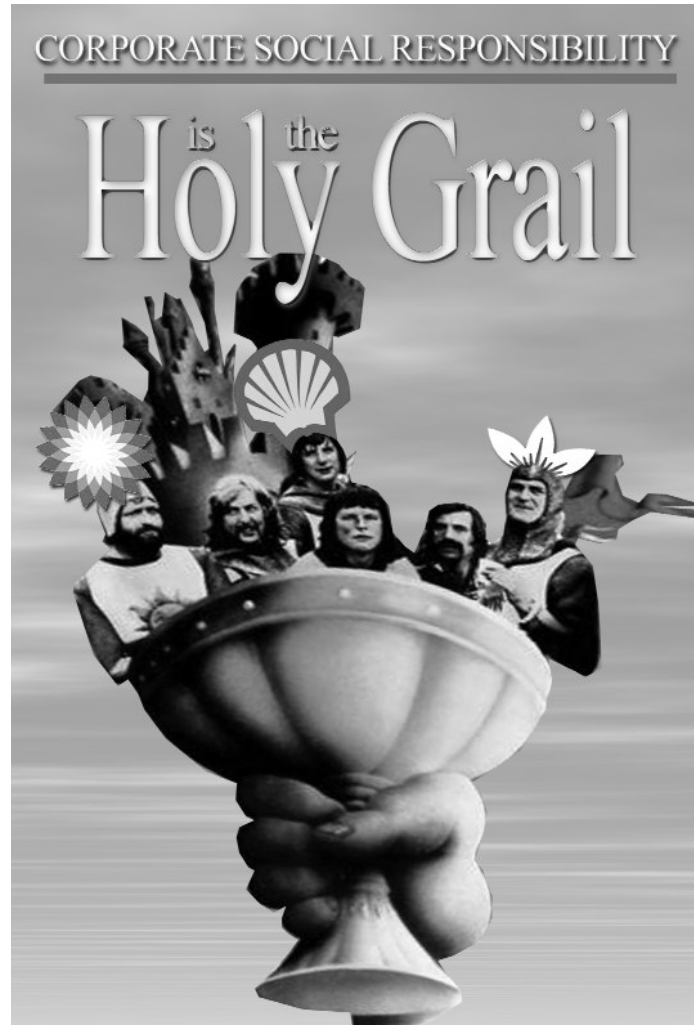
'Holy Grail Found!' was the headline of the January 2005 edition of Business Ethics magazine<sup>61</sup>, celebrating the fact that studies had 'proved' that socially responsible businesses perform better. A closer look at the kind of companies that this study claims are being both socially responsible and profitable gives a different story. The corporations frequently held up as leaders in CSR, such as BP and British American Tobacco, are far from being socially responsible companies. What the study actually shows is that businesses which say they are socially responsible perform better financially.

Christian Aid's 'Behind the Mask' report looks at three so-called leaders in the field and cuts through the spin looking at the companies' real impacts, going directly to the communities that are on the sharp end of corporate irresponsibility<sup>62</sup>.

#### 'BEHIND THE MASK: The Real Face of Corporate Social Responsibility'

##### The report notes:

- How Shell, one of the architects of CSR, fails to effectively clean up oil spills in the Niger delta and runs community development programmes that are frequently ineffective and divide communities;
- How British American Tobacco, aside from being one of the few companies whose products kill their customers when used the way they are intended, fails to protect farmers in Brazil and Kenya from the chronic diseases associated with the cultivation of tobacco;
- How Coca Cola depletes water supplies, threatening the lives and livelihoods of communities in India.

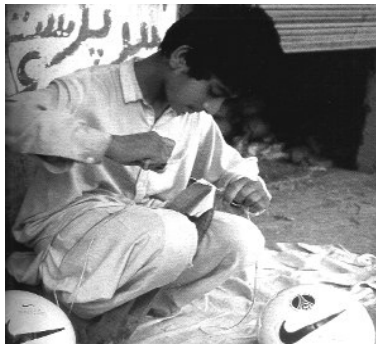


Two other companies consistently top in the CSR tables are Alcoa and Toyota<sup>63</sup>. Alcoa is the company which, in the face of unprecedented local opposition, is building an aluminium smelting plant in Iceland powered by a hydro-electric dam which will flood vast swathes of Western Europe's last pristine wilderness, and is claiming that this is a socially and environmentally responsible venture<sup>64</sup>. Toyota, the world's second largest automotive manufacturer, hangs its corporate environmentalist image on its Prius hybrid which emits less greenhouse gases than the standard car. Its fuel guzzling SUV models, however, are amongst the company's biggest sellers and massively outnumber sales of hybrids<sup>65</sup>, and the company's future depends on pushing the constant expansion of the car market.

If these destructive companies are the leaders, then what does that say about those lagging behind? These examples show that projecting a socially responsible image whilst retaining destructive practices can be good for business. In which case, CSR benefits the shareholders in multinationals while achieving little for social or ecological justice.

## Voluntary codes of conduct don't work

The Asian Monitor Resource Centre's (AMRC) *Critical Guide to Corporate Codes of Conduct* echoes in its criticisms the wider problems with CSR<sup>66</sup>. AMRC argues that, rather than being solutions to corporate abuses in the workplace, codes of conduct are generally insufficient to change the industry. Their study, based on a decade's experience of studying labour issues in Asia, leaves them undecided as to whether codes have led to any improvement in labour standards.



Codes of conduct are used as an alternative to trade unions, collective bargaining and worker empowerment. They are developed primarily with the concerns of Northern consumers, not workers, in mind. This approach can only achieve small, unstable improvements in conditions or wages, with basic issues of workers rights unaddressed. AMRC's analysis raises serious issues about who should decide what acceptable conditions are. At present, in many cases it is the company, consumer campaigners or NGOs. Workers cannot depend on sustained pressure from consumers in the North. Labour rights can only be protected, they argue, by the self-organisation of the workers.<sup>67</sup>

Multinationals do not pay the cost of compliance with codes but pass this on to suppliers and ultimately workers, who have no guarantee that they will not be victimised for speaking out. Workers are often forced to do extra hours to clean up the factory before CSR monitors arrive. Because the market refuses to pay the extra costs of non-exploitative labour practices, codes are a threat to workers not a tool for their empowerment.

Restructuring particularly in the garment industry towards 'just in time' production poses further threats to labour rights, as corporations increasingly do not have to make any regular orders to any particular factory. Without sustainable relationships there is no sustainable means of judging labour compliance. The race to the bottom in terms of labour rights is an endemic problem in the globalised economy and one that voluntary CSR is incapable of curing.

This applies to more than just labour codes. Six years after the establishment of the Forest Stewardship Council, deforestation rates in the tropics have increased<sup>68</sup>. Codes attempt to harness the power of the market rather than reduce its power. This issue is explored further in the section on market mechanisms.

## Socially Responsible Investment (SRI) isn't enough

SRI, or ethical investment, is used to describe investment that seeks to have a positive impact on society, or at least to minimise the negative effects. SRI can mean a range of things, from investing exclusively in enterprises that have a positive impact (as is the policy of the Triodos<sup>69</sup> and Grameen Banks<sup>70</sup>), to screening out companies from the worst sectors such as the arms, tobacco and oil industries or companies which test on animals (as do the Cooperative Bank<sup>71</sup> and the Friends Provident 'Stewardship' pension fund<sup>72</sup>), to making no discrimination as to which companies are invested in but simply trying to influence companies in their portfolio through shareholder resolutions and engagement (as is the policy of the Universities Superannuation Scheme<sup>73</sup>). The majority of SRI falls into the latter two categories. Only a small number of ethical investors pro-actively seek out genuinely positive social enterprises. When companies are screened on the basis of ethics, the criteria are often very crude. For example, funds often screen out armaments companies, but companies in sectors which are seen as relatively ethically neutral, such as supermarkets or clothing retailers, are also highly socially damaging. Funds that screen on the basis of ethics also frequently invest in banks, which in turn invest in the industries which were originally screened out.



Socially responsible investors, as with all investors, have to ensure the financial success of their products. So they can only support a company's efforts to be socially responsible where it is profitable. As such SRI's role is limited to issues such as managing risk, executive pay, and disclosure, making arguments supporting shareholder interest. They reward companies for making minor changes when the company's overall operations are a major problem. The New Economics Foundation has dubbed this the 'ethics lite' approach<sup>74</sup>.

# Corporations gain more from CSR than society does



*Like the iceberg, most CSR activity is invisible...It is often an active attempt to increase corporate domination rather than simply a defensive 'image management' operation.*<sup>76</sup>

CSR is supposed to be win-win. The companies make profits and society benefits. But who really wins? If there is a benefit to society, which in many cases is doubtful, is this outweighed by losses to society in other areas of the company's operation and by gains the corporation is able to make as a result? CSR has ulterior motives. One study showed that over 80% of corporate CSR decision-makers were very confident in the ability of good CSR practice to deliver branding and employee benefits<sup>77</sup>. To take the example of simple corporate philanthropy, when corporations make donations to charity they are giving away their shareholders' money, which they can only do if they see potential profit in it. This may be because they want to improve their image by associating themselves with a cause, to exploit a cheap vehicle for advertising, or to counter the claims of pressure groups, but there is always an underlying financial motive, so the company benefits more than the charity.

This section explores how CSR diverts attention from real issues, helping corporations to: avoid regulation, gain legitimacy and access to markets and decision makers, and shift the ground towards privatisation of public functions. CSR enables business to pose ineffective market-based solutions to social and environmental crises, deflecting blame for problems caused by corporate operations onto the consumer and protecting their interests while hampering efforts to find just and sustainable solutions.

## CSR as Public Relations

CSR sells. By appealing to customers' consciences and desires CSR helps companies to build brand loyalty and develop a personal connection with their customers. Many corporate charity tie-ins gain companies access to target markets and the involvement of the charity gives the company's message much greater power. In our media saturated culture, companies are looking for ever more innovative ways to get across their message, and CSR offers up many potential avenues, such as word of mouth or guerilla marketing, for subtly reaching consumers.

CSR also helps to greenwash the company's image, to cover up negative impacts by saturating the media with positive images of the company's CSR credentials. As Deborah Doane points out in 'From Red Tape to Road Signs', CSR enables business to claim progress despite the lack of evidence of verifiable change<sup>78</sup>. Since much of the business case for CSR depends on corporations being seen to be socially responsible, CSR will continue to be little more than PR for as long as it is easier and cheaper to spin than to change.

A prominent case against Nike in the US Supreme Court illustrates this point. When, in 2002, the Californian Supreme Court ruled that Nike did not have the right to lie in defending itself against criticism, chaos ensued in the CSR movement. Activist Marc Kasky attempted to sue the company over a misleading public relations campaign. Nike defended itself using the First Amendment right to free speech. The court ruled that Nike was not protected by the First Amendment, on the grounds that the

publications in question were commercial speech<sup>79</sup>. The case proceeded to the US Supreme Court. Legal briefs were submitted to the Supreme Court by public relations and advertising trade associations, major media groups, and leading multinationals, arguing that if a company's claims on human rights, environmental and social issues are legally required to be true, then companies won't continue to make statements on these matters. The submission from ExxonMobil, Monsanto, Microsoft, Bank of America and Pfizer contended that 'if a corporation's every press release, letter to an editor, customer mailing, and website posting may be the basis for civil and criminal actions, corporate speakers will find it difficult to address issues of public concern implicating their products, services or business operations'<sup>80</sup>.

This case simply reinforces the criticism that CSR is nothing more than a PR exercise.

Corporations would not be so concerned about potential legal actions if they valued truth, transparency and accountability as much as they claim. The submissions to the court show how important it is for corporate America to defend itself against a legal ruling which would make it more difficult for companies to make false and misleading statements to defend their image.

The point is further illustrated by the conflict between what a company says in public and in its dialogue with NGOs, compared to what it is saying behind closed doors when it is lobbying government or through industry mouthpieces like the International Chamber of Commerce or the Confederation of British Industry. That CSR is criticised as being a PR stunt is unsurprising, bearing in mind that most CSR workers in companies sit in the communications and PR departments<sup>81</sup>, and considering that the strategies of CSR - dialogue with NGOs, codes of conduct, social reports - were all designed and developed by PR companies such as Burson-Marsteller, E.Bruce Harrison and Hill and Knowlton<sup>82</sup>. CSR is a clear part of the industry's attempts to co-opt the environmental movement. This strategy has been outlined in detail by Ronald Duchin, senior vice-president of PR spy firm Mongoven, Biscoe and Duchin (MBD). MBD works to divide and conquer activist movements. Activists, he explained, fall into four distinct categories: 'radicals,' 'opportunists,' 'idealists,' and 'realists.' He outlined a three-step strategy: isolate the radicals; 'cultivate' the idealists and 'educate' them into becoming realists; then co-opt the realists into agreeing with industry<sup>83</sup>.

CSR has created a language shift, a re-brand and a new caring image, but no substance.

## CSR is a strategy for avoiding regulation

CSR is a corporate reaction to public mistrust and calls for regulation. In an Echo research poll, most financial executives interviewed strongly resisted binding regulation of companies<sup>84</sup>. Companies argue: that setting minimum standards stops innovation; that you can't regulate for ethics, you either have them or you don't; and that unless they are able to gain competitive advantage from CSR, companies cannot justify the cost. Companies are essentially holding the government to ransom on the issue of regulation, saying that regulation will threaten the positive work they are doing. CSR consultancy Business in the Community supports corporate lobbying against regulation, arguing that 'regulation can only defend against bad practice - it can never promote best practice.'<sup>85</sup>

These arguments, however, simply serve to expose the sham of CSR. Why would a 'socially responsible company' take issue with government regulation to tackle bad corporate practice? Why would this prevent companies from going beyond the legal minimum? Perhaps the explanation is that companies want to be selective about which areas of 'bad practice' they eliminate and want to use their 'best practice' to divert attention away from the bad, or that 'socially responsible' companies need the bad practice of other companies to be a counterpoint to their own 'best practice'.

If regulation distracts from best practice, then companies cannot be acting 'responsibly' because they believe it to be morally right to do so – only because they are trying to get an advantage over their competitors.

The argument that regulation would hinder voluntary efforts on the part of the company to improve their behaviour has been readily accepted by a government keen to avoid its regulatory duties when it comes to curbing corporate power. The UK Department for International Development (the department charged with tackling global poverty, not the one set up to defend industry) dismissed the idea of an international legally binding framework for multinational companies saying that it would 'divert attention and energy away from encouraging corporate social responsibility and towards legal processes.'<sup>86</sup> As this quotation shows, without any evidence for its effectiveness, the government is choosing CSR over making corporate exploitation and abuse illegal.

Regulation, including rules on: how corporations can be structured, as well as on the impacts they can have on the environment and society, and their dealings with their workforce and other stakeholders, is the only way that a democratic society can control what is acceptable and unacceptable in corporate behaviour. Should corporations be able to decide for themselves what is an acceptable level of emissions or what rights workers should be afforded? Leaving corporations to act voluntarily is a dereliction of the duties of government. If the corporation is left to regulate itself then far from curbing it, the corporation gains power. As Joel Bakan puts it, 'no one would seriously suggest that individuals should regulate themselves, that laws against murder, assault and theft are unnecessary because people are socially responsible. Yet oddly we are asked to believe that corporate persons – institutional psychopaths who lack any sense of moral conviction and who have the power and motivation to cause harm and devastation in the world – should be left free to govern themselves.'<sup>87</sup>

## LOBBYING AGAINST REGULATION

Business lobby groups have a proud history of destroying attempts to introduce international regulation. Below is simply a flavour of the more high profile examples:

The **International Chamber of Commerce (ICC)** has lobbied against: any binding emission targets in the Kyoto Protocol at the climate summits; the implementation of the Convention on Biodiversity; the inclusion of the precautionary principle in the Biosafety Protocol; and the Basel Convention banning the export of hazardous waste<sup>88</sup>. As a key organisation in the UN Global Compact, the ICC vigorously defended its position that the UN should in no way measure or regulate the way the companies live up to the principles they have promised to follow<sup>89</sup>.

**Business Action for Sustainable Development (BASD)** was launched in 2001 jointly by the ICC and **World Business Council on Sustainable Development (WBCSD)** to 'ensure maximum participation of the business community' in the Johannesburg Earth Summit in 2002. BASD succeeded in thwarting efforts to achieve binding international regulation of corporations through its promotion of voluntary mechanisms. BASD's chairman Mark Moody-Stuart (former CEO of Shell) argued that promoting a positive image of corporations was urgent, 'as others see the need for legislation and codes with teeth to make sure that business... is compelled to adopt certain standards and procedures'<sup>90</sup>.

More recently the ICC along with the **International Employers Organisation (IEO)**, **Confederation of British Industry (CBI)** and the **United States Council of International Business (USCIB)**, led by Shell's Vice President for External Relations and Policy Development, Robin Aram, launched a major offensive against the UN Norms on Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights<sup>91</sup>. The UN Norms were to be a major step forward in moving towards binding regulation of multinationals, and set out what the obligations of companies were with regard to human rights. ICC spokesman Stephano Bertasi put the ICC position this way; 'We have a problem with the premise and the principle the Norms are based on. These Norms clearly seek to move away from the realm of voluntary initiatives'<sup>92</sup>. The business lobby succeeded in persuading governments to reject the Norms when they came before the UN Commission on Human Rights. Instead the Commission called for the appointment of a Special Representative on the issue of transnational corporations and human rights.

The CBI and **Institute of Directors** have opposed all attempts to make CSR in any way mandatory in the UK and have lobbied against the Corporate Responsibility Bill, and against any suggestion of moving away from voluntarism in the European Union White Paper on Corporate Social Responsibility<sup>93</sup>.

## Lobbying for regulation

The latest twist in the tale is that companies are beginning to lobby in favour of regulation. In a recent article, titled 'A World Upside Down', George Monbiot commented that 'the corporations are demanding regulation, and the government is refusing to grant them'.<sup>94</sup>

**Environmental managers from BT and John Lewis (which owns Waitrose) complained that without tighter standards that everyone has to conform to, their companies put themselves at a disadvantage if they try to go green. 'All that counts', the man from John Lewis said, 'is cost, cost and cost.' If he's buying eco-friendly lighting and his competitors aren't, he loses. As a result, he said, 'I welcome the EU's Energy Performance of Buildings Directive, as it will force retailers to take these issues seriously.'**

**Yes, I heard the cry of the unicorn: a corporate executive, welcoming a European directive.**

**And from the government? Nothing. Elliot Morley, the minister for climate change, proposed to do as little as he could get away with. The officials from the Department of Trade and Industry, to a collective groan from the men in suits, insisted that the measures some of the companies wanted would be "an unwarranted intervention in the market"<sup>95</sup>.**

Former Shell CEO Philip Watts put it this way, '...having thus prepared themselves it is in those Chief Executive Officers' interests to advocate societal and governmental changes in the right direction to speed up trends. The smart CEOs not only are going to orient companies towards sustainability, but also are going to orient society towards sustainability.<sup>96</sup> Similarly John Browne, CEO of BP, has called for 'the help of governments to establish the appropriate framework of incentives to move toward climate stabilisation'<sup>97</sup>.

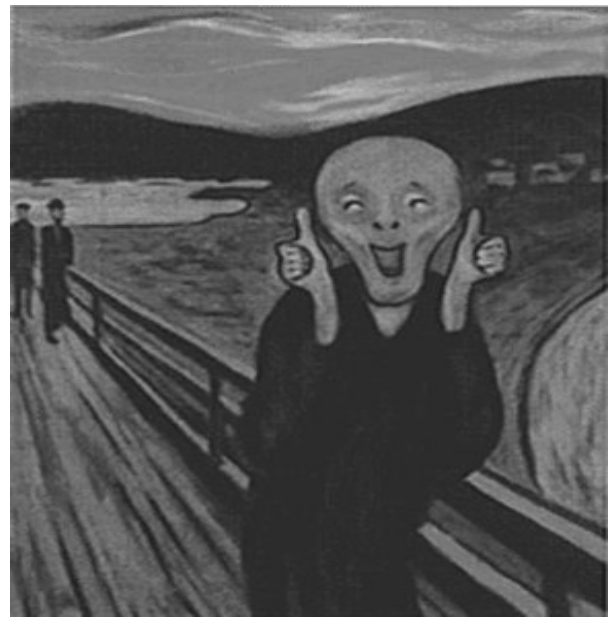
NGOs are finding new allies in countering the lobbying power of the trade associations such as the CBI and ICC in calling for regulation. Jules Peck of WWF commented that companies are 'showing signs of discontent with trade associations that do not adequately represent their interests. For many pioneering companies environmental regulation or economic instruments would reinforce their competitive position by pushing other companies to internalise more of their environmental costs.'

But before we get too excited at the prospect of companies jumping the fence and joining campaigners in the push for progressive regulation, let's take a step back and ask a few questions. What kind of regulation do they want? Why do they want it? Will it be effective? Can corporate power really be channelled in such a way as to support efforts to control corporate power?

First, there is a difference between regulation and financial incentives. When John Browne calls for government action on climate change, he is talking about carbon trading, a climate mitigation scheme from which BP stands to do very well without having to make any great effort to reduce emissions<sup>98</sup>. (See section on carbon trading).

Secondly, these companies are calling for regulation because CSR does not offer sufficient financial rewards. In some cases this may be because the company did not experience any reduction in criticism as a result of its CSR efforts. In other cases

companies trying to source 'ethically' were undercut by their 'less ethical' competitors. Once companies have put in the investment, they need to see a return, so regulation can help companies to out-compete in a way that voluntary measures have failed to do. Where regulation is being called for it is only in areas that supports the company's competitive advantage. For example, retailers Boots, Marks and Spencer, H & M and Electrolux have lobbied to support the EU REACH (Registration, Evaluation and Authorisation of Chemicals) Directive<sup>99</sup>. While this has been highly useful in combating the huge lobbying power of the chemical industry (REACH has seen the largest ever corporate lobbying campaign in Europe<sup>100</sup>), the retailers are not lobbying in the public interest any more than BASF and the other chemical companies which have lobbied against the legislation<sup>101</sup>. Instead, the retailers want: to ensure that the costs of REACH are imposed on the chemical producers and not retailers; to push for better regulation to minimise their own financial risk as end-users and retailers of harmful chemicals; to reap the rewards of having



already sought to reduce harmful chemicals in their manufacturing processes and retail products in response to consumer demand; and to rebuild consumer trust in chemicals. It is, again, a hard-nosed business position.

So companies are likely to support regulation when it supports their business strategy or capitalises on areas where they have invested, but they are unlikely to support the kind of across-the-board regulation called for by the corporate accountability movement.

Because companies will only lobby for the type of regulation that makes them more competitive, any regulation they support will be counterweighted by lobbying from competitors who would lose out if regulation is brought in. The powerful trade associations such as the CBI and ICC will tend to come out on the side of the majority of companies who will be against regulation. The supposedly 'progressive' companies which are lobbying for regulation remain members of the trade associations because membership protects their broader interests. Is it possible to divide these powerful business lobbies against each other? Truly progressive regulation can only be implemented if public awareness and activism can rival the business lobby. This means mobilising people power on a grand scale to launch a major attack on corporate power.



## The market has no morality<sup>102</sup>

**'Can we expect every decision made in one's self-interest, through market mechanisms, to result in the good for all?'** Deborah Doane, Core Coalition<sup>103</sup>

Hand in hand with pushing for further deregulation or pushing for favourable regulation (as above), companies are effectively capturing the issue space around major social and environmental problems and seeking to propose solutions which fit within a market-centred worldview.

CSR asserts the classic free market line that the market will solve social problems through each actor acting selfishly in its own best interests. But since this is the dominant paradigm, shouldn't we then be seeing a society with greater equality and less environmental destruction? Instead, as the New Economics

Foundation argues 'in everything from the massive corporate scandals to anti-trust cases to serious environmental degradation we see all around us, it is obvious that Adam Smith's famous 'invisible hand' cannot be relied upon to bring us successful or sustainable outcomes'.<sup>104</sup> What has instead been created is massive concentration of wealth, entrenched divides between rich and poor globally and irreversible damage to the ecosystems our future depends on.

Many pressing social and environmental problems have very clear, though complex, solutions such as reducing consumption, paying a price that reflects true costs and extending regulation. Market-based 'solutions' distract us from this. If society's primary approach to tackling major social and environmental problems is to enable the powerful interests that caused the problems to profit from their resolution, then the very intention of solving these problems is subsumed to the interest of profit.

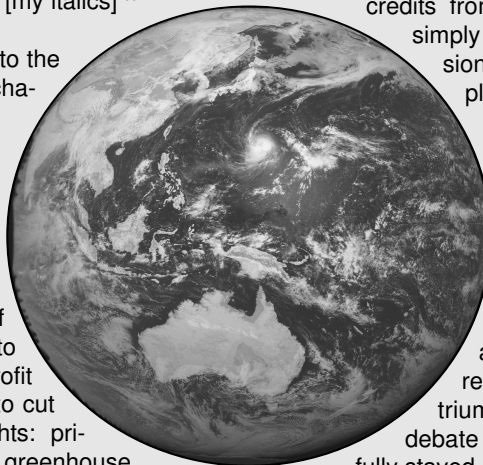
## CARBON TRADING AS A SOLUTION TO CLIMATE CHANGE

**'In the new era of scarce sky, there will, of necessity, be an economy of sky. Property rights will be established, prices will be charged, and money will change hands. Owners of the sky will collect rent that will flow back into the economy. Peter Barnes and Rafe Pomerance, 'Pie in the Sky' 2000<sup>105</sup>**

The perversity of market mechanisms is exemplified by carbon trading: allowing corporations to avoid reducing their emissions by buying carbon credits. As Tony Blair chillingly said in his address to the World Economic Forum, 'if we put forward, as a solution to climate change, something which involves drastic cuts in growth or standards of living, *it matters not how justified it is, it simply won't be agreed to*'<sup>106</sup>

By this guiding orthodoxy, real solutions to the climate crisis are out, and market mechanisms are in.

Carbon trading relies on the idea that once a price is assigned to the earth's carbon cycling capacity, markets will be able to respond. Negotiations on the Kyoto Protocol quickly moved from productive discussions about the nature of the climate crisis and the need for action to the issue of how corporations could profit from 'solutions'. Rather than legislating to cut emissions, Kyoto creates property rights: privatising the earth's capacity to absorb greenhouse gases. These emissions rights have an estimated market value of \$2.345 trillion, the 'largest invention of monetary assets by voluntary international treaty in history'<sup>107</sup>. Rights to emit are handed out directly to the Northern countries based on their historical level of emissions, meaning that those that have polluted most in the past get the most free rights to emit. Most nations receiving these rights are in turn passing large quantities of them, for free, to private companies in heavy industrial sectors.<sup>108</sup> In addition, companies can fund energy-saving or carbon sequestration projects (storing carbon through, for example, planting trees) in developing countries to 'offset' their carbon emissions and create new carbon



credits. Campaigners have catalogued a large number of concerns about the carbon trading system<sup>109</sup>. They have shown that the idea of 'sequestering' carbon by planting trees to 'offset' emissions from burning fossil fuels does not equate to keeping the carbon reserves in the ground. Jutta Kill of Sinks Watch argues that 'even in purely economic terms, a market in credits from 'carbon-saving' projects will fail... You simply can't verify whether a power plant's emissions can be 'compensated for' by a tree plantation or other project.

Ultimately investors are bound to lose confidence in the credits they buy from such projects<sup>110</sup>. That governments chose to adopt an untested, logically flawed and bureaucratically complex international trading system to address emissions reductions, rather than tried and tested methods such as taxation and regulation, represents an unprecedented triumph for the corporate capture of the debate on climate change. Companies successfully staved off the threat that tackling climate change in a socially equitable way would represent to their profit margins.

Larry Lohman of The Cornerhouse argues that '... Kyoto-style carbon accounting systems [tend] to marginalize non-corporate, non-state and non-expert contributions toward climatic stability. The Kyoto Protocol's market system... not only cannot succeed in slowing the upward flow of fossil carbon into the overflowing above-ground carbon dump, but is also entrenching institutions and procedures that are likely to stand in the way of constructive approaches to climate change.'

## Can the consumer really change the market?

Many market-based solutions focus on the power of the consumer to create the necessary shift towards more sustainable markets. There is a place for choosing to buy products that contribute to local economies and avoid damaging environmental impacts, however, there are a number of problems with pushing ethical consumption as the key hurdle in switching to more sustainable economies.

Firstly statistics suggest that consumers are not, in fact, consuming ethically, even when they are concerned about the social impact of products. In a Co-operative Bank survey, 89% of British consumers said they were concerned about social and environmental impacts, but only 18% said they reflect this in purchasing decisions<sup>111</sup>. According to a MORI poll, fewer than 5% were what they called 'global watchdogs' making purchasing decisions on primarily ethical grounds<sup>112</sup>. But, even if consumers did primarily choose products on ethical grounds, this does not address the fundamental issue: the volume at which we consume and the throwaway culture that goes with our over-consumption.

The idea of ethical consumption also pre-supposes that consumers have access to unbiased information, but with millions spent by companies on advertising, much of the available information is heavily biased. The principal purpose of advertising is to make the product seem more essential, more important, more exciting or, in this case, more ethical than it really is. Since few consumers closely scrutinise a company's ethical claims, companies are able to get away with misleading messages even when they are refuted by independent sources. Therefore, consumers are not truly empowered. Although corporations and government constantly refer to consumer power, consumers are often poorly informed and isolated; moreover, they have many vested interests in the system which means that their scrutiny is frequently limited to comparatively superficial issues. In some

ways they are complicit with CSR, because they would like to believe it.

Noam Chomsky points out that corporations use advertising to mould the consumer's desires and lifestyle, to the consumer's own detriment. He says, 'the ideal is to have individuals that are totally dissociated from one another... whose sense of value is "Just how many created wants can I satisfy?"'<sup>113</sup>. So the disenfranchisement of consumers is a key part of corporate advertising strategies. Through CSR, companies are trying to appeal to ethical consumers but also to undermine the principle of ethical consumption.

Consumers' primary concerns are cost and convenience. Because of this, consumers are unlikely to act on social issues in the same way that enfranchised citizens would if called on to make democratic decisions about what a corporation should and should not be allowed to do.

Ethical consumption is often presented as democratic. Companies are responding directly to the concerns of the public. If the public were concerned then they wouldn't buy the product. But does this argument stand up? The idea that consumers will 'vote with their pounds' is actually anti-democratic. It means that decisions are made on the basis of purchasing power. Individuals' access to power is decided according to the size their wallets. But what about those who are too poor to participate in the consumer economy? The power to decide what is and is not acceptable in corporate practice should not reside just with rich consumers, but also workers, producers and communities globally who are affected by that practice.

Focusing on ethical consumption lets the corporations off the hook. It's easy for corporations to deflect responsibility for inaction onto consumers who they have pushed into apathy. But if they use the language of responsibility, then there must be an associated obligation, with or without consumer demand.

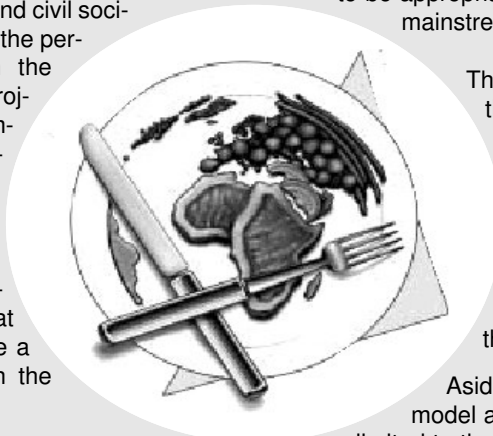
## RACE TO THE TOP

The limits to voluntary market initiatives are well demonstrated by the International Institute for Environment and Development (IIED)'s 'Race to the Top' (RTTT) project<sup>114</sup>. This sought to bring together supermarkets and civil society to create benchmarks and compare the performance of the different players in the supermarket industry. After a year the project was wrapped up due to overwhelming obstacles in dealing with the companies.

In a report detailing the reasons for the collapse of the project, the authors deliver a sound critique of the supermarkets' analysis of CSR and contend that self regulation is not sufficient to create a significant shift toward sustainability in the sector<sup>115</sup>.

The authors criticise the supermarkets attempts to conflate 'public good' with 'customer value', to keep ethics as a niche consumer choice rather than a corporate standard, to use their controlling position in the market to pass on responsibility and cost for sustainability initiatives down the supply chain whilst taking the credit. They conclude that for many civil society organisations, the demise of RTTT is a signal that only 'com-

mand-and-control' regulation can tame the supermarket sector and that at least 'in such a relentlessly consumer-oriented industry, self-regulation and voluntary initiatives are only likely to be appropriate for concerns that are aligned with the mainstream consumer interest.



The RTTT project reveals that the notion that the consumer will vote with their money is deeply flawed, that the consumer and the citizen are not one and the same, and that companies like supermarkets, that are highly consumer-focused, may listen to consumers when it suits them but the broader concerns of the citizen, in both the North and in the South, are ignored.

Aside from being distinctly undemocratic, this model also means that the scope for change is limited to the concerns related to consumer choice. The demise of the RTTT project is an example of the fact that market mechanisms and incentives, like consumer pressure for encouraging corporations to act responsibly, are flawed and susceptible to spin. When profits are the motive rather than sustainability, how can we expect sustainability to be the outcome?

# CSR gives corporations legitimacy and access



## Corporate Citizenship: With responsibilities come rights

Corporations are not citizens, they are artificial legal persons. The term 'corporate citizen', used to describe corporations that are attempting to be socially responsible, creates a new image of the corporation as an entity which has rights, feelings, a legitimate voice in a democracy, and which behaves in a moral manner. This kind of language shift creates a tangible shift in attitudes.

Corporate citizenship buys companies access to public finance for risky projects abroad. Companies which sign up to the OECD guidelines and complete environmental impact assessments gain finance and export credits through public bodies such as the World Bank's International Finance Corporation<sup>116</sup> or the European Bank for Regional Development<sup>117</sup>. Corporate citizenship also legitimises the presence of corporations in international forums and, often, their lobbying activities. Corporations have a presence at all the important world summits from the G8 to the WSSD. Their involvement is bought by their 'commitment' to CSR and 'sustainability', and gives them the opportunity to dominate the agenda and put across their view of how the world should be run. The power and resources of the corporate citizen are such that real human citizens' concerns are marginalised.

## CSR as Public Private Partnerships

Many CSR activities can be defined as public-private partnerships (PPP). PPPs encompass a variety of arrangements where companies pool their resources with governmental, intergovernmental and / or civil society organisations<sup>118</sup>. Examples relevant to CSR include running community development projects, sponsoring school playgrounds or providing healthcare. These projects blur the boundary between the role of governments and the role of companies. CSR is in itself a privatisation of a public function, since deciding what is appropriate behaviour for companies and regulating that should be the responsibility of a democracy and not of the companies themselves. CSR has shifted the ground towards privatisation. As Nigel Twose from the World Bank Group put it, 'with the private sector increasingly centre stage, questions are being raised around prior assumptions that global public goods can only be tackled (ethically and practically) by the public sector.'<sup>119</sup> CSR makes government/corporate relationships acceptable, generates contacts and builds trust and reputation to smooth the transition towards private ownership and control.

## Through privatisation to government by corporations

*'Governments are a fundamental actor in governance, but increasingly non-state actors from business and civil society are seen to play key roles.'*<sup>120</sup>



The old adage from Milton Friedman that 'the business of business is business' is proving untrue. Increasingly the business of business is power and control. While this has always been the case, the means and reach are now greater. As social commentator Leslie Sklair put it, 'global capitalism has to be politically active to maintain its project'.<sup>121</sup> CSR is taking us on a trajectory towards increased private takeover of government functions. It is not simply a form of PPP but a progression towards corporations taking on the role of governance. SustainAbility argues that CSR has evolved as a 'pragmatic response where government has failed or been weak'<sup>122</sup>. But CSR has been a mechanism in the weakening of government. It is a strategy borne out of the Thatcher/Reagan era of minimising government intervention and of policies driven by and on behalf of the corporations. CSR both weakens and sidelines democratic decision making. It announces that democratic decision making in the form of regulation is unnecessary, and replaces the (dis)enfranchised citizen with the 'stakeholder'. (See section on dialogue).

SustainAbility's report, 'Gearing Up: From Corporate Responsibility to Good Governance and Scalable Solutions', argues that a window of opportunity is opening up for corporations, through their corporate responsibility initiatives, to take on a governance role in achieving sustainable development.<sup>123</sup> The report claims to 'assess examples of private sector leadership in preparing the ground for timely and effective public policy responses'<sup>124</sup> and envisages greater corporate involvement in decision-making at the international level. According to the report, we can expect to see a shift from specific CSR projects to wider governance impacts and a change in the relationships between government, business and civil society. Case studies include carbon trading and Anglo American's programme of providing anti-retroviral treatment to staff<sup>125</sup>.

These examples show how, in the context of emasculated state power, unaccountable corporations are gradually gaining influence over governance and decision-making, as well as taking over of the delivery of services. The authors of the report see a turning point where business will either embrace this opportunity, or suffer the backlash against corporate globalisation.

***'The gap between the market and the community will be closed. The only question is how and in which direction... rollback, a shift away from globalisation, is the more likely outcome unless we manage to strengthen the fabric of global community. Ironically nobody is better positioned or has better capacity to play the lead role today than business itself.'***<sup>126</sup>

Campaigners should be aware of the role CSR plays in positioning companies to capitalise on this.

## Access to 'emerging markets'

'Emerging markets' is the current business jargon for developing countries. The terminology betrays the fact that they view these countries purely in terms of economics. Corporate partnerships with both Northern and Southern governments represent an opportunity for both policy influence and market penetration, with companies that lead in CSR gaining preferential access to developing country markets<sup>127</sup>. The term 'corporate social innovation' has been coined to describe business practices aimed at 'supporting' sustainable development<sup>128</sup>.



## BUSINESS ACTION FOR AFRICA

The 2005 G8 Summit saw unprecedented corporate involvement. In the run up to the Summit, Tony Blair set up the Commission for Africa (CfA) to advise the G8 on promoting development in Africa. A key part of the CfA was the business contact group, Business Action for Africa, a lobby group of the leading multinationals in Africa including Shell, Anglo American, SAB Miller, British American Tobacco, Diageo and others.<sup>129</sup>

Just as BCSD, and later BASD, shifted the debate at the Earth Summit and World Summit on Sustainable Development from how to solve global environmental problems to how to make them a business opportunity, BAA has succeeded in turning debate from how to eradicate poverty in Africa to how corporations can benefit from the aid money being invested in the continent. This comes as little surprise since government and business attitude to 'development' comes from the same ideological standpoint – that poverty can be tackled by increasing economic growth and attracting foreign investment that will trickle down to the poorest; while the negative impacts of corporate activity can be controlled, or conveniently ignored, through a public commitment to corporate social responsibility.

Business did well at the G8. As Haiko Alfeld, director for Africa of the World Economic Forum put it, 'business has an enormous interest if \$25 billion per year is to flow into Africa... clearly that will unleash enormous potential and business opportunities on the continent.' BAA's carefully worded recommendations to the G8 and African leaders included<sup>130</sup>:

- Investment in major infrastructure to facilitate trade.
- Replacing national markets with regional markets - reducing the national economic sovereignty of African countries.
- Streamlining the aid delivery process and involving the private sector.



-National governments stepping back from 'those areas in which business can better deliver'.

-Public private partnerships to support small and medium-sized enterprises (profits from which can be sucked out by international investors, or which can then be merged into international firms).

-To promote societies that are 'based on the rule of law' (read: where the people are pliant to the needs of the corporations) and have rules on competition, intellectual property and 'efficient public sector management' (read: privatised public sector).

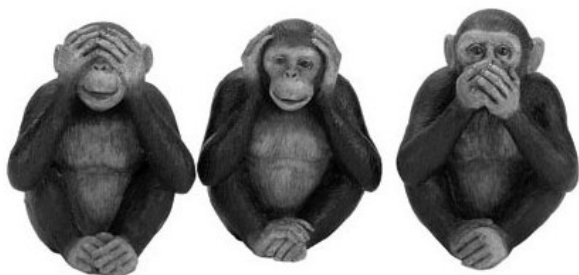
-That aid money for health, education, agriculture, capacity building and infrastructure should not be dispersed in such a way as to 'increase public sector dominance'.

The overwhelming message of the group's concluding statement was that governments should involve the private sector more in development policy and build partnerships. The statement goes on to commend the Global Compact, which as we have discussed is non-binding and toothless, as a standard to which all companies in Africa should adhere. Since most smaller African companies are not signed up to the Global Compact, multinationals clearly believe that their CSR record should gain them privileged access.

For Graham Mackay, Chief Executive of SAB Miller, the importance of increasing private sector dominance in Africa was clear. 'Aid won't go on forever,' he said.<sup>131</sup>

## It's good to talk? Why dialogue is not an appropriate response to corporate power

In his 2004 report on CSR for Christian Aid, Andrew Pendleton argues that through entering into dialogue with companies, NGOs may have 'unwittingly enhanced company images and market profiles, despite their efforts to avoid public association with the companies involved... This might not matter if it had helped secure lasting benefits to the poor.'<sup>132</sup>



Dialogue has become the key way that NGOs interact with companies, while more confrontational approaches have, in some quarters, been abandoned as old-fashioned. NGOs have been flattered into thinking that a word in the right ear will limit the destructive impacts of corporations, but they often fail to challenge the power structures that make these impacts so ubiquitous and immune to reprisals.

Proponents of dialogue see it as the best chance we have, faced with the reality of corporate dominance. But this is only true if other realities cannot be conceived of and brought into being. CSR is only the best that society can hope for if we do not visualise and struggle for anything more.

NGOs report that it is usually companies that are the instigators of dialogue.<sup>133</sup> This should ring alarm bells. Dialogue with NGOs is an issues management strategy. International PR consultant Rafael Pagan, Jr., at a 1985 address to the Tenth Public Relations World Congress, advised companies that 'if a company opens itself up to dialogue with critics of conscience, seeks support and understanding through openness and dialogue with news media and UN staff members, and acknowledges a broad responsibility for the more remote effects of its marketing practices in the Third World, it can gain respect for its essential decency, legitimacy and usefulness'.<sup>134</sup>

Through dialogue with NGOs, companies are able to: fight pressure groups and manipulate the debate; assess the threat posed by NGOs and gain intelligence; delay taking action; and divert attention from more pressing issues. So can a genuine partnerships between companies and NGOs really exist and who really gains from dialogue?

Partnerships between NGOs and corporations require some common ground. An organisation motivated purely by concentrating wealth in the hands of a few already rich individuals cannot have any common ground with an organisation set up to defend the social good and threatened ecosystems, particularly when those very interests are under attack from that same corporation. How can the NGO develop a relationship of trust with such an entity? A partnership requires some form of power equality, yet the corporation dwarfs the NGO both in terms of political influence and resources.

The language used around CSR is highly misleading. 'Dialogue' suggests a free and open exchange of views. 'Partnership' implies equality of power relations. The term 'stakeholder' implies power to make a change. Dialogue meetings are often referred to as 'roundtables' suggesting a lack of hierarchy. As with the use of the term 'responsibility', the positive connotations of the language mask the real power dynamics at work.

Dialogue is an attractive strategy since governments are unwilling or unable to regulate corporate behaviour. But even in this regulatory vacuum, are NGOs the appropriate actors to regulate companies? Some commentators propose that NGOs' involvement in CSR can be a kind of soft (i.e. not legally binding) regulation. Academic and CSR consultant Jem Bendell terms this 'civil regulation'<sup>135</sup>, which lies somewhere between self-regulation by business and 'hard' regulation by governments. But NGOs have no power to regulate or enforce, merely the power to complain and recommend. More than this, companies see NGOs as a 'more natural fit for business than governments or citizens'<sup>136</sup>. They have cultivated NGOs, but have simultaneously undermined the credibility of the NGOs by accusing them of being unaccountable and lacking transparency. This improves the image of companies, distracts and undermines NGO critics, and excuses governments from the necessity of taking action.



Responsibility for regulation of corporations should rest not with the corporations themselves, nor with NGOs, but with society through a genuinely democratic process. NGOs are often identified as the representatives of civil society, and while their mandate may be progressive, it is limited. Just as NGOs cannot speak on behalf of garment workers in the South (see section on codes of conduct), so they cannot represent the broad public interest. There is no substitute for democratic control of economies and the institutions through which we meet social needs and deliver goods and services.

NGOs need to be very careful in weighing up the impacts of their involvement with companies, not just for their own organisational strategy or issue, but in the wider political context. However, this simply isn't possible for many NGOs as they are not set up to consider broader implications but to act on a narrow mandate. NGOs need to ask not simply, 'will this engagement lead to change on our issue?' but also, 'will the change we can bring about by this engagement be counterbalanced by the gains the company is able to make from it, economically, politically and in terms of its public image?' and, 'where does our engagement leave the balance of power between corporations and society?' The narrow mandates of NGOs also make it difficult to identify corporate power as being a common root of social and environmental problems instead of the actions of some specific unethical companies who can change. Tracey Swift from AccountAbility put it this way, 'there is a small cadre of people working in this area who see it's all about power. But yet we are not really working on power, as there is no funding for this sort of thing - it's not what people want to hear'<sup>137</sup>.

While most NGOs would not admit that their ability to challenge corporations is compromised by their engagement with companies' CSR initiatives, it inevitably is. NGOs have to adapt their demands to appear reasonable to the corporate mindset. This is a de-radicalising process. The kind of change to corporate power that is needed to set our global societies on an equitable and sustainable course cannot be made reasonable to the corporate mindset.



Engagement has become the de-rigueur NGO strategy, and confrontational approaches have become characterised by corporations, the media, and even some NGOs as out-moded and unsophisticated. Similarly, pragmatism and involving corporations in 'solutions' has become the only acceptable NGO stance, whilst serious critiques of corporate power, based on a belief that society cannot compromise with corporations in pursuing social justice, equality, and environmental sustainability, becomes unacceptable.

This mirrors exactly the advice from PR guru Ronald Duchin, telling his corporate clients to 'isolate the radicals; cultivate the idealists and educate them into becoming realists; then co-opt the realists into agreeing with industry'<sup>138</sup>. This divide and rule strategy has been successful in co-opting the NGO establishment.

Peter Utting argues that 'historically, progress associated with corporate social and environmental responsibility has been driven, to a large extent, by state regulation, collective bargaining and civil society activism. Increasing reliance on voluntary initiatives may be undermining these drivers of corporate responsibility.'<sup>139</sup>



Although the NGOs in dialogue may see the activists out on the streets as a necessary stick to the NGOs' carrot, the feeling is not mutual. The 'radicals' feel not only isolated by NGO/corporate engagement but sold out by it. Engagement provides the cover through which companies can construct a 'green' identity to discredit and deflect criticism. This provides a buffer against more radical moves. A good example of this is the Roundtable on Sustainable Soya, co-ordinated by WWF amongst other organisations. The initiative has undermined peasant and farmers movements fighting the expansion of soya production across Latin America to provide animal feed to Europe and China<sup>140</sup>. While grassroots movements are taking action for land rights, food sovereignty and an end to corporate domination, the NGOs called for a small decrease in destruction of the rainforests and savannahs. Latin America has recently seen successful revolts against neo-liberal politics and corporate power, such as the popular uprisings against the IMF in Argentina and the defeat of water privatisation in Cochabamba, Bolivia. In the case of the Roundtable on Sustainable Soya, as in others, the NGOs' realpolitik creates an obstacle to the groundswell of popular counter-globalisation movements towards genuine autonomy and sustainability which NGOs should be supporting.

Many NGOs are choosing what is essentially a palliative campaign strategy, one that tries to make conditions more bearable rather than solving the problem. As the world's ecological crisis worsens, many of the organisations we've trusted to fight the destruction are effectively reinforcing the power of the destructive corporations. As our need for change becomes ever more urgent, and the solutions needed ever more drastic, some NGOs find themselves actually asking for less and less change.

# The limits of CSR



## CSR isn't a sustainable solution

CSR as a tactic will only last for so long. As the economic climate changes, will companies continue to value their socially responsible image?

CSR will only enhance a company's reputation or access to capital if the public is convinced that they really are having a positive impact on society. But the public which is sceptical at present will only be fooled for so long, as companies continue to pollute, profit from wars, exploit vulnerable workers and exacerbate the gap between rich and poor. Once CSR is exposed as a fraud, will the companies continue to spend money on it? Or will they revert to being unashamed champions of no-holds-barred capitalism? Many companies have famously dropped their CSR commitments when they hit financial problems. For example, Littlewoods pulled out of the Ethical Trading Initiative and disbanded its ethical trading team when it was bought out by L. W. Investments Ltd in November 2002<sup>141</sup>. What will be the fate of CSR when we inevitably see a downturn in the economy as a whole?

The so-called 'leaders of the field' in CSR will probably see the financial rewards of their investment decrease as other companies catch up with them and CSR no longer gives them the competitive edge, which is why some are now pushing for regulation. So, prospects for the long-term profitability of CSR are probably over-hyped. Once CSR ceases to be flavour of the month with investors, will companies continue to care?

With the exception perhaps of pension funds, which look for a return on investment over the long term, a company's quarterly results are the key benchmark of corporate performance. This leaves little room for investment expenditure in long-term shifts towards more sustainable modes of operation.

So is CSR just a bubble that will imminently burst? Unless corporate power is reined in through effective regulation, then CSR will fall off the agenda when it ceases to be profitable.

## CSR can't challenge corporate power

***'The twentieth century has been characterised by three developments of great political importance: the growth of democracy, the growth of corporate power and the growth of corporate propaganda to protect corporate power against democracy.'* Alex Carey<sup>142</sup>**

Ultimately the debate around CSR comes down to whether corporate power can be curbed or whether we should content ourselves with trying to win the smaller victories on the micro level, and whether the two efforts are mutually exclusive. While smaller scale changes could be achieved with CSR, we will never achieve a just and sustainable society without dealing with the structural issue of corporate power and the corporate profit motive. The question is, can CSR be seen as a step towards that goal or does it hinder efforts to dismantle corporate power?

CSR diverts attention from the damaging impacts of companies and deflects concern about corporate power. It also gives companies the power to decide what it means to be responsible. This undermines any work at exposing and challenging corporate power. Even SustainAbility admits that 'at worst [CSR initiatives] may even undermine long-term solutions by deflecting attention from the root problems'<sup>143</sup>.

## Business as unusual?<sup>144</sup>

Ray Anderson, CEO of US-based carpet manufacturer Interface Inc, came out of the film 'The Corporation' as quite a hero: the brave CEO prepared to turn his company around, 'climb Mount Sustainability', and still remain a market leader. Interface and a few companies like it may be a talisman for the CSR movement and the example that CSR proponents can point in an attempt to counter critiques such as this, but in fact the exceptions prove the rule. Companies like Interface can exist and be profitable whilst making major changes to their operations only because other companies are operating unsustainably. Without that, Interface would not have its unique selling point. The marketplace only has room for a limited number of companies that operate in a truly ethical way because the pool of consumers that make decisions based on primarily ethical criteria is limited. The only solutions to this are either to increase the pool of ethical consumers or to change the rules of the marketplace. The conditions which enabled Ray Anderson to drive forward his corporate reforms were unique. Anderson is the majority shareholder at Interface, and he sacked the company's MD Charlie Eitel for his reluctance to follow Anderson's prescriptions for the company's environmental sustainability<sup>145</sup>. Mark Achbar, one of the producers of The Corporation, commented that although he was impressed by Anderson, 'We cannot rely on the CEOs of the world all having epiphanies while simultaneously reading Paul Hawken's The Ecology of Commerce... One way or another, corporations must be forced into sustainability, or else we are collectively doomed.'<sup>146</sup>

Similarly, the Body Shop is held up as a great example of the possibilities of corporate social responsibility. However, campaigners have frequently shattered the company's green and caring image<sup>147</sup>. The Body Shop is an example of how growing to the size of a multinational and being floated on the stockmarket will transform the ethical stance of a business, even one which has social principles at its heart. The Body Shop's founder, Anita Roddick, described the stock floatation as 'a pact with the devil'<sup>148</sup>. Roddick found it much more difficult to keep the company's values at the centre of its business: 'the imperative is to grow - and by a small group of people's standards, financial investors who are gamblers... like in a casino'<sup>149</sup>. Whilst the company has tried to retain its image as a principled company, Roddick's role in the company since the sale of stock has been significantly diminished<sup>150</sup>, with the company viewing her as something of a loose cannon. The company's new executive chairman commented, 'we believe in social responsibility but we are hard-nosed about profit. We know that success is measured by the bottom line'<sup>151</sup>. We should not be surprised by the announcement in March 2006 that the Body Shop is to be bought out by L'Oreal. The Body Shop's transition to becoming just another multinational capitalising on a niche market has been a long time in the making.

The really interesting exception to the rule is CaféDirect, the fair-trade company that went public in 2004. CaféDirect's shares are traded on the Triodos Bank's 'matched bargain market' Ethex<sup>152</sup>, together with shares in the Ethical Property Company, Green Lane Housing Ltd and Triodos Renewables. Through this unique share trading system, social enterprises attract shareholders that do not prioritise profit over ethics. A total of 45% of CaféDirect is owned by its founders (Oxfam, Traidcraft, Equal Exchange and Twin Trading) and producers. CaféDirect's model will be an interesting one to watch.

## Part III: What would a socially responsible company look like?



What does social responsibility mean? That is for society to decide rather than corporations. Social responsibility must at least mean not damaging society, responding to critical social problems and acting in the social interest. Let's raise the bar a little. A socially responsible company would have to:

**Address climate change** – Climate change is the major ecological crisis of our time. David King, the UK government's scientific adviser dubbed it 'a greater threat than terrorism'<sup>153</sup>. The UK government has committed to a 60% reduction in emissions of carbon dioxide by 2050<sup>154</sup>. At the same time oil companies are constantly exploring to find more oil to burn, energy companies are running gas and coal-fired power stations and pumping more and more carbon dioxide into the atmosphere, car companies are promoting gas-guzzling sports utility vehicles and airline companies are taking advantage of the lack of fuel tax to offer cheap flights. A socially responsible company would have to reduce emissions of greenhouse gases by cutting energy consumption, use renewable energy and cut reliance on oil.

**Not sell products which are intrinsically harmful** - The tobacco industry is arguably the only legal industry where consumers die through the correct use of their products. The arms industry profits from war, death and torture. Fast food companies profit from obesity and ill health. A socially responsible company would have to stop producing products that are intrinsically harmful. For some industries this would mean ceasing to exist.

**Stop manipulating the public** – Why do we buy so much stuff that we don't need? Because corporate advertising tells us we want to and our consumption will lead us to happier, more fulfilled lives. The capitalist model requires constant economic growth, of which consumer spending is an essential part. Current levels of consumer spending are sending personal debts skyrocketing, whilst profits are won on the backs of sweated labour and a devastated environment. A company acting in the social interest would have to only sell goods that were needed, could be afforded, and not manipulate consumers into spending beyond their means or promote overconsumption beyond levels the planet can manage.

**Internalise costs** – When companies talk about 'efficiency' and 'minimising costs' they are generally talking about 'externalising' the true cost of their operations onto wider society. The bills for cleaning up pollution, providing welfare support to workers who don't earn enough to live on or for building the roads that allow their produce to be distributed, are passed on to society either directly through taxes or indirectly through living in an impoverished society and damaged environment. A company working in the social interest would cover these costs rather than, as in the capitalist model, seeking all possible ways to externalise them.

**Pay taxes in full** – Paying taxes is both required by law and a key part of contributing to society as a responsible 'citizen'. Yet tax minimisation is seen as one of the prime duties of company directors to protect the revenue of their shareholders. Companies in the UK avoid an estimated £20 billion of tax<sup>155</sup>. In a private survey by Deloitte and Touche in 2000, 85% of the companies surveyed admitted to using tax avoidance schemes

which they had expected to be challenged by the Inland Revenue.<sup>156</sup> More importantly, multinational companies exploit the poverty of developing countries, as the fluidity of capital encourages countries to compete for the lowest tax rates in a drive to attract investment. A truly socially responsible company would be transparent in terms of the levels of taxes it is paying in each of the countries in which it operates and would see paying tax as part of its responsibility to society rather than seeking to avoid it.

**Stop lobbying against the public interest** – Corporate lobbying works against democracy. Corporations are able to influence policy making at all levels and have privileged access to decision-makers. Companies which claim to be socially responsible still lobby against the public interest, make donations to political parties for which they expect payback, and even use their position as supposed 'socially responsible corporate citizens' to gain access to international forums tackling global issues such as poverty, sustainable development and climate change, successfully capturing the agenda and undermining moves towards real change.

**Democratise the workplace** – 'Socially responsible' labour practices when applied top down by a corporation are ineffective in tackling sweatshop labour. Workers need the space for collective bargaining where they decide their rights and demand them. A socially responsible company would be run for the benefit of people. Workers would be recognised not as 'human resources' who must be efficiently put to use by the company, but as the people who create the worth of the company and as such should determine their conditions of labour.



**Reduce consumption and limit growth** - The current rate of degradation of the natural systems that are vital for our survival, forests, oceans, soil, fresh water and the earth's capacity to absorb pollution, can only be stemmed by an urgent reduction in consumption. Less consumption means lower profits for companies, yet if a company were truly socially responsible it would have to accept this ecological imperative.

This level of social responsibility is not something a corporation, as corporations are currently structured, could handle. It is not within its worldview. Society must create new structures to replace corporations, ones that could operate in a way that might meet some of these criteria.



## Part IV: Why do we buy it?



CSR has always been a controversial issue and the criticism of it being 'greenwash' or a corporate PR exercise is by no means a new one. But for a variety of reasons people still think that CSR is worth their time and energy and buy in. To understand why the CSR debate is still on going we need to look at the reasons why certain groups of people believe it to be a worthwhile exercise and what their frustrations are with CSR. At the heart of any pro-CSR reasoning lies a belief that it is possible for companies to be socially responsible, an assumption which this report questions, or at least a belief that the motivations of the company do not matter if the result is a positive one, a position which, again, this report disputes.

### NGOs

'Working with business is as important to us as munching bamboo is for a panda,' WWF<sup>157</sup>

NGO involvement is key to CSR. Their engagement with companies adds legitimacy to the process as they come to represent the interest of the wider social good.

Here are some examples of NGO/company partnerships:

**Charity donations and cause-related marketing** – Some NGOs refuse all corporate donations, such as Greenpeace. Many will accept any. Even those that refuse certain corporate donations rarely look at the wider political context of a donation and refuse only those from companies they see as having negative impacts directly on their stakeholder group. Children's charity NCH, despite having an ethical fundraising policy, accepted donations from arms manufacturer BAE Systems<sup>158</sup>.

**Developing and monitoring corporate codes of conduct or environmental management techniques** – The Ethical Trading Initiative is an example of an NGO led code. It was set up in the 90s by a coalition of NGOs such as Christian Aid, Oxfam and War on Want following campaigns on UK food and clothing retailers. Companies that have signed up to their 'ethical trading' code include Asda<sup>159</sup>, GAP<sup>160</sup> and Tesco<sup>161</sup>. While companies such as these may have made a public commitment to CSR, they are still using sweated labour, paying rock bottom prices to producers, squeezing small retailers out of the market, selling us goods we do not need and damaging the environment.

**Developing socially responsible products** - Greenpeace's no-corporate-donations policy does not, however, go as far as committing to no corporate tie-ins. It jointly promotes a renewable energy product, Juice, with npower. Npower is owned by German utilities giant RWE which has come under fire over many issues including pushing water privatisation. RWE's core business, for example running nuclear and coal-fired power stations, is a world away from its investment in renewables.<sup>162</sup>

**Stakeholder dialogues** – As we have explored, stakeholder dialogue between NGOs, companies and other actors is a key aspect of CSR.

### Why are NGOs getting involved in these partnerships?

From the NGO perspective they are trying to achieve some of the following objectives:

**Creating change** - NGOs engage with companies because they believe they can change the company's behaviour to meet their social change or environmental objectives. Their strategy is to use the power of corporations to improve things in their specific area of focus.

**Shifting towards regulation** – For some NGOs the objective of their engagement with companies is to make progress towards the regulation of companies in the wider public good.

**Follow the leader** – For many NGOs, the debate on whether or not to engage with companies is already over. The attitude is 'all the major NGOs engage with companies so why shouldn't we?' While in many organisations internal debate continues, there is a sense that, right or wrong, engagement is the current tack so there is little point in questioning it.

**Barricades to boardrooms** - If after battling with a company over their negative practices, the company caves in and agrees to make changes, a common response is for NGOs to enter into dialogue.

**Frustration** – Equally, engagement can be seen as a quick fix. The idea of campaigning for structural change, or targeting every company on every issue is daunting. NGOs need PR successes to retain supporters and funders. CSR, with its promise of motivating companies to change themselves, appears to offer a high ratio of campaign success to input of resources.

**Credibility** - Through engagement, and being seen as 'rational', realistic and co-operative, NGOs gain profile and influence amongst government and industry.

**Funding** – Funding for NGOs is highly competitive and a small amount for a company makes a huge difference to a cash-strapped NGO.

## CSR workers

People working in CSR in major companies often have very laudable motivations for choosing their line of work. Three in five people report that they want to work for a company whose values are consistent with their own<sup>163</sup>. It's unlikely that these people are in the job because they like the challenge of hoodwinking society into believing that companies are altruistic corporate citizens and truly sorry for any negative impacts that they may have inadvertently caused as a result of trying to make an honest living. Many people choose to work in CSR because they passionately believe that they can change the corporation from within. They want to make a difference and while they don't want to simply be part of the corporate machine they still want a good job and a comfortable lifestyle and don't relish 'opting out', whatever that might mean.

The question for people working in CSR is what level of change will they be happy with? Since the number of major companies that have made any real shift in the way they operate is very close to zero, when will CSR workers see the whole project as a betrayal of the principles they are seeking to promote? How long will they hold out in the hope that their arguments will win out and their role as conscience of the company will be unnecessary?



The other frequent argument for 'working from within' is that companies will run their CSR programmes anyway, so it is better if people working on them are committed to trying to use this as a means for social change. But unless those people are also actively working to undermine the company's power, for example by unionising or leaking damaging documents, they are doing more to protect the company and the power structure it exists within than they are to protect society or the environment, no matter how beneficial the programmes they introduce may be.

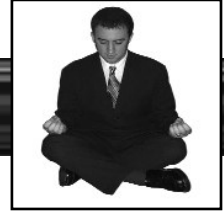
The frustrations of CSR workers are often to do with their isolation within the company. Many CSR workers feel more affinity with the NGO representatives they have dialogue with than with their own colleagues. There is also the frustration that they have little power, and have difficulty convincing management to implement bold initiatives. Another frustration is that the most effective initiatives from a social or environmental point of view are often the ones that are most difficult to sell, and that once the PR is in the public domain the commitment to projects shrinks.

## Consumers

Consumers do not want to think that their lifestyle and consumption habits have a negative impact on others or on the environment. But there remains a big dividing line between the number of consumers saying they are concerned and those that could be termed 'global watchdogs' (see section on ethical consumers). Ethical consumption fills consumers' need to continue consuming and helps to minimise the guilt that they feel about their impacts. Consumers don't like to think that their favourite clothing brand, soft drink or supermarket is unethical, and so are receptive to corporate messages about social responsibility. If it can't rebuild trust in the corporation, CSR aims at least to manoeuvre members of the public into a position where they don't know what to think.



# Conclusion



Since companies cannot act in any wider interest than the interest of their shareholders to make profit, CSR is of limited use in creating social change. Since CSR is also a vehicle for companies to thwart attempts to control corporate power and to gain access to markets, CSR is a problem not a solution.

Efforts to control corporations' destructive impacts must have a critique of corporate power at their heart and a will to dismantle corporate power as their goal, otherwise they reinforce rather than challenge power structures, and undermine popular struggles for autonomy, democracy, human rights and environmental sustainability.

If CSR is the wrong strategy then the million dollar question is, which strategies will be effective in this struggle? Answering this question is beyond the scope of this report, but certain strategies clearly stand out.

**Regulation** – Regulation is a key step in achieving this power shift. But it will happen only when the pressure is greater for governments to regulate than it is for them to listen to the corporate lobby. Campaigns pushing for binding regulation of corporations cannot be successful in isolation from confrontational campaigns attacking the corporate power base.

**Grassroots action and international solidarity** – Some of the most effective activism currently taking place is by Southern communities directly fighting for their lives and livelihoods in the face of corporate abuse. This includes networks such as: the international peasant movement, Via Campesina, the Brazilian Landless Workers' Movement (MST), Oilwatch (the South to South network opposing oil companies), activists internationally opposing privatisation of services from Bolivia to South Africa and taking control of their own basic needs, Argentinian workers taking over abandoned factories, Indian farmers shutting down Coca Cola bottling plants, and hundreds of other diverse campaigns across the world. These uncompromising struggles reflect popular outrage, and call for international solidarity to strike at abusive companies in the world's financial centres, and not to be sold out by Northern NGOs which claim to act on their behalf.

Our campaigns must take a confrontational approach, not challenging companies to make reforms but attacking their legitimacy and license to operate.

**Challenging the expansion of corporate power** – Through international trade rules on services, intellectual property, competition, procurement and investment, corporations are pushing to extend their power base. Corporate involvement in international summits and multistakeholder fora is motivated purely by an interest in extending the reach of corporate influence, accessing markets and asserting their dominance. At all stages this must be resisted. Similarly the trend towards corporate concentration represents further centralising of power.

**Exposing the corporation** – Information is power. The disinformation that pervades our society through the mass media - which tells us that capitalism is the only way of organising our societies, that corporations are socially responsible, that consumption will make us happy - is a foundation stone of our consent to corporate domination. Dismantling these myths through research exposing corporate crime, corruption, exploitation and greed is the only way to awaken wider society to the need for new ways to organise our societies that assert people's rights to control over their economies and resources.

**Building alternatives** – Fairtrade, local and organic food, permaculture, seed swaps, low-impact design, community renewable energy projects, co-operatives, limited liability partnerships, social enterprises, community organisations, people's juries, non-hierarchical organising, consensus based decision making, and countless other initiatives and ways of organising, each in their own way represent alternatives to corporate dominated society, enabling people to have autonomy over their livelihoods, meet their needs, and participate in decisions which affect them. Building alternatives helps to create new societies in the shell of the old.

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## Corporate Watch, Corporate Structures Programme

This report was produced as part of Corporate Watch's Corporate Structures programme, which exposes how the legal structure of the corporation lies at the heart of global social and environmental problems.

Other publications in this series include:

Rebecca Spencer, '*Corporate Law and Structures: Exposing the roots of the problem*', Corporate Watch, January 2004.

Corporate Watch, '*What's Wrong with Corporations*'

These reports and more can be found online at [www.corporatewatch.org](http://www.corporatewatch.org)

## Further information

### Contacts

#### Corporate Watch

Corporate Watch is an independent not-for-profit research and alternative media group, founded in 1996. It aims to investigate the social and environmental impact of transnational corporations and the mechanisms by which corporations accumulate and maintain power.

Corporate Watch runs an alternative news service as well as research projects on supermarkets, privatised services, genetic modification, nanotechnology, corporate power, and the public relations industry.

[www.corporatewatch.org](http://www.corporatewatch.org)

#### Corporate Europe Observatory

Corporate Europe Observatory (CEO), is an Amsterdam-based research and campaign group targeting the threats to democracy, equity, social justice and the environment posed by the economic and political power of corporations and their lobby groups.

[www.corporateeurope.org](http://www.corporateeurope.org)

#### *The Corporate Responsibility (CORE) Coalition*

The Corporate Responsibility (CORE) Coalition, established in 2001, represents over 130 charities and campaigning organisations. CORE believe the only way corporate accountability will become a reality is through new laws that make companies value people and the planet as much as they value making a profit.

[www.corporate-responsibility.org](http://www.corporate-responsibility.org)

#### SpinWatch

SpinWatch is an independent organisation that was launched in 2004 to monitor and expose corporate and government public relations and propaganda. Spinwatch aims is to foster a greater awareness of spin and public relations. They also campaign against the manipulations of the PR industry and work to expose spin techniques such as media management, lobbying, corporate social responsibility, front groups, dirty tricks and spying.

[www.spinwatch.org](http://www.spinwatch.org)

### Recommended Reading

Joel Bakan, '*The Corporation The Pathological Pursuit of Profit and Power*', Constable, 2004

Andrew Pendleton, '*Behind the mask: The Real Face of Corporate Social Responsibility*', Christian Aid, January 2004

Jem Bendell, '*Barricades to Boardrooms: A Contemporary History of the Corporate Accountability Movement*', United Nations Research Institute for Social Development, June 2004

Judith Richter, '*Holding Corporations Accountable : Corporate Conduct, International Codes and Citizen Action*', Macmillan, January 2002

Patrick Reinsborough, '*Decolonising the Revolutionary Imagination: Values Crisis, the Politics of Reality and Why There's Going to be a Common Sense Revolution in this Generation.*', May 2003



what's wrong with  
**corporate  
social  
responsibility?**

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