Broadening Corporate Responsibility

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Is maximizing shareholder value alone a good enough long-term strategy?

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Washington D.C. is drowning in paper. Congress has voted on proposals to promote corporate responsibility. Meanwhile, the President, executives and activists are all scurrying about in search of additional proposals to make executives more accountable for their companies' financial reports. The hope is that new reporting requirements and auditing rules will reassure global investors.

These efforts are laudable, but they will prove insufficient. Given that capitalism today is global as well as local, the U.S. must work with its allies to write international corporate governance norms. But we need to use this opportunity to think more broadly about how to reassure global economic confidence long term. All of the reform efforts to date focus on a narrow definition of corporate responsibility. As President Bush acknowledged in his July 9th speech, "There is no capitalism without conscience." That is why the ultimate reform would encourage corporations to also act responsibly towards their workers and the environment.

Corporations, after all, have a social and environmental impact, and de facto, a social and environmental role. Business needs the approval of society to make profits and prosper over time. Investors flee from com-

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panies that mistreat their workers or the environment, as Nike, Union Carbide and Exxon Mobil have learned. If policymakers, activists, investors, and executives really want to address corporate responsibility, corporate governance reforms must be coupled with policies to promote global corporate social responsibility. Global corporate social responsibility can be defined as business practices based on ethical values and respect for workers, communities and the environment.

Stakeholders can't simply rely on market forces to ensure global corporate social responsibility. Although markets have encouraged more firms to act in a responsible manner in the global economy, market forces have not been sufficient to ensure responsible behavior all of the time. Moreover, markets may penalize responsible firms (those that work harder to ensure that workers or the environment are treated well as they make goods and services). Such responsible firms could have higher costs, which may allow other competitors to gain market share. The right mix of public policies can ensure that responsible firms are not penalized.

The ultimate reform would encourage corporations to also act responsibly towards their workers and the environment.

The United States has a wide range of policies that are explicitly designed to promote global corporate responsibility. These policies include two codes promoted by the Department of State—the Voluntary Principles for Security and Human Rights and the OECD Guidelines. These codes are designed to help business protect human rights in nations with poor human rights records. Corporate social responsibility policies can also include EPA regulations that require corporations to report on their global environmental liabilities. After all, the costs of clean up can be a major drain on corporate profits. But these policies are not well coordinated or known as CSR policies. Were someone to compile an overview, we might gain a greater understanding of how such policies can be made more effective. The U.S. also has a wide range of public policies that undermine global corporate social responsibility. These policies include tax policies that encourage firms to shift production or their headquarters to nations with weaker fiscal or regulatory systems. Other policies that may undermine global corporate responsibility include corporate welfare (subsidies to business) and agricultural protectionism. By simply developing such a list, we may help ensure that our policies don't undermine good global behavior and over time, undermine the economic health of our firms and our nation.

Other nations are developing a consensus that public policies can and should promote domestic and global CSR. Firms on both sides of the Atlantic face similar market pressures, but a growing number of corporate leaders in Europe seem to have decided that adherence to CSR makes good business. On July 2, the European Commission proposed a process to devise a corporate social and environmental responsibility standard. The approach is voluntary. The strategy focuses on "objective evaluation methods and validation tools such as social labels" as well as social and environmental reports. It is also designed to promote socially responsible investing (SRI). The French government recently overhauled French corporate law and mandated the disclosure of companies' social and environmental as well as profit performance. This is a good idea. The British require pension funds to report on the social, environmental, as well as profit performance of their investments. The Canadian government is also examining a wide range of public policies to promote CSR. Perhaps the most interesting development was that in 2001, with funding from the Atkinson Foundation, five private citizens organized a commission on democracy and accountability. Their final report issued 25 specific policy recommendations on promoting global and domestic CSR. But the U.S. lags behind in discussing whether government can or should play any role in promoting global corporate social responsibility.

Executives are increasingly coming to understand that they can't meet their corporate responsibility simply by maximizing shareholder value. Last year PricewaterhouseCoopers surveyed 1161 chief executive officers of companies from 33 countries. Some 68 percent of those polled said that global corporate responsibility was vital to profitability. Meanwhile citizens around the world have become more vocal in demanding that global business be held accountable for conduct that could undermine social, environmental or economic progress. Policymakers must respond by minding our business everywhere it operates. ◆