APPREHENDING BUSINESS AND SOCIETY

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This paper claims to make a contribution by addressing a significant number of epistemological, theoretical and methodological problems in the business and society literature. We identify six sets of potential influences promoting corporate social responsibility. The private sector encompasses intra-organisational obligations and pressures from competitors, investors and consumers. Governmental and non-governmental organisations exert regulatory pressures. Calling upon radical institutional theory, we address each set with respect to its conceptual arguments, its empirical salience in terms of the latest relevant research, and our considered opinion regarding its prospects to be a significant factor in promoting outcomes consistent with social welfare. The conclusion addresses their combined potential to put capitalism on a firmly sustainable track, or whether they amount to an ideological distraction from capitalist pathologies. A call is made for fresh imaginings of the discourse.
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1. INTRODUCTION

The corporate charter was always regaled as quaint. A century later, Berle and Means (1932) had fixed the relation between business and society. Hegemonic markets in the latter half of the twentieth century saw social responsibilities find a distant home in the argot of business ethics. This paper claims to make a contribution by addressing a significant number of epistemological, theoretical and methodological problems stemming from the false dichotomy of business and society.

Section 2 begins by outlining the received exposition of social responsibility in business and society (B&S) research. We then outline its deployment of stakeholder management and critically assess the arguments for and against the business assumption of social responsibilities.

Most of the B&S research coalesces around an under-specified form of stakeholder theory that concerns itself only with self-reporting (Gray, Kouhy and Lavers, 1995). O’Dwyer (2003) addresses the gap by investigating how managers would conceive and operationalise social responsibilities. Section 3 answers the call from O’Dwyer et al. (2005, 2003) for work identifying the influence of stakeholder groups on social responsibility practice. We proceed by identifying six sets of influences promoting social responsibility actions within the firm: internal pressures on managers; pressures from competitors, investors and consumers; regulatory pressures from governments and non-governmental organisations. We address each sequentially with respect to (i) its internal logic (the conceptual arguments for and against it); (ii) its empirical salience in terms of the latest relevant research, and (iii) our
considered opinion regarding its prospects to be a significant factor in promoting outcomes consistent with social welfare. Other voices would include the media, “ecosystem” consultants, business schools and the general public. For the sake of cogency, we only note their potential influence and point to the work of others (Neimark, 1995; Freeman and Gilbert, 1992).

Finally, in Section 4 we address whether their combined force is sufficient to put capitalism on a firmly sustainable track, or whether they (and, more broadly, the entire social responsibility-related discourse) ultimately amount to an ideological distraction away from capitalist pathologies, a palliative for the ‘chardonnay socialist’ set, a rearranging of deck chairs on the Titanic …

The point of all this is to suggest a need for B&S researchers to rediscover fresh meanings in their work. We offer no research paradigm. We echo others in stating that most of what we have to say has been said before (Freeman and Gilbert, 1992). As researchers working in the conventionally adjacent disciplines of management and accounting/finance, we recognise that we are drawn together by our doubts that joining a search for mechanisms and authentic practice is a worthwhile project. What we offer is a critical narrative of the arguments. We bring to this endeavour an awareness that most of the research we address is under the influence of a philosophical tradition that views human effort as progressive and capable of improvement. We leave it to others to determine where we stand in relation to Enlightenment thought.
2. CORPORATE RESPONSIBILITY AND STAKEHOLDER MANAGEMENT

The discourse of corporate social responsibility (hereafter CSR) turns on discussions of voluntary, but impliedly obligatory, corporate responses to observed or threatened serious damage to ecological and social systems. According to Wood (1991: 692), its basic idea is that “business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behaviour and outcomes.” Such expectations are motivated primarily by economic externalities. We define CSR in terms of organisational actions that promote (i) a greater internalisation of negative economic externalities and/or (ii) a greater generation of positive economic externalities. We add to Abelson’s definition of externalities (2002: 159):

“[A]ny positive (beneficial) or negative (harmful) effect that market exchanges have on firms or individuals [or ecological systems or human communities] who do not participate directly in [or benefit from] those exchanges”.

Business ethicists borrow from the works of such as Thomas Hobbes, John Locke and Jean-Jacques Rousseau to assert that normative obligations on the firm imposed by the social contract (Palmer, 2001) require constructive responses to the needs of owner and non-owner groups (Dunfee and Donaldson, 1995). Ethics and responsibility are unreflexively presented as problems for individual decision-makers in the firm, solvable through straightforward application of logical rules and codes of conduct. Such expositions overlook three differences between individuals’ and corporate social responsibilities:

(i) Contracting relationships do not automatically exhibit the characteristics of moral agency possible in non-contracting relations. In business, one party represents a cost
to the other, which is not the case in intersubjectively shifting relations such as those between friends and family (Noreen, 1988; Attfield, 2000).

(ii) Legal limited liability protects managers and corporations from the moral implications of a corporation’s actions/non-actions (Graham, 2001). Individuals seeking protection from consequences arising out of their capacities as individuals can only seek partial insurance and with no guarantee of success.

(iii) Relatedly, corporations need only be concerned with circumstances impacting on the execution of business plans. In contrast, economic incentives and moral concerns are co-extensive in the professional business manager, even if the former often outweighs the latter (O’Dwyer, 2003).

Four assumptions underpinning most B&S research give it a somewhat paradoxical positivist sheen. While one hand flags moral justification, the other defers to the mechanics of capital.

One, B&S researchers assume that corporate entities are responsible only for their own behaviour and are not responsible for the system itself, which might explain why categories of obligation and forms that the social contract should take are left undefined. The relevant definition of responsibility is necessarily narrow: “issues of corporate responsibility are of smaller scope than the ethical foundations of capitalism” (Goodpaster, 1983: 3). Ethical questions are restricted to the means of production, in which they are held to occur only in places such as consumer protection and occupational health and safety. Exemplary behaviour is encoded in governance guidelines emanating from such as stock exchanges.

A related assumption is that self-regulation is a proper normative ideal for corporate entities (Gray, Owen and Maunders, 1988). Voluntary CSR reporting is assumed without examination to sufficiently acquit the firm of extra-legal responsibilities.
Three, economics is not identified as a matter of choice. The institutional and legal status qua, market forces, and a right of corporations to accumulate private property are reified as part of the “fundamental legitimacy of capitalism” (Goodpaster, 1983: 3). Moral agency is received with as little critical reflection.

Four, inherent contradictions between the pursuit of economic growth and goals of ecological maintenance and social justice are considered, if at all, as trivial. In their own reviews of the literature, Bowie and Dunfee (2002), Shaw (1996) and Solomon (1993) find conflicts between ethical and profit motives unaddressed.

**STAKEHOLDER MANAGEMENT.** We turn now to consider the status accorded to stakeholder management in the B&S literature. An organisational stakeholder, thought to be “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984: 46), can be classified on proximity. Dominant stakeholders describe groups with direct and well-established legal claims on organisational resources. Auxiliary stakeholders refer to those parties whose claims on organisational resources are less well-established in law or custom.

The technique of stakeholder analysis involves identifying relevant stakeholders in a specific situation (Mitchell, Agle and Wood, 1997). Their relevance depends on the force of their claims. Stakeholder management is concerned with incorporating the interests and anticipated reactions of relevant stakeholders into decision-making processes of the organisation at the centre of the situation (Freeman, 1991). Again, the force of stakeholders’ claims determines prioritisation.

As the purportedly ideal mechanism of social responsibilities, stakeholder management presents as remarkably limited and somewhat violent. The technique has no regard for social
or ecological welfare. Auxiliary stakeholders such as minor shareholders, marginalised communities in cities in which firms might operate, and oppressed communities in non-urban areas where they do not, are simplistically reduced to the status of irrelevancies by virtue of their smaller voices. The import of ecological systems is assessed from the perspective of threats to the firm, rather than from what we would see as the more obvious perspective of the firm’s threat to ecological systems.

The most integrative doctrine of stakeholder management directs management to pursue outcomes that optimise the results for all stakeholders rather than maximise the results for the shareholder group. Thus, management’s role assumes aspects of public policy-making in addition to economic analysis, and decisions are made through a process of political negotiation among dominant stakeholders.

Contrasting approaches describe decisions made in strict accordance with rationality directed to maximising the economic welfare of shareholders; and instrumentally inspired CSR actions, which at least in this context, reduce to a more refined deployment of economic rationality.

Stakeholder management is not necessarily associated with a particular normative position. It can be useful for firms following ethically or instrumentally based notions of CSR as well as for those simply acting within whatever legal and ethical constraints are germane to their business system (Jones and Fleming, 2003). This aspect of stakeholder management would justify its location within the domain of strategic management.

**PRO AND CON CSR.** Normative arguments acknowledging a need for CSR are based on ethical or instrumental rationales, while those against are based on institutional function or property rights perspectives (Jones, 1996).
Ethical rationales are derived from religious principles, philosophical frameworks, or prevailing social norms. Ethicists argue that firms are compelled to behave in a socially responsible manner because it is the morally correct thing to do. In its extreme, ethics-based advocates of CSR would support such behaviour even in instances in which it involves an unproductive resource expenditure for the firm.

Instrumental arguments in favour of social responsibility are based on a rational calculation that CSR actions will benefit the individual firm over time. Such arguments rely on organisational legitimation. By appearing responsible, a firm can proactively anticipate and avoid government regulations, exploit opportunities arising from increasing levels of cultural, environmental and sexual awareness, differentiate its products from those of less proactive competitors, and continue to privilege economic pursuits. The perspective is illustrated by T. Jones (1995: 422):

“[B]ehavior that is trusting, trustworthy, and cooperative, not opportunistic, will give the firm a competitive advantage. In the process it may help explain why certain “irrational” or altruistic behaviours turn out to be productive and why firms that engage in these behaviours survive and often thrive.” (emphases added)

The case against social responsibility is based on concepts of institutional function and property rights. The institutional function argument asserts that non-corporate institutions such as governments, labour unions, civic and religious organisations are the proper vehicles to perform the types of functions required by social responsibility. Further, business managers have neither the skills nor the time to implement public policy. A final argument is that an empowered business sector would not be accountable for its actions, unlike governmental bodies which are held accountable through electoral mechanisms. Allowing or encouraging business to expand its institutional role according to the tenets of social
responsibility is dangerous in that it allocates tremendous authority without accountability (Levitt, 1958).

The property rights argument against social responsibility has its roots in neoclassical capitalism and continues to be influential due to its simplicity and resonance with the views of many in the business community, particularly those in financial services. This perspective maintains that management has no right to do anything other than act in ways, which increase shareholder value (Friedman, 1970). To do otherwise constitutes a violation of management’s legal, moral and fiduciary responsibilities. Although the perspective has gained a deal of notoriety, its continuing salience was readily observable in the wave of leveraged buyouts in the corporate sector during the 1960s and 1980s (and on current indications, the 2000s). The rationale for these transactions was the primacy of shareholder rights over those of auxiliary stakeholders, and management’s corresponding duty to maximise economic performance.

3. DETERMINANTS OF CORPORATE RESPONSIBILITY PRACTICE

The influences on CSR practice tend to overlap or interact in quite complex ways; e.g., when investment firms spend media dollars to educate potential financial consumers as to the advantages of social investment funds. Yet, they are analytically distinct in terms of their internal logics and immediate empirical referents. Figure 1 represents six sets of intra-organisational and external influences on the firm to exercise social responsibility.

[Insert Figure 1 about here]
The justification for depicting these forces and not others is threefold: (i) their close relation to the capital accumulation process generates the externalisation dynamic and drives intra-firm, competitive, and consumer/investor forces; (ii) the nature of consumer identity in capitalist social formations impacts whether ‘enlightened consumption’ can be a substantial force promoting CSR; (iii) the direct access to firms demanded and sought by the state and popular mobilisations.

We use radical institutional theory (RIS) to explain relevant interrelations. RIS is an organisational perspective that, by explaining forces that influence organisations, explores the possibilities for organisational transformation. As developed by Dugger (1989), RIS describes the inculcation of a dominant institution’s values in other institutions that it seeks to control in terms of four processes: emulation, subordination, contamination and mystification. The last three are used to assess influences on the firm to practise (C)SR. Subordination describes a process whereby corporations consolidate their political positions by linking to them the objectives of weakened institutions (Dugger, 1989: 140). Contamination replaces one set of meanings and motives in one organisational sector with those originating in another (p. 144). Mystification refers to a process by which a corporation or representative organisation manipulates other organisations by enlisting their support (p. 46).

3.1 ORGANISATIONAL AND COMPETITIVE INFLUENCES

Instrumental arguments for CSR centre on market efficiency and risk management: that by adopting social responsibility practices, the firm is positioned to take advantages of previously unforeseen business opportunities, counter the risk of losing presence in existing
markets and establish a presence in emerging ones. Such arguments ignore that managers are not provided compelling incentive to do so (Jones, 1996). Assuming (bounded) economic rationality, a firm can be expected to undertake and sustain social responsibility activities and initiatives only under certain conditions. If an Anglo-American firm’s governance structure is functioning properly with respect to prioritising shareholder/owner interests, then management should pursue only those CSR strategies/projects designed to enhance or protect the firm’s position across its relevant markets (McWilliams and Siegal, 2001; Jensen and Meckling, 1976).

Operating in accordance with instrumental principles would sanction any motivations leading to CSR actions. There are several pre-requisites to the effective deployment of any CSR strategy. First, senior management must have an awareness of the content and potential instrumental value of CSR. Problematics here include the intersection with managers’ personal values that occurs with remuneration packages based solely on economic performance; the need to estimate the net economic impact of a proposed CSR strategy even in the absence of clear and transparent metrics, and the resources, capabilities and leadership to fund and administer CSR strategies (Adams, 2002).

Firms may be compelled to react to the first-mover CSR strategies of their competitors where they believe that failing to do so would disadvantage them vis-à-vis market positioning. Strong isomorphic effects are observable across an industry or strategic group level where a particular first-mover’s CSR efforts gain wide positive publicity among dominant stakeholders (Bansal and Roth, 2000). In these cases, even where the CSR strategy has not been proven a ‘winner’ (in terms of net payback), other firms will imitate it because they perceive the costs of not doing so are prohibitive. An entire industry sector can thus behaviourally migrate to the position where it adopts non-rational responsibilities that
transfer wealth to non-vested stakeholders. For example, in Australia during the 1970s, most employers in the waste collection industry held generous family leave provisions significantly in excess of statutory mandates and irrespective of labour market conditions (Brooks, 2005).

It proves difficult to disentangle CSR practice from CSR reporting. Managers appear to filter CSR through an economic lens. O’Dwyer (2003) sought the opinions of senior executives working in 27 Irish public listed corporations with regards to their plans for CSR initiatives. None saw CSR as integral to business. O’Dwyer (2003: 535–6) admits of “structural pressures” and “perceived barriers” to a more integrated employment of CSR. These would describe prioritising economics before social considerations; addressing shareholder wealth before the concerns of auxiliary stakeholders; capturing new markets and achieving revenue targets before measuring and reporting CSR indicators. Managers manage to survive in corporations only by realising such priorities. CSR practice is shaped more by legal frameworks mandating that public listed corporations focus on attaining economic wealth, and by managers’ remuneration being tied to economic performance.

Adams (2002) identifies employees’ demands as significantly affecting CSR reporting. Managers considered CSR practice as ancillary to the main game of economic performance. Reflecting this priority, personnel charged with the task of producing CSR reports were functionally separated from accounting departments. Dick-Forde (2005) also comments on the under funding of environmental management/reporting functions and their separation from strategic management and management accounting processes.

The relegation of CSR to public relations departments, rather than to cost/revenue centres under the scrutiny of accountants, might explain its observed ineffectiveness to date. The line of research linking CSR disclosures to practice has produced inconsistent results, and it
cannot be said that the amount of disclosure reflects the extent of performance (Herremans, Akathaporn and McInnes, 1993).

A final problematic aspect of firm- or competitive-driven CSR concerns the wide variety of definitions and orientations. Definitions are declarative and based on experience, convenience and observed practice. Further, priorities of firms vary with respect to determining which stakeholders benefit and to what extent. For example, the Body Shop’s CSR activities famously focus on promoting human rights and environmental sustainability of its wholesalers, while Starbucks’ more narrowly target employee welfare. A firm can be responsive towards one stakeholder group and simultaneously exploitative of another, making somewhat of a mockery of the ethical lineage of the CSR concept.³

To sum up, we do not feel that organisational and competitive drivers are sufficiently strong and reliable to constitute effective promoters of CSR. Structural and legal environments admit only instrumental forms of CSR. Until managers’ remuneration packages force externalities into cost centres, arguments to change cost accounting models will continue to be ignored. While some CSR initiatives might generate positive or mitigating effects on capitalist pathologies, they cannot fundamentally alter the externalising engine that powers every business firm and is the primary source of those economic, social and environmental pathologies.

3.2 INVESTOR-LED PRESSURES

Various terms are used to describe managed investment products screened against social considerations. We use the term ‘social fund’ to denote a mutual unit trust that markets its use of social and environmental policies in portfolio construction. At first blush, the concept
of social investment widens the usual conception of ‘shareholder value’ to encompass investors’ ethical values, those of deep ecologists and the social contract (Haigh and Hazelton, 2004). CSR expressed in social funds employs an instrumental argument: that by incorporating all externalities and pricing goods and services accordingly, invested corporations will benefit by positioning themselves to take advantage of market opportunities and avoid imposts from the state. Such benefits are expected to flow through to the investor in the form of increased capital gains and strong dividend policies (Statman, 2000): a win-win-win result for investors, corporations and stakeholder groups.

The line of argument is used to persuade corporations to adjust their operations. Belief in its potency is found in Gray, Owen and Maunders (1988), Bruyn (1987: 1) and Harte, Lewis and Owen (1991). Practice suggests otherwise. Marginal market shares limit the abilities of social funds to exert pressure on share prices or gain access to executive managers (and so influence corporate behaviour). Since their widespread launch in the 1980s, social funds have not represented more than four-tenths (0.4) of one percent of total funds under management (FUM) in financial markets in Australia, the U.S. and Europe (Haigh and Hazelton, 2004).

The second part of the line of argument contends that social funds will outperform managed investments that do not explicitly take into account social considerations. Studies neither confirm nor disconfirm systematic differences between social and mainstream investment products. Any other expectation, much as it did Gray, Owen and Maunder’s (1988), strikes us as ludicrous. Social fund portfolios are commonly modelled on mainstream stock market indexes or tailored variants. To illustrate, most mainstream Australian equities mutual funds choose their stocks from the Standard & Poor’s ASX200/300, which represents the largest 200 and 300 corporations by capitalisation listed on the Australian Stock Exchange. Over the
period 6:2002–6:2004, the 16 largest Australian social funds (95 percent of the Australian market by FUM) held stock in most of those corporations.

Plainly, social funds are constrained by pressures to maintain economically competitive portfolios. To survive, investment managers, social funds included, must sustain a focus on continuously maximising economic performance earned on investments in large corporations.

Studies of individual investors find mixed levels of commitment. Milne and Chan (1999) use an experiment to measure the positive impact of corporate social disclosures on subjects’ purchasing decisions, finding limited support. The survey studies of Haigh (2005) and Mackenzie and Lewis (1999) find that subjects in social funds had invested the bulk of their investable wealth in mainstream products.

Studies of institutional investor demand for CSR disclosures have produced mixed and inconclusive results (Freedman and Stagliano, 1991; Patten, 1990; Freedman and Jaggi, 1988; Shane and Spicer, 1983). Some large pension funds, such as the California Public Employees’ Retirement System (CalPERS) and the UK-based Hermes, have on occasion exercised or threatened to exercise their proxies to force management to discontinue or adopt certain actions. Such practices, while not trite, are isolated. The evidence at hand suggests that most institutional investors do not exert direct or indirect pressure on invested corporations to practise CSR. Most, to judge from investment mandates, are yet to be convinced that social responsibility is an instrumental argument for wealth generation.

The contention that social funds might produce CSR-type outcomes across industrial sectors is as questionable. The outperformance argument relies on a social fund distinguishing itself in the pack. Mainstream and specialised financial institutions offer social investment products. As such, managers compete for market share and view investment criteria as
providing a competitive advantage, much as might any other mutual fund. Differences between portfolio screens negate their potential to exert collective pressure on invested corporations. Coupled with low market shares, the effect that social funds might have on large industrial corporations is next to nil. The conundrum appears closed to solution: CSR only becomes operationalisable within financial services if presenting itself as an instrumental argument.

In sum, research and practice suggests that corporations with stock held by social funds are likely to be able to ignore calls for social responsibility actions.

3.3 CONSUMER-LED PRESSURES

Studies of consumers of products and services to which are attached green characteristics (‘natural’ cosmetics, recycled paper, eco-vacations) first appeared in the 1970s (Crane, 2001; Shrum, McCarty and Lowrey, 1995; Davis, 1994; Drumwright, 1994; Marks and Mayo, 1991; Kinnear, Taylor and Ahmed, 1974; Fisk, 1973). Prothero (1990) and others see eco-consumerism as a strategy to capture new markets. Smith (1990: 88) goes further by arguing for the place of ethical purchase behaviour alongside legislation, market forces and individual moral obligation.

Conceptually, consumers can promote CSR practice through their purchase decisions in product-markets. If consumers are consistently willing to pay some form of premium for CSR-affiliated products (or brands, or reputations), firms that offer these goods will gain competitive advantage, thus forcing non-CSR firms to migrate to similar positions. This is an extension of the basic concept of consumer sovereignty, which has been applied elsewhere in modelling citizenry behaviour in political ‘markets’ (cf., Jones, 1993).
However, we observe problematic empirical relationships between firms’ CSR behaviour, consumers’ perceptions of that behaviour, and consumers’ purchasing behaviour. In a recent study, Bhattacharya and Sankar (2004) find that despite indications that 8 in 10 Fortune 500 corporations address CSR issues, and that approximately the same proportion of survey respondents considered CSR when making purchasing decisions, robust linkages between corporate CSR initiatives and actual consumer purchasing patterns are not evident. Many respondents were unaware of corporate CSR activities; those aware of CSR were unwilling to pay premium prices for CSR-embedded goods.

From the perspective of encouraging corporations to practise CSR, eco-products and social investment products offer little promise. We do not believe consumers can be counted on to promote CSR outcomes. Defuse associations between consumers’ perceptions, attitudes, values and behaviours would bar CSR from the cost/benefit deliberations of most manufacturing or investment firms.\(^9\)

Moreover, as firms’ overall competitive approaches and differentiation strategies increasingly integrate CSR initiatives, the quality of information transmitted to consumers becomes captured by the marketing function, leading to confusion, cynicism and exit choices (see Biddle, 2000). Green consumers, thought to be particularly susceptible to focused emotional advertising (Dacin and Brown, 1997), might suspect opportunism on the part of manufacturers and suppliers – the adverse selection of neoclassical agency theory (Kulkarni, 2000). Such perceptions might account for the relatively muted consumer demand for eco-products and social mutual funds (Schwartz, 2003; Mason and Bequette, 1998).\(^10\)

The argument that eco-consumerism can promote social welfare is flawed in three theoretical respects. One, the practice of purchasing consumer goods and services to pursue social and environmental goals necessarily accepts the assumptions of neoclassical economics (Smith,
1990: 185). The inability of that model to address allocative equity within and without economic markets is evident.

Two, treating social and environmental questions as ancillary to the purchasing act valorises consumption and reifies the legitimating myth of consumer sovereignty, when an informed assessment of retail industries would show that consumers have very little say over what they buy and even less over means of production. Dugger describes processes by which monetarist economic policies in the late 20th century, and corporate mergers, which took advantage of such policies, created rather than responded to markets. Such behaviour suggests that corporations do not adjust operations to meet the demands of consumers (Dugger, 1989: xi).

Three, the proposition of capitalist pathologies being addressed by the pathogen, as it were, is problematic. As noted by Heilbroner (1985), capitalism is not only about producing goods and services, but also about producing people, in the sense of certain and particular forms of dominant consciousness. The contemporary individual may be inconsistent, alienated, and so forth, but he or she still contributes to the reproduction of capitalist institutional structures and social relations through obligatory acts of consumption and labour. In short, the notion that an echelon of moneyed consumers treating themselves to ethical luxury will somehow serve to alter basic capitalist dynamics seems absurd. The literature on consumer boycotts does little to contest our perception (Tyran and Engelmann, 2005; John and Klein, 2003).

### 3.4 REGULATORY PRESSURES FROM NATIONAL GOVERNMENTS

Since the 1970s, governments have tended to tax externalities by using shifting mixes of tradeable permits, direct regulations and corrective market mechanisms such as emission
standards (Abelson, 2002: 155). Several European Union governments have introduced legislation to make environmental reporting mandatory for corporations. Since 1995, the Dutch government has offered personal income taxation exemptions to investors in an attempt to stimulate environmentally sensitive energy, agriculture and technology projects. Investment managers issue debentures to fund projects that must be certified by the government environmental agency before investors can claim taxation exemptions on distributions. Inflows have been substantial (Richardson, 2002).

Other governmental environmental initiatives emanate at the EU level. The Restriction of Hazardous Substances (ROHS) legislation will apply throughout the EU from July 2006, banning products containing any more than trace amounts of dangerous substances such as lead or mercury. The Waste Electrical and Electronic Equipment Act commenced in 2004 and mandates that electronics manufacturers accept and recycle used electrical products. The Registration, Evaluation, Authorisation and Restriction of Chemicals directive requires that firms register the chemicals they employ in their manufacturing processes.

The fundamental problematic here relates to the costs of ensuring compliance, which may prove prohibitive either for large firms employing high levels of outsourcing, such as Dell, or with respect to new layers of governmental inspectors, adding to what many observers already perceive as a bloated EU central bureaucracy. The EU rules are generating global repercussions as component suppliers, regardless of their location, must ensure compliance if their parts end up in products sold in Europe. China’s Ministry of Information Industry is basing its rules on ROHS. 11

Outcomes consistent with significant improvements to ecological systems have not been measured. Everett and Neu (2000) note that this line of research ignores the source and effects of regulation on environmental management and reporting. Even so, B&S researchers
consider regulation as a natural adjunct to improving the social performance of business, contingent only on the correct design of market incentives (Porter and van der Linde, 2000). From the perspective of encouraging corporations to practise CSR, the efforts of legislators offer little promise. It is unlikely that governmental regulatory pressures can be counted upon to promote CSR outcomes at the industry and firm levels, for two basic reasons.

First, to do so would require that states enjoy a significant degree of autonomy from corporate and finance capital. In recent decades, globalisation has enervated and empowered capital as the level of institutional pluralism has decreased. Individual states are currently much more dependent on capital than is capital on any individual state. To expect that states would price themselves out of markets through application of aggressive regulations attacking negative externalities is unrealistic.

The effect of environmental reporting legislation on EU and Australian financial services sectors has been measured. As a result of lobbying efforts of the Australian Conservation Foundation, the Australian government recently amended financial services reform legislation to require the disclosure of any environmental and social considerations used in consumer investment products. The requirement applies to a wider range of products than does its British precedent, found in the British Pensions Act 1995. Since July 2000, trustees of British occupational pension schemes have been required to disclose such policies in Statements of Investment Principles (Statutory Instrument 1999). In 2002, France and Germany issued similar, albeit optional, legislation.

The Australian and British legislation was subordinated by the lobbying efforts of practitioner associations; as a result, legislators have allowed practitioners to define the terms (literally) and content of required disclosures. As the legislation does not compel audited disclosures,
investors have no reason to expect that the quality of information will improve (Haigh, 2004). The subordination is reflected in practice. Academic and practitioner studies published subsequent to the Australian and British legislation point to little observable changes in the disclosures or operations of financial institutions (Haigh, 2004; Just Pensions, 2004, 2002; Berger, 2004; Coles and Green, 2003; Friends of the Earth, 2001; Mathieu, 2000).

Second, the hegemony of economic rationality (Gorz, 1987) and its colonisation of non-corporate institutions (Deetz, 1991) means that capital has already won the discursive battle, although not necessarily through the Trojan horse of CSR itself. The extent to which governments have adopted national economic competitiveness as their *raison d’être* has led to capital and the state becoming almost indistinguishable from each other with respect to public policymaking: e.g., environmental taxation (Chomsky, 1999).

### 3.5 PRESSURES FROM POPULAR MOBILISATIONS

Organisations formed from popular mobilisations, hereafter referred to as non-governmental organisations (NGOs), coalesce with other organisations in a number of formal and informal alliances. In categorising NGOs, we follow Smith (1990: 108), who distinguishes sectional, promotional and anchored pressure groups. Sectionals protect the interests of a particular component of social systems; promotionals seek to address what they consider as pressing ecological or humanitarian problems; anchoreds present as promotionals but are grounded in sectionals.

Promotional NGOs are assumed conveniently emphatic communication conduits, able to convince corporate managers of economic benefits of desired action or cessation of action, as the case may be (Amalric, 2004). Ethicists go so far as to posit NGOs as the facilitators of
CSR (Guay, Doh and Sinclair, 2004). On occasion, promotional NGOs have called special meetings of corporations to put shareholder resolutions on single issues, and have attended scheduled general meetings to vote on matters such as those affecting board composition. More often, a meeting is threatened to gain access to management (Whincop, 2003).

Some promotional and anchored NGOs seek collaborations with public corporations and institutional investors. The U.S. Friends of the Earth targets many of its publications and activities at mutual funds. The 2002 conference of Australia’s Ethical Investment Association presented a representative from U.S. Friends of the Earth as a keynote speaker. The Interfaith Center on Corporate Responsibility, constituted by churches and investment managers, organises and documents shareholder resolutions to be put to U.S. corporations.

Another example is the Global Reporting Initiative (GRI), formed in Boston in 1997 after the Coalition for Environmentally Responsible Economies secured a financial grant from the United Nations Foundation. The GRI was then designed as a UN Environment Program (UNEP) Collaborating Center. In 2000, the GRI issued a document known as ‘Sustainability Reporting Guidelines’. In December 2004, the GRI listed 429 organisations as reporting according to its second edition, which is known as G2 (a third addition is slated for 2006).

We define the GRI as anchored. The designers of the G2 document are international banks, large industrial corporations, sustainability consultancies (including those attached to multinational accounting practices) and numerous promotional NGOs15. G2 cites a ‘triple bottom line’ approach. (The triple bottom line is an under-conceptualised reporting metaphor purportedly allowing the presentation of accounting profits by reference to their impacts on employees and urban/non-urban environments: Brown, Dillard and Marshall, 2005.) G2’s ‘approach’ amounts to recommending that GRI signatories choose the measures and reporting techniques that would suit their purposes.
Legitimation as a motivating factor in CSR disclosures is not new (Gelb and Strawser, 2001; Wilmshurst and Frost, 2000; Neu, Warsame and Pedwell, 1998; Guthrie and Parker, 1989). Judging from the sectors that the GRI reporters represent, most reporters are drawn to G2’s legitimating benefits. Moermann and van der Laan (forthcoming) and Adams (2002) note the alacrity with which corporations engaged in politically sensitive operations report their ‘status’ as a GRI reporter. While legitimation might underpin the instrumental argument for CSR, it carries certain other consequences.

Corporations’ use of the G2 document coheres with the contamination argument of RIS theory. GRI reporters can expect an “increase [to] the financial bottom line” and, by “identifying areas of waste and new business opportunity”, an avenue for new markets. Contaminating effects between institutions do not necessarily describe some sort of unconscious process. NGOs struggle for their agendas to be recognised in other than an economic discourse (O’Dwyer, Unerman and Bradley; 2005; Tilt, 1994).

A collaboration of the GRI, the UNEP Finance Initiative and a number of European investment banks provides an interesting exposition of institutional contamination. The collaboration treats the Finance Initiative’s working programme of climate change, military conflict, and water as providing a set of exploitable opportunities. The absence of sanitary water in large areas of Africa becomes significant for presenting

“an emerging risk of strategic importance to businesses and their financial backers around the world … becoming even more important with rapid globalisation within the business supply chain. Therefore, a business case for strategically addressing water challenges is getting stronger … Water supply problems can open a window to improve operational performance and efficiency. This can give a company a
competitive advantage on its peers and this is an investment opportunity for financial institutions to propose sustainable improvements which can benefit business … ”18

The instrumental argument is apparent. Habermas (1981) and Foucault (1997: 295) write approvingly of the co-optation of scientific arguments by ecological mobilisations, marking the technique as especially effective against the unchecked spread of industrialisation. The GRI, operating as the supra-representative of ecological/social activist movements but dominated by heads of industry19, inverts the technique and re-co-opts promotional NGOs.

A mystification argument is supported by our observation that transnational corporations designed the GRI document. The influence that an industrially diversified conglomerate would wield over such as a human rights NGO from a small European country need not be elaborated. In terms of achieving outcomes consistent with social responsibility, the danger arising is that promotional NGOs will concern themselves only with reforms likely to be accepted by business; that is, with those which can be expressed through the discourse of governance guidelines emanating from vested interests (ASFA, 2003; IFSA, 2003).

As with social investment, the only guarantee that the instrumental argument can make is that widespread changes to corporate practices will not appear. Corporate managers would entertain an NGO’s involvement in policy only if expecting some type of economic benefit. Although the instrumental argument might allow the CSR ‘concept’ to be promoted, it is underpinned by the legal obligation of a firm to maximise economic benefits accruing to its owners. Accordingly, it is in the firm’s interest to act alone when practising CSR and issuing CSR disclosures. Opportunities for super-normal profits, such that exist, fade to the extent that other firms practise CSR.
4. FRESH IMAGININGS

Potential influences on the firm for CSR practice do not appear sufficiently strong to persuade managers to do other than satisfy the needs of dominant stakeholders. Legally backed economic pressures, perceived threats from competitors and expectations of institutional investors restrict responsibilities to a demonstration that all known business opportunities have been exploited at the limit of regulatory compliance. Research suggests that European and Australian legislation requiring investment managers to make social disclosures has had little effect on their operating methods. The privileging of the owner stakeholder group in Western jurisdictions affords corporations impunity over many economic externalities. Coupled with the common practice of non-partisan political donations made by large corporations, non-onerous corporate legislation can be expected to continue. The most visible promotion of corporate social reporting practices involving the third sector to date, the Global Reporting Initiative, appears as a litany of co-optation and legitimation.

Meanwhile, business ethics ignores possibilities for CSR practice. The Cartesian wedge between business and social/environmental considerations has created a conceptual dichotomy solvable only by subsuming one to the other. Business naturally comes up trumps. For managers, business is first. Social considerations come second and only if they can improve business, not if they might open an exploitable weakness. Hardly irresponsible, perhaps, but the paradigm is preventing widespread improvements consistent with social welfare.

CSR’s epistemic origins in a radical agenda (Tinker, Lehman and Neimark, 1991) appear forgotten and in need of fresh imaginings, both from researchers and practitioners. Corporate limited liability, the privileging of economic benefits, and the remuneration of managers
based solely on economic performance are open to challenge. Not all management discourses deserve being “made sense of and given meaning to” (cf. Freeman and Gilbert, 1992: 16). The radical educationalist Paulo Freire (1972: 28) calls for a simultaneous “reflection and action upon the world in order to transform it”. Reflecting on the social inequities produced by market-based economies would be a first step. Rather than seeking constructivist interpretations, apprehending constructions that would allow social responsibility as an option would be to the point.

The world faces social catastrophe from armed conflicts, widespread poverty and ecological degradation traceable to the pursuit of economic markets (Doost, 2005; Moermann and van der Laan, 2005; Millennium Ecosystem Assessment, 2005). Oblivious, business ethics sits in a Sargasso Sea of CSR reporting guidelines, codes of ethics and ideal investment portfolios. Business schools describe social problems in the language of finance. It is not as if ethicists are unaware of their deficiencies; the inadequacies of the B&S literature reflect “the conceptual apparatus … pushed beyond its limits” (Freeman and Gilbert, 1992: 12).

Theoretical and concrete antagonisms in relations between business and society have been addressed outside the main body of B&S research. Everett and Neu (2000) reflexively engage with Enlightenment research conducted in a manifestly exploitative world. Graham (2001) addresses the moral status of corporations. Birkin, Edwards and Woodward (2005) consider the possibilities for received notions (such as maximal shareholder value) to evolve to an integrative awareness of sustainability issues. A related attempt is Attfield (2000), who argues for the metaphysical credibility of an intertemporal risk management position that would justify the preservation of ecological-economic systems. Before embarking on such strange paths, B&S researchers need to break with their priorities, beginning with radicalising the relation of Business first, Society second.
Notes

1 We hold the term ‘discourse’ to mean everything that is said, written, enacted or acted through and thought in a given period of time and concerning a given subject. We recognise the dominating effects of discourse as intimated by that which is not thought, heard, stated or acted through.

2 Defined as public banking institutions, pension funds, insurance corporations, stock exchanges, brokerage corporations, managed investment corporations, investment trusts, personal investment planners, advisers and brokers.

3 One might question the definitions of ‘social responsibility’ adopted by an organisation based on (1) the appropriation of surplus value, (2) cost minimisation (and thus the maximum generation of negative externalities), and (3) the production of unnecessary products and services.

4 Bauer, Koedijk and Otten, forthcoming; Bauer, Otten and Rad, 2003; Bauer, Derwell and Otten, 2003; Ali and Gold, 2002; Kreander et al., 2002; King and Lenox, 2001; Kreander, 2001; Statman, 2000; Cummings, 2000; DiBartolomeo and Kurtz, 1999; DiBartolomeo, 1996; Hamilton and Statman, 1993; Fama and French, 1992; Spicer, 1978; others in Kurtz, 2002. Our review of these studies is available for the interested reader.

5 Domini, FTSE4Good and the Dow Jones Sustainability Group Indexes.

6 171 on the ASX200 (85 percent) and 258 on the ASX300 (86 percent) (Corporate Monitor, 2003).

7 Investor demand was measured by analysing movements in stock prices following CSR disclosures. Such studies assume that a market reaction implies that investors find such information useful in adjusting expectations.

8 In this context, it does not surprise to read managers of social funds admitting that they rely on corporate self-reports as evidence of practised CSR (Mays Report, 2003).

9 Solvent examples of ethics-based advocates of CSR are hard to find. For example, the cost differential of production inputs in ‘natural cosmetics’ have led to short life cycles of many products and ventures in this market niche. We have already pointed to the marginal market shares of social funds.

10 With respect to social funds, managers might not report the social and environmental characteristics of portfolio stocks, and even if they did, investors cannot readily verify the information before or after purchase.

11 In the United States, the Toxics Release Inventory and other environmental legislation is administered through the Environmental Protection Agency and supplemented through a very decentralised state-by-state process.

12 Porter and van der Linde (2000) expect that environmental regulation will: (1) pressure corporations to innovate; (2) lead to improvements to environmental quality in cases in which
innovations do not completely offset the cost of compliance; (3) alert and educate firms about resource inefficiencies and potential areas for technological improvement; (4) raise the likelihood that product and process innovations in general will be environmentally friendly; (5) stimulate demand for environmentally improved products and processes until market adjustments are made, and (6), in a complicated manoeuvre, level the playing field during the transition to innovation-based environmental solutions, thus preventing free-riders from using a lower cost strategy to out-compete progressive firms.

An apportionment of regulatory compliance costs between government and the business sector might increase firms’ non-productive overheads, and negatively impact competitiveness in international markets wherever such regulations were not in force.

The Australian Financial Services Reform Act (Cth) 2001, effective March 2004, requires sellers of consumer financial products with an investment component to disclose “the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment” (Corporations Act, 2001). The terminology follows from the British Pensions Act 1995. Apart from U.S. Congressional hearings enquiring into mutual fund practices, North American regulators remain silent in this area.


363 of 429 GRI signatories (84 percent, December 2004) were in politically powerful, politically visible and politically sensitive industrial sectors: consumer retail, health care, telecommunications, financial services, transport, construction, transport and natural resources, including energy utilities. The proportion is not adjusted for redundant reporting of subsidiaries of a parent corporation. For instance, the GRI counts 17 subsidiaries of British American Tobacco Group as separate reporters.


As an example, Sir Mark Moody-Stuart, Chairman of Royal Dutch/Shell Group 1998-2001, who has chaired the GRI since 2002.

Liberal democracies and ‘free’ capitalist enterprise rely for their continuing legitimation on the tenets advocated by Adam Smith in The Theory of Moral Sentiments (1969: 264). These are founded on an assumption that unceasing capital accumulation, consumption and market expansion will provide for the welfare of market participants. Business ethics accepts such tenets without question and without reference to the moral injunctions that contextualised Smith’s work (Jones, 1993).


Brooks, G. (2005), Personal interview, Macquarie University, Sydney, February 12.


References


Figure 1: Domains of influence on the firm, with apologies to Michael Porter

POPULAR
MOBILISATIONS

INTRA-FIRM

NATIONAL
GOVERNMENTS

CONSUMERS

COMPETITORS

INVESTORS