DIANE L. SWANSON

CSR DISCOVERY LEADERSHIP

Society, Science and Shared Value Consciousness

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To William Crittenden Frederick, with admiration for his visionary scholarship and for his role as one of the beloved founders of Corporate Social Responsibility research and practice.
To Christopher William Scott, my son, with love and appreciation for his many talents, which include caring fatherhood, business acumen, creative wordsmithing, and a love for learning and critical thinking.
To scholars in Business and Society, Business Ethics, and other fields who have long labored to articulate a role for business that serves community flourishing.
Finally, to G. C., with gratitude.

Preface

My journey to penning this book began when I studied economics in a Masters of Arts degree program at the University of Missouri at Kansas City in the U.S in the 1980s. This program provoked critical thinking, which is what universities are supposed to do. It did so by delivering economics coursework from vastly different schools of thought. For instance, the neoclassical coursework that I took did not necessarily agree with the Keynesian model, and the theoretical constructs in the former most assuredly did not cohere with the Marxist and institutional theories I encountered. I found this exposure to be stimulating. It prompted my understanding that theories should be approached with a healthy dose of skepticism. I learned to examine their assumptions carefully, since conclusions and policy prescriptions are drawn from them. I concluded that the formulation of choice assumed in neoclassical economics is not cogent, notwithstanding the theory's theoretical elegance. Neoclassical or standard economics assumes that an individual will try to maximize utility or satisfaction by pursuing pleasure and avoiding pain. I found this to be a facile explanation of human behavior that sidesteps advances in social science, especially since standard economics presents individuals to be atomistic and freestanding in markets that are separated from communities. Moreover, this formulation of choice is understood to be value--free, even though its claim that narrow self-interest tends to generate the greatest good is not. Nor is its prescription that markets should be left alone to function without much oversight, so that society enjoys the greatest amount of satisfaction. To promote that much freedom for the business sector is hardly a value-free proposition.

I concluded that this line of reasoning could be invoked to excuse a lack of responsibility on the part of business. Yet this possibility seemed to elude orthodox economists and business pundits influence by them. Certainly the public at large in the U.S. had long embraced the desirability of narrow self-interest in business. I could not. I wondered how a theory of choice that so deliberately sidesteps the need for humans to have empathy and regard for each other in communities could be a standard for *anything,* much less function as a guidepost for business. This question dogged me while I studied various strands of economics, and the seeds for this book were thus planted in my mind.

A decade and a half after completing my graduate degree in economics, I embarked on doctoral studies in Business Administration at the Katz Graduate School at the University of Pittsburgh in the U.S. There I revisited my question while specializing in corporate social responsibility and business ethics. I was very fortunate to be mentored by William C. Frederick, one of the founders of corporate social responsibility, who encouraged me to think about a theory of choice more suited to business decisions aimed at serving the social good. My exploration of this subject was reflected in my dissertation and subsequent publications.

More recently, the belief that amoral self-interest in business is good for society has waned, especially in the aftermath of unprecedented corporate and banking scandals during the first decade of the twenty first century. The impact of these scandals has been to call attention to the community-enhancing values that business should serve. As a result, business executives are increasingly expected to adopt a new mindset, one capable of discovering how to direct their firms toward socially responsible ends. To do so, they must envision their firms to be integral to the fabric of society, instead of freestanding entities fueled by narrow self-interest. By extension, they must exhibit other-regarding systems thinking and be adept at value analysis.

The need for executives to adopt this mentality and help bring business and society into what I call a "unified field of shared value consciousness" is what this book is about.

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Abbreviations

AACSB	Association to Advance Collegiate Schools of Business
AI	appreciative inquiry
AICBE	Aspen Institute Center for Business Education
BP	British Petroleum
CED	Committee for Economic Development
CEO	chief executive officer
CIRS	Center for Industrial Research and Service
CSP	corporate social performance
CSR	corporate social responsibility
CSR1	corporate social responsibility research, phase one (1950s to 1960s)
CSR2	corporate social responsibility research, phase two (1960s to 1970s)
CSR3	corporate social responsibility research, phase three (1980s to 1990s)
CSR4	corporate social responsibility research, phase four (1990s to 2000s)
EPA`	Environmental Protection Agency
FBI	Federal Bureau of Investigation
FDA	Food and Drug Administration
GRI	Global Reporting Initiative
HBRAS	Harvard Business Review Analytic Services
J&J	Johnson & Johnson
MNEs	multinational enterprises
NBES	National Business Ethics Survey
NGO	nongovernmental organizations

NIABY	not in anyone's backyard
NIMBY	not in my back yard
SMEs	small and medium-sized firms
SRI	socially responsible investments
TBL	triple bottom line
TEEB	The Economics of Ecosystems and Biodiversity
UN	United Nations
3Ps	planet, people, profit

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1

The Transformative Potential of CSR Discovery Leadership

Many years ago, I was intrigued by Morris Berman's (1981, 1989) thesis that the human mind had been altered profoundly by a loss of meaning that accompanied the Scientific Revolution. According to Berman, the story of the mind in the modern era has been one of progressive dissociation, because modern consciousness does not recognize elements of mind or spirit in the objects surrounding it.[1] Instead, the modern mind tends to divide subjects from objects, self from others, facts from values, means from ends, and humans from nature. Perhaps the most well-known expression of this *dissociation* or *separation problem* is René Descartes's work that strictly separates mind from matter (Sullivan, 1949; Whitehead, 1925). Due to this penchant for Cartesian dualism, most humans no longer have participating consciousness based on a holistic sense of being in the world. Instead, non-participating consciousness, or what I will call "separation consciousness," distinguishes the modern period in the West that inherited a seventeenth century worldview that perceives nature and social relations to be outside one's self and subject to objectification and manipulation. In contrast, people throughout the Middle Ages saw themselves as continuous with their environments (Berman, 1981, p. 159). Max Weber (1958), the well-known political

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and social theorist, borrowed from Friedrich Schiller to refer to this change in mindset as the "disenchantment of the world."

Specifically, Weber theorized that the Scientific Revolution, along with the Protestant Reformation, resulted in a reliance on rationalism, secularization, and bureaucracy that banishes mystery in favor of a world that humans can know, predict, and manipulate. In the words of one scholar:

> For Weber the disenchantment of the world lay right at the heart of modernity. In a disenchanted world everything becomes understandable and tameable, even if not, for the moment, understood and tamed. Increasingly the world becomes human-centred and the universe—only apparently paradoxically—more impersonal. (Jenkins, 2000, p. 12)

Other scholars add:

> The problem with the Cartesian model that creates a dualism of nature and society is that it limits what questions can be asked and what can be known while reproducing an ontological understanding of society as distinctive spheres. (Marley & Fox, 2014, p. 259)

Separation Consciousness Depreciates Corporate Social Responsibility

In this book, I propose that separation consciousness has run its course, especially given the rigidly distinctive spheres it reproduces for business and society. More pointedly, I argue that this dissociative mindset has been instrumental in keeping a collective demand for corporate social responsibility (CSR) at bay, despite a pressing need for it (see Swanson, 2017). Put differently, separation consciousness depreciates or diminishes the potential for corporate social responsibility. Consider, for instance, the removal of Appalachian mountain tops in the United States by explosive techniques that cause toxic downstream effects that greatly harm humans, animals, and the physical environment. As of this writing, coal companies continue to remove these ancient mountain tops, first formed roughly 480 million years ago, to retrieve thinner seams of coal that remain after decades of intense underground mining (Kincaid, 2014). This practice, which involves deforestation and blasting techniques, has already scarred large areas of the Appalachian landscape forever. Would humans who perceive that they are deeply connected to each other and the natural environment stand for such practices? Would they view the air pollution that leads to acid rain, global warming, smog and the depletion of the ozone layer to be "business as usual," despite the attendant harm to human health and the natural environment? Would they view the trash vortex in the central North Pacific Ocean, estimated by some to be the size of Texas (see Johnston, 2012), consisting of plastic, chemical sludge and other debris to be of no concern? Of course, we can scrutinize the legal system and public policy to understand why such practices are allowed and even encouraged in some cases. We can also look to who benefits from such practices. In the case of mountain top removal, beneficiaries encompass mining CEOs, stockholders, creditors, and workers (although fewer workers are required for mountain top removal than for underground mining). Needless to say, it is important to understand such vested interests. Even so, an existential question remains: What kind of human consciousness tolerates such irreversible devastation of its social and ecological environments?

Taking a cue from Morris Berman (1981), the answer is that it is a consciousness influenced more by a sense of separation from the world than by a deeply felt association with it, the latter representing what I refer to as "unity consciousness." Not that all humans accept business practices that harm their social and natural environments. The point is that separation consciousness conditions humans to be less sensitive to the injuries than they would otherwise be. This state of consciousness is tacitly appealed to whenever someone invokes Milton Friedman's (1962, 1970) famous assertion that the only responsibility of corporations is to maximize stockholder wealth, a sentiment that has long been invoked to artificially separate the business sector from society at large. This sense of separation is not innocuous. It rationalizes the removal of ancient mountain tops in parts of Appalachia instead of encouraging the development of benign wind farms that would be well suited to that landscape (see Smith, 2008). More pointedly, separation consciousness reinforces the *Not in My Back Yard* (NIMBY) syndrome that induces people to believe that if the wreckage does not take place in their immediate neighborhoods, then it does not concern them. This discernment is an illusion, especially when the harm is clearly systemic. For instance, toxicity from oil sludge, a byproduct of mountain top removal, can contaminate downstream water systems (Butler, 2009). However, if people do not perceive that they are intimately connected to the environment that is despoiled and the other humans harmed, then a collective resistance to such practices is unlikely. Said differently, the illusion of separation enforces a dangerous status quo.

The worn out phrase that "business ethics is an oxymoron" also shores up separation consciousness by implying that the *facts* of corporate activity cannot be evaluated in terms of life-sustaining community *values*. The habit among some managers to refuse to talk about their decisions in terms of values or moral standards, even when such standards are actually guiding their actions, is representative of this fact-value dualism. It is no secret that many managers are reluctant to publicly acknowledge the ethical dimensions of their work (Bird & Waters, 1989, p. 73; see also Drumwright & Murphy, 2013; Jackall, 1988). Amitai Etzioni (1988) blames proponents of standard economic theory for promoting this fact-value dualism and the amoral management that perceives business decisions to be value-free. During the past two or so decades, a growing number of business and society scholars have criticized this value-free tradition, especially as it affects their research. Indeed, an entire issue of *Business Ethics Quarterly* was devoted to this subject in 1994, with William C. Frederick (1994, p. 111) introducing it by asking scholars to consider the role of values in empirical research.

Long before this publication, Frederick (1986), considered to be one of the founders of corporate social responsibility, had called attention to the innately value-laden aspects of business and society research by observing that:

> Many scholars who investigate the relationships between business and other institutions in society realize that they must ultimately deal with normative or ethical matters. As a result of this inherently normative character of their work, they incur a threefold responsibility. Part of that

> responsibility is to make clear the values that are at stake as business and society interact with one another. Another part of the scholar's responsibility is to identify where one stands with respect to those values. The third responsibility is to use one's scholarly knowledge to point out to business practitioners the moral consequences of pursuing the values they and their companies hold. In short, those who study social and ethical issues in management are compelled to form and to declare moral judgements concerning those issues. This moral imperative arises from the inherently normative nature of the topics being studied. (p. 126)

R. Edward Freeman (1984), who originally detailed stakeholder theory, claims that most business theories do just the opposite. That is, they separate business decisions from ethical decisions, a blunder that he and others (Harris & Freeman, 2008; Wicks, 1996) refer to as the "separation fallacy" that parallels the partitioning of "the descriptive" (facts) from "the normative" (ethics and values). Thomas Donaldson and Lee Preston (1995) further refute the separation fallacy by adding that stakeholder theory intrinsically speaks to ethics and values because it incorporates how the stakeholders of business organizations *should* be treated by corporate agents.

In response to this line of inquiry, I modelled executive decision making that does not incorporate the value expectations of stakeholders and compared it to executive decision making that does (Swanson, 1999, 2008, 2014). My conclusion, reflected in this book, is that the mindset of the top executive is highly influential in determining the potential for a firm to be socially responsible. If this mindset ascribes to the separation fallacy, then corporate social responsibility is not possible. Indeed, calling attention to the sophistry of such myopia is one aim of this book.

That most business schools continue to justify the amorality that goes along with the separation fallacy (see Ghoshal, 2003, 2005; Samuelson, 2011), even though their millennial students believe in a more community-minded model of business (Deloitte, 2016), demonstrates how dissociation can get replicated in the mindsets of future business leaders. Yet changes are afoot, discussed next.

Signs That Separation Consciousness Has Run Its Course

In contrast to the aforementioned habit for managers to be morally mute, Archie Carroll and Ann Buchholtz (2015, p. 198) assert that managers who intentionally think that ethics and business do not mix are becoming a vanishing breed.[2] There are several other reasons to think that separation consciousness may be in decline. For instance, the benefit corporation, first chartered in Maryland in 2010 and now chartered in 31 U.S. states, provides legal protection for firms that seek to balance financial and non-financial interests while producing a positive impact on society (Bend & King, 2014; see also benefitcorp.net).[3] This form of incorporation, designed to help solve social and environmental challenges, befits the millennial generation's preference for business to serve community values instead of functioning as a freestanding profit seeking entity. Indeed, the directors of a benefit corporation must take into account the effects of their decisions on the stakeholders materially impacted by them, of which stockholders are but one (Worldwatch Institute, 2016). This mandate, embodied in the benefit charter, was influenced by the rise in social entrepreneurship, which David Bornstein (2007) describes as the use of business and management skills to achieve socially-useful ends. Similarly, J. Gregory Dees (2001) holds that social entrepreneurs see wealth not as an end in itself, but rather as a means to the end of a social mission.

In conjunction with the upswing in social entrepreneurship, more traditionally-chartered corporations have launched programs that blur the boundary between business and society, including corporate philanthropy led by employees who volunteer to engage in community projects or give to them financially. In a 2013 article entitled "Giving at work: Most dramatic shift we've ever seen," *Forbes* reports on this development as:

> …a pronounced sea change in corporate giving, a vital channel for nonprofits that raises $3 billion every year. Giving is also an increasingly important tool for employee engagement, one that workers (especially Millennials) have come to not only expect, but expect to be administered

> with creativity and advanced technology. It is about creating fully integrated opportunities to engage employees. (Scott, 2014)

This shift coincides with a dramatic upsurge in cause marketing (Oster, 2014) that combines the efforts of for-profit businesses and nonprofit organizations in projects that create mutual benefit. As background, the term “cause marketing” was first attributed to a program launched by American Express Company in 1983 by which the firm contributed a penny to the restoration of the Statue of Liberty every time a customer used one of its credit cards to make a purchase (Carroll & Buchholtz, 2015, p. 476). Some premier advertising agencies now specialize in aiming their cause-related marketing not only at consumers but also employees, policy makers, thought leaders and Wall Street, a practice influenced by the importance of corporate social responsibility to millennials who represent $2.45 trillion in spending power (see Elliott, 2014; Richards, 2015).

Increasingly, companies view a cause program as necessary for them to remain competitive in the marketplace (Cone Communications, 2015; Cone, Inc., 1999), especially since cause marketing can turn into cause branding, if companies demonstrate a lasting commitment to an issue that enhances their image in the eyes of consumers (Frechette, 2010). Understanding how much consumers care about social and environmental concerns will be more important to companies in the future. According to a Nielsen (2015) global online survey, 66% of respondents said that they were willing to pay more for products and services that come from companies that are committed to positive social and environmental impact, up from 55% in 2014 and 50% in 2013. Brand trust influenced purchases the most for 62% of the respondents in the 2015 survey. Carol Gstalder, senior vice president of reputation management and public affairs practice at Nielsen elaborates:

> Brand trust and reputation are paramount. An excellent reputation makes it far more likely a company will be welcomed into new communities; partner with the most respected non-profits working on issues consumers care about most; and be a go-to source for products and services. And what we know for sure is that sustainability is playing an increasingly significant role in consumer decision making. (Nielsen, 2015)

Some firms have gone so far as to integrate cause branding into their core business strategies, another practice that disaffirms the separation fallacy. Consider that:

> … cause programs have become a standard and widely accepted business practice with many of the world's largest companies running comprehensive campaigns supported by substantial advertising and communications resources. Today's pioneers realize that it is no longer about being just loosely associated with a cause or partnering with a nonprofit organization—it is now about integrating the concern and commitment for a cause into a core component of an organization's business strategy. (Cone, n.d.)

Investors have also demonstrated more interest in corporations functioning as vehicles for social and environmental causes. This is reflected in a rise in shareholder activism aimed at increasing investments in socially responsible firms. This phenomenon, given impetus in the 1970s in North America, has seen total dollars in socially responsible investments (SRI) grow exponentially over the past twenty years. Since the 1990s, advocates of SRI have taken up the goal of promoting environmental sustainability in conjunction with expanding global efforts, especially since 2000 (Swanson & Orlitzky, 2016). Wayne Visser (2011a) weighs in:

> Reflecting the global nature of this expansion, the United Nations became increasingly active in promoting SRI through the UN Environmental Programme's Financial Initiative and the launch in 2006 of the Principles for Responsible Investment. As of 2007, global SRI assets under management were $5 trillion, with $2.7 trillion of that total invested in the U.S., according to the Social Investment Forum. (p. 121)

In tandem with the surge in SRI, the number of businesses of all sizes in the private sector that choose to self-assess how sustainable their operations are by using social and environmental standards and publicly disclosing their results has been growing rapidly, especially in Europe and Asia (Worldwatch Institute, 2016). A survey of 250 executives in 2013 speaks to this trend. Most of the respondents indicated that they expect environmental and social issues to have accelerated impact on their strategies, products and services, and operations in the near term, a finding that was consistent with the jump in *Standard & Poor's 500* companies that issued sustainability reports from 19 percent in 2010 to 53 percent in 2011 (Park & Koehler, 2013).

These developments, taken together, suggest that separation consciousness is fading. So does the phrase *Not in Anyone's Backyard* (NIABY) when invoked as an alternative to NIMBY. It appears that more people are openly ascribing to the proposition that business is part of the collective and should serve its good. For this proposition to become reality, managers must perceive *continuity* between their organizations and society instead of *separation*. In this vein, business and society scholars Sandra Waddock and Andreas Rasche (2012) assert that:

> An integrative and holistic systems perspective allows us to see our impact on the world and the world's on us. Companies, after all, are human creations that are nested within the larger social and even larger ecological systems of the world: they interact daily with government policies and, as has become increasingly obvious to companies under public scrutiny, with actors from civil society. *No longer can a company act as if it were distinct and separate from these other aspects of our world or reasonably claim that "it's just business," when it violates ethical norms or when ecological issues arise* [emphasis added]. (p. 15)

This is not to say that the business sector has never acted in a manner and on a scale that belies separation consciousness. The Community Chest Movement in the U.S. in the 1920s, covered in Chap. 2, has been interpreted by some historians as an unprecedented attempt by business to engage in philanthropy to help alleviate human suffering. Yet, the Community Chest was a response to the Great Depression, which some view as an anomalous period in the history of capitalism (see Weinstein, 1981, p. 266). Whether this is a correct understanding of the period is beyond the scope of this book to investigate. The point is that once the U.S. got back to "business as usual," the assumption that business and society thrive together or fall together faded from the forefront of collective consciousness. As a result, Milton Friedman (1962, 1970) and other orthodox economists could argue against the very concept of corporate social responsibility and be taken seriously. In other words, separation consciousness re-asserted itself, an interpretation consistent with

Morris Berman's (1981, p. 159) claim that dissociation is typical of the collective mindset of the industrialized West.

But the climate of perception seems to be changing. Jeffrey Hollender and Bill Breen (2010, p. 3) propose that several developments after the turn of the twenty-first century are rendering the refrain "it's just business" obsolete. Indeed, they propose that an enduring period of accelerated change in corporate responsibility is underway for the following reasons:

- Companies in the wake of scandals [including Enron, WorldCom, and Tyco], must now work harder to protect their reputations.
- Global brands, which are battling to crack markets all over the world, are now expected to perform a social role.
- Customers, thanks to the Internet, now have more power than ever before—the power to scrutinize companies' activities and to organize boycotts at the slightest sign of misbehavior.
- The body politic, seared by Ponzi schemes and the meltdown in financial markets, is punishing "bad companies" and demanding that all companies "do good."
- Employees now expect companies to adopt a purpose that's bigger than profit—a key factor in the competition for A+ talent.
- Nongovernmental organizations (NGOs) are growing exponentially and are relentlessly pushing companies to contribute to society.
- Stakeholders are pressuring institutional investors to adopt strong principles of governance and responsible investing strategy. (pp. 5–6)

Relying on Hollander's experience in co-founding and leading Seventh Generation, a firm that pioneered sustainable household products in 1988, Hollender and Breen (2010, p. 160) describe *corporate consciousness* as accruing from a clarity of purpose and the values that define an organization's essence. They go as far as to say that:

> An emerging breed of values-driven companies—some new, some well established—is building a better form of capitalism. A new generation of values-driven leaders has kicked over the alpha capitalists' argument that "the only business of business is business." (p. 3)

This book examines how the executive leader can create the kind of values-driven unity consciousness that those who believe that business should serve the greater good can share.

A Preview of CSR Leadership Based on Unity Consciousness

Given what has been said so far, it is important to understand the type of executive who is not limited by separation consciousness but instead perceives unity in decision domains, including continuity between self and others, facts and values, means and ends, humans and nature, and business and society. *Such is the nature of unity consciousness*. Wayne Visser (2011b) emphasizes the stakes:

> In CSR circles, we see the task of creating a more equitable and sustainable world as both a serious challenge and an enormous opportunity. We are convinced that without bold and effective leadership—at a political, institutional and individual level—we will fail to resolve our most serious social and environmental crises. We will also miss out on the vast business opportunities presented by society's transition to a sustainable economy. Over the past few years, in response to these global challenges and opportunities, we have seen more and more evidence of CSR leadership emerging, albeit not nearly enough. (p. 1)

Visser also proposes this succinct definition of socially responsible leadership: A CSR leader is someone who inspires and supports action towards a better world (p. 2). Chapter 2 takes up this sentiment by addressing the meaning of social betterment. It does so by examining the nature of the social contract between business and society and how the articulation of this contract has evolved in business and society research and management practice.

The take-away from Chap. 2 is that scholars in several management fields, along with notable business leaders, have come to view corporate responsibility in terms of triple bottom line outcomes. These outcomes, originally coined by John Elkington (1994) as the 3Ps or impacts favorable to *planet*, *people*, and *profit*, accord with the macro values for business identified by William C. Frederick (1992, 1995) that define the goals for CSR discovery leadership in subsequent chapters. The analysis in Chap. 2, essentially a retrospective on corporate responsibility research, demonstrates that the business and society field has long attempted to overcome the separation fallacy, especially the proclivity to separate facts from values. Accordingly, this field has also been a pioneer in addressing other separation problems, including the strict demarcation between self and others, means and ends, and humans and nature. Indeed, the trajectory of business and society research described in Chap. 2 is yet another sign that separation consciousness is in decline.

Before describing CSR discovery leadership based on unity consciousness, Chap. 3 demonstrates that executive decision making based on separation consciousness cannot lead a firm to fulfill the terms of the social contract laid out in Chap. 2. It does so by illustrating the pathological outcomes that will inevitably accrue when the mindset at the helm of corporate life embeds dissociative amorality in organizational dynamics. These pathological outcomes include a sense of alienation between business organizations and their stakeholders that creates an unproductive wedge between business and society. *Ideal typing* is used to derive these outcomes. According to social and political theorist Max Weber (1947), the method of ideal typing focuses on a phenomenon's distinctive features in order to emphasize their logical implications. Using this method, Chap. 3 models the logical outcomes of an organization led by dissociation, which corresponds to the amoral mindset implied by standard economics. The crux of the matter is that separation consciousness at the helm of corporate life will inevitably cause an organization to neglect or harm society.

Chapter 4 provides a counterpoint to Chap. 3. It proposes that a necessary condition for CSR leadership capable of creating a constructive form of shared consciousness between business and society is an *associative mindset*. Moreover, Chap. 4 identifies the realizations necessary for this mindset and explains how they accord with systems thinking and other-regarding ethics. Subsequently, Chap. 5 examines the means by which the *associatively-minded executive* can direct employees to enact *constructive values*, which are the personal and organizational values that can