Values and Stakeholders in an Era of Social Responsibility

Cut-Throat Competition?

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For Stefania, Sara and Sofia

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PAOLO D'ANSELMI

List of Abbreviations

ACS	American Cancer Society
AIDS/HIV	acquired immunodeficiency syndrome/Human Immunodeficiency Virus
BAe	BAe Systems/British Aerospace
BASIC	British American Security Information Council
BMW	Bayerische Motoren Werke
BP	British Petroleum
BVMW	BundesVerband Mittelständische Wirtschaft
CAPEX	capital expenditure
CDA	Communications Decency Act of 1996 (USA)
CDI	Consumer Delight Index (CDI)
CEO	chief executive officer
CESR	Committee of European Securities Regulators
CNH	New Holland Construction
CNR	Consiglio Nazionale delle Ricerche
CNRS	Centre National de la Recherche Scientifique
CR	Corporate responsibility
CSIC	Consejo Superior de Investigación Científica
CSIR	corporate social (ir)responsibility
CSR	corporate social responsibility
DLNA	Digital Living Network Alliance
DSL	Digital Subscriber Line
EBITDA	earnings before interest, tax, depreciation and amortization
ECB	European Central Bank
EDF	Électricité de France
EITI	Extractive Industries Transparency Initiative
EU	European Union
GDP	gross domestic product
GM	General Motors
GRI	Global Reporting Initiative

ICT	information and communication technologies
ILO	International Labor Office
INSERM	Institut National de la Santé et de la Recherche Médicale
IPIECA	International Petroleum Industry Environmental Conservation Association
ISO	International Standards Organization
JCR	journal citation reports
JRS	Jesuit Refugee Service
KPI	key performance indicator
LBG	London Benchmarking Group
MECR	mean expected citation rate
MIT	Massachusetts Institute of Technology
MPG	Max-Planck-Gesellschaft
MSF	Médecins Sans Frontières [Doctors without Borders]
ODA	overseas development aid
OECD	Organisation for Economic Co-operation and Development
OHSAS	Occupational Health and Safety Assessment Series
PIAP	Public Internet Access Program
PR	public relations
SCI	science citation index
SMEs	small and medium sized enterprises
SUV	sports-utility vehicle
SWOT	strengths, weaknesses, opportunities and threats analysis
UMTS	Universal Mobile Telecommunications System
UMW	Unternehmerverband, Mittelständische und Wirtschaft
UPnP	Universal Plug and Play Forum
WICI	World Intellectual Capital Initiative
WIP	work in progress
WTO	World Trade Organization

Introduction

Talking responsibility with my barista

(Ir)responsibility is not always the responsibility of other people. And not everyone needs to know what (ir)responsibility is. Let us start, then, at the very beginning, with the meaning of the words we will be using:

Barista: Good morning, sir. Your usual brew?

Paolo: Yes, please.

Barista: I never asked you before, but what do you do?

Paolo: I draw up balance sheets. Like an accountant. I write books based on company balance sheets (and government accounts). They're my clients. I could even do it for your coffee shop.

Barista: Thanks, but I already have a book-keeper and he isn't cheap.

Paolo: Oh, I wasn't really offering, just mentioned it in passing.

Barista: My book-keeper doesn't write books, though. He just sends in my tax returns.

Paolo: Sure. The shop is a small business. Writing a book about it would be very expensive. Anyway, I do more than draw up balance sheets. I write documents that have a lot more information than that.

To understand what sort of information I gather, just imagine that you want to sell your coffee shop. There's a person who is interested in buying it – let's call him Ahmed, and he wants to see your tax returns, your official balance sheet – the one that shows your minimum earnings. A company would call that your 'turnover.' So, Ahmed comes here and stands with you behind the counter, by the cash register, to check whether the earnings you've declared are real. You might have even told him that you've declared less than you actually earned. This may not be so in your case, but there are places in the world where this is the norm. I should know. I'm an international professional after all. Anyhow, this would be his way of diligently checking the information your book-keeper gave him.

In company jargon, this is called 'due diligence,' and there are people who specialize in going around and trying to find out whether what's reported in company balance sheets is true or false.

Later, at closing time, Ahmed would go with you to check the cash register and count the sales slips from the pastry and coffee sales. This is what's called 'cost accounting,' and it's not shown in your tax returns. This is how Ahmed would find out that you make much more money from selling pastries than coffee, so that $1 taken from the sale of pastries is worth more than $1 from the sale of coffee. Coffee vs. pastries. This is a typical assessment of what companies call 'profitability of action' or 'direct product profitability.'

At this point, Ahmed would probably begin to take note of other things he needs to know. Are the staff polite to customers? Do they work quickly? Are they cheating on the coffee; using too much of it? Are they diligent in the consumption of basic supplies? In other words, are they interested in 'customer care' and 'loyalty' to the business? Ahmed will also want to know whether the customers are passers-by or regulars. Regulars are a sign of satisfaction (customer satisfaction) with the coffee shop and the service. If they come back, it means they're getting exactly what they want.

He might have some questions, too, like whether the vacant lot next door to the coffee shop will be used for new office blocks or a massive multi-story car park, or whether or not the bus stop right in front might be moved a few yards further down. He'll talk to the local police to find out what they're like; whether there'll be hassles should he decide to upgrade the coffee shop to a kebab restaurant or make the shop sign bigger; or the likelihood that they'll grant him a license to put a few tables outside on the sidewalk. He'll probably go to a nearby coffee shop and order something. He'll ask himself whether he can put up with the traffic noise at this intersection, since he'd have to spend most of his waking days there. He'll check the prices of the suppliers compared with those he works with already. This comparison price is called a 'benchmark.' He'll check whether health and hygiene regulations are being applied, examining the toilets and the extractor fan, which seems to be on its last legs. And also what will be done about any unpaid fines.

In other words, Ahmed will weigh the opportunities and the risks to see whether he'll be able to pay the bills of exchange he'll be signing. This is what's called 'creditworthiness,' and it's a useful concept for you, too, because it's no joke to bargain a high selling price for your shop only to find that your buyer can't afford to pay it!

In this way, we've looked at all these people – the local police, the customers and the suppliers – who never figure in your tax returns but who do affect the performance of your shop. In company jargon, they are called 'stakeholders.' Only when he has all this information can Ahmed answer the question: Do I buy this place or not? And if I do buy it, what price should I pay?

So, you see, there's a lot more going on between the lines of what actually ends up in a tax return.

Barista: Now your coffee's cold. Let me make you another one.

The theoretical balance sheet that I've just drawn up whilst standing at the counter having breakfast is called a corporate social responsibility (CSR) report, or a sustainability report. It is a document that 'tells all,' and tries not to leave anything out or hide anything from the reader.

CSR reporting should be leveraged to provide a serious tool of internal and external communication. At present, many major companies publish an annual CSR report, or sustainability report. Many studies are available on CSR, but very few on CSR reporting. CSR reports are written in a heuristic fashion. Standards are observed in a useless way; see, for instance, the table that most companies write at the end of their report to cross-reference the Global Reporting Initiative (GRI) standards. The result is that resources are spent and very little is accomplished: colleagues within the company look at the report as a perfunctory activity, stakeholder representatives go with the flow, journalists shun the reports as 'news-less' propaganda, and top managers – above all – tolerate this good-manners habit.

The sustainability reports of corporations are the empirical basis of this study. The aim is to figure out what its optimal content would be – what information should it provide to perform a worthy job. It is opportune to do this because these reports are an opportunity for awareness on the part of the corporation, as well as for the public to find out what is going on in the economy and in society.

There are many skeptics of sustainability reports who view them as a perfunctory activity of the organization, and this healthy skepticism will be confronted at once.

Sustainability report: balance sheet or bull sheet?

'"Bullsh*t," my CEO would say, if I went in and proposed drawing up a sustainability report for our company.' This was the sour reply of my friend, the assistant of a well-known European manager, when I offered to undertake a sustainability report project for his company. This consideration would have been even more appropriate, since the company was not a real company but some sort of institution – a foundation working on a dictionary of language, enjoying generous government subsidies.

Managerial stallions were very harsh towards CSR. In January 2005, *The Economist* came out with a very critical survey that basically stated that all monies spent on social activities were not only a drain on money from shareholders' pockets, but also a distraction of management time, attention and energy.

Not only the orthodox *Economist*, but also fine intellectuals partial to social issues were – perhaps unawares – feeding a culture of economic machismo. In a well-documented study of Italian corporations in the 1980s and 1990s many utilities were praised as profitable, since ranking was based on profits and stock valuation.

What is the relevance of this to CSR and the sustainability report? I believe the sustainability report is an opportunity to ask oneself (and cultivate a doubt about) whether a utility that is making profits above the market average is perhaps strangling consumers. The sustainability report is not necessarily a window for alms or sponsorship of the performing arts. In a sustainability report, a company can give an account of the competitive context whereby profits are earned. Along this line, one can point out a difference between a company that is subject to international competition, one that has a dominant market position and a utility that is a full-fledged monopoly.

In a sustainability report, a company can extend its view beyond the shareholders, to consumers and society at large. In 2004, in Italy, the antitrust and energy regulators found out that prices of energy products were high while the quality of service was poor. In the sustainability report produced by Fiat, one could read of the so-called voluntary agreements that kept Japanese cars out of Italy for a long time, an account of repeated government subsidies for Fiat investments in the Italian south, and quality checks versus BMW mechanics.

In a sustainability report, one could read about the share of deposits from government agencies in the Italian branch of BNP Paribas, which made up for the key value of that bank when it was acquired by the French giant from the Italian government itself. Maybe all this information is confidential? Well, perhaps it is time that the confidentiality be removed and competition be extended to other areas, benefiting all parties involved.

A sustainability report raises its gaze towards the wider impact of a corporation on the economy and society. It's about the disclosure of information and responsibility. Seen this way, the report appears less perfunctory. It is clear that what is said in it is of equal interest to us as what could have been said. It appears that there are opportunities in sustainability reports that are not currently being taken up. Chapter 1 takes a detailed look at what sustainability reports look like at present.

It is a general finding of communication theory that what is communicated reveals about the communicator something of which the communicator himself may not be aware. Even if the organization is not truthful about itself, the very act of communicating, of writing a report, reveals about the organization something more than the organization itself meant to communicate in the first place. In other words, I contend that by analyzing responsibility reports – provided we reveal what we think ourselves, in our turn – we can also reveal something the organization did not mean to reveal in the first place.

'The reluctance to open up and relay "what is really happening here" is a common experience' (Kakabadse *et al.*, 2007). This is no secret about organizations and individuals; neither does it carry particular stigma on specific subjects at hand. Without resorting to psychoanalysis, the thesis about revealing relationships found normative explication in the two-way model of communication of James Grunig (Grunig *et al.*, 1995), which establishes a symmetrical relationship between the parties involved. Finally, theater was the first form of communication explicitly meant to elicit sentiments and truths out of unaware parties. Shakespeare poetically expressed this circularity and synthesized it in one line, spoken by Hamlet: 'The play's the thing wherein I'll catch the conscience of the king.' Through the representation that organizations give of themselves in sustainability reports, I'll catch their social responsibility.

Preview

A latent energy lies at the heart of many economies of the world: that energy is the positive value of competition by which hundreds of millions of people live their daily occupations. Being subject to competition, they are accountable for their work. Competition is therefore a powerful driver of responsibility. Many other workers in the same economies are less accountable to positive social or economic forces: the workers of regulated industries, monopolies and public administration, or government. However, tapping the energy of competition is a difficult task as competition is a tricky force, despised by those very people who live by it. In public and private discourse, 'competition' is quite often preceded by a scary adjective: 'cut-throat.' Hence cut-throat competition. Thus, economic units subject to competition fail to bring that value to bear in the social and political arena, thereby failing to turn their weakness – being subject to competition – into an opportunity (i.e. asking that all workers be subject to a form of competition or accountability). This predicament delivers a deficit of meritocracy in society, a deficit of effectiveness in governments' action, and lack of efficiency in protected and regulated industries. The end result is an overall weakness in the economies affected by such deficit, a competitive disadvantage. The goal of this book is to show – with cases in capsule form – the differences of accountability in the diverse sectors of the economy, to quantify the potential, to identify the hindrances that prevent the coming of competition as a factor of social and political advance within each country, and, finally, to reveal those economic actors that could benefit from gaining awareness of being subject to competition, thus questioning the negative aura that pervades the value of competition and turning that value into a positive one.

Competition is lived within the narrow limits of vertical industries and international trade debate. Thus, it is only characterized as a constraint. Competition should be brought to bear horizontally, among different economic sectors, within the boundaries of each country and nation, in order to make governments accountable for their actions and regulated industries efficient in their functioning. Governments, infrastructure and monopolies – when accountable, and therefore on their way to being efficient and effective (the governmental equivalent of being subject to competition) – contribute to the competitive advantage of nations. The logic of collective action (i.e. structured self-interest) thus delivers SMEs as a key stakeholder to embrace the value of competition and have it observed by those sectors of the economy and the institutions that do not observe it today. SMEs are too small to be studied, too many to be ignored, too fragmented to be helped. The value of SMEs lies only in their efficiency as a shock absorber in the economy, but this only brings vague statements of principle. Through the force of competition, the representative bodies of SMEs have an opportunity to become a full field stakeholder in the political arena, and to make governments effective and regulated industries efficient.

Starting from CSR, analyzing what CSR is, what it is not, and what I'd like it to be, I extend CSR to all organizations in the economy (private businesses and public institutions). I thus develop the concept of 'accounting for work' as a duty for everybody within society. Such a duty brings to the political and economic foreground the struggle between work subject to competition and work performed under monopoly privilege. Once the political arena is redefined along these lines, SMEs become a protagonist in the debate for the advancement of society. SMEs have a potential benefit to reap here, and all they have to do is become aware of the value of the competition/accountability that they already embody. With no extra effort, they can achieve advancement in society.

What is CSR?

CSR is present when businesses respond positively to society's problems. The invitation to take such responsibility came in the early years following the turn of the millennium from the United Nations Global Compact. The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ethical principles. The idea of companies adhering to CSR has spurred the reporting of such behavior, and such reporting has given rise to guidelines for doing so. An example of such guidelines is provided by the GRI.

Because it involves activities done outside the core business of firms, CSR as defined in the preceding paragraph has encountered much skepticism on the part of the managers of corporations. I therefore embarked on analyzing the CSR reports of various corporations and came up with a solution that would hopefully be seen as more relevant to business: a process framework that is also compatible with issue frameworks such as the GRI guidelines. An issue framework consists of guidelines that tell you what data to provide in order to report on CSR. The proposed process framework is formed by four values:

- the unknown stakeholder;
- disclosure;
- implementation; and
- micro-ethics.

This framework is about the 'how' of looking at the core business of firms in order to identify instances of CSR, to manage them and to report on them.

A key element of the proposed process framework is that CSR ought to look at the instances where 'irresponsibility' can be identified within corporate behavior. This is also expressed through the concept of 'think negative,' commonly expressed as 'negative testing'; this is testing aimed at showing that something does not work ('test to fail'). In fact, we believe that the 'positive' reporting of the issue frameworks is subject to the risk of 'anesthetizing' oneself with all the good things that organizations do, thereby missing the point of possible irresponsibility. This point of view makes CSR germane to risk management.

Extending the concept of CSR

I then propose to extend the concept of CSR to all organizations, beyond the private businesses and corporations listed on the stock market. The cogent reason for doing so is that the boundaries between private and public institutions are far from clear-cut. A further reason is that current non-market mechanisms of accountability of public institutions – mostly based on legal control – appear to be inefficient, and need to be extended or modified. Therefore, the general notion of CSR is formulated as 'accounting for work': all work must be accounted for.

Vertical competition

One driver of accountability is vertical competition: this is the struggle experienced by companies engaged within each industry and within the same economic sector. This is the competition to which we are accustomed: the competition that brings producers (but not consumers) unwelcome phenomena such as price cutting, international relocation and imports. Vertical competition is central to the process of accounting for work because vertical competition in and of itself makes work accountable, if not instantly valuable from a social point of view, and at least subject to social scrutiny. Vertical competition certifies accountability. It does not guarantee society that the firm or the organization will behave correctly, but it does guarantee society that – having the opportunity to adopt competing goods and services – it can do without the bad company. Competition does not rule out the need for awareness, management and reporting of CSR.

Horizontal competition

However, not only vertical competition is at work here: horizontal competition is also present. Horizontal competition is the struggle between different industries and sectors of society to appropriate shares of national income. The objective of vertical competition among individual companies is to prevail over competitor companies and win shares of vertical markets. But competition also takes place – less obviously, but having no less impact on income – on an aggregate level, between entire sectors of society: for instance, public administration vs. private companies. Originally, CSR came into being under the pressure of public institutions on private corporations: this pressure was one instance of horizontal competition between different economic sectors (public institutions forcing private businesses to do something for society, and therefore also for the workers in public administration). Once the duty of accountability is extended to all economic sectors (public and private, profit and non-profit), horizontal competition between economic sectors becomes the crucial driver of accountability, and a reverse process can take place: sectors subject to competition (i.e. private companies) can ask accountability from those sectors that are not subject to vertical competition (i.e. the public sector), with the objective of reaping benefit from better and more socially profitable work by the public sector.

The workforce in the economy can therefore be partitioned horizontally between that part of it which is subject to vertical competition and that part of it which is not subject to vertical competition. The notion of ‘competitive divide’ is thus derived: the work of workers, employees and executives who are not subject to vertical competition enjoys a shelter *vis-à-vis* the work of those who are subject to competition; therefore, those who are not subject to competition must give account of their work through the introduction of vertical competition or through pseudo-market mechanisms, such as CSR reporting and benchmarking. Somehow, the work and the jobs that are not subject to competition must account for the validity of their social contribution – basically through virtual vertical competition (benchmark) and transparency reporting.

From an empirical point of view, SMEs and the majority of workers and jobs in the economy are on the competitive side of the competitive divide, while monopolistic sectors (such as the government sector) are on the non-competitive side of the competitive divide.

Reversal of the CSR picture

The CSR picture is reversed at this point: CSR appeared to be a game for large corporations who could afford CSR executives and CSR budgets; people struggled to figure out ways to 'do' CSR in SMEs. Under the auspices of competition, SMEs become a key actor of social responsibility in society. They are of foremost significance to CSR, as they are immersed in vertical competition.

Moving society towards accountability

What is the force that will move society towards accountability? Horizontal competition is the answer. This force will be the self-interest and the collective action of those who are subject to vertical competition *vis-à-vis* those who are not subject to competition. Horizontal competition is the competition between those who are, in their work, subject to vertical competition and those who are not subject to such vertical competition. Horizontal competition is a force more relevant to the economy than the owner–employee, public–private, left–right, labor–capital dialectic. We could also call it 'power struggle.' Vertical competition exists because many want to sell to few; horizontal competition exists because social groups – differing by their position *vis-à-vis* competition – still compete with each other to appropriate shares of national income. For instance, public sector workers' salaries are driven by different mechanisms than those regulating the salaries of private sector workers. Nonetheless, there is a struggle between private sector workers and public sector workers to increase their own salaries, one at the expense of the other. This is horizontal competition.

Why bother?

One question always asked about CSR is: 'Why bother?' My argument answers this question through horizontal competition: all institutions must account for their work because it is in the self-interest of those who are subject to competition that those who are not subject to competition account for their work as well.

Who will be the social actor of horizontal competition?

It is certainly not the individual shopkeeper who will be interested in promoting the social value of competition. The representatives of those who are subject to competition will be the associations of small, medium-sized and micro-enterprises – a micro-enterprise being the self-employed and those small businesses with fewer than 10 employees. The specific incentive for the small business association is tapping the reservoir of social and economic value (being subject to competition) – already embodied in their own fabric – in order to obtain political clout and, starting from a vantage point, to negotiate with public sector representatives and governments.

I have therefore undertaken a project to take to the local representative bodies of nationwide SME associations, the following message: 'You are the embodiment of a positive social and political value: competition. You should make that weigh in your local and national interaction with government and large businesses.'

CSR and its harbinger competition confer legitimacy to SMEs as a key actor in the political arena. Under the auspices of competition, SMEs become a full field stakeholder in the social and political arena. They become interested in seemingly remote fields such as government workers' policy, industrial policy and subsidies, law enforcement and justice. This is not a 'noble' end; it is an argument of equality of citizens and workers *vis-à-vis* work conditions, accountability being a key condition of work.

Are SMEs ready to receive the message?

One preliminary finding is that local SME associations are immersed in vertical competition and, though intrigued, are not ready to act upon the value of horizontal competition. Neither are they very much interested in checking the reality of their own social responsibility – there always being room for improvement. They have practical needs that need to be met in order to serve their members, the small entrepreneurs; these needs are of greater relevance to them than listening to general statements of political intent. They are, however, interested in CSR; and they are interested in developing a consulting formula that allows them to deliver a product or service to their members. Therefore, a CSR concept for SMEs is being developed in partnership with some local associations.

The positive value of competition at the supra-national and trans-national levels

Finally, an effort is also being made to bring the message of competition as a positive value to supra-national and trans-national levels. The notion of competitive divide is applicable to all economies, if not to the entirety of each specific economy; our notions are confined to the developed part of society that is well above the poverty line. Also, the notion of SMEs is a global one, when taking into account the diverse structure and dimensions of SMEs in each economy. Therefore, a move by SMEs towards removing the competitive divide appears to be one that all societies and all economies can entertain and profit from.