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UNKNOWN VALUES AND STAKEHOLDERS

The Pro-Business Outcome
and the Role of Competition

2ND EDITION



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Paolo D'Anselmi • Athanasios Chymis • Massimiliano Di Bitetto

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List of Abbreviations

ACS	American Cancer Society
BASIC	British American Security Information Council
BP	British Petroleum
CESR	Committee of European Securities Regulators
CNR	Consiglio Nazionale delle Ricerche (Italy)
CNRS	Centre National pour la Recherche Scientifique (France)
CPA	Certified Public Accountant
CSIC	Consejo Superior de Investigación Científica (Spain)
CSR	Corporate Social Responsibility
ECB	European Central Bank
GRI	Global Reporting Initiative
HIV/AIDS	Human Immunodeficiency Virus infection/Acquired Immune Deficiency Syndrome
ICT	Information and Communications Technology
IIRC	International Integrated Reporting Council
JRS	Jesuit Refugee Service
KPI	Key Performance Indicator
MECE	Mutually Exclusive, Collectively Exhaustive
MPG	Max-Planck Gesellschaft (Germany)
NGO	Non-Governmental Organization
ODA	Overseas Development Aid
OECD	Organisation for Economic Co-operation and Development
PSPN	Public Sector Pioneer Network

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RCI	Relative Citation Index
SME	Small and Medium Enterprise
SWOT	Strengths, Weaknesses, Opportunities and Threats
UDISME	Unknown Stakeholder, Disclosure, Implementation and Micro-Ethics
UNGC	United Nations Global Compact
UNGC B4P	United Nations Global Compact Business for Peace initiative
UNGC PRME	United Nations Global Compact Principles of Responsible Management Education initiative
WAP	Working-Age Population
WICI	World Intellectual Capital Initiative

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1

Introduction

Unknown Values and Stakeholders is a further step of our ongoing project concerning competition and accountability in the economy. This book follows the previous works of Chymis, D'Anselmi and Di Bitetto about the theme of Corporate Social Responsibility (CSR), namely *Reconciling Friedman with Corporate Social Responsibility* (Chymis, 2008), *SMEs as the Unknown Stakeholder: Entrepreneurship in the Political Arena* (Di Bitetto et al. eds., 2013); and *Public management as Corporate Social Responsibility* (Di Bitetto et al. eds., 2015a). Specifically, this work represents an updated, three-authored, second edition of *Values and Stakeholders in an Era of Social Responsibility: Cut-Throat Competition?* (D'Anselmi, 2011), in which new content has been introduced to take into account the five years that have elapsed since the publication of the first edition. Moreover, this second edition benefits from hindsight. It follows up statements and findings presented in the first edition and brings to full bloom a total perspective on work, Corporate Social Responsibility and the employed population. It analyzes horizontal ties across economic sectors. This edition also benefits from literature that had not been taken into consideration at the time of writing the first edition, such as *Reconciling Friedman*

with *Corporate Social Responsibility* (Chymis, 2008) and *Giving Voice to Values* (Gentile, 2010).

Though we aim, as always, to address the community interested in accountability and economic responsibility, with this second edition we would like also to engage adjacent communities since we feel this is an interdisciplinary effort in the areas of comparative public administration and government, labor economics, the sociology of labor, public management, government-business relations and public-private partnerships. We would like our readership to encompass both practitioners and students; companies may also want to read this book, as well as specific professional figures such as management consultants, social responsibility managers, professionals in public relations and communication, lobbyists, accountants and Certified Public Accountants (CPAs) working in the certification of social responsibility, public affairs specialists, investor relations specialists, public managers, public management analysts, public policy analysts, civil society activists, advocacy groups, NGOs and non-profit organizations.

This book is addressed to businesses adhering to the Global Reporting Initiative (GRI) and to the United Nations Global Compact and their Business for Peace (B4P) initiative. It is also targeted at schools of business compliant with the UN Global Compact–Principles of Responsible Management Education (PRME) initiative, to firms participating in the International Integrated Reporting Council (IIRC) and the World Bank’s “Public Sector Pioneer Network” initiative. The book might also be of interest, moreover, to listed firms, business associations and trade unions, as well as to countries with poor standards of public administration.

A “crisis of capitalism” has been looming in the years after the publication of the first edition and in this book we discuss the possible stakeholders of competition as a positive economic value across the economy, providing data to support the contention that capitalists and their employees should disseminate a culture of competition vis-à-vis organizations and their employees that are sheltered from competition. In this context our view is synergic with “Capitalism at Risk” *Harvard Business Review* (Bower et al., 2011) giving a general role (that of the unknown stakeholder) and resources (such as the unknown values presented in this book) to business. In this sense ours is a pro-business outcome. We also discuss Piketty’s *Capital in the Twenty-First Century* (2014) and Acemoglu and Robinson’s *Why Nations Fail* (2012).

With regard to SMEs being a possible stakeholder of the value of competition, we provide an account of a European project undertaken on this subject, which was introduced in the first edition as an area of further research and led to our Palgrave Macmillan book, *SMEs as the Unknown Stakeholder: Entrepreneurship in the Political Arena* (Di Bitetto et al. eds., 2013).

We also examine the second largest group of the employed who are subject to competition: large enterprises. Large enterprises enjoy several advantages over SMEs. For instance, Peter Klein's research (2008, 2013) shows that large enterprises can substitute public administration tasks through diverse organizational arrangements. Our development of this argument is based on a chapter from Di Bitetto et al. eds. (2015b) "Dear Brands of the World", in Adi, Grigore and Crowther (eds.), while our work in Di Bitetto et al. eds. (2015a) *Public Management as CSR* and on the importance of public administration towards the effectiveness of specific action programs (e.g. poverty relief) is based on Chymis et al. (2016).

The flow of our argument and the structure of this second edition can be summarized as follows. Part 1 contains observations of accountability across various sectors of the economy. The five chapters present short case histories whereby the idea of responsibility is extended to the possibility of a lack of responsibility; positive acts of responsibility are considered alongside possible situations of non-responsibility and non-accountability, which bolster the argument that all organizations should be accountable for their economic responsibility.

In Part 2, Chapter 6, we present the role of competition as a driver of accountability, delineating the competitive divide that separates organizations that are subject to competition from those that are not, and identifying a new inequality among citizens. In Chapter 7, we investigate the possible economic dynamics across this competitive divide. Change will not come about without demand for accountability and business organizations—most likely to be subject to competition—would be a key stakeholder of accountability in all organizations.

Part 3 considers the micro level of individual organizations, reformulating what is specific about economic responsibility that makes it different from philanthropy, welfare capitalism and shared value. In order to detect responsibility at the micro level, we develop a process framework to articulate reformulated economic responsibility (Chapters 8 and 9). Then Chapters 10, 11, 12 and 13 illustrate the four values of the process framework: the unknown stakeholder, disclosure, implementation and microethics.

In Part 4 we show what it means for individual organizations to account for their economic responsibility and how they would implement accountability. Chapters 14 and 15 present case studies on the application of the process framework and instances of management analysis in non-profit organizations not subject to competition (most likely public administration), while Chapter 16 discusses the possible role of professionals as mediator communities to bring about change. Finally, Chapter 17 summarizes the main points and suggests possible areas for further research.

1.1 Responsibility and Accountability

Accountability is a word that is known in the world of accountants and financial statements. In this book, we try to expand its meaning and also to bring it closer to the general public. We use accountability in the sense of giving account, being transparent, explaining what you do in your work, and, as we move from individuals to organizations, explaining what organizations do and what their purpose is, as well as how organizations are pursuing their missions and whether this is being done in an effective manner.

This is a book about work and organizations within the economy. Work takes place within organizations, whether small or large. Organizations are, in general, of two basic kinds: public administration and businesses (similar distinctions are: public sector and private sector, or, not-for-profit and for-profit). All organizations have an impact on the economy; and they are responsible for that impact, so they are also accountable for that impact. If organizational activities have an adverse impact on the economy, the organization is held accountable and it has to remedy the adverse impact. The general view is that organizational impact on the economy is captured by the economic transactions the organization has with other organizations or with citizens and consumers. It is maintained in this book, however, that there is more to the impact of organizations on the economy than is accounted for and reported in financial statements and tax returns. This point can best be illustrated by using an example.

In order concretely to illustrate responsibility and accountability, imagine you own a coffee shop. If you own a coffee shop, you have a book-keeper.

Your book-keeper sends in your tax returns but is often also capable of giving you advice on how your business is doing and could, if he wanted to, write a booklet concerning your coffee shop. We could call this a small responsibility report and it would give an account of your responsibility with regard to the activities of your coffee shop. Since your shop is a small business, not much time needs to be spent on your report; but you can imagine that a large company or a large public organization might need to spend a lot of time doing this and have a lot of things to report. However, despite the fact that your coffee shop is a small business, your responsibility report would still contain a lot more information than your tax returns. In fact, the objective of your tax returns is only to ascertain how much you should be paying in taxes while the responsibility report has a very different objective: understanding the viability of your business.

The responsibility report might want to address the issue of whether your coffee shop's business is threatened or will last well into the future. Doing this would mean addressing the long-term sustainability of your business, which is called simply "sustainability". To answer this kind of question, such a responsibility report must also take into account and understand the impact— or the relationship— of your business on the rest of the economy. In terms of the information that would be contained in your responsibility report, imagine that you want to sell your coffee shop. The person interested in buying it wants to see your tax returns, that is your official financial statements, which will show your minimum earnings. A regular company would call this their "turnover" while a government organization would call it their "budget". But the person interested in buying your coffee shop would not stop with reading your tax returns. He or she would also come over to your premises and stand with you behind the counter, by the cash register, to check whether the earnings you've declared are real. You might have even mentioned that you've declared less than you actually earned. There are places in the world where this is the norm and is called the "informal economy". Working next to you would be the way for your prospective buyer to check diligently the information your book-keeper gave him. In jargon, this is called "due diligence", and there are people who specialize in going around and trying to find out whether what is reported in an organization's financial statements is true or false.

Later, when closing, your prospective buyer would go with you to check the cash register and count the sales slips from the pastry and coffee sales. This is what is called “cost accounting”, and it is not shown in your tax returns. It is how your prospective buyer 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 “direct product profitability”. At this point, your prospective buyer would probably begin to take note of other things he needed to know. He wonders whether your staff is polite to the customers; whether your staff works quickly enough and whether they cheat on the coffee or use too much of it to make one cup; whether your staff is diligent in the consumption of other supplies. In other words, your prospective buyer checks the “customer care” and the “loyalty” of your staff to your business. Your prospective buyer will also want to know whether the customers are passers-by or regulars. Regulars are a sign of “customer satisfaction”; if they come back, it means they are getting exactly what they want.

Your buyer might have some questions, too, about the shop’s surroundings, such as whether the vacant lot next door 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 will talk to the local police to find out what they are like; whether there will be hassles should he decide to upgrade the coffee shop to a kebab restaurant or make the shop sign bigger. He may want to assess the likelihood that local government will grant him a license to put a few tables outside on the sidewalk. He will probably go to a nearby coffee shop and order something to check how good they are. He will 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 will check the prices of the suppliers compared with those he works with already. This comparison price is called a “benchmark”. He will check whether health and hygiene regulations are being observed, he will examine 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, your buyer will weigh the opportunities and the risks to see whether he will be able to pay the bills of exchange he will be signing. This is what is called the “creditworthiness” of your prospective buyer and it is a useful concept for you, too, because it is no

joke to obtain a high selling price for your shop only to find that your buyer cannot afford to pay it.

These different people – the local police, the customers and the suppliers – never figure in your tax returns but do affect the performance of your shop. In organizational jargon, they are called “stakeholders”, they have a stake in your business – besides you, of course, who are also a stakeholder. Only when your potential buyer has all this information can he decide whether to buy your place or not and, if he does want to buy it, what price he would be willing to pay for it. This is an example of the wider impact of the activities of a coffee shop on the economy and on economic actors: customers, other businesses, public administration. We have seen there is a lot more going on between the lines than what actually ends up in a tax return. The hypothetical and complex new financial statement that we have been ideally drawing up is called a responsibility report. Responsibility reporting is about activities, not only about money. For the sake of illustration we have been talking about a responsibility report meant to show the accountability of a small organization, a small business, in this case, a coffee shop, but this same operation could have been done for a public-administration organization.

There are actually various names for reports such as this: citizenship report, social responsibility report, integrated report, or sustainability report are only a few examples of the most-used names. The idea, however, is always the same: to put together a document that “tells all”, and tries not to leave anything out or hide anything from the reader, a document that tells the whole story about an organization and illustrates the overall impact of the organization on society, especially in the main area of the organization’s mission. There is, however, a logical distinction between the words that are used to identify reports: responsibility, accountability, sustainability or durability. There is a logical chain linking these abstract substantives: one is accountable for the actions one is responsible for; if the process of accountability then has success, i.e. it does not meet with contradictions, it is likely that an organization will be sustainable in the long run. Therefore, the logical flow goes from responsibility to accountability to sustainability.

The kind of accountability and responsibility reporting we have been considering is undertaken in corporations, i.e. privately owned businesses providing goods or services that are generally available also from other privately held businesses. This strand of responsibility has taken the name of Corporate Social Responsibility because at present, many major companies publish an annual CSR report. Such dissemination provides an opportunity for business at large: CSR reporting should be leveraged to provide a tool of internal and external accountability for all organizations, not only private businesses.

We need to make a distinction here: a large part of the accountability movement has revolved around special programs for social and environmental issues. This is what we call here “mainstream CSR”, which, more than revolving around the basic idea of accountability that tells you all that is important about the organization, revolves around ad hoc activities called CSR programs. Instead of revealing the organization, CSR has concentrated on doing something to be socially worthy. The social responsibility of the impact of the organization’s activities has been interpreted to some extent as liberal activities, or “doing good”, whereas the word “social” could have been interpreted as looking at the impact of the organization’s activities beyond the narrow boundaries of the organization. We say that mainstream CSR does not deal with the core activities of the organization but is concentrated on doing something special and specific in terms of the organization’s relationship with its employees, the community and the environment.

We see economic responsibility as accounting for the core business of all organizations. Our view of responsibility diverges from the mainstream view that sees CSR as a special program for private business corporations to cater to society and the environment. Mainstream CSR sees social responsibility as basically at odds with profit-making while we see economic responsibility in tune with profit-making, and accountability as the effort on the part of organizations to account for all the difficulties that hamper the realization of suitable conditions for such an accord. The responsibility reports of organizations are the empirical basis of this study. Many studies are available on CSR, but there are very few on responsibility reporting. Responsibility reports are often written in a heuristic fashion and, while there are standards to follow with regard to writing a responsibility report, their application leaves much to be desired. One

of the aims of this book is to ascertain what the optimal content of these reports would be, and what information they should provide to account for the impact of an organization on the economy. This is worth pursuing because these reports are an opportunity for awareness on the part of all organizations, as well as for the public to find out what is going on in the economy in a more structured fashion. Our search will lead to the revealing of economic values that are currently neglected, and the revealing of stakeholders that are currently unaware of their potential: we will be talking about “unknown values and stakeholders”.

So far the general standing of responsibility reporting within organizations has not been very high. Colleagues within business organizations do not think highly of CSR; stakeholder representatives go with the flow, journalists do not read the reports and top managers tolerate CSR as a good-manners habit. Our aim is to envisage CSR that is not shunned by corporate executives. While Corporate Social Responsibility sounds like something liberals would love and corporate executives would hate, we wish to make clear from the outset that our work is not anti-business. We may speak interchangeably about economic responsibility, sustainability or accountability, but we always mean the same thing: tracing organizational activities to their consequences and impacts.

1.2 Addressing Business Concerns

Business management is skeptical about accountability, especially the CSR version of it as outlined above (what we call “mainstream CSR”). *The Economist* (2005) published a survey arguing that all monies spent on social activities of “mainstream CSR” were not only a drain on money from shareholders’ pockets, but also a distraction of management time, attention and energy. Not only *The Economist*, but also liberal intellectuals favorable to social issues, feed a culture of strict economic accounting which takes into account only the financial bottom line of an organization, irrespective of how that bottom line is obtained. This section is meant to address business skepticism about the wider responsibilities of corporations by arguing that corporations—and also public administrations—may not play by the very rules they are proud to share: open market

competition and profit-making. This argument is developed in the course of the first two parts of this book.

To counter the view that corporations have no responsibilities other than their financial bottom line, we show how this bottom line contains a variety of impacts that are not usually accounted for in standard corporate documents. For instance, if a study of a corporation's economic performance was based only on profits and stock valuation, many utilities would be praised as profitable. This is relevant to CSR, accountability and sustainability analysis because accountability analysis is the operation whereby – like in the coffee shop example – the question is whether a utility that is making profits above the market average is taking advantage of its monopolistic position at the expense of its customers. The sustainability report is not necessarily a window into the good deeds of an organization. In a responsibility report, a company gives an account of the competitive context in which profits are earned. There are differences between a company that is subject to international competition, one that has a dominant market position, and a utility that is, in most cases, a monopoly.

Skepticism towards CSR is widespread not only in privately held businesses but also in organizations that have some involvement with the public sector, as would be the case for a foundation working on a language dictionary with government subsidies. For these kinds of organizations it would be even more appropriate than for private companies to draw up a responsibility report since they should give an account of their use of public funds, which are appropriated through a more complex process than the purchase of goods from a business. A responsibility report raises its gaze from the internal operations of a government organization– or of a corporation– towards the wider impact of that same organization on the economy and society. The report is about the disclosure of information and the taking of responsibility. Seen this way, the report appears less liberal than mainstream CSR has it.

In a competent sustainability report, a company can extend its sights beyond shareholders to consumers and society at large. In fact, it is not uncommon that anti-trust and energy regulators find that prices of energy products are high while the quality of service is poor. In its sustainability report, a manufacturing corporation might provide information about voluntary trade agreements that keep competitors out of the country. Or

the same company might give an account of possible government subsidies received for some special purpose, like the development of a depressed area of the country. Or the same manufacturer might provide data about quality checks vis-à-vis a competitor's products. In an accountability report, a bank might indicate the share of its deposits from government agencies, which would be a key fact about the bank were it to be acquired by a market-oriented giant. It is possible that, at some point in the social and economic context of specific organizations, this kind of information is considered confidential; but it does not need to stay that way forever. Financial statements have evolved over time. The very idea of accountability is one that voluntarily moves the boundaries of confidentiality, and competition is also moved to other—more substantial—areas of activity, benefiting all parties involved.

Another criticism of accountability reporting contends that the information provided in the reports is somehow “sweetened”. This is often the case. It is clear, however, that what is interesting in a responsibility report is the content that could have been included but was not. It appears that there are opportunities for accountability and sustainability reporting that are not currently being taken up. It is a general finding of communication theory that what is communicated reveals something of the communicator about which the communicator himself may not be aware. Even if an organization is not truthful about itself, the very act of communicating, of writing a report, reveals something more about the organization than the organization itself meant to communicate. In other words, we contend that by analyzing responsibility reports we can discover 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 and Kakabadse, 2007). The reluctance of organizations and individuals to open themselves is no secret (Niskanen, 1968), nor does it carry any particular stigma. The thesis about revealing relationships found normative explication in the two-way model of communication (Grunig et al., 1995), which established a symmetrical relationship between the parties involved. Finally, and waxing a little poetic, theater was the first form of communication explicitly meant to elicit sentiments and truths out of unaware parties. Shakespeare 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...". Hamlet presents his purpose to have a play represented whereby a person is killed in the same way his uncle killed his father; this way—should his uncle be shocked by the performance—Hamlet will find out the truth about the death of his father. This literary example says that through the representation that organizations give of themselves in accountability reports, we can understand their social responsibility.

1.3 Propositions: The Value of Competition

Competition is a driver of accountability and responsibility. A latent energy lies at the heart of the economies of the world: that energy is the positive value of competition by which about three billion people pursue their daily occupations. Being subject to competition, they are accountable for their work. Around half a billion of those employed in the same economies are less accountable to positive social and economic forces: those who are employed in regulated industries, monopolies and public administration. However, tapping that energy of competition is a difficult task as competition is a tricky force, feared by the 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, organizations subject to competition—and all those working for them (employers as well as employees)—fail to bring the positive value of competition to bear in the economic and political arena, thereby failing to turn their weaknesses—being subject to competition—into an opportunity: the possibility to ask that all the employed be subject to a form of competition or accountability. This predicament delivers a deficit of meritocracy in the economy, a deficit of effectiveness in the action of public administrations, and lack of efficiency in protected and regulated industries. This phenomenon points to a new inequality in the world: inequality in working conditions. The end result is an overall weakness in the economies affected by such deficits, a competitive disadvantage. This new inequality is no less pervasive and deeper than other inequalities; as much as discrimination by race, gender or other, this new inequality violates the basic human right of equality. Broadening the concept of competition to all sectors of the economy, this book also shows in practice how to do analyses