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Defining Corporate Social Responsibility: A Systems Approach For Socially Responsible Capitalism

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Submitted to the Program of Organizational Dynamics in the Graduate Division of the School of Arts and Sciences in Partial Fulfillment of the Requirements for the Degree of Master of Philosophy at the University of Pennsylvania

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Abstract
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Many of the concepts in the proposed definition are commonplace amongst CSR practitioners and organizations, the validations for the key segments – production and distribution of wealth, stakeholder management, ethical systems, sustainable management practices – coupled with the application of a systems approach and other business practices make the definition unique and conclusive. An in depth review of the definition and supporting concepts will provide the needed vision and knowledge to enable corporations to successfully manage CSR strategies.

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ABSTRACT

Although the concept of corporate social responsibility (CSR) has been advocated for decades and is commonly employed by corporations globally, agreement on how CSR should be defined and implemented remains a contentious debate amongst academia, businesses and society. This gap is problematic for corporations because they are increasingly being required to align with societal norms while generating financial returns. In order to remedy this problem, the following definition is presented: corporate social responsibility is a business system that enables the production and distribution of wealth for the betterment of its stakeholders through the implementation and integration of ethical systems and sustainable management practices.

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In 2003, I approached Dr. Russell Ackoff to be my advisor for an Independent Study to explore the trends in corporate social responsibility and analyze then current applications by corporations to employ CSR practices. He agreed and I began to learn that working with Russ Ackoff would be the most difficult, yet academically rewarding experience in my life. The definition presented in this thesis was created due to his failure to accept anything other than an original academic creation. The original definition I created while working with Russ during this period is the foundation for this thesis. Over the following seven years, I have conducted exhaustive research and analysis based on the principles instilled in me by Russ for the pursuit of excellence and creating a unique body of work.

It is essential that I thank my wife, Monica, who has endured my continuous graduate studies since 1998. Her support and role as my proofreader has allowed me to pursue and meet my learning objectives, which I am grateful for.

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THE CONTROVERSY OVER CORPORATE SOCIAL RESPONSIBILITY

The concept of Corporate Social Responsibility (CSR) began in the 1920s; however, due to the Great Depression and World War II, it failed to become a serious topic amongst business leaders until the 1950s. CSR found itself in the spotlight in 1951 when Frank Abrams, chairman of the board for Standard Oil of New Jersey, published an article in *Harvard Business Review* where he stated that is was business' obligation:

> to conduct the affairs of the enterprise to maintain an equitable and workable balance among the claims of the various directly interested groups, a harmonious balance among stockholders, employees, customers, and the public at large (Frederick, 2006).

In 1953, Howard Bowen made the first significant scholarly contribution by publishing the book, *The Social Responsibilities of the Businessman*. Here he proposed the CSR definition as "the obligations of business to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society (Bowen, 1953)." Over the subsequent decades, CSR definitions, practices and adoption of CSR expanded immensely. Philosophies such as management as a trustee, Christian ethics and the balance of power between business and society were popularized (Frederick, 2006). A commissioned study by the Committee for Economic Development in 1970 contributed a paradigm shift into the CSR debate by recognizing that a balance between social and economic interests was a necessary factor. The 'enlightened self-interest' model enabled CSR to become more widely accepted by businesses. A theoretical model had not been accepted until Carroll (1979) developed the corporate social performance (CSP) model whereby CSR, social issues and corporate social responsiveness were considered the leading philosophy for corporations to behave in a socially responsible manner. Although the CSP model advanced CSR philosophies, it was not able to gain widespread application because it lacked the ability to measure and test the model.

Evolution continued when academics and businesses started to focus their CSR initiatives toward business strategy. During this period, the role of stakeholders rose to prominence in the CSR debate due to contributions by leading academics such as Peter Drucker (Lee, 2008). The view that stakeholders' importance to corporations compared to shareholders was a contradiction to Nobel laureate Milton Friedman’s beliefs that "there is only one responsibility of business, namely to use its resources and engage in activities designed to increase its profits (Friedman, 1970).” The inclusion of strategic philanthropy, innovation, environmental sustainability and transparency demonstrate how diverse and far-reaching CSR has become embedded into management strategy. And most recently, corporate financial performance and the measurement of CSR activities is causing corporations to understand the strategic value of CSR through the realization that the implication to a business’ operations is essential (MIT, 2011).

Archie Carroll is widely respected amongst CSR scholars for his contribution of a four-part definition of CSR. First, consistent with the capitalist economic view, a corporation must generate profits in order to operate. The corporation must also abide by the laws within the countries that it operates. Carroll believed that operating legally was not sufficient and that corporations have an obligation to society to act ethically as well. The fourth part of the definition also relates to the importance of societal impacts, which he referred to as discretionary responsibilities such as philanthropy. Yet even with the definition Carroll proposes, he realizes that it is ambiguous (Masaka, 2008):

> The term [social responsibility] is a brilliant one; it means something, but not always the same thing, to everybody. To some it conveys the idea of legal responsibility or liability; to others, it means socially responsible behavior in an ethical sense; to still others, the meaning transmitted is that of “responsible for,” in a causal mode; many simply equate it with a charitable contribution; some take it to mean socially conscious; many of those who embrace it most fervently see it as a mere synonym for “legitimacy,” in the context of “belonging” or being proper or valid; a few see it as a sort of fiduciary duty imposing higher standards of behavior on businessmen than on citizens at large (Carroll, 1999).

Marcel van Marrewijk (2003) believes that organizations should have a definition based on the stage of development, awareness and ambition of each organization rather than a “one solution fits all” approach. This is ill advised because it exacerbates the problem of corporations having great difficulty implementing programs that can be managed and measured effectively. Furthermore, in a time where organizations are implementing programs for the measurement of their CSR activities, such an approach allows for too many levels for CSR. van Marrewijk’s theories are best applied for corporations that need a roadmap for developing a successful CSR strategy.

William Frederick has written extensively on the subject for decades. With books and many academic journal articles having been published by

Frederick about CSR, he openly states that an accepted definition does not exist by stating "the actual meaning of CSR has dogged the debate from the beginning." He adds, "The moral underpinnings of CSR are neither clear nor agreed upon (Frederick, 2006)."

The failure to have a universal definition has been reviewed and debated by scholars. Perhaps the most compelling and comprehensive research regarding the lack of a definition for CSR analyzed 37 of the most commonly used definitions. The definitions (see Appendix A) were identified through a literature review of journal articles and web sites, content analysis of five dimensions of CSR (see Table 1) and the use of Google to calculate the relative usage of each dimension. The analysis concluded that although there are many similarities between the 37 definitions, the definitions do not provide guidance on how the dimensions should be balanced against one another for decision-making (Dahlsrud, 2006). As a result, the dilemma facing businesses is less about what definition to follow, but finding a definition that can be universally applied.

The International Standards Organization (ISO) has created an international standard for the social responsibility of private (corporate) and public sector organizations. ISO 26000 establishes seven core subjects of social responsibility, all of which are parts of most current CSR definitions:

- Organizational governance
- Community involvement and development
- Human rights
- Labor practices
- The environment
- Fair operating practices
- Consumer issues

Table 1. The Five Dimensions

Dimensions	The definition is coded to the dimension if it refers to	Example phrases
The environmental dimension	The natural environment	'a cleaner environment' 'environmental stewardship' 'environmental concerns in business operations'
The social dimension	The relationship between business and society	'contribute to a better society' 'integrate social concerns into their business operations'
The economic dimension	Socio-economic or financial aspects, including describing CSR in terms of a business operation	'contribute to economic development' 'preserving the profitability' 'business operations'
The stakeholder dimension	Stakeholders or stakeholder groups	interactions with their stakeholders' 'how organizations interact with their employees, suppliers, customers and communities'
The voluntariness dimension	Actions not prescribed by law	'based on ethical values' 'beyond legal obligations' 'voluntary'

Source: Corporate Social Responsibility and Environmental Management (Dahlsrud, 2006)

The seven core subjects are in effect heuristics for a corporation to follow, which can be valuable for corporations to create programs around the areas ISO believes CSR should represent. This practice is consistent with other ISO standards to aid corporations with improving processes and implementing compliance programs.

The seven core subjects have a substantial focus on stakeholder management and ethical behavior. The standard may provide some useful guidance corporations can leverage; however, there are a number of shortcomings. A significant flaw is that the standard attempts to create the same guidance for private and public sector organizations. Simply, the purposes of private and public sector organizations are vastly different, so although there may be some commonalities between them, there are too many factors that would be critical to each group that are omitted. For corporate social responsibility to flourish, ISO 26000 needs to include management functions that most academic research, businesses and definitions regard essential for effective CSR. For instance, even though it has been widely established that profit is necessary for CSR, by the nature of the private sector institution, profit does not even exist. Business strategy has been recognized as a CSR requirement, yet the standard proposed largely ignores how key management practices can be utilized. As a result, ISO's guide is not comprehensive enough for corporations to achieve all of their CSR objectives, which fundamentally makes it of limited value for global corporations (ISO, 2010).

The increase in the attractiveness of CSR activities can be demonstrated in a host of surveys amongst global business executives. In a study by McKinsey and Associates (2006), executives stated overwhelmingly that corporations must balance shareholder needs while making contributions that benefit society. Most even disagree with Friedman's assertion that companies' sole responsibility is to shareholders. CSR is viewed as a means to manage complex sociopolitical issues businesses face and reduce risk for their organizations. The range of issues affecting their organizations is overwhelming, which include challenging subjects such as climate change, health care and ethics practices.

The Business for Social Responsibility (BSR), a leading CSR organization, conducts a survey with Cone, LLC, a strategy and communications agency, of CSR professionals globally. As CSR professionals managing these activities daily for their companies, non-governmental organizations (NGO), academic and governments, their experience can provide a different level of insight. When asked what is driving the CSR agenda today, only 8 percent expect to have their sustainability budgets decreased (BSR/Cone, 2009). Furthermore, 72 percent of the respondents believe that more demand will be placed on businesses to solve societal problems. There is also a strong belief (77 percent) that global businesses will integrate CSR into their strategies and operations over the next five years (BSR/Cone, 2008).

Edelman, an American public relations firm, surveyed over 5,000 college-educated individuals in 23 countries that are the top 25 percent highest compensated amongst their peers. The annual Edelman Trust Barometer report further supports that the global business community sees CSR activities as a requirement. A corporations' reputation is based on key factors such as transparency, honesty, whether it treats employees well and is a good corporate citizen. These factors explain why financial services are considered to be the least trustworthy in the United States and United Kingdom due to the havoc that was created as a result of the recent financial crisis. A primary conclusion of the report found that profit and the purpose of the corporation must benefit society (Edelman, 2011).

The studies by McKinsey, Edelman and BSR support the growth trends and exemplify the need for a CSR definition and framework to support global consensus. But adding to the confusion businesses are experiencing is that there is no definition that is universally accepted. Well-respected academics on CSR have provided thorough insight and analysis that has helped organizations understand the complex topic over decades; however, the fact is that there is still not widespread acceptance. This dilemma allows for ambiguity and major challenges for implementing universally accepted CSR programs.

In a sampling of global corporations' CSR philosophies and practices (Appendix B) show the lack of consistency within geographies and industries. The sample was drawn from the Fortune Global 500 annual listing of the largest corporations in the world by revenues. Companies were selected to represent a variety of industries (e.g., petroleum and financial services) in every continent[1], developing (e.g., China and India) and developed economies (e.g., US and Japan) and diverse political climates (e.g., democracies and autocracies). Many of the corporations reviewed use sustainability instead of the term CSR. Even within corporations that use common nomenclature, how they manage their programs

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[1] The only exception for inclusion of a company outside of the Fortune Global 500 list was the inclusion of South African Airlines because there were no African nations on the list. It must be noted that it is not assumed that the sampling is not representative of all Fortune Global 500 corporations, nor is it statistically valid. The list was randomly generated. Additionally, there are other firms that were selected because they were used as examples of CSR practices within this research document.

and define their philosophies is inconsistent. Even though there were widespread variations, the analysis did uncover that socially responsible behavior is important to all of them in some form or another. The lack of a universally accepted definition allows for too much leeway to pick and choose practices that best suit their corporate agendas.

As evidenced, CSR has gone through evolutions over the decades and has proven to stand the test of time where it is now a well developed management practice and philosophy. More transitions are likely to occur over the following decades. Today, the business and practice of CSR is at its’ pinnacle, mature and robust. The maturity of CSR is further validated by the large number of sustainability reports produced by businesses, mutual funds available to investors, consultants to organizations, trade associations and literature, which continue to grow. It is not recommended that all corporations manage CSR the same way; however, consensus on the core concepts is vital so that CSR can be implemented commonly amongst global corporations.

CHAPTER 2

A NEW DEFINITION OF CSR

Even with a lengthy history, extensive resources, in-depth research and success stories available to business, a universally accepted definition is not available. Due to this dilemma, it is not a surprise that 46 percent of executives agree that there is "substantial room for improvement (McKinsey, 2006)." Furthermore, the number of mishaps by corporations that have embraced CSR, such as BP, Toyota and Enron, demonstrates the complexity of CSR. A failure to gain consensus does not mean that new definitions shouldn't be proposed. In order to remedy the situation, a new definition for CSR must be published to enact global standards and value systems to ensure corporations can be successful. As such, the following provides a definition that is comprehensive and can be broadly applied to allow corporations to achieve their CSR objectives. Corporate social responsibility is defined as a business system that enables the production and distribution of wealth for the betterment of its stakeholders through the implementation and integration of ethical systems and sustainable management practices.

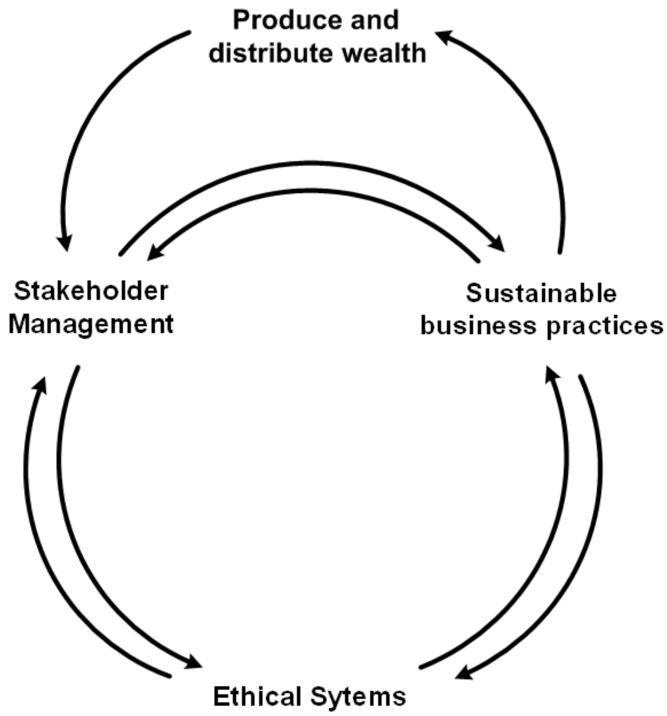
The definition provided has multiple characteristics that are consistent with other definitions; however, as it will be expanded upon in subsequent chapters, there are many important departures and distinctions from current definitions. These differences provide new thought leadership and a deeper understanding of CSR for corporations to achieve their objectives. The key "parts" of the definition include: the production and distribution of wealth, stakeholder management, creating an ethical system and sustainable management practices. Each of the parts of the proposed definition cannot be implemented as individual programs, nor can any be excluded. A systems thinking approach is needed to enable corporations to manage "the interrelationships rather than linear cause-effect chains and seeing processes of change rather than snapshots (Senge, 1990)." The following explains the foundation for systems thinking:

> A system is a whole consisting of two or more parts that satisfies the following five conditions:
> - The whole has one or more defining properties or functions.
> - Each part in the set can affect the behavior or properties of the whole.
> - There is a subset of parts that is sufficient in one or more environments for carrying out the defining function of the whole; each of these parts is necessary but insufficient for carrying out this definition.
> - The way that each essential part of a system affects its behavior or properties depends on (the behavior or properties of) at least one other essential part of the system.
> - The effect of any subset of essential parts on the system as a whole depends on the behavior of at least one other such subset (Ackoff, 1999).

If the parts of CSR (the "whole") are managed separately, critical properties or functions are lost, which causes the system to fail. Furthermore, by improving the parts of a system individually, CSR may not be improved, and most likely will not be improved according to the proposed definition. When applying the concepts of systems thinking to CSR, corporations are able to meet the demands of society and their stakeholders.

The inclusion of systems thinking is unique and a departure from other scholarly and professional works on the subject. Commonly, CSR activities are viewed as distinct parts (e.g. social, economic, environmental, stakeholder) or as linear relationships rather than as an interrelated process. As Figure 1 illustrates, corporations need to take a holistic, integrated approach in order to build a CSR values system that allows the corporation to instinctively behave in a socially responsible manner.

Figure 1. Corporate Social Responsibility as a System



The arrows in Figure 1 demonstrate the flows that influence behaviors between the parts and impact the overall structure of the system. Understanding the interrelationships and processes of change reinforces the system and keeps the corporation’s CSR activities in balance. Producing and distributing wealth, stakeholder management, ethical systems and sustainable management practices managed individually, or excluding one or more of the components, causes the CSR system to collapse. For instance, a breach of ethics is not a sustainable business practice that harms one or more stakeholders and thus, impairs the ability of the corporation to produce and distribute wealth. Managers need to understand the dynamic complexity of CSR rather than the detailed complexity of the parts in order to be successful.

The purpose of the corporation is to produce and distribute wealth to their stakeholders. This proposed position is different than other definitions because they generally use terms such as profit, economic development or commercial success to describe the financial requirement for CSR. The systems approach necessitates that the wealth that is created must be distributed to stakeholders, which is a direct benefit to society. Wealth is distributed by providing financial resources to stakeholders in the form of wages, the acquisition of materials from suppliers, a return on capital and paying taxes for example, all of which are a societal function of the corporation (Ackoff, 1999). The production and distribution of wealth is so essential to corporate social responsibility because without it, the corporation cannot exist, hence, it has diminished all opportunities to create financial benefits for stakeholders. On the opposite side of Figure 1, a corporation that does not employ sustainable management practices will see profits, market share and competitive advantage decline, which influences their ability to fulfill the purpose of the corporation.

Stakeholder (e.g. investors, lenders, employees, consumers, non-governmental organizations, debtors, suppliers and government) benefit is a critical component for effective CSR. The decisions of the corporation generally have a direct impact on one, many, or all of the stakeholders. As such, the corporation needs to recognize the importance of this constituency and consider their needs when executing sustainable business decisions that directly impact the stakeholder. Balancing the diverse interests of global stakeholders has challenges and dilemmas; however, it can be effectively addressed through strategic stakeholder management. When a corporation makes decisions that solely benefit investors, other stakeholder groups are affected. Employees may be terminated to enrich shareholders, which end up having a negative impact on the economy. When profits are the primary motive of the corporation, they may make short-term decisions on environmental practices to reduce costs that can lead to a public relations nightmare as consumers or NGOs voice their opinions. Both of these scenarios are not sustainable management practices and in some people's eyes they are unethical. Managing stakeholders globally is a complicated, necessary part of the CSR system that can bring rewards to organizations that effectively manage those relations.

The creation of ethical systems presents a challenge due to the fact that the definition of ethics is often viewed as subjective. Due to their relationships and interests, stakeholders form a social structure whereby they have defined roles with the corporation, as well as with each other. Within this system, each group is expected and obligated to behave in a manner consistent with their roles, which creates controls within each group that influences ethical behavior. Although it is possible that each stakeholder group will support decisions for corporations to act in a socially responsible manner, the ethical system creates additional controls and safeguards. Integrated Social Contract Theory, corporate policies, transparency and training programs are methods that provide the necessary guidance for corporations to implement ethical systems within the countries where they operate. Breaches in the ethical system have negative impacts on one or more groups of stakeholders and sustainable business practices. Enron is the poster child for the need for ethical systems. They behaved unethically by falsifying financial records (illegal as well) and running up the energy futures markets. Stakeholders were severely impacted by their actions, but the short-term decision making to increase their stock value is what led to the unethical behavior in the first place. The result was the complete collapse of the corporation and its' ability to produce and distribute wealth.

The most widely accepted definition for sustainability is "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs (Brundtland, 1987)." The inclusion of sustainable management practices requires that corporations factor time into their decisions that impact others. Too often corporations make decisions that harm the environment, alter business strategies to increase profits or fail to innovate. These decisions have consequences, such as damaging stakeholder relations, financial losses to the firm and engaging in unethical practices, which in turn impacts the organization's ability to employ a sustainable business model to produce and distribute wealth. The BP Deepwater Horizon incident was a tragedy that had many negative implications. One example was their safety, risk management and environmental practices, which impacted many stakeholder groups, profits and caused BP to behave in a self-serving, unethical manner before and after the disaster. BP is one of many cases demonstrating the importance of sustainable management practices for CSR success and creating benefits for societies around the world.

The parts of the CSR system are clearly interrelated. The core part of the definition presented is derived from the many thought leaders within their respective disciplines, as well as new concepts applied to redefine what CSR means. Together, the definition can and must be applied across global organizations that desire to behave in a socially responsible manner. The proceeding chapters will provide the justification for specific practices, a clear understanding of the significance of the aforementioned key concepts and necessity for the requirement of a systems thinking model. CSR drivers will continually evolve based on societal shifts. As such, any definition must be flexible enough to adapt over time. The framework proposed is flexible to accommodate the continued shifts in CSR priorities that business and society deem fit. By examining the characteristics of the entire definition and how they are intertwined, it becomes apparent that the definition can be used by corporations to serve as an enduring guide to execute a socially responsible values system that achieves their CSR and business objectives.

CHAPTER 3

THE PURPOSE OF THE CORPORATION: PRODUCE AND DISTRIBUTE WEALTH

In the early days of CSR, profits were not part of the CSR concept. Milton Friedman certainly had an impact on the CSR discussion by asserting that profit was the sole motive of the corporation so that shareholders could benefit (Friedman, 1962). Today, although it varies by country, many still support Friedman's view. Another noted economist, Arthur Laffer, largely agrees with Friedman. Laffer largely views CSR as practices that reduce profitability and are detrimental for shareholders. In his research, he determined that "there are some indications from our study that CSR activities lead to decreased profitability (Ethical Corporation 2005)." While the study found that there were CSR practitioners that did outperform those that did not engage in CSR activities, overall the conclusions were not favorable for CSR advocates. Over the years, many studies have been conducted to determine if CSR does lead to improved financial performance. The conclusions have been mixed. Additionally, because CSR lacks a common definition and measurement tools, making comparisons between the corporations and studies is challenging.

Amongst CSR practitioners, Friedman and Laffer's shareholder centric view is not accepted, whereas stakeholder management predominates. Although economic gains are prevalent within CSR definitions, many do not mention profits at all. This is wrong because making money is a core tenet of capitalism for which all corporations function within. Without capital provided by shareholders, entrepreneurism cannot exist (Schumpeter, 1942). Therefore, the role of the shareholder and capital markets is essential for corporations to exist. Profit making should not be seen as a negative, but rather as one of the many functions a corporation must practice to be successful. As long as the debate is about *corporate* social responsibility rather than social responsibility, economics gains are a requirement to practice CSR. A conflict should not exist because shareholders are stakeholders as well and profit is a requirement for corporations to meet their obligations to multiple stakeholders. Additionally, oftentimes other stakeholders (consumers, employees) have investments made in corporations and they expect a profit. Simply, CSR does not need to be a trade-off between profit and societal benefit.

Nonetheless, the profit motive of a corporation is contentious and corporations that do not wish to engage in CSR can focus solely on profits. That is a decision by the business for which they will need to be accountable. For corporations that decide to engage in CSR, generating profit alone is insufficient. As previously noted, a more applicable purpose of the corporation is to produce and distribute wealth for the betterment of its stakeholders. The comparison of profit to the production and distribution of wealth reveals distinct differences in perceptions about the economics of the business. First, wealth is defined as “all property that has economic value” whereas profit is defined as “the excess of returns over expenditure in a transaction or series of transactions (Merriam-Webster, 2011).” When applied to the concept of the corporation and CSR, wealth encompasses many more forms of economic value for corporations and society, such as assets, intellectual property and human capital. Due to the differences, profit is too limiting of a definition for CSR effectiveness.

Adam Smith (1776) in *The Wealth of Nations* espoused the importance of wealth creation for entrepreneurs and corporations. He wrote, “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their own interest.” He believed that there are stakeholder benefits of wealth creation by adding that “by pursuing his own [the entrepreneur] interest he frequently promotes that of the society more effectually than when he really intends to promote it (Smith, 1776).” CSR takes Smith’s philosophies and adds that corporations make a focused effort to create societal benefits rather than as a causation of the actions of the business, both of which result in economic value.

Renowned economist Joseph Schumpeter performed a thorough analysis comparing capitalism and socialism in the landmark book, *Capitalism, Socialism and Democracy*. He defined socialism as an:

> organization of society in which the means of production are controlled, and the decisions on how and what to produce and on who is to get what, are made by public authorities instead of by privately-owned and privately-managed firms (Schumpeter, 1942).

Although Schumpeter philosophically supported socialism, through his rigorous analysis he unequivocally determined that capitalism is superior. As the world looks to solve many problems in developing countries and societies that do not support capitalism, Schumpeter’s work provides great insight why capitalism is superior and that it is necessary for CSR in order to produce and distribute wealth.

The view that profit is insufficient as the purpose of the corporation is not just an economic argument, but is supported by the leading management gurus of our time. Drucker (2008) stated, "Profit is not the explanation, cause or rationale of business behavior and business decisions, but rather the test of their validity." Drucker’s view is profound. By making such an assertion, he adds a much deeper meaning about what the ultimate function of a corporation is. This insight is important for managers of businesses when making decisions that are short-term, financially driven. Seeking profit without engaging in management practices that focus on the long-term, engaging in unethical behavior and excluding key stakeholders is decision-making that limits the corporation’s ability to be sustainable, which can ultimately lead to the death of the corporation and it's ability to fill their purpose, let alone generate profits for shareholders. Hence, profitability is a fundamental constraint of the business that is required to perform in order to survive, endure or grow. In two separate studies of long-lived corporations, “more than profit” and “survive and thrive” were essential beliefs of the organizations and allowed them to execute sustainable business models (Beinhocker, 2006).

Similar to Drucker’s observation, Charles Handy (2002) provided a metaphor by noting that eating is necessary for living, but no one would state that eating is the purpose of life. Handy believed that “the collective actions of the stakeholders are how corporations are formed and maintained so that they can make greater contributions to society (Handy, 2002).” He is not dismissive about the importance of the shareholder either. His view is that a better term for shareholders is investors because they generally only care about how much money they can make. Much of the position Handy takes is guided by history. As organizations have evolved since the Industrial Revolution, a corporation's role in society has become much more important and complicated. Societies around the globe have much greater influence over the activities of the corporation, so being beholden to investors and ignoring other stakeholder groups is detrimental to the survival of the business in the long-term.

Michael Porter, who was made famous amongst business leaders and academics when he published *The Competitive Advantage of Nations* has recognized the over emphasis on short-term decision making to create profit as well. Porter asserted a similar position to Smith:

> By providing jobs, investing capital, purchasing goods, and doing business every day, corporations have a profound and positive influence on society. The most important thing a corporation can do for society, and for any community, is contribute to a prosperous economy (Porter & Kramer, 2006).

He sees business people that subscribe to this belief as old-fashioned capitalists and that too many CSR leaders are the exact opposite, which has created tension between business and society. As a result, Porter coined the phrase "shared value" to manage the conflict between CSR and corporate self-interest. By creating shared value, organizations can employ capitalist principles to drive innovation, productivity gains and selling in developing countries to raise living standards. Porter argues, "the purpose of the corporation must be redefined as creating shared value, not profits per se (Economist 2011, March 12)." In order for corporations to be successful, they must embrace stakeholder management and sustainable management practices. He recommends corporations create market ecosystems for the developing world, engage actively with non-governmental organizations (NGOs), regional governments and create industrial clusters. Porter's philosophies clearly align with the many concepts provided here within.

The capitalistic principles of the proposed CSR definition demonstrate the influence such practices can have in non-capitalist economies. The conflict in Islamic nations is troubling on many fronts. Many have argued that Islam itself has stifled the adoption of capitalistic principles such as adopting new technologies and Western economic models. The result has been poor productivity amongst its workforce, a lack of foreign investment, a failure to produce scientific patents and restrictive trade policies. The unrest in Egypt, Tunisia and Libya is largely attributed to these issues and a large population of unemployed youths. However, countries like Turkey and the United Arab Emirates (UAE) have effectively managed the balance of capitalism and Islam. Their societies have greatly benefited as a result. And even though there is much chaos in Egypt and Tunisia caused by corruption and cronyism, education and gross domestic productivity (GDP) has risen, just not close to the levels of Turkey and UAE. Embracing capitalist systems would open their markets, lower trade barriers, bring about government reforms and remove price controls which can further drive the institutional changes needed to produce and distribute wealth. Both Indonesia and Malaysia are Muslim nations that opted to join the global economy. In less than 30 years, GDP per person grew by almost six times and improved living standards for people that were largely rural and poor. These economies have not embraced democracy because they are one-party states; the government-led economic reforms have enabled them to participate in global capitalism (Cassidy, 2011). Without capitalism, corporations within these countries will be ineffective in adopting a CSR strategy.

China is another Asian economy that has seen the benefits of capitalism. As a communist government, it operates state-directed capitalism, which is similar to the policies of Indonesian and Malaysian governments. In 1988, the Chinese government allowed private companies to be established, which has in turn created wealth for people that previously were poverty stricken. Many new small and large businesses have become the manufacturing arms for large Western corporations, as well as creating their own products for the local market. Although the largest corporations are state-owned, they are proving to be fierce, global competitors. Like most developing countries that participate in the global economy, barriers created by their governments and the need to enact market reforms slows their progress. However, entrepreneurism is growing and many of the Chinese people see their living standards continuously improving. As China increases the consumption of goods, it will further empower their people to produce and distribute wealth production for the betterment of its stakeholders (*Economist*, 2011, March 12).

With 4 billion poor people in the world, many of which reside in aforementioned Middle Eastern, North African and Asian societies, the economic opportunity for corporations is immense. By practicing “inclusive capitalism”, corporations can grow markets and profits while simultaneously improving the conditions of mankind. It is exactly this that the CSR definition proposed seeks to accomplish. Benefits that can be realized include reducing poverty and social decay, political chaos, terrorism and environmental degradation, all of which are likely to be pervasive as long as the income gap between the rich and poor exists. Corporations that embrace the production and the distribution of wealth will not only demonstrate a capability to successfully practice CSR, they will do for humanity what no other institution can provide.

Most of the world's largest corporations operate in developing countries; however, they generally continue to fail to produce and distribute wealth within these nations. The research and conclusions by C.K. Prahalad of the University of Michigan and Stuart Hart of the University of North Carolina (2006) believe that the problem is not an ability of corporations to tap developing markets; it is the way in which they conduct business at the "bottom of the pyramid" that creates the dilemma. This occurs because they implement strategies for the developed market in developing countries, such as selling them products that are not appropriate for their consumption. The following false assumptions are limiting corporations' opportunity for growth and engaging in CSR on a global scale:

- The poor are not our target consumer because with our current cost structures, we cannot profitably compete for that market.
- The poor cannot afford and have not use for the products and services sold in developed markets.
- Only developed markets appreciate and will pay for new technology.
- Developed nations are not to the long-term viability of their organizations. Instead, governments and nonprofits can service their needs.
- Managers are not excited by business challenges that have a humanitarian dimension.

- Intellectual excitement is in developed markets and it is hard to find talented managers that will work in developing markets (Prahalad & Hart 2006).

In the developing world, landline telephones are often unheard of because of the large infrastructure costs for building them. The result is that it is estimated that there are approximately 4.6 billion mobile phones in use today (Economist, 2010, January 2). As such, mobile phones have quickly become the technology choice for the developing and emerging markets. In Brazil, Russia, India, China and Indonesia (BRICI countries), there are 1.8 billion mobile phone users, whose uses include obtaining market pricing for farms products and advice for crop planting (*Economist*, 2010, September 4). In Sudan, a company called txteagle, leverages mobiles phones to break down jobs into small tasks and sending them to many people in remote areas where local knowledge is needed, is too inaccessible or cost prohibitive. The person performing the job gets paid through a mobile money service. The Internet enabled phones can also be used for the delivery of information that traditionally would have been performed by traditional news sources. Because large global corporations too often follow Prahalad and Hart’s “assumptions,” they miss market opportunities and the chance to create societal benefits in emerging markets.

Producing and distributing wealth at the “bottom of the pyramid” is not a concept that is unrealistic, as there are a variety of examples in existence today. Frugal innovation is a term that is becoming more commonplace to service the needs of developing countries. The concept is quite basic. Lesser technologies are created to provide a much needed product at a fraction of the cost of a traditional product. Similar to land line telephones, electricity requires major investments to build the infrastructure. Due to the costs and difficulty for building the network, over 1.5 billion people do not have access to electricity. Many technology firms are creating products using solar-powered systems, such as lanterns. Biomass is being studied as a power source for “micro-grids” that can power a village. To help farmers with refrigerating milk, researchers are working on a generator powered by cow manure (*Economist*, 2010, December 4). Additionally, the added benefit of such innovations is that they are using much better environmental practices.

For global corporations seeking to produce and distribute wealth for the betterment of their stakeholders, a number of examples exist. Pharmaceutical giant Novo Nordisk has had great success combating diabetes in developing countries, especially China where it has 70 percent market share. Although much was learned by Coca-Cola by making mistakes in emerging markets, the company now employs a long-term strategy on water consumption, the core ingredient in their products, by engaging the local community to improve the efficiency of their operations. GE has taken frugal innovation to their medical imaging products. The technology was originally developed for India and China, but now it is also sold in developed countries (Barton, 2011).

The shareholder centric view is problematic as a form of capitalism, and even more so for CSR. It is not that profits for shareholders are undesirable; it is just too limited when the purpose of the corporation is to enable the production and distribution of wealth to stakeholders. Leading economists and management experts agree that profits alone are not acceptable purposes of a corporation. When corporations are producing and distributing wealth, stakeholders of the world's societies clearly benefit.

As evidenced by the many examples, corporations are an integral part of global societies and have proven to eradicate poverty and raise the standards of living for billions of people. Much of this has even taken place in Islamic and Communist countries by joining the global marketplace. The shift to better service the economic and societal needs of the global population can only be performed when corporations focus on achieving the production and distribution of wealth in all markets. Of course wealth creation is not enough to effectively practice CSR. By including stakeholder management, ethical systems and sustainable management practices as a system, CSR according to the proposed definition can be achieved.

CHAPTER 4

STAKEHOLDER MANAGEMENT

The term stakeholder as it relates to the corporation was created in 1963 as "those groups without whose support the organization would cease to exist (Freeman, 1983)." As will be evidenced within this chapter, the concept of stakeholder management is a well-established premise for effective corporate social responsibility by scholars for decades. It was also prevalent amongst the sampled global corporations in Appendix B. Stakeholder management argues that stakeholders are interest groups who affect, or in turn, are affected by the corporation (Freeman, 1984). Abrams described the concept as “directly interested groups, a harmonious balance among stockholders, employees, customers, and the public at large (Frederick, 2006).” Bowen and Carroll used broader terms like “societies” and “citizens” in their definitions. In Dahlsrud’s (2006) analysis of 37 CSR definitions, the stakeholder and social dimensions were the most agreed upon concept. In regards to the purpose of the corporation being the production and distribution of wealth for the betterment of stakeholders, economists like Smith and management thought leaders like Drucker and Porter agree that stakeholder management is required for economic success.

Due to the established widespread consensus of economic principles established in Chapter 3, the more contentious issues are who are the appropriate stakeholders and how to best manage them. However, that alone would not be sufficient. The definition proposed here within requires a systems approach. The ethical systems and sustainable business practices of the corporation as they impact stakeholders' presents additional challenges that this body of research shall present a solution for. Ackoff (1974) argued that by supporting and interacting with stakeholders using a systems approach, many social problems can be resolved. In fact, Ackoff and the systems theory scholars are credited with the resurgence of stakeholder theory in the 1970's (Freeman, 1983).

History and the evolution of the corporation explain why stakeholder management has become a necessary function of the business. During the industrial revolution, workers were essentially tools of the business because low skills were largely the requirement of the organization. Workers had no rights, which made them beholden to the corporation and were required to accept abuses. As corporations reinvested profits into growing the business, shareholders became necessary, thus expanding the number of stakeholders. The organization became more complex, which necessitated better management practices and improved conditions for workers. Because the practices employed by the powerful corporations had been abusive, governments and unions sought to fill the gap as well. The industrialization of the developing world provides insight as to why stakeholder management is much less present compared to developed economies.

For Western economies, World War II created another evolution in how stakeholders should be managed – the inclusion of women in the workforce in support of patriotism. Additionally, returning soldiers required more meaning in their work and workers were more educated. In the US, societal change was underway such as the race movement, women's liberation, alienation from work, consumer rights and the environmental movement greatly expanded the need for the inclusion of stakeholder practices. The protesting of corporate practices by employees, customers, suppliers, shareholders and governments inevitably forced corporations to include these diverse groups into their decision-making. “Management was gradually inundated in a sea of purposes: those of the corporation, its parts, the larger systems of which it was a part, and parts of its containing systems (Ackoff, 2002).” It became clear that corporations could no longer serve only shareholders and new business strategies would need to be developed in order to cope with such a complex issue as stakeholder management.

Stakeholder management is guided by two primary models, which are strategic stakeholder management and intrinsic stakeholder commitment. Strategic stakeholder management is guided by improving financial performance through positive interactions with stakeholders. Intrinsic stakeholder commitment assumes that an organization engages in stakeholder relations to improve financial performance as a moral commitment. Empirical evidence supports that strategic stakeholder management is more accurate in real world applications (Harrison & Freeman, 1999). It can be argued that although intrinsic commitment may be preferred by most CSR professionals, if managed as a system with the inclusion of wealth production and distribution, ethical systems and sustainable management practices, both models can produce the same results.

First, it must be understood who the primary stakeholders of the corporation are. Each plays a distinct, and at times an entangled role, in the affairs of the corporation. Freeman (1983) defined primary stakeholders in the “narrow sense” which is “any identifiable group or individual on which the organization is dependent for its continued survival." The primary stakeholder groups include: shareholders (investors) and lenders, consumers and customers, governments, non-governmental organizations (NGOs), suppliers, employees and debtors. Within these groups are segments of the larger stakeholder group. For example, a government can represent local, country, state or agency. The subgroups will not be included in the proceeding pages to minimize the complexity of the discussion, which is especially true when understanding how stakeholders not only change in importance, but the sub-segments vary in their behaviors within different countries.

There is little to no debate as to whether or not shareholders and lenders are stakeholders of corporations. As previously noted, there are many that believe that shareholders are the only stakeholders that an organization has a fiduciary responsibility to. That rationale is rather elementary. The reason that shareholders and investors provide capital to corporations is to make a return on their investment. Furthermore, because 99 percent of holdings by shareholders are speculative (Willard, 2005), short-term and unethical decision-making oftentimes occurs at the expense of other stakeholders and the ability of the corporation to be sustainable. Although synonymous terms may be used to describe different stakeholder groups, stakeholder theorists agree that employees, customers, government, suppliers and debtors are the stakeholders in the "narrow sense" (Freeman, 1983; Ackoff, 1999, Donaldson & Dunfee, 1999). Due to widespread consensus on which groups constitute key stakeholders, the validation for the inclusion of and the roles these groups play in stakeholder management will not be expanded upon for the purposes of this writing.

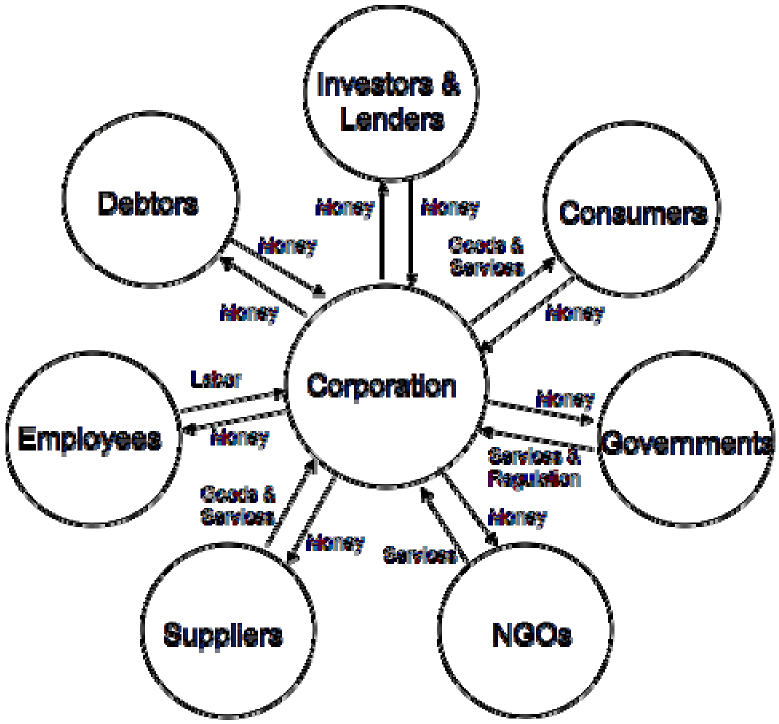
NGOs partner with corporations, as well as influence their activities. Due to this interaction, they need to be managed as a stakeholder of the firm. Traditionally, NGOs were not considered to be stakeholders in a “narrow sense” because corporations were not dependent on the NGO for survival. It was agreed upon by stakeholder theorists that NGOs were classified as stakeholders in the “wider sense” because they influenced a firm's activities (Freeman, 1983). However, today NGO’s are much more than influencers. They are guiding firms and politicians to act more responsibly and are driving sustainable business practices (van Marrewijk, 2003). Some may still consider NGOs as stakeholders in the wider sense, but this is not advised. With over 40,000 NGOs that operate globally and have diverse objectives, which include but are not limited to environmental sustainability, corporate ethics and transparency, human rights and economic development, ignoring their role in society and impact on business is shortsighted. Active engagement with these organizations can help to mitigate risk, provide advisory services on sensitive issues and provide credibility to firms whose activities may be considered to be pursuing business objectives that are in conflict with society.

For instance, the World Wildlife Fund (WWF), a leading environmental NGO, partners with global organizations to help them perform environmental impact assessments, create new technologies and improving business practices. Partners include global corporate behemoths Wal-Mart, IBM, IKEA, Toyota and

HSBC (WWF, 2011). Consortiums of NGOs and business are emerging as well. The US Climate Action Partnership (USCAP) is an alliance of leading NGOs, which includes the Nature Conservancy, the Natural Resources Defense Council and Environmental Defense Fund. Finding the balance between an NGO and corporations can be challenging and must be managed with care to protect the reputations of both organizations. The Deepwater Horizon disaster caused the Environmental Defense Fund (EDF) to look bad because they had collaborated with BP to establish an internal carbon trading system and EDF and BP had campaigned together through USCAP to have a law passed in the US for the emissions of greenhouse gases.

The interactions between stakeholders and the corporation are complex. As Figure 2 exemplifies, the intertwining of the relationships are meaningful and essential for the flow of resources to distribute the wealth that the corporation produces. The creation of wealth is consistent with profiting from the outputs of the corporation. The distribution of wealth is often overlooked, but this facet is required for CSR to be successful. The wealth provided by the corporation generates financial resources for the acquisition of goods and services society depends on. Figure 2 is a simplistic view of the activities of a single corporation. One can imagine all of the interactions the different stakeholder groups have with other corporations and stakeholders that would produce an endless sea of corporation-stakeholder connections.

Figure 2. A Stakeholder View of the Firm



Source: *Recreating the Corporation* (Ackoff, 1999) modified to include NGOs

As markets and businesses evolve, the lines between the various stakeholder groups become indistinct. Investors and lenders are no longer just banks, venture capitalists or large private investors. The insignificant increase in the formation of mutual funds, role of individual investors and popularity of retirement plans have caused corporations to become more accountable to a variety of large and small investors that many times have multiple stakes in the corporation. Ford Motors makes an interesting example of this premise. An employee may own a Ford car with a loan financed through Ford plus have retirement investments in the company. In this example, the individual represents four distinct classes of a stakeholder – employee, consumer, debtor and investor.

Albeit this is a simple example, our global economy presents much larger examples of the investor class. The California Public Employees' Retirement System (CalPERS) is the largest pension plan in the United States. The fund managers for CalPERS have a fiduciary obligation to serve the interests of its investors, regardless of the size of the investment of an individual. Furthermore, because the funds have attracted so much capital, they have exerted enormous influence over businesses and governments (Davis, Lukomnik & Watts, 2006). A variety of investment options exist for shareholders that wish to invest corporations that have demonstrated to be socially responsible, promote environmental practices and engage in philanthropy as well.

The Internet has created many new challenges for organizations, from selling their products to recreating their business models. Stakeholder management is proving to be a great challenge. One of the leading academics and authors on the application of technology and society is Don Tapscott. He provides insights to the challenges businesses are facing by stating, "Business ecosystems' of customers, suppliers, lead producers, competitors and other stakeholders who 'co-evolve' their capabilities and roles (Tapscott, Ticoll & Lowy, 2000)." He added that the Internet would enable:

> Sets of contributors come together to create value for customers and wealth for their shareholders, inventing new value propositions, transforming the rules of competition, and mobilizing people and resources to unprecedented levels of performance (Tapscott et al, 2000).

These statements have never become more evident than today. Blogs, social media and texting have created a tidal wave of new, easy and immediate ways for stakeholders to mobilize, communicate and collaborate in their efforts against a corporation. Information about the firm's activities can quickly be made known, disseminated to others and organize collective responses. Stakeholders will tweet your activities to other stakeholders and Facebook Caucuses will be created to damage the reputation of the corporation, which can lead to financial declines. However, this does not need be a PR nightmare for corporations that embrace Web 2.0 technologies and practice stakeholder management effectively. By taking advantage of transparency, crowd-sourcing and open innovation, Web 2.0 creates an opportunity to better engage.

A contentious area for CSR practitioners regarding stakeholder management is philanthropy. Many corporations give financial or human resources to charities and other non-profit organizations. This can be seen as an effective form of stakeholder management by giving back to the community in which the organization operates. The issue arises mainly from shareholders that believe it is the fiduciary responsibility of the corporation to produce profits so that investors can increase their wealth. The question as to whether or not the managers are acting in the best interests of the shareholders when they allocate corporate finances to non-revenue producing activities is also a frequent debate. The problem is driven by the fact that no economic value may be received from the philanthropic transaction, nor are they required to disclose it. Because of this lack of a requirement to disclose the details, managers could disperse corporate resources to any charity or non-profit that they wish, which may be a conflict with organizational objectives or create a conflict with other stakeholders (Hussain, 2005).

The debate is less about whether or not an organization should engage in philanthropy that benefits stakeholders, but rather how philanthropy should be managed. The solution can be solved two ways. The first is to make public all philanthropic practices so that investors are well aware of where “their profits” are allocated so they can make sound financial decisions and manage the risk of their investments adequately (Hussain, 2005). The better approach is to perform strategic philanthropy because it can create new market opportunities, improve social relations and take advantage of opportunities for innovation (Porter, M. & Kramer, M. 2002). IBM exemplifies how strategic philanthropy can produce and distribute wealth for the betterment of their stakeholders while being directly aligned with their business purpose, which is “to harness the power of innovation in service to the social and educational goals of the broader society.” IBM’s global Rural Transformation and Reinventing Education initiatives tackle important societal problems by providing the knowledge of their workforce and technologies. IBM targets external groups that are most likely to have success, which are not always the ones that are the most in need; employees that get selected to participate are the more talented ones in the firm; the projects get measured like any business strategy; engagement occurs with NGOs and non-profits that are linked to communities to create success; and sustainable solutions must be developed for the recipients that can be also reused for customers (Kanter, 2009). This example demonstrates how philanthropy can be aligned with stakeholders without a conflict of interest arising.

Even with all of the evidence for active stakeholder engagement and management, there will continue to be skeptics and contrarians. Consider the stance taken by Johan Norgberg of the Cato Institute:

> A corporation in its normal activities is something good; something fantastic; something worth encouraging. And this directly contradicts the starting points for many advocates of CSR that a corporation is bad and irresponsible, and they have to compensate for their existence by doing something more than making a profit; by giving something back to the community. On the contrary – when a corporation makes a profit, it is an indication that they have already given something back to the community (Bernstein, 2010).

CSR will likely never overcome all of these contradictory opinions. It will be necessary to evolve CSR principles and practices to adapt to changing market conditions and global public opinion. In 2007, the Academy of Management held a symposium on the future of stakeholder theory. The active dialogue between the participants provides helpful insight for businesses that want to improve their CSR and stakeholder management practices. The four topics of consensus were:

> (a) How the normative underpinnings of stakeholder theory can help the business ethics field by providing ethical insights useful in the processes of managing.
>
> (b) How alternatives to the stakeholder/stockholder debate can provide normative reasons for stakeholder-responsive action where the market fails society (e.g., a market failures/government response approach in circumstances wherein the pursuit of private interest does not lead to an efficient use of society's resources or a fair distribution of society's goods)
>
> (c) How stakeholder theory can provide ideas and frameworks that managers can use to run organizations better
>
> (d) How better theory and methods—whether borrowed from other fields or indigenous to the world of stakeholder scholars—can serve stakeholder theory development (Agle et al, 2008).

Although stakeholder management is widely accepted as a valuable practice by corporations, each of the aforementioned topics in and of its own demonstrates that it is complex to manage and is full of unresolved challenges ahead. Moreover, the problem is largely about how corporations need to enact better stakeholder management practices. Corporations know their businesses best and how to enact programs that work globally. CSR scholars can provide insight and ideas to business leaders, but the challenges ahead require the power of corporations to mobilize their vast resources to drive the needed change.

The proposed CSR definition that affirms 'a business system that enables the production and distribution of wealth for the betterment of its stakeholders through the implementation and integration of ethical systems and sustainable management practices' a systems approach. A purpose of the corporation to generate profits and distribute wealth is required for effective stakeholder management. As the corporation creates value for its stakeholders, the interests of the stakeholders are aligned around sustainable management practices. Ethical systems help intertwine the actions of the corporation with stakeholders that are "sometimes self-interested, sometimes other regarding, and often both motivations are at work simultaneously (Freeman, 2009)." Bridging old models of CSR and stakeholder management may no longer be sufficient. Business leaders need to understand this paradigm and respond appropriately so that societies and capitalism can flourish as one.

CHAPTER 5

ETHICAL SYSTEMS

When ethics are breached, the consequences for stakeholders, wealth production and distribution and corporate sustainability can be severely impacted. Business history has demonstrated the clear need for ethical systems within organizations. The recent financial crisis is largely based on poor ethical decisions because financial institutions were generally operating in the legal framework of governments, but not behaving ethically. Stakeholders were adversely impacted – consumers lost their homes, employees lost their jobs, suppliers' profits decreased, and governments lost essential tax revenue. The failure of Lehman Brothers and Bear Sterns proved that ethical breaches were not sustainable business practices. The crisis caused unheard of amounts of wealth to be destroyed globally. Although the financial crisis presents a worst-case scenario, there are many other examples of ethical breaches that had a negative impact on societies.

Simplistic views of ethics include the Ten Commandments, the Golden Rule, Kant's Categorical Imperative (Ackoff, 1999) or Sharia Law. These "rules" create too many dilemmas for managers; therefore, they are not useful for many decisions. Some managers will say their firms are being ethical by following laws of the countries that they operate in, which is inaccurate and foolish. Ethical violations are complex, especially when taken into a global context. Businesses are faced with corrupt governments, human rights abuses, operations that are not transparent, environmental degradation, consumer health and safety and dubious financial practices. Ethical systems are needed to help guide corporations, especially those that operate globally. An ethical system also needs to take into account the impacts on stakeholders, sustainable management practices and wealth creation so that the corporation can act in a socially responsible manner according to the definition presented here within. In this chapter, the Integrated Social Contract Theory (ISCT) designed by Thomas Donaldson and Thomas Dunfee (1999) will be presented as a model. ISCT is grounded on comprehensive research, incorporates universalism and relevatism, and applies to global corporations. Furthermore, policies, programs and engagement with ethically focused NGOs that provide safeguards against unethical behavior will be reviewed to act as a practical guide that corporations can enact.

ISCT does not attempt to solve all ethical dilemma humans encounter. Rather, it is specific to business for them to create “economic ethics” for the efficient production and transactions of goods and services. There are three core assumptions that guide ISCT by allowing for businesses to create transparency so that they may fully understand the economic system that they choose to participate in.

- All humans are constrained by bounded moral rationality. This means that even rational persons knowledgeable about ethical theory cannot always divine good answers to moral problems without being acquainted with community-specific norms.

- The nature of ethical behavior in economic systems and communities helps determine the quality and efficiency of economic interactions. Higher quality and more efficient economic interactions are preferable to lower quality and less efficient economic interactions.

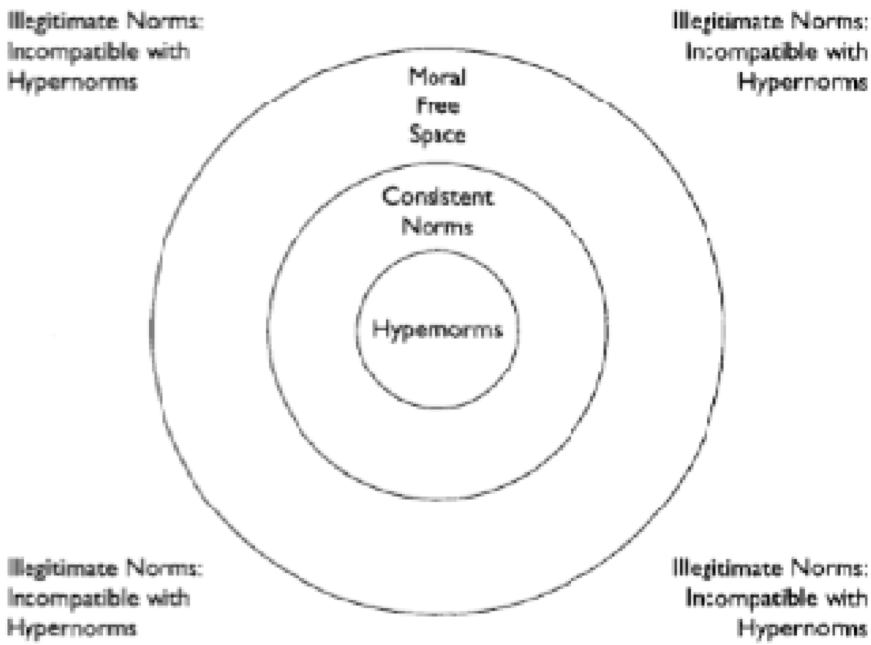
- All other things being equal, economic activity that is consistent with the cultural, philosophical, or religious attitudes of economic actors is

> preferable to economic activity that is not (Donaldson & Dunfee, 2002).

To put the importance of ISCT in context, posing examples where corporations can have immense ethical quandaries sheds light on why it is needed. Bribery is often a point of contention for global organizations. Bribes can be necessary conduct in order to operate in the host country. Although bribery is illegal in many developed countries, it is a normal function of business in the developing world. Is it acceptable to pay bribes? If so, how, when and why should such transactions occur? Likewise, environmental laws are lax in certain countries while very strict in others. Should corporations follow local laws or the laws of their homeland? At a basic level, these questions may or may not be simple, but oftentimes the various nuances of each situation further complicate the ethical economic decisions that managers are faced with.

In order to deal with the distinctions between global ethics, or macrosocial contracts, and national ethics, or microsocial contracts, Donaldson and Dunfee present a path to guide corporations in their decision-making, which also operates within the principles of systems thinking. Figure 3 (Donaldson & Dunfee, 1999b) is a visual representation of ISCT where each concentric circle represents core norms of a culture, corporation or industry. The extensive research performed demonstrates that there is consensus on universal principles that are accepted by all cultures and organizations, which ISCT refers to as "hypernorms." Child labor and corporal punishment of employees would exemplify this and global compacts typically deal with these types of ethical issues. Moral free space allows local communities to establish business ethics based on the collective

Figure 3. ISCT Global Values Map



Source: *Journal of Banking and Finance* (Donaldson & Dunfee, 2001)

between the two. Conflicts that may arise include bribery or religious differences within a society. However, when there is a conflict between moral free space and hypernorms, the hypernorm prevails. Consistent norms are more specific to a culture than moral free space, but do not violate hypernorms, especially when economic cultures are involved. The values, missions and policies of a corporation are most commonly associated with consistent norms. Lastly, illegitimate norms are simply incompatible with hypernorms. As such, any activities by a corporation that breach hypernorms are not permitted for efficient ethical economics.

To better understand hypernorms, Donaldson and Dunfee defined three hypernorm categories that better enable corporations to manage and understand the principles of ISCT. Procedural hypernorms represents stakeholders' rights to engage with the corporation. Individuals or groups must be able to enter in and out of microsocial contracts, which would include the choice to do business with a firm or to leave a job without ramifications or persecution. The concept of structural hypernorms refers to political and social organization to promote justice and economic welfare. The ability to own and transfer ownership of property and assets is a critical element to promote social justice and economic welfare for the creation and distribution of wealth. Lastly, substantive hypernorms may be the most contentious because they are considered "fundamental concepts of the right and good (Donaldson & Dunfee, 1999a)." Social justice is a necessary universal function to ensure cohesion and the survival of communities. Simple concepts of keeping promises and respect for human dignity are human rights all corporations and societies must embrace to create trust amongst their stakeholders. A list of substantive and procedural hypernorms consistent with fundamental international rights are as follows:

- The right to freedom of physical movement
- The right to ownership of property
- The right to freedom from torture
- The right to a fair trial
- The right to non-discriminatory treatment
- The right to physical security
- The right to freedom of speech and association
- The right to minimal education

- The right to political participation
- The right to sustenance (Donaldson & Dunfee, 1999a)

Table 2. Categories of Hypernorms

Type	**Definition**	**Justification in ISCT**	**Source**	**Sample Hypernorms**	**Recognition in Literature of Ethics**
Structural	Principles that establish and support essential background institutions in society	Specification by macrosocial contracts	Microsocial contracts (at the level of economic systems)	The duty to develop and fulfill obligations in connection with social structures that are efficient in achieving necessary social goods	Adam Smith
Procedural	Conditions essential to support consent in microsocial contracts	Specification by macrosocial contracts	Macrosocial contracts	Rights of voice and exit essential to support microscoial contracts	Jurgens Habernas
Substantive	Fundamental concepts of the right and the good	Recognition by macrosocial contracts	Governance of human experience and intellectual thought	Promise keeping, respect for human dignity	Michael Walzer, Chikuro Hiroike, legal doctrine of *jus cogens*

Source: *Ties that Bind* (Donaldson & Dunfee, 1999)

The ISCT decision process is a useful tool for mapping out acceptable behaviors to guide managers (see Appendix C). As previously noted, bribery, or "sensitive payments," is considered a form of corruption for Western societies, but that does not mean corporations do not struggle with the practice. Within these home countries, bribing a stakeholder is illegal; therefore, it would not be performed without consequences to the briber. Conversely, in some developing countries, a small payment to low level officials is required in order to conduct business. The bribery is accepted as a normal practice to compensate the officials for their low salaries. It is speculated that the salaries are low with the understanding that additional compensation will be gained by the briber. The concept is comparable to a waitress in the United States, except in America, they are considered tips. Now consider a large contract for a project is going to be awarded and an employee of the firm issuing the contract or a "consultant" representing the issuing firm requires a large sum of money that will be pocketed. Are both practices illegitimate? Do they breach hypernorms or are they within the moral free space of that nation?

In both scenarios, the person accepting the bribe acted in their self-interest rather than the best interest of the firm they represent. It could be concluded that the bribe recipient acted unethically and it definitely violates a hypernorm. Such behavior is not conclusive unless one understands the moral free space of the community where the violation occurs. For instance, are small sums to low-level officials a societal norm whereas large payments to a business are not? Another element that complicates bribery is when economic efficiency is factored into the equation. Will such payments negatively impact the economic efficiency of the nation? Again, it seems obvious that bribery is economically inefficient. If a transaction cannot occur with clear transparency or penalties for not engaging in bribery, it fails the ISCT test. Unfortunately, by not bribing, corporations can lose valuable contracts to unscrupulous competitors; and ones that may engage in other activities that violate ISCT, such as environmental destruction or human rights abuses. Because the problem is typically created by the host country, corporations need to take a stand by encouraging better local laws and enforcement and cooperating with others in their respective industries to create economic efficiency for all.

The interconnections between moral free space, consistent norms and hypernorms are deep. ISCT also demonstrates why the systems approach to CSR is needed regarding stakeholder management. Not only does ISCT give guidance on how to ethically engage with stakeholders, but is also provides criteria for dealing with conflict between stakeholders. By following the principles of moral free space, local stakeholders can properly define their status so that conflicting interests can be avoided. Additionally, hypernorms act in a similar capacity by mandating the recognition of fundamental stakeholder claims. This is not to imply that managing stakeholders and ethics using ISCT is easy. Corporate practices and government institutions must be in place and aligned with local customs and legal systems; all with ethical economic goals.

There are many tools that corporations can and should leverage to design ethical systems. NGO watchdog groups are increasingly working closely with businesses to deal with ethical dilemmas and promote universal practices for organizations to follow. Working with a host of partners, Transparency International (TI) has created a methodology to assist global organizations to effectively address these complex issues. The integrated approach consisting of internal, external, and collective action is comprehensive and practical. In addition to TI's guide, the organization also produces the corruption perceptions index that ranks countries based on the level of corruption of each country and provides visibility for corporations that desire to operate in different regions. Similarly, Social Accountability International created a standard to certify, monitor and manage labor practice abuses called SA8000:

> SA8000 is based on the principles of international human rights norms as described in International Labour Organisation conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. It measures the performance of companies in eight key areas: child labour, forced labour, health and safety, free association and collective bargaining, discrimination, disciplinary practices, working hours and compensation. SA8000 also provides for a social accountability management system to demonstrate ongoing conformance with the standard (Social Accountability International).

By actively engaging with stakeholder groups, creating an ethical system can be managed much more effectively. Additionally, when issues arise, third party oversight and collaboration with NGOs can help mitigate potential public relations disasters and wealth destruction. With over 2,000 NGOs that are registered with the United Nations, there is not a shortage of assistance for businesses looking to confront ethical issues.

More is required to help drive ethical systems down to the typical worker. Policies are helpful, but often ineffective. Sustainable management practices are necessary to create a corporate culture to avoid ethical lapses with global stakeholders. Managers in the corporation must create values systems and lead by example by exhibiting transparency in their financial and business transactions, rewarding ethical behavior and making commitments to all of their stakeholders. Employees need to be educated on what ethics mean, why the programs are necessary to the viability of the firm, how the employee and companies benefit from ethical practices, and how to deal with conflicts.

BP provides a scenario that brings the academic concepts to a real world situation and better demonstrates the complexity and usefulness of ISCT and ethical programs. Although BP has made many bad decisions over recent years regarding the safety of stakeholders and its environmental impact, including the

Texas oil refinery explosion, leaky pipeline in Alaska and the Deepwater Horizon drilling incident in the Gulf of Mexico, it was once a darling of CSR practitioners. Bribery presents many challenges. When BP first started doing business in Angola, they allowed Angolan officials to enrich themselves because BP made payments to the government, which were not disclosed to other stakeholders. The state of Angola collected the payments through "legitimate" vehicles, such as licensing fees and facilitating payments (to prevent delays in processes), but the failure of the government to distribute the payments into social programs and the disappearance of the money did not allow BP to claim complete innocence either. In 2001, BP made a bold decision by committing to publish oil revenues as part of their transparency policy. Although the decision could have resulted in Angola terminating their contract, which would have resulted in the loss of billions of dollars, BP stood their ground and continued to reveal all payments.

BP created a model for transparency in global business to thwart corruption. Then CEO, John Browne stated, "At some point the dam will burst and the companies who have been party to the authoritarian regime will get swept up in the tide. We want to work in societies that are stable and progressive (Batstone, 2003)." Browne's leadership set a new precedent for the entire organization. BP instituted an ethics code and internal reporting procedures for ethical breaches. Externally, BP demonstrated a commitment to transparency and accountability by being the first oil company to adopt full disclosure practices that were consistent with TI's framework. BP also understood that because the issues were so complex, working with the NGOs Global Witness, the IMF and the

World Bank would could enable them to implement integrated, transparent ethical systems that align with the ISCT's hypernorms and moral free space.

The example by BP in this case also led competitors to begin disclosing transactions. Angola enacted a policy of transparency as a result of BP's actions and pressure from NGOs. Angolan citizens have benefited from the policies, but unfortunately the distribution of wealth to shareholders has been too limited, so many in their society have not reaped the rewards. BP may have performed well in creating transparency and driving ethical systems in this example, but recent history proves sustainable management practices and better stakeholder management globally are vital for BP to be a leader in CSR.

Systems thinking principles are paramount in any discussion of ethical decision-making. By leveraging the ISCT coupled with programs, policies and training, an ethical system can be created. The concepts within this chapter take century old philosophies about the meaning of ethics to create an in-depth understanding for how ethical systems can be created in global organizations. As the ISCT demonstrates, economic efficiency is a necessity for the production and distribution of wealth. Likewise, stakeholder management and ethical practices are completely interrelated; therefore, they must be managed in a way that exposes the direct influences that they have on one another. Ethical practices clearly have an impact on the corporate, environmental and financial strategies of the organization. When the ethics of the organization are compromised, the effects are far greater than a public relations debacle or loss of revenue; the entire

CSR system fails, resulting in destructive consequences for the organization as a whole.

CHAPTER 6

SUSTAINABLE MANAGEMENT PRACTICES

The review of CSR philosophies of global corporations in Appendix C demonstrates that sustainability is frequently used synonymously with CSR. However, these uses oftentimes ignore the importance of the many stakeholder groups and ethical practices of corporations. As such, limiting social responsibility to sustainability is insufficient. As previously noted, the most common definition of sustainability is "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs." In a broad context, this definition is acceptable. Sustainable management practices widen the scope of the definition of sustainability as it relates to the corporation by adding other management principles. Environmental practices, management strategies, long-term financial management and innovation are the key concepts that provide clarity and an ease of application for businesses seeking a comprehensive CSR strategy. Additionally, as it will be validated in this chapter, the interrelationship between sustainable management practices, ethical systems, and stakeholder management enables the corporation to create a viable CSR system.

In 2009, MIT's Sloan Management Review publication performed a study where 1,500 executive and managers (Appendix D) were surveyed to understand the link between sustainability and business strategy. The findings concluded that there is a large focus on sustainability. More than 92 percent agreed that their companies were addressing sustainability in some way. There was consensus on the challenges that sustainability is forcing corporations to deal with, such as the subject is very “complex, interrelated, and secular, and that the corporate sector will play a key role in solving the long-term global issues related to sustainability (MIT 2009).” Most of the firms saw stakeholder management as a key driver that better allows them to comply with government regulations, deal with customer concerns and employee interest in sustainability.

Corporations are struggling with how to implement sustainable strategies. There was agreement amongst most of the respondents that there was no common definition and that improved frameworks were needed to understand the topic better. The sustainability thought leaders from the survey did have ideas for guidance:

- Adopt a broad, systems thinking approach to their business.
- Add scenario planning capabilities to decrease risk.
- Develop tracking, measuring and reporting capabilities.
- Retooling business functions to re-imagine how products are designed, made and used.
- Enhancing capabilities in innovating organizational models and management practices (MIT, 2009).

The findings are clearly aligned with the proposed definition. Furthermore, the financial value (Appendix E) that can be derived by implementing sustainable management practices is essential for the production and distribution of wealth and justifies the cost incurred for measurement.

The second installment of the MIT study was performed and provided encouraging results for CSR supporters. Even with the economic downturn, 60 percent of the companies surveyed increased their spending on sustainability in 2010, with embracers investing more aggressively in 2011. The report divided sustainability focused corporations into two segments, embracers and cautious adopters. Embracers are most often corporations that are larger, industrial-based businesses in expanding markets. They have a clear business case and strategies for sustainability that drives real competitive advantage (see Appendix F). Furthermore, embracers see sustainability as a means to produce wealth by obtaining new customers and increased profits. Cautious adopters are primarily focused on short-term benefits that can be easily measured, such as reducing energy consumption and decreasing waste. Although embracers' and cautious adopters' motives vary for sustainability strategies (see Appendix G), economics, environmental issues and stakeholder management are drivers that directly align with the proposed CSR definition (MIT, 2011).

As the two studies indicate, sustainable management practices are necessary for CSR success. The business strategies that corporations utilize can allow them to thrive or potentially lead them to their demise. With the average longevity of a corporation at 40-50 years, better sustainable management practices need to be employed (Bragdon, 2006). Figure 4 provides a path for corporations to follow by executing a five stage framework, which in turn will enable them to realize their CSR objectives. Cautious adopters have moved from stage 2 and are achieving stage 3 strategies, whereas embracers are creating and implementing an integrated strategy in stage 4. Stage 5 means that the corporation is “continually demonstrating that they can and must be profitable and successful as a business in order to make sustained positive contribution to a regenerative society and environment (Senge et al, 2008).” For firms that have achieved stage four or five, CSR becomes enshrined in the corporate culture and expected by stakeholder groups. As such, a deviation from CSR by stage four and five firms would result in significant ramifications to the corporation.

Figure 4. Five Stages and Emerging Drivers for Sustainability

Source: *The Necessary Revolution* (Senge et al, 2008)

Moving through the stages requires genuine commitment and is not easy. Business strategies are utilized by all organizations at some level. But sustainable management strategies need to be the guiding principles for corporations, and are a requirement for those seeking to become socially responsible. The core values of a corporation need to come from executives, including the board of directors. A corporate culture that aligns with CSR to drive ethical behavior, stakeholder engagement and societal concerns can achieve stage 5. Aspirational values that create a vision for long-term success not only motivates employees, it causes them to think about the future of the organization and their roles. An open culture allows the employees to contribute ideas and understand why the contributions of the corporation and their activities are important to something much larger than themselves, such as society. When CSR values run deep, standards are created within the corporation that transcend to suppliers, communities and countries where they operate (Kanter, 2009).

Management strategies have been practiced for decades and business schools churn out thousands of MBAs every year to teach professionals on the importance of strategy. Sustainability requires corporations to think about the long-term impacts of their operations on society and how to remain in business for centuries. No matter how well a corporation performs planning or whether it employs the smartest people to think about the future, the reality is that they are not able to predict the future accurately. Scenario planning is a requirement to achieve these objectives. The massive amounts of data available that must be collected and evaluated is daunting. Additionally, driving forces that affect society, technology, economies, politics and the environment must be understood. Most businesses will collect and analyze the aforementioned data types and create a business plan that may be short and/or long-term focused. However, one plan is not sufficient. Scenario planning forces strategists to think about multiple business strategies, or plots, to deal with issues that may be revealed unexpectedly. The plots are played out to test their viability and correct the errors that arise. Like any strategy, and especially ones that try to predict the future, scenario planning will not accurately predict every detail, but it will make corporations better prepared to manage uncertainty, deal with a varied set of challenges, reduce risk and ensure their sustainability practices are coherent.

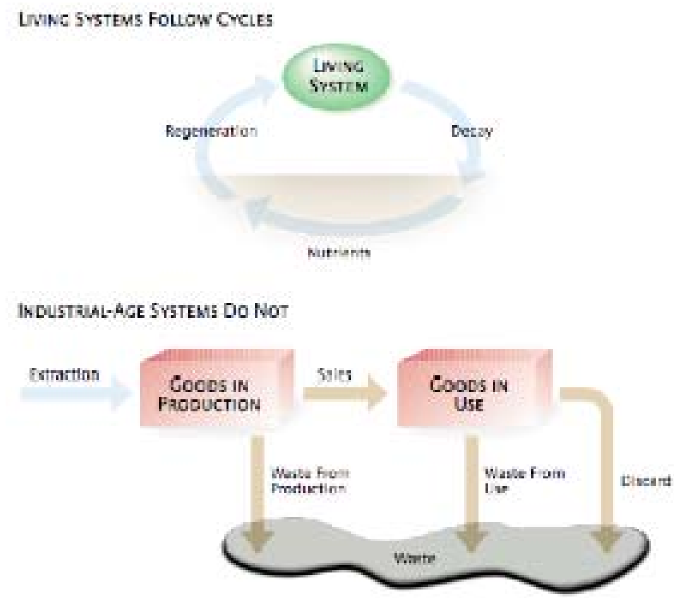
The road to achieving CSR success is fraught with challenges, and is especially true for corporations that have not started the journey. Because the proposed CSR system is considered to be a requirement for businesses, corporations that need to move from stage one to stage two, or stage two to stage three, Ackoff's systems model of idealized design should be harnessed. The core management principle of idealized design is interactive planning, which requires managers to focus their planning efforts on determining where the company wants to be in the future, rather than where the organization is today with planning that tends to be limited to the near-term. Idealized design management practice necessitates a focus on the future and creating an adaptable system, which directly aligns with the sustainable management practices required for CSR.

The first step of idealized design is to "formulate the mess." In order to formulate the mess, management determines how the organization will destroy itself, which in this case is the corporation's failure to engage in CSR. A failure to fulfill the purpose of the corporation, manage stakeholders effectively, produce ethical systems and execute sustainable management practices will destroy the organization over time. Next management performs ends planning to identify the gaps between the current state of the business and future state, which is the CSR vision of the corporation it desires to become. Although resource planning is a common management function, for idealized design the process can be much more complicated because managers are not accustomed to planning for a significant corporate transformation. Regardless, it must be conducted so that the design of the implementation can be used to allocate and schedule the applicable resources. Lastly, the design of controls are developed to determine monitoring of the system and create resiliency to adjust for unforeseen results that scenario planning did not uncover. Idealized design helps managers to not only achieve their CSR objectives, but it promotes a better understanding of the system, enhances creativity, simplifies the planning process and accelerates implementation (Ackoff, 2006).

Financially speaking, in order for a corporation to endure and flourish, sustainable growth is required, which was originally defined in the McGraw-Hill Dictionary of Modern Economics as “a rise in per-capita real income or per-capita gross national product that is capable of continuing for a long time. A condition of sustainable economic growth means that economic stagnation will not set in (Senge et al, 2006).” Not only is economic stagnation bad for companies, it is bad for societies. The productive use and management of capital and resources is crucial. Capital can be categorized into four functions for the organization. By instilling a corporate culture that aligns with CSR, human capital can be optimized for the benefit of the organization. Manufactured capital, which includes infrastructure, factories and technology, facilitates the firms ability to produce assets required to run the business. As pointed out numerous times throughout the research here within, financial capital is a requirement for both the production and distribution of wealth. Additionally, managers must not just use it wisely from an accounting perspective, but also understand how to avoid short-term decision-making to appease shareholders. Lastly, natural capital is the resources provided to man by nature and most associated with environmental sustainability (Hawkins et al, 1999). All four forms of capital are used in industrial systems to create products. It is essential that the management of this capital be used in a sustainable manner.

The environmental degradation caused by humans as a result of our over-utilization of resources cannot persist. Industrial ecology is the “concept of fitting together different businesses in an integrated design where waste-by-products in one become resources for another (Senge et al, 2008).” Figure 5 shows the stark differences between the ways a natural system works compared to industrial systems commonly found today. The damage that is being done to the environment is staggering. And with a global population of over 6 billion people that continue to multiply, and increased levels of economic expansion, businesses must lead the change necessary to avoid environmental catastrophe.

Figure 5. Natural Systems Compared to Industrial Systems

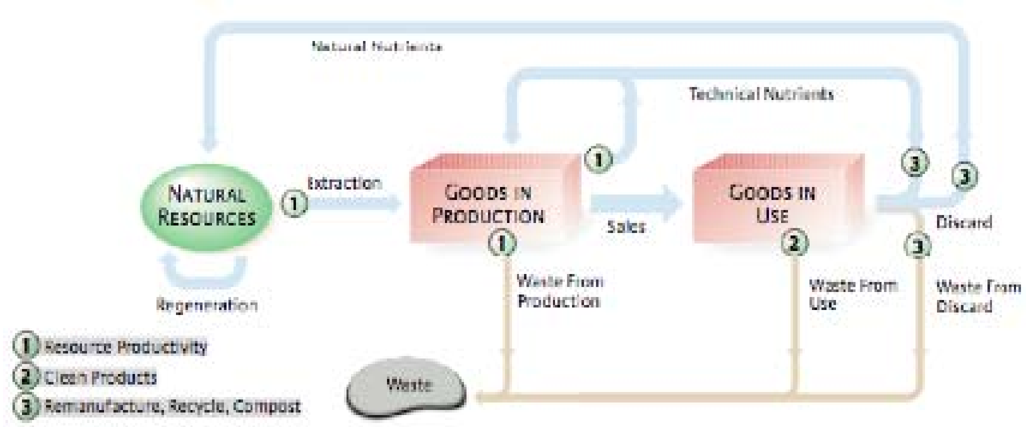


Source: *MIT Sloan Management Review* (Senge & Carstedt, 2001)

Global warming may make for excellent entertainment for political pundits, but the pollution created by business is real. Whether one does or does not believe that global warming is exaggerated, the fact remains that chemicals and pollutants are creating major health issues and environmental degradation. We know that the environment and humans can only absorb a limited amount of toxins before our biological systems deteriorate. These problems are not isolated to one type of industry or country either. Air pollution causes over two million deaths annually (Wargo, 2009). Approximately a half billion people don't have access to safe drinking water (WHO, 2011) and water pollution takes over 5 million lives away each year (About.com, 2011). Simply put, the industrial age systems are not sustainable.

Systems thinking principles can be applied to industrial systems to achieve environmental responsibility. Figure 6 visualizes how such a system works through the biomimicry of natural systems. This is not a novel concept either. Many corporations have designed their products and processes to minimize, if not completely eliminate, the waste created through their activities (Senge & Carstedt, 2001).

Figure 6. A Cyclic Industrial System that Mimics Nature



Source: *MIT Sloan Management Review* (Senge & Carstedt, 2001)

To assist businesses to recreate industrialism, The Natural Step provides a comprehensive strategy that can be used to create biomimicry for the construction ecologically sustainable society. The Natural Step has been successfully used globally for businesses and governments alike. Systems thinking is a core concept for The Natural Step and is leveraged to create the four system conditions:

- Nature is not subject to systematically increasing concentrations of substances extracted from the Earth's crust. The essence of this condition is that societies should use natural materials wisely and reduce our dependence on fossil fuels.

- Nature is not subject to systematically increasing concentrations of substances produced by society. Humans must reduce pollution in the air, water and land by eliminating the use of chemicals and industrial waste.
- Nature is not subject to systematically increasing degradation by physical means. Ecosystems are required to be well managed, such as through responsible forestry and agriculture.
- Human needs are met worldwide. From an environmental context, examples include water management and sustainable food production (Robert, 2002).

In order for corporations to evolve from the Industrial Age, they must embrace innovation. Corporations need to eliminate waste from their production practices, create products that are biodegradable, restore natural systems when possible (e.g. trees, clean water) and use clean energy. Capitalism and sustainability must and can co-exist. A revolution of environmental "creative destruction" that aligns with industrial ecology to drive sustainability will enable such practices. Economist Joseph Schumpeter defined "creative destruction" as:

> the fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets… [This process] incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one (Schumpeter, 1942).

Although innovation must be a management practice for any corporation to survive, for those seeking to employ sustainable business practices, innovation must be a core strategy to create and distribute wealth and improve stakeholder relations. Drucker (1985) also saw the importance of innovation and driving it as a management discipline that can be systematized. Corporations can use management strategies to facilitate the design of new products and establish new markets. Sources for innovation must be sought, learned and practiced. The applications of these principles are what drive successful innovation.

Many corporations have adopted environmental “creative destruction” as a core tenet for managing their businesses. In business terms, industrial ecology is generally referred to as zero-waste-to-landfill or a closed-loop system. Interface, a flooring manufacturer has created multiple products using industrial ecology in an effort to achieve their Zero Mission commitment. Japan’s Ricoh Corporation manages the impact of their entire product lifecycle through their Comet Circle by reusing parts, remanufacturing, closed-loop and materials recycling. When Ricoh is able to reclaim a product from a customer, only three percent of their product has gone to a landfill. In 2010, consumer products maker Proctor & Gamble opened their first zero-waste manufacturing plant in the US and their ninth overall. The Dutch flower industry grows flowers in rock wool and recycles the water to minimize the use of pesticides and fertilizers, as well as reduce costs and improve product quality to drive competitive advantages. Additionally, the industry is furthering innovation to create a “closed greenhouse” that captures heat and reuses it in the greenhouse or homes in the vicinity.

Where some companies are aligning current products with environmentally sustainable management practices, others are seeking to use creative destruction for the development of new technologies. Italy’s Enel Green Power has a diversified portfolio for renewable energy that includes wind, geothermal and hydro power. Renewable energy is excellent for society and the environment, but Enel is executing sustainable business strategies by diversify in the event that one or more of the technologies is not accepted in the market, which is exactly what has happened to competitors that only develop wind turbines.

German, Chinese and US corporations are global leaders in solar power. The price of solar has been the primary obstacle to success, and those costs are continuing to decrease. The industry's primary technology is photovoltaic, which has been advancing rapidly; however, nanotechnology may leapfrog photovoltaic in the coming decades. Tesla Motors, is leading the automotive industry is using innovation for the development of electric cars to reduce greenhouse gases. Tesla is doing what existing auto manufacturers have failed to enact successfully.

In his many writings about systems thinking, the corporation's role in society and re-creating the corporation, Ackoff (1974, 1999, 2002) did not include sustainability as a business requirement. The evidence provided here within proves otherwise. As many businesses are demonstrating, environmental sustainability is a core function of their operations and continues to grow. Embracers are leading the way and cautious adopters understand the importance of sustainability for their future success. Stakeholders are demanding that corporation's behave more responsibly; environmental practices are at the top of that list. Furthermore, the proposed definition of CSR is not limited to environmental sustainability and includes many other essential management practices to drive longevity of the organization. It can be argued that Ackoff's management philosophy of idealized design and Schumpeter's proven concept of creative destruction are synonymous at their core by "incessantly destroying the old one, incessantly creating a new one (Schumpeter, 1942)." Idealized design *is* a sustainable management practice. Due to these facts, the practice of managing a business sustainably must be a core part of the CSR system.

Scenario planning, financial management focused on the long-term, aligning with effective environmental strategies and driving innovation are necessary sustainable management practices; however, taken alone, they are not a prescription for guaranteed success, rather they are proven concepts that should be leveraged. A corporation must execute these programs and build the strategies into a larger CSR strategy. Other sustainable business practices that should be leveraged by corporations include “greening” the supply chain and performing lifecycle assessments to improve processes and stakeholder relations; management principles such as organizational design, recruiting and retaining talent, and organizational learning improve corporate performance and ethical systems; and enforcing behavior through incentives and using technology to monitor and manage sustainability programs improves a corporation’s financial management. However, because each organization is unique, operates in one or more countries, and competes in different industries, there many other means to achieve successful sustainability practices that corporations can consider. As such, in order for a corporation to create a CSR system, sustainable management practices are required because they directly influence the production and distribution of wealth, stakeholder management and implementation of ethical systems. And as substantiated in this chapter, a systems model is key to enabling their CSR goals.

CHAPTER 7

THE SYSTEMS AGE AND CORPORATE SOCIAL RESPONSIBILITY

To demonstrate that CSR is not a fad or newer concept, one needs to reference the origins for what a business means. The word *company* comes from the Latin phrase *com panis*, which means “the sharing of bread.” The original word for *busines*s in Swedish, *narings liv*, means “nourishment for life” and in ancient Chinese it is “life meaning.” Based on these meanings, it could be argued that businesses have lost their way over the centuries and are merely returning to their roots. Society is placing greater demands on corporations and in general, they are responding; albeit some more so than others. CSR as a system are a requirement to transform corporate activities.

The Industrial Age revolutionized every industry, from agriculture to manufacturing and resource extraction to transportation. The innovations during this period had a profound effect on economic development and societies. The destruction to the environment by the Industrial Revolution is now well known. The Machine Age expanded the development of mankind and businesses with technological developments such as the computer, Internet and telephone. The Machine Age fostered the analytical framework of reductionism, which is “the belief that everything in the world and every experience of it can be reduced, decomposed, or disassembled down to ultimately simple elements, invisible parts (Ackoff, 1973).” The cause and effect relationship between parts led to great discoveries, knowledge and solve problems, but it proves to be insufficient for understanding the whole.

The Systems Age is upon us and new models of thinking are needed to prosper. By focusing on the whole, the relationships between the parts and how they affect the whole will create a significant change in the practices of corporations. The corporation is part of a large purposeful system, society. The same is true for CSR, which is a “part” of the corporation. As evidenced in this body of work, the parts, or functions, of CSR – the production and distribution of wealth, stakeholders, ethical systems and sustainable management practices. – “serve the purposes of the system of which they are part of. (Ackoff, 1973).” The parts of CSR cannot be managed independently any longer. Even though many of other definitions of CSR include the same or similar parts, there has not been a purposeful effort to balance the interrelationships of the parts, nor has there been enough thought leadership on how the parts influence each other and the larger system.

The Systems Age necessitates such thinking, which is why the CSR definition presented here within differs from previously documented definitions. The definition contends corporate social responsibility is a business system that enables the production and distribution of wealth for the betterment of its stakeholders through the implementation and integration of ethical systems and sustainable management practices. Scholarly work by leading academics developed a sound foundation for CSR philosophies and practices. Corporations were able to use the concepts to execute socially responsible business strategies.

However, corporations continue to struggle with what CSR means to their organizations and societies. Through trial and error, corporations have learned much about CSR and have improved their effectiveness in executing successful programs, but the positive results have been limited to just to forward looking global corporations.

By affirming that the purpose of the corporation is to produce and distribute wealth to stakeholders, the definition of CSR progresses. Both renowned economists and management experts agree that the role of the corporation needs to be elevated in society for economic activity to flourish. Profits are essential, but the corporation has so many more contributions that it can make to benefit their stakeholders. With over six billion people on the planet, only the corporation can meet societal needs. The principles of capitalism can create and distribute wealth for all countries in every continent if governments are willing to accept proven forms of economic development. Although it is unlikely that capitalism will succeed on a global scale, the CSR definition presented helps to make capitalism less “evil” and more broadly accepted. By integrating the purpose of the corporation with stakeholder management, ethical systems and sustainable management practices, a CSR system is created that generates economic prosperity.

Although stakeholder management is seen as a critical function for corporations to embrace in general, it is difficult for any organization to perform, let alone one’s seeking to employ it as part of their CSR strategies. Integrating the influences of investors and lenders, consumers and customers, governments, suppliers, employees and debtors, plus their many subsets, as part of a CSR system further complicates the challenges for managers. It has been demonstrated that NGOs must be included as a stakeholder due their ability to impact the decisions organizations must make. The diverse needs of these groups can only be realized through CSR. Distributing wealth, ethical performance by the corporation and sustainable management practices improve the ability of the corporation to manage these key constituents globally and create competitive advantage. Social media will continue to be a tool that a corporation can leverage to their benefit, or if they do not effectively manage their business in a socially responsible manner, social media can be the source of major problems. It has also been argued that philanthropy is advised, but optional due to their fiduciary relationship with investors. However, by executing strategic philanthropy, the conflict can be resolved and the many stakeholders groups can benefit. Stakeholder management has deep roots in CSR. The addition of some divergent concepts presented here within provides new insights for stakeholder management to achieve enhanced levels of CSR for global leadership by the corporation.

When taken into a global context, it is fair to state that ethics presents the greatest challenges. There are simply too many areas where ethical breaches can occur, such as human rights, corruption and economic freedom. Whether businesses realize that they do or do not have a contract with society, they in fact do. For corporations that practice CSR, following local laws is insufficient. The Integrated Social Contracts Theory is an essential guide for corporations to utilize for the handling of the many dilemmas managers are faced with. Understanding hypernorms and the moral free space global corporations operate within will enable organizations to create the policies, programs and measurement systems for success. There is little question that ethical breaches by corporations are not sustainable management practices, erode wealth and damage stakeholder relations. As such, it is imperative that these business functions are managed as a part in the CSR system.

The inclusion of sustainable management practices as a part of the system requires the corporation to go beyond environmental sustainability, which the term sustainability is most associated with. However, only performing environmental sustainability is too limiting. Sustainable management practices encompass innovation, long-term financial management and scenario planning to create an adaptable, enduring entity that ensures the business will be able to fulfill its' purpose to produce and distribute wealth for generations. In addition to other the important sustainable management practices recommended, if a corporation has not implemented any CSR practices, idealized design would be necessary to reinvent the way the company thinks and operates.

The environmental degradation by corporations continues to increase. The effects clearly negatively impact stakeholders. Although some will argue that wealth is created by minimizing the expenses by the corporation by using industrial age processes to produce goods, but it is becoming clearer that environmental degradation destroys wealth. Data is continually being produced that shows that the real cost of products is not recognized because stakeholders end up paying for environmental messes in the form of taxes dollars or healthcare costs. Ensuring that businesses minimize their impact on the environment is critical; however, unleashing the forces of creative destruction is the resolution to the problem. Industrial ecology can revolutionize corporate environmental practices, while driving economic value for stakeholders and creating resiliency for the longevity of the corporation. Innovations in renewable energy and creating new business models are other management practices that can produce substantial societal benefits and effective CSR. Sustainability means businesses must understand how their decisions affect societies over generations. Sustainable management practices are an essential component of the CSR system.

The proposed definition is comprehensive, directly aligns with economic and management theory and is desired by businesses as they try to create new forms of value, which makes this definition a necessity for corporations to execute CSR systems. Furthermore, the definition has been tested against business use cases that were reviewed in this document, as well as other uses cases. Is Monsanto behaving ethically or practicing “sustainable agriculture” by producing genetically modified seeds or is eradicating poverty in developing nations their CSR strategy? Did Johnson & Johnson/McNeil breach their “credo” when they had a delayed recall of medicine? Is the fact that McDonald’s serves food that is mostly unhealthy a breach of CSR practices? All of these questions are complex, but if managed within a CSR system, the issues can be dealt with effectively. The influence of the parts on each other and the whole are the only way to determine if the system is functioning properly.

The corporation must continue to evolve their way of behavior and align with society's expectations and the paradigm shift the Systems Age will necessitate. In the future, CSR may be a concept of the past because all corporations will behave in socially responsible way. The future is unknown, but corporations are certainly realizing that they are a part of the whole, society. As such, businesses are required to adapt, and those that do not, will cease to exist and replaced by corporations that function properly in the system.

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APPENDIX A

CSR DEFINITIONS WITH SOURCE,
GOOGLE FREQUENCY COUNT AND DIMENSIONS

Definition source	Definition	Frequency count	Dimensions
Commission of the European Communities, 2001	A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis	286	Voluntariness Stakeholder Social Environmental Economic
World Business Council for Sustainable Development, 1999	The commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life	180	Stakeholder Social Economic
World Business Council for Sustainable Development, 2000	Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large	156	Voluntariness Stakeholder Social Economic
Commission of the European Communities, 2001	Corporate social responsibility is essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment	134	Voluntariness Social Environmental
Business for Social Responsibility, 2000	Business decision making linked to ethical values, compliance with legal requirements and respect for people, communities and the environment	131	Voluntariness Stakeholder Social Environmental Economic
Business for Social Responsibility, 2000	Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. Social responsibility is a guiding principle for every decision made and in every area of a business	117	Voluntariness Stakeholder Economic
IBLF, 2003	Open and transparent business practices based on ethical values and respect for employees, communities and the environment, which will contribute to sustainable business success	82	Voluntariness Stakeholder Social Environmental Economic
Khoury *et al.*, 1999	Corporate social responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and financial performance	48	Stakeholder Social Environmental Economic

Business for Social Responsibility, 2003b	Corporate social responsibility is achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment	46	Voluntariness Stakeholder Social Environmental Economic
Commission of the European Communities, 2003	CSR is the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large	40	Voluntariness Stakeholder Social Economic
CSRwire, 2003	CSR is defined as the integration of business operations and values, whereby the interests of all stakeholders including investors, customers, employees and the environment are reflected in the company's policies and actions	31	Voluntariness Stakeholder Environmental Economic
Hopkins, 1998	Corporate social responsibility is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. Consequently, behaving socially responsibly will increase the human development of stakeholders both within and outside the corporation	21	Voluntariness Stakeholder Social
Ethics in Action Awards, 2003	CSR is a term describing a company's obligation to be accountable to all of its stakeholders in all its operations and activities. Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit	17	Stakeholder Social Environmental Economic
Jones, 1980	CSR is defined as the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law or union contract, indicating that a stake may go beyond mere ownership	15	Voluntariness Stakeholder
Hopkins, 2003	CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. 'Ethically or responsible' means treating stakeholders in a manner deemed acceptable in civilized societies. Social includes economic responsibility. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation	14	Voluntariness Stakeholder Social Economic

Definition source	Definition	Frequency count	Dimensions
Marsden, 2001	Corporate social responsibility (CSR) is about the core behaviour of companies and the responsibility for their total impact on the societies in which they operate. CSR is not an optional add-on nor is it an act of philanthropy. A socially responsible corporation is one that runs a profitable business that takes account of all the positive and negative environmental, social and economic effects it has on society	11	Social Environmental Economic
McWilliams and Siegel, 2001	Actions that appear to further some social good, beyond the interests of the firm and that which is required by law	10	Voluntariness Social
Ethical Performance, 2003	At its best, CSR is defined as the responsibility of a company for the totality of its impact, with a need to embed society's values into its core operations as well as into its treatment of its social and physical environment. Responsibility is accepted as encompassing a spectrum – from the running of a profitable business to the health and safety of staff and the impact on the societies in which a company operates	6	Stakeholder Social Environmental Economic
Global Corporate Social Responsibility Policies Project, 2003	Global corporate social responsibility can be defined as business practices based on ethical values and respect for workers, communities and the environment	6	Voluntariness Stakeholder Social Environmental Economic
Commission of the European Communities, 2002	Corporate social responsibility is about companies having responsibilities and taking actions beyond their legal obligations and economic/business aims. These wider responsibilities cover a range of areas but are frequently summed up as social and environmental – where social means society broadly defined, rather than simply social policy issues. This can be summed up as the triple bottom line approach: i.e. economic, social and environmental	5	Voluntariness Social Environmental Economic
Pinney, 2001	Corporate social responsibility (CSR) or corporate citizenship can most simply be defined as a set of management practices that ensure the company minimizes the negative impacts of its operations on society while maximizing its positive impacts	5	Social
IndianNGOs.com, 2003	Corporate social responsibility is a business process wherein the institution and the individuals within are sensitive and careful about the direct and indirect effect of their work on internal and external communities, nature and the outside world	4	Stakeholder Social Environmental Economic
Business for Social Responsibility, 2003a	Socially responsible business practices strengthen corporate accountability,	3	Voluntariness Stakeholder

Definition source	Definition	Frequency count	Dimensions
	respecting ethical values and in the interests of all stakeholders. Responsible business practices respect and preserve the natural environment. Helping to improve the quality and opportunities of life, they empower people and invest in communities where a business operates		Social Environmental Economic
Kilcullen and Kooistra, 1999	CSR is the degree of moral obligation that may be ascribed to corporations beyond simple obedience to the laws of the state	2	Voluntariness
Piacentini *et al.*, 2000	CSR is the voluntary assumption by companies of responsibilities beyond purely economic and legal responsibilities	2	Voluntariness
UK Government, 2001	Corporate social responsibility recognizes that the private sector's wider commercial interests require it to manage its impact on society and the environment in the widest sense. This requires it to establish an appropriate dialogue or partnership with relevant stakeholders, be they employees, customers, investors, suppliers or communities. CSR goes beyond legal obligations, involving voluntary, private sector-led engagement, which reflects the priorities and characteristics of each business, as well as sectoral and local factors	2	Voluntariness Stakeholder Social Environmental Economic
Woodward-Clyde, 1999	CSR has been defined as a 'contract' between society and business wherein a community grants a company a license to operate and in return the matter meets certain obligations and behaves in an acceptable manner	2	Stakeholder
Reder, 1994	An all encompassing notion, [corporate] social responsibility refers to both the way a company conducts its internal operations, including the way it treats its work force, and its impact on the world around it	1	Stakeholder Social Environmental
Lea, 2002	CSR can be roughly defined as the integration of social and environmental concerns in business operations, including dealings with stakeholders	1	Stakeholder Social Environmental Economic
Lea, 2002	CSR is about businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment	1	Voluntariness Stakeholder Social Environmental
Foran, 2001	CSR can be defined as the set of practices and behaviours that firms adopt towards their labour force, towards the environment in which their operations are embedded, towards authority and towards civil society	1	Stakeholder Social Environmental

Definition source	Definition	Frequency count	Dimensions
	respecting ethical values and in the interests of all stakeholders. Responsible business practices respect and preserve the natural environment. Helping to improve the quality and opportunities of life, they empower people and invest in communities where a business operates		Social Environmental Economic
Kilcullen and Kooistra, 1999	CSR is the degree of moral obligation that may be ascribed to corporations beyond simple obedience to the laws of the state	2	Voluntariness
Piacentini *et al.*, 2000	CSR is the voluntary assumption by companies of responsibilities beyond purely economic and legal responsibilities	2	Voluntariness
UK Government, 2001	Corporate social responsibility recognizes that the private sector's wider commercial interests require it to manage its impact on society and the environment in the widest sense. This requires it to establish an appropriate dialogue or partnership with relevant stakeholders, be they employees, customers, investors, suppliers or communities. CSR goes beyond legal obligations, involving voluntary, private sector-led engagement, which reflects the priorities and characteristics of each business, as well as sectoral and local factors	2	Voluntariness Stakeholder Social Environmental Economic
Woodward-Clyde, 1999	CSR has been defined as a 'contract' between society and business wherein a community grants a company a license to operate and in return the matter meets certain obligations and behaves in an acceptable manner	2	Stakeholder
Reder, 1994	An all encompassing notion, [corporate] social responsibility refers to both the way a company conducts its internal operations, including the way it treats its work force, and its impact on the world around it	1	Stakeholder Social Environmental
Lea, 2002	CSR can be roughly defined as the integration of social and environmental concerns in business operations, including dealings with stakeholders	1	Stakeholder Social Environmental Economic
Lea, 2002	CSR is about businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment	1	Voluntariness Stakeholder Social Environmental
Foran, 2001	CSR can be defined as the set of practices and behaviours that firms adopt towards their labour force, towards the environment in which their operations are embedded, towards authority and towards civil society	1	Stakeholder Social Environmental

APPENDIX B

OVERVIEW OF CSR-RELATED PHILOSOPHIES OF GLOBAL CORPORATIONS

Company: Pemex
Industry: Petroleum
Home country: Mexico

The primary issues Pemex addresses in their Social Responsibility Report include worker safety and health, reliable facilities, profitable strategies, transparency, environmental performance and protection, climate change work, international standards and work performed with NGOs.

Source: http://www.pemex.com/files/content/SocialRespReport.pdf

Company: AXA
Industry: Financial services
Home country: France

Corporate responsibility statement: Our business is to protect people over the long term. In this business, trust and solid relationships are paramount. Corporate Responsibility is the demonstration, step by step, day by day, that, through our actions, we deserve the trust of our stakeholders. We want Corporate Responsibility to be part of AXA's fundamentals. We want to make it a reality for all our stakeholders, not just a concept.
This means designing reliable solutions to meet the needs of our customers, managing risks in a professional way, treating our partners fairly, developing a work environment built on strong values, inclusion, and trust. We also believe that we have a role to play in protecting the environment, supporting the communities in which we operate, and more broadly in helping to create stronger and more sustainable societies. This is part of creating a sustainable, long-term business, and becoming the preferred company for our customers, employees, and other stakeholders.

Source: http://www.axa.com/en/responsibility/

Company: Bharat Petroleum
Industry: Petroleum
Home country: India

Bharat uses a concept called CSR Building Blocks:
Building Sustainable Communities - to have a positive impact on the communities in which we operate
Health and Safety - to ensure the health and safety of our workforce and communities
Environment - to minimize adverse impacts while taking steps to protect and enhance the natural environment
Employees – train tomorrow's leaders in teamwork skills and running socially responsible business

Source:
http://www.bharatpetroleum.in/EnergisingSociety/CSR_objective.aspx?id=2

Bharat also produces a Sustainability Report that addresses sustainable development at the board level, governance, resource consumption, energy management, water conservation, employees, safety and health and community engagement.

Source: http://www.bharatpetroleum.com/pdf/BPCL_SDR_2009_10.pdf

Company: BHP Billiton
Industry: Natural resource extraction
Home country: Australia

The BHP Billiton Sustainability Report addresses stakeholder management (local community involvement, government, NGOs, regulators, suppliers, employees and contractors, customers), sustainability systems (health, environment), business conduct, internal audit, safety, diversity and health.

Source: http://www.bhpbilliton.com/bbContentRepository/docs/bhpBilliton SustainabilityReport2010.pdf

Company: BP
Industry: Petroleum/energy
Home country: United Kingdom

At BP we define sustainability as the capacity to endure as a group: by renewing assets; creating and delivering better products and services that meet the evolving needs of society; attracting successive generations of employees; contributing to a sustainable environment; and retaining the trust and support of our customers, shareholders and the communities in which we operate.

The Sustainability Review addresses governance, human rights, worker safety, environment and climate change, employee engagement, local community engagement and innovation.

Source: http://www.bp.com/liveassets/bp_internet/globalbp/STAGING/global_assets/e_s_assets/e_s_assets_2009/downloads_pdfs/bp_sustainability_review_2009.pdf

Company: ExxonMobil
Industry: Petroleum/energy
Home country: United States

ExxonMobil's Corporate Citizen Report addresses sustainability, citizenship activities globally, engagement, governance safety and health, environmental performance and climate change, economic development, and human rights.

Source:
http://exxonmobil.com/Corporate/Imports/ccr2009/pdf/community_ccr_2009.pdf

Company: Gazprom
Industry: Petroleum/energy
Home country: Russia

Gazprom Group's key operating principles stem from, namely: pursuing the public interests, maximally contributing to the socioeconomic development of the Russian Federation regions, stimulating a favorable business climate throughout the country and supporting worthy labor conditions, social and spiritual welfare of the people.

Source: http://www.gazprom.com/social/

Company: General Electric (GE)
Industry: Diversified
Home country: United States

The GE Citizenship Report addresses energy and climate change, human impact, community building, performance against commitments, sustainable healthcare, stakeholder inclusion and sustainability.

Source: http://files.gecompany.com/gecom/citizenship/pdfs/ge_2009_citizenship_report.pdf

Company: Johnson & Johnson
Industry: Pharmaceuticals
Home country: United States

We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services. In meeting their needs everything we do must be of high quality. We must constantly strive to reduce our costs in order to maintain reasonable prices. Customers' orders must be serviced promptly and accurately. Our suppliers and distributors must have an opportunity to make a fair profit.

We are responsible to our employees, the men and women who work with us throughout the world. Everyone must be considered as an individual. We must respect their dignity and recognize their merit. They must have a sense of security in their jobs. Compensation must be fair and adequate, and working conditions clean, orderly and safe. We must be mindful of ways to help our employees fulfill their family responsibilities. Employees must feel free to make suggestions and complaints. There must be equal opportunity for employment, development and advancement for those qualified. We must provide competent management, and their actions must be just and ethical.

We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens – support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education. We must maintain in good order the property we are privileged to use, protecting the environment and natural resources.

Our final responsibility is to our stockholders. Business must make a sound profit. We must experiment with new ideas. Research must be carried on, innovative programs developed and mistakes paid for. New equipment must be purchased, new facilities provided and new products launched. Reserves must be created to provide for adverse times. When we operate according to these principles, the stockholders should realize a fair return.

Source: http://www.jnj.com/wps/wcm/connect/c7933f004f5563df9e22be1bb315 59c7/our-credo.pdf?MOD=AJPERES

Company: IBM
Industry: Technology
Home country: United States

IBM's corporate responsibility efforts are tightly aligned with our strategic business priorities, and integral to all our relationships – with clients, employees, and communities worldwide.

Corporate Responsibility Report addresses global citizenship, employees, Corporate Service Corps, community engagement, environmental sustainability, supply chain, governance and public engagement.

Source: http://www.ibm.com/ibm/responsibility/?re=1brf54

Company: Koç Holding
Industry: Diversified
Home country: Turkey

Koç Holding produces a Corporate Social Responsibility Report that states how they institutionalize CSR, human rights, their work environment, environmentally friendly practices, ethical values, social development (health, education, culture/arts, heritage, sports) and their collaboration with the Global Compact.

Source: http://www.koc.com.tr/en-us/Corporate_Social_Responsibility/CSR_Reports/Documents/Corporate%20Social%20Responsibility%20Report%202009.pdf

Company: McDonald's
Industry: Retail Food
Home country: United States

McDonald's Corporate Responsibility Report addresses their values, environmental responsibility, sustainable supply chain, community, employee relations, nutrition, CSR goals and NGO engagement.

Source: http://www.aboutmcdonalds.com/mcd/csr/report.html

Company: Monsanto
Industry: Agriculture
Home country: United States

At the heart of Monsanto is a very clear and principled code of conduct – one we expect all employees, contractors and management to live by every day. We operate under a genuine value system—our pledge—that demonstrates integrity, respect, ethical behavior, perspective and honesty as a foundation for everything we do.

A key part of fulfilling the promise of our value system is by engaging our communities in a significant and positive manner. Not only do we work hard to support the family farmer in a variety of ways, but we also:
provide extensive educational programs – particularly in science and agriculture – for students around the world
fund numerous research grants for graduate students
work in partnership with government bodies, non-profit agencies and advocacy groups to make agriculture more sustainable

Source: http://www.monsanto.com/ourcommitments/Pages/default.aspx

Company: Petrobas
Industry: Petroleum/energy
Home country: Brazil

To Petrobras, social responsibility is the integrated, ethical, and transparent management of its business interests and activities and of its relationships with all of its stakeholders, furthering human rights and the full exercise of citizenship, respecting human and cultural diversity, working to eradicate discrimination, degrading work, child and forced labor, and contributing to sustainable development and to reduce social inequality.

Petrobas produces a Social and Environmental Report that addresses sustainability, the environment, transparency, human rights, health and safety, citizenship and ethics.

Source: http://www.hotsitespetrobras.com.br/rao2008/i18n/en/balanco-social-e-ambiental/politica-de-responsabilidade-social/

Company: PKN Orlen
Industry: Oil refining
Home country: Poland

PKN Orlen's CSR Report addresses the social environment (partnerships, charity, fair trade, best practices), employee relations (recruitment, development), environmental management (green investments, impact, performance), ethics (key values, codes) and collaboration with the UN's Global Compact.

Source: http://www.orlen.pl/EN/CSR/Reports/Pages/default.aspx

Company: Power Corporation of Canada
Industry: Energy & financial services
Home country: Canada

Power Corp's Social Responsibility Statement states: Power Corporation of Canada ("Power") is a management and holding company with diversified interests in Canada and abroad. Power's objective is to provide superior long-term returns to its shareholders.

In making and overseeing investments consistent with this objective and its governance practices, Power also strives to meet its responsibilities:
to comply with applicable laws and regulations;
to meet ethical standards, in accordance with Power's Code of Business Conduct and Ethics (which is available at www.sedar.com);
to conduct itself in a manner consistent with the goals that form the basis of the Universal Declaration of Human Rights; and
to make a positive contribution to the communities where Power is established.

Source: http://www.powercorporation.com/index.php?lang=eng&comp= powercorp&page= social_respons

Company: Royal Dutch Shell
Industry: Petroleum/energy
Home country: The Netherlands and United Kingdom

The Sustainability Report addresses sustainable development, safety, climate change, suppliers, innovation, water management, environmental partnerships, community engagement, human rights, and transparency.

Source: http://sustainabilityreport.shell.com/2009/servicepages/downloads/files/all_shell_sr09.pdf

Company: Sabic
Industry: Manufacturing
Home country: Saudi Arabia

Sabic states their Commitments are:

- We are committed to providing high-quality products and services that meet stakeholders' expectations while ensuring that our operations are safe and reliable.
- We conduct business with respect and care for the environment in which we operate.
- We comply with applicable health, safety and environmental laws, regulations and quality standards.
- We apply practical means to conserve resources and to prevent pollution, reduce waste and minimize the risk involved in our operations.
- We continually improve our performance and implement effective development programs to enhance our employees' competence and awareness.

When it comes to making business decisions, we believe that our ethical commitments are just as important as economic factors. We have made commitments to our employees, the environment and the societies in which we work, and these are set out in the strict guidelines SABIC has developed for Safety, Health, the Environment and Quality (referred to as SHEQ), which are essential for good business practice. We have worked hard to develop high standards in all these areas, and we expect our affiliates worldwide to comply with them.

Source: http://www.sabic.com/corporate/en/ourcommitments/default.aspx

Company: Samsung Electronics
Industry: Technology
Home country: South Korea

Sustainability Agenda: The five major categories include: Integrity Management, Green Management, Social Contributions, Products & Services, and Partner Collaboration. Their social priorities and impact on Samsung's business operations were key identification factors.

Source:
http://www.samsung.com/us/aboutsamsung/sustainability/sustainability.html

In their Sustainability Report they address corporate governance, their value system, sustainability management, global procurement, stakeholder communication and their use of materials.

Source:
http://www.samsung.com/us/aboutsamsung/sustainability/sustainabilityreports/sustainabilityreports.html

Company: Siemens
Industry: Diversified
Home country: Germany

The Siemens Sustainability Report addresses their business operations (R&D, profits, compliance), environment (energy, CO2 emissions, water, waste), and employees and society (fair labor practices, education, philanthropy).

Source:
http://www.siemens.com/sustainability/report/09/pool/pdf/siemens_sr_2009.pdf

Company: South African Airways
Industry: Transportation
Home country: South Africa

South African Airways (SAA) has an Environmental Statement that also mentions CSR: It is our corporate responsibility to focus on what we can do to minimise our carbon footprint.
The result:
80% compliance for greener operations as stipulated by the International Air Transport Association (IATA).
Ongoing discussions with the Operations Committee and aviation partner, Air Transport Navigational Services, on how to ensure fuel and carbon efficiency.

SAA is committed to building a green future:
Our fleet is among the youngest and most fuel-efficient in the skies.
Investment in new technology ensures greater environmental protection.
Compliance with legal and other requirements.
Plans for fleet modernisation.

Source:
http://www.flysaa.com/Journeys/cms/ZA/footerlinks/_categories/aboutUs/SAA-Environment.html

Company: State Grid Corporation
Industry: Power grid construction
Home country: China

State Grid produces Guidelines for the Implementation of CSR and an annual Corporate Social Responsibility Report where it defines CSR: the responsible behavior by the company towards society. The determination of whether a company's behavior is responsible towards society must be based on the standard that whether the company's behavior can facilitate the better allocation of social resources and maximally create social benefits, instead of simply considering the moral motive and willingness to fulfill the responsibilities. The determination of whether such a behavior is responsible towards society must be based on the extent of contribution of such behavior towards the optimization and distribution of social resources, and the maximum value such behavior would create on social welfare, instead of simple consideration of motive, ethics, and fulfillment.

Source:
http://www.sgcc.com.cn/images/ywlm/socialresponsiility/report/2010/12/11/499365384B153FF105FA505C7E27B757.pdf

Company: Toyota Motor
Industry: Auto manufacturing
Home country: Japan

Toyota produces an Environmental Report. The Values section of their website guides readers to separate Web pages that address the environment (innovation, operations, partnership, urban design), philanthropy (NGO engagement, education, safety, community) and diversity (advisory board, employment, dealers, suppliers).

Source: http://www.toyota.com/about/our_values/

Company: Walmart
Industry: Retail
Home country: United States

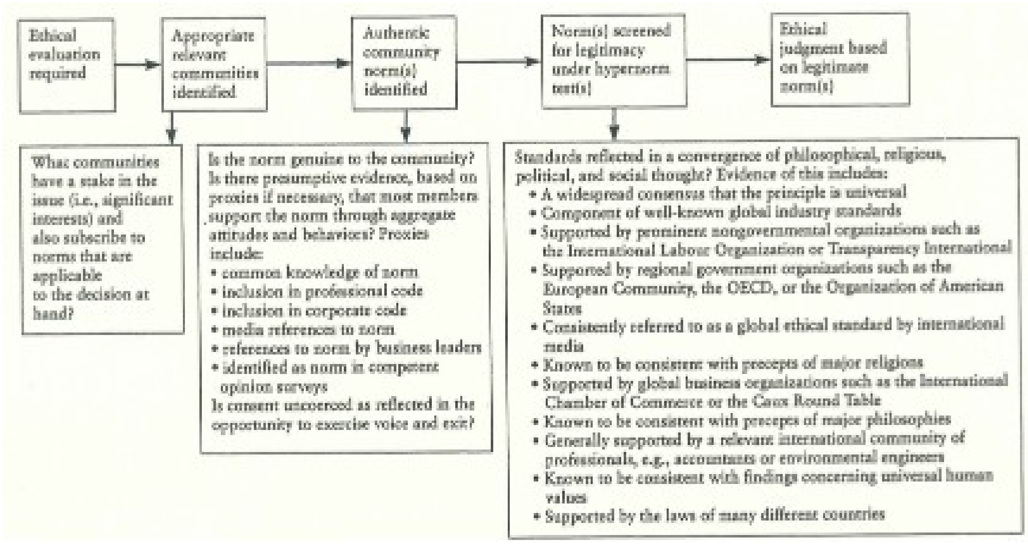
We use an approach called Sustainability 360 to take a more comprehensive view of our business and engage our more than 100,000 suppliers, more than 2 million associates and millions of customers around the world in our sustainability efforts. Sustainability 360 lives in every corner of our business – from associate job descriptions to our interactions with suppliers – and guides our decisions based on improving the environment, supply chain and communities where we operate and source.

The Walmart Global Sustainability Report addresses the environment (energy, waste, products), social (customers, communities, associates), suppliers, diversity, and performance goals and results.

Source: http://cdn.walmartstores.com/sites/sustainabilityreport/2010/WMT2010 GlobalSustainabilityReport.pdf

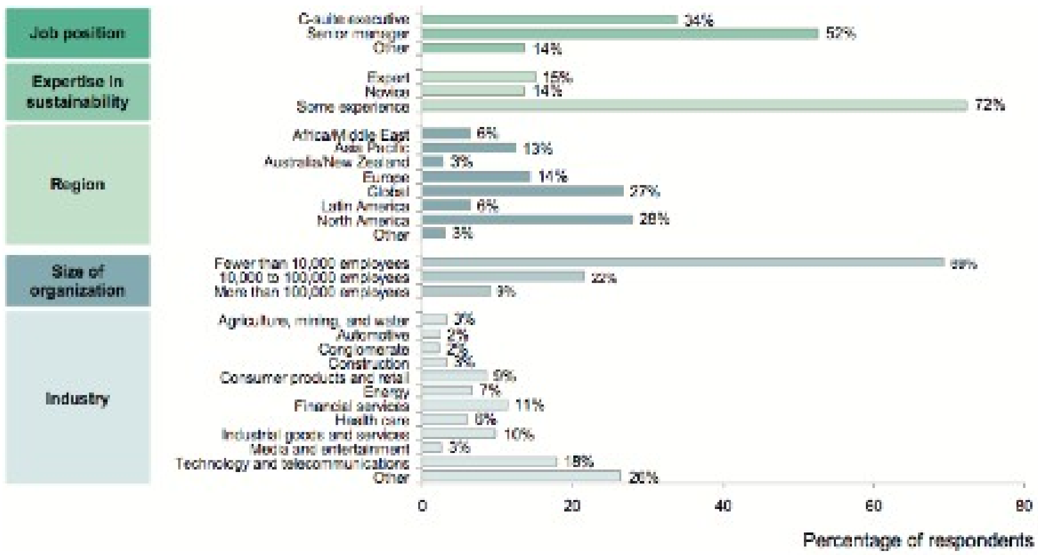
APPENDIX C

ISCT DECISION PROCESS



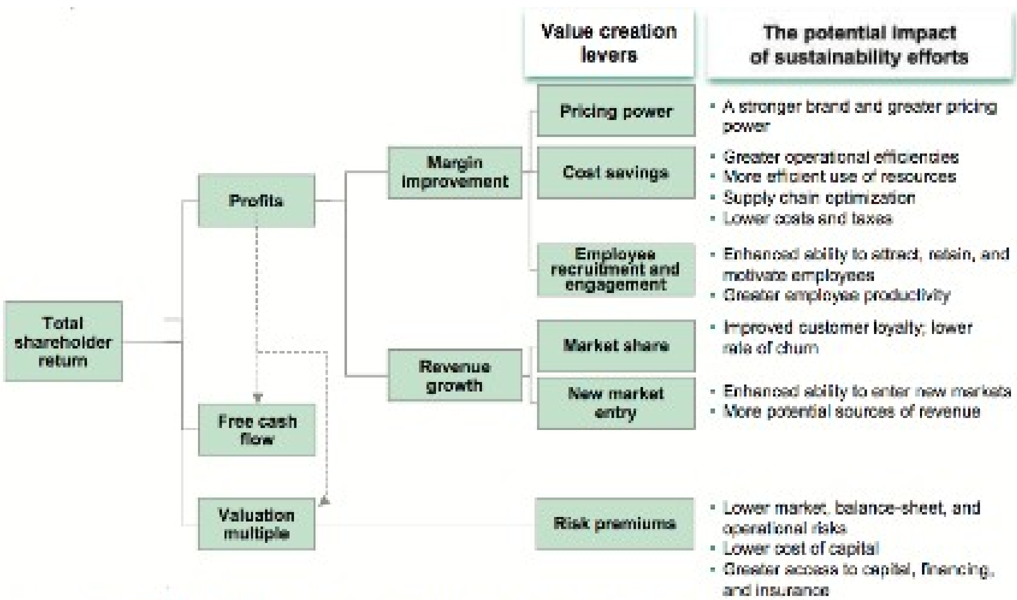
APPENDIX D

PROFILE OF SURVEY RESPONDENTS



APPENDIX E

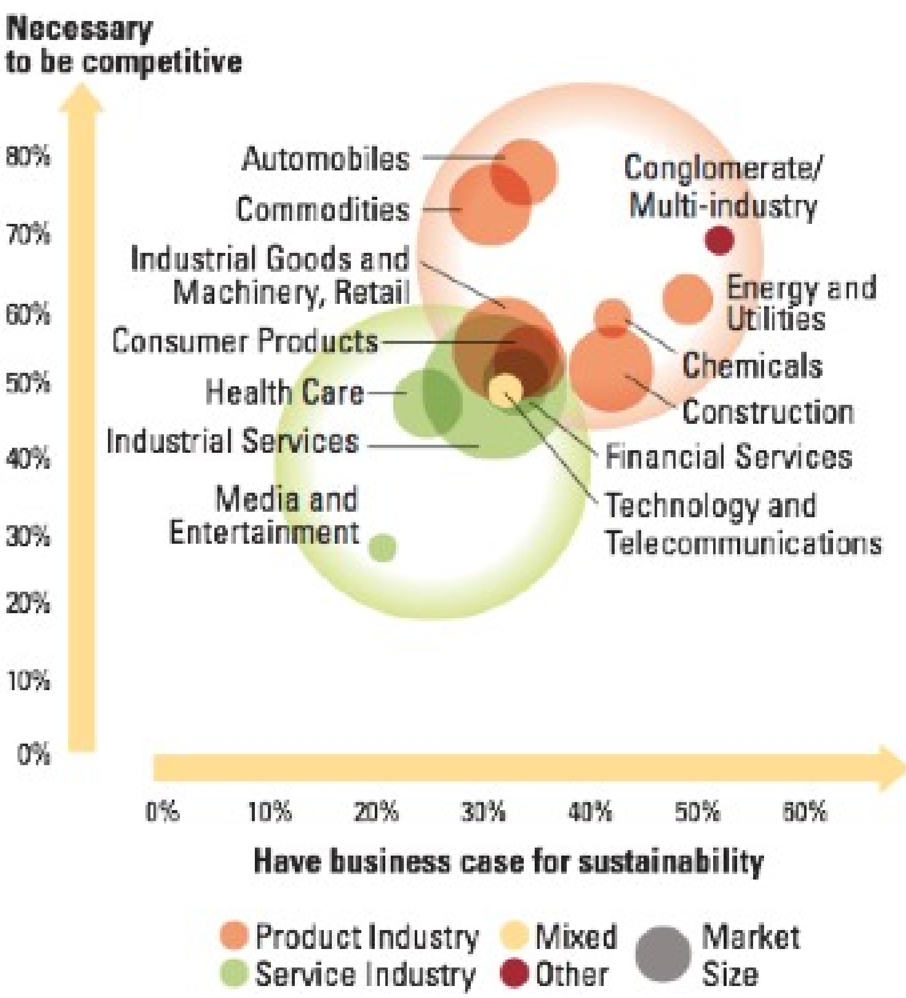
SUSTAINABILITY EFFORTS INFLUENCE OVER VALUE CREATION



Sources: The Sustainability Initiative 2009 Survey, BCG and MIT *Sloan Management Review*; interviews with thought leaders.

APPENDIX F

"HEAT MAP" DEPICTING NECESSITY OF SUSTAINABILITY FOR COMPETITIVENESS COMPARED TO HAVING A SUSTAINABILITY BUSINESS CASE BY INDUSTRY SEGMENT



APPENDIX G

BUSINESS MOTIVATIONS FOR SUSTAINABILITY STRATEGIES