

An Apology for Capitalism?

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An Apology for Capitalism?

Matthew Bishop, Vincent Cable, Clive Crook, Howard Davies, Bill Durodié, Stephen Godfrey-Isaacs, Julia Hailes, David Henderson, Steve Hilton, Benjamin Hunt, John Kay, Philippe Legrain, Johan Norberg, Neil Sherlock, Stephen Tindale

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Contents

About the speakers	vii
Preface	xv
Matthew Bishop	
Introduction	1
Helen Disney	
1 Refereeing capitalism	3
Howard Davies	
2 No time for apologies	16
David Henderson	
3 The business of business is business	24
John Kay	
4 Setting the rules of the game	35
Vincent Cable	
5 Reputation brings its own rewards	44
Neil Sherlock	
6 Sorry isn't good enough	49
Stephen Tindale	

7	Let business take care of itself Clive Crook	56
8	In the company of fear Benjamin Hunt	61
9	Precaution – the enemy within Bill Durodié	68
10	Necessity is the mother of invention Julia Hailes	78
11	Ignoring CSR is a risky business Stephen Godfrey-Isaacs	85
12	Parting company with government Philippe Legrain	90
13	Why their business is none of ours Johan Norberg	98
14	Changing the world through business Steve Hilton	105
	Acknowledgements	111

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of *Misguided Virtue* (2001); and together with a co-author, Ian Castles, he has recently published a critique of the economic and statistical work of the Intergovernmental Panel on Climate Change.

Steve Hilton is a founding partner of Good Business, a London-based consulting firm that advises brands, including Coca-Cola, McDonald's, O2 and Morgan Stanley, on how they can use corporate social leadership to increase brand value. A former columnist for the *Observer* newspaper, Steve appears regularly in the media and at conferences as the advocate of a simple message: if you want to change the world, do it through business; if you want to help your business, then help change the world. His first book, *Good Business – Your World Needs You*, was published in May 2002 and he writes a monthly column for *Ethical Corporation* magazine.

Benjamin Hunt is an independent author, journalist and researcher. He is the author of *The Timid Corporation: Why Business is Terrified of Taking Risk*. He is a contributor to the *Financial Times's Mastering Risk* series, in which he presented research into the rise of risk management, and has written for a variety of newspapers and magazines. Ben has also privately coordinated economics research for law firms, banks and consultancies into areas of finance, business and technology.

John Kay is one of Britain's leading economists. His work is mostly concerned with the application of economics to the analysis of changes in industrial structure and the competitive advantage of individual firms. Having previously taught at the

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Philippe Legrain is chief economist of Britain in Europe. He was previously special adviser to World Trade Organisation director general Mike Moore. Before that, he was trade and economics correspondent for *The Economist*. He is the author of *Open World: The Truth About Globalisation* (2002) and writes widely for publications such as the *Financial Times*, the *Wall Street Journal Europe*, *The Times*, the *Guardian*, *New Statesman* and *Prospect*, as well as the *New Republic* and *Foreign Policy*. His website is www.philippelegrain.com.

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Stephen Tindale is executive director of Greenpeace UK. Before joining Greenpeace, he worked as special adviser to Michael Meacher MP, Minister for the Environment between 1997 and 2000, and was closely involved in the development of the UK's Climate Change Strategy, the Integrated Transport White Paper and the Government's green tax proposals. He has worked in the public policy arena as director of the Green Alliance and as a senior research fellow for the Institute for Public Policy Research. He is also the author of the influential *Green Tax Reform* (1996), which led to the introduction of an industrial energy tax.

Preface

Matthew Bishop

What are companies for? Should they exist solely to earn as much profit as possible for their owners, or do they have some broader responsibility to stakeholders such as employees and customers, or even to society at large? These questions, the focus of this book, have loomed ever larger in recent years, thanks to several developments. Some of the firms most prominently associated with a profit-maximisation strategy came a cropper (above all, Enron). There has been growing scrutiny by activists of the behaviour of well-known multinational companies in the developing world (Nestlé, Nike) and in fragile environments (Exxon, Shell). And a growing number of firms have declared themselves committed to 'corporate social responsibility' (CSR). For example, over 1,400 companies from around the world have signed a Global Compact with the United Nations that commits them to complying with the UN Declaration on Human Rights.

There have been many forces driving the rise of CSR, ranging from corporate fear of being criticised to a belief that it is the right thing for a firm to practice. These factors prompt as many questions as they answer.

Any executive of any serious company will say (at least) that their firm has a general responsibility to honour its contracts, with employees, customers and anyone else, and to obey the law. But if they are sometimes willing to go further, putting the broader needs of society before maximising their firm's profits, should their shareholders be happy about that? After all, the value of shares in a firm, according to economic theory, is entirely dependent on the firm's profits (current and expected). If bosses sacrifice profits to achieve social ends, surely they are misusing shareholders' money just as much as bosses who buy unnecessary corporate jets, engage in unjustified merger activity, or pay themselves too much, even if the results of those actions are harder to criticise?

But perhaps CSR actually helps to maximise profits, as the bosses of firms such as Timberland and Salesforce.com believe. (Though, in that case, surely what the firm is doing is simply good business practice, not real CSR.) Companies that do good may find that their customers are more loyal, and perhaps willing to pay more. Their workers may put in extra effort because they share in the firm's social mission. After all, how many people actually jump out of bed in the morning raring to get down to some profit maximisation? There is evidence that a growing number of business school students prefer to work for firms with a reputation for being 'good corporate citizens'; a CSR programme of some kind may be essential to recruiting top talent. On the other hand, various academic studies exploring the relationship between share prices and various sorts of CSR have failed to demonstrate conclusively that CSR pays or, indeed, that it does not instead impose costs on shareholders. Pursuing profit-maximisation may be a rather blunt instrument

with which to manage a firm, but the more 'responsible' alternatives may be too complex to implement well in practice or to use when setting the incentives necessary to motivate, and hold to account, managers and workers.

Another possibility is that those bosses who loudly proclaim their enthusiasm for corporate social responsibility are simply faking it – perhaps to help them recruit those students who want to work for a responsible firm – but may not actually probe too deeply into what that professed responsibility really amounts to; or perhaps as a device to deflect criticism from development or environmental or anti-globalisation activists. Whether activists are so easily deflected in practice is not clear. Increasingly, non-governmental organisations such as Greenpeace and Christian Aid are complaining that many CSR policies are merely box-ticking exercises that make no real difference to how the companies that adopt them impact society. Moreover, a company that proclaims itself socially responsible may actually attract more attention from activists, who will try to hold it to its new higher standards. Firms that say they are interested only in making profits may strike activists as too challenging a proposition to be worth their bother. For instance, BP and Shell, oil firms that claim to be socially and environmentally responsible, arguably face closer scrutiny and higher expectations than Exxon, which makes no such claims.

Some companies may hope that embracing CSR will put off governments from trying to make them more 'responsible' through regulation. And they may be right. Certainly, governments are likely to feel greater pressure to legislate better behaviour if most firms say that their only role is to maximise profits than if most firms claim to be socially warmer and

fuzzier. Though, ironically, it may well have been a growing belief that governments had become too pro-business to regulate seriously that prompted many activists to shift their focus from lobbying governments to lobbying firms to be more socially responsible.

But perhaps the biggest problem with embracing CSR may be that it helps to foster a false impression about the role that companies play in society. Is CSR, as the title of this book suggests, 'an apology for capitalism?' In truth, although there have been some awful exceptions to this rule, the pursuit of profit has, over the years, been hugely beneficial to society. It has improved the efficiency with which the world's scarce resources are used, and created enormous amounts of wealth which has both been good in itself and has allowed society to pay for the education, health care, pensions, social services, charitable foundations, defence, cleaner environment, and so on, that are the stuff of today's leading societies. These benefits dwarf anything so far produced, or ever likely to be, by the adoption of CSR policies. Of course, some firms, perhaps most, could do better, treat their employees more generously, take better care of the poor. But it was businesses pursuing profits, not businesses pursuing CSR, that enabled capitalism to defeat communism, and bring billions of people out of poverty. Which is why, in the end, the rise of CSR prompts a truly fundamental question: does capitalism actually need to apologise?

Introduction

Helen Disney

Does business have a social responsibility and, if so, how far should it extend? Are companies becoming too timid and apologetic in the face of public criticism? In February 2004, the Stockholm Network and *The Economist* assembled a panel of leading experts to debate these issues. This book is a collection of their ideas and arguments on one of the leading business trends of the moment.

A number of high-profile corporate scandals, alongside the growth in anti-capitalist activism, have thrown corporations into the spotlight and left them seeming more unpopular than ever before. Is this an inevitable consequence of capitalism, or should policymakers be thinking about new ways of addressing business failure? Should companies be cheerleaders for capitalism, as Johan Norberg argues, or is the growth of corporate social responsibility evidence of a new way of doing business and doing it better, as Steve Hilton would have us believe? Our authors ask who is to blame and who should be acting as judge and jury.

At least in Europe, the growth in corporate social responsibility departments, reports and policies has been underpinned

by the concept of the 'precautionary principle'. Julia Hailes makes the case that taking a precautionary approach is no more than common sense and that innovation can often spring from finding new responses to consumers' environmental or public-safety concerns. But there are dangers too. As Bill Durodié and Ben Hunt make clear, the precautionary approach can also fuel corporate risk aversion and profit is, after all, a reward for risk-taking.

As John Kay neatly summarises, 'the business of business is business'. What is clear from this impressive collection of essays, however, is that big business remains in the dock. Profit has become a dirty word and companies are having to adapt to doing business in new ways and in a new climate. Reputation has always been an important part of conducting business, but never before has it been so integral to corporate governance. The trick appears to be to combine profitability and good public perceptions – rather than to keep saying sorry.

Helen Disney
Director, Stockholm Network
September 2004

1 Refereeing capitalism

Howard Davies

Director, London School of Economics

The last three years have been a difficult period for supporters of free markets and for proponents of self-regulation. It has been difficult for two distinct but related reasons.

First, there was the generalised boom and bust in stock markets around the world. Although comment tends to focus on the dotcom boom in the US, some of the sharpest falls in percentage terms occurred in other markets, notably in Germany. We may have thought that the experience of previous stock-market bubbles had inoculated the markets against this kind of exaggerated behaviour, but it proved not to be the case. Even Alan Greenspan's warning of the dangers of irrational exuberance went unheeded. (Some argue, notably Joseph Stiglitz in his new book, that Greenspan's warning at the end of 1996 was badly timed, which reduced its impact and made it harder for the Federal Reserve to respond later, when prices were more evidently out of touch with reality.)

Whatever the reason, the turn-of-the-century boom and bust was every bit as dramatic as previous bubbles: Dutch tulips, the South Sea Company, or the 1929 Wall Street crash. As a result,

the efficient markets hypothesis has taken a further knock. The upside for academics is the stimulus given to research into market psychology and chaos theory.

But what made this bubble more menacing for free-market supporters was the incidence of dramatic corporate collapses in the US and Europe, collapses that seemed to be attributable not simply to market volatility, but also to more sinister behaviour by the executives in charge.

For a while, it was fashionable on this side of the Atlantic to argue that this was a North American phenomenon. That is no longer possible. While Enron, WorldCom and Hollinger hogged the headlines for a time, with some appealing elements of hubris and nemesis to add spice to the story, Ahold and Parmalat are examples of very similar phenomena in the European corporate world. It is fair to say that in the UK we do not seem yet to have delivered a suitably dramatic example of our own. We may draw some modest comfort from that, but it would be a brave man who confidently asserted that 'it could not happen here'.

Now, of course, it is important to distinguish between different types of corporate collapse. Some reporting and some political reaction has not done so. My own taxonomy suggests that there are three different types, which have rather different consequences for regulation and public policy.

First, there are those that appear to derive principally, and perhaps solely, from strategic error. I would put Marconi in this category. While the FSA did criticise the company for some aspects of its disclosure policies, there has been no suggestion of a systematic attempt to mislead or defraud shareholders. Marconi simply bought businesses at very high prices, which

turned out not to be worth anything like what they paid (though there may have been some dubious dealing in some of those target companies). I do not think that governments should respond to collapses of this kind. Companies will make mistakes and some will fail. We cannot, in a lively capital market, expect to organise races in which all will win prizes.

Second, there are those collapses that may primarily be strategic in nature but where there is a heavy dose of megalomania built in. I would judge Vivendi to be in that category, and perhaps Tyco as well – though there is a case under way against the former chief executive, which may in due course tell us more. Once again, it is hard to know how to regulate to prevent this kind of thing. We cannot ban hero worship or ambition. But we can exercise discretion and remember the adage that if a thing looks too good to be true, it probably is.

The third category is the most dangerous. By that I mean those companies where we are not simply talking about strategic error or excessive ambition, but where there is an element of fraud, of alienation of the company's assets, of unreasonable enrichment of the chief executives, or a combination of all three. We need to be careful in listing the companies in this category, since in most cases there are legal actions under way and we still do not know enough to be sure. But it seems reasonable to put Enron, Hollinger and Parmalat, at least provisionally, into this third group.

I confess that, in each case, I find considerable mysteries still to be unravelled. So we would do well to be somewhat cautious in our assessment, and not simply for legal reasons. But we are on reasonably safe ground in making a few general observations about the way in which the control systems in place in Western

capital markets have operated in these episodes. Broadly, it is clear that the market-related checks and balances – as distinct from the roles played by statutory regulators – did not operate in the way intended. Before we consider what the appropriate public-policy response might be, that is the issue on which we need to focus. What have these cases revealed about the weaknesses of the self-disciplining mechanisms supposedly built into our capital markets? To put it another way, how fulsome an apology for capitalism do we need to offer?

In my view, five elements of market discipline failed to operate in the way one might have hoped:

- ▶ Most importantly, boards of directors, and especially independent directors, do not seem to have exercised the kind of internal discipline that was needed. Even though the Enron board structure and composition ticked almost every corporate governance box, the board did little to rein in the extravagant appetites of the company and its executives. There was a separate chairman and chief executive (unusual in the US) and, on paper at least, a knowledgeable and powerful audit committee. Yet all this, it would appear, was quite ineffective. We do not know whether it was ineffective because the directors were deliberately kept in the dark or because they failed in their duties. But for the purpose of this analysis, that is a secondary issue.
- ▶ The auditors did not cover themselves with glory. One firm, Arthur Andersen, has paid the ultimate price for this dereliction of duty. But, in general, it would appear that auditors had, in their enthusiasm for client service,

relegated their public-interest duty to the status of a secondary obligation. Perhaps, in doing so, they were following the advice in a pamphlet published only in 1999 by the American Institute of Chartered Public Accountants, entitled *How to Leverage the Audit into a Profitable Relationship*. Whatever the reason, it is clear that in some cases auditors failed to help investors understand what was happening to their companies. I will come on to the appropriate response to that failing later.

- ▶ The role of the investment banks left a lot to be desired. The extreme examples, where investment banks published research which, internally, they knew to be exaggerated or plain wrong, have been well publicised. Perhaps just as important is the research that may not have been disbelieved, but which was, nonetheless, highly deficient. Indeed, the head of one investment bank told me that after analysing its performance in the dotcom boom, he was not so much worried by the research it published in which it didn't believe, but by the research in which it did believe and, indeed, on the basis of which it invested its own money. In retrospect, he said, some of it was simply rubbish. Other parts were hopelessly tainted by the firm's client relationships.
- ▶ What of the rating agencies? Most of the major corporate collapses were accurately forecast by the agencies – several minutes before the shares were suspended or became evidently worthless. So far, no evidence has been unearthed that suggests that the agencies were themselves involved in any conspiracy. But they do appear to have been less than eager to implement downgrades, perhaps fearing the

reaction from companies which were, after all, their clients, if they did so.

- Lastly, what of the performance of the fourth estate? Can we look back and say that we could see early warnings of impending doom in sceptical media coverage of the more exaggerated claims made by companies that subsequently collapsed in a heap? I do not think so. We can see more of the corporate-puff-type editorial, with some of the Icarus-like CEOs featuring on the front covers of glossy magazines just as they approached the zone in which the sun's rays began to melt their wax.

Over two years on from the Enron collapse, there has been quite a lot of public-policy response to these failures. Some of it, I would say, has not been built on a very clear analysis of the problems it was designed to solve. The Sarbanes-Oxley Act in the US, for example, was hastily constructed, and it shows. But it is not my intention to analyse the detailed responses in the US, and in Europe, to these collapses. Rather, it is to suggest a few principles we need to have in mind as we think about how to set an appropriate regulatory course in the longer term. There is great danger in what I call a 'dangerous dogs' approach to regulation: in other words, a danger in responding quickly, in exaggerated ways, which create further problems for the future, and which may impose high and unjustifiable costs on all companies in an attempt retrospectively to discipline the few.

If we are to avoid these mistakes then we need a more grown-up language in which to discuss issues of regulation.

The political debate on regulation in the UK proceeds in a

depressing way. On the one hand, almost all politicians say that they are against increases in regulation, which damage markets, add unjustifiable costs to business and generally set back the cause of human happiness. Regulators themselves are portrayed as people of low status, who spend their lives spinning red tape, drawing boxes for people to tick and generally getting in the way of productivity and wealth creation. The debate surrounding the passage of the Financial Services and Markets Act, which set up the Financial Services Authority, was no exception. Politicians on all sides of the house said they wanted light-touch regulation (whatever that may be), and spoke of the Authority as a kind of regrettable necessity about which they hoped never to have to speak again.

Then, of course, as soon as a company fails, the language shifts 180°, and questions are immediately asked about where the light-touch regulator was when this dastardly plot was being hatched. Why were the regulators not sitting in the company and able to intervene in advance? How was it that its accounts had not been reviewed in detail by the Securities and Exchange Commission (SEC)? The debate, of course, proceeds in a very similar way in the US and in most other European countries.

This is an example of an acute case of cognitive dissonance on the part of our politicians. In other words, they find it perfectly possible to hold two competing ideas in their minds at the same time. One, that regulation is everywhere on the increase, with damaging economic consequences. The other, that there is a dangerous free-for-all in capital markets, with terrible consequences for small investors and opportunities for unjustified enrichment on the part of the boards of major corporations.

My own view is rather different. The most penetrating analysis I have seen recently came in a book entitled *The Next Twenty Years* by Eric Roll. Eric is perhaps the only man in his nineties to make an innovative contribution to futurology. He points out that there has been no increase in the regulation of financial markets in the last twenty years, if one correctly understands what is meant by regulation. Until the 1970s and 1980s, financial markets in this country were in many ways directly controlled by the government and the Bank of England. Quantitative controls on credit expansion were only relaxed in the 1970s, following the publication of *Competition and Credit Control*. Exchange controls were in place until 1979. Well into the 1980s the Bank of England managed a queue of equity issuers, only allowing companies to go to the market when it felt conditions were favourable. Until the early 1990s the Bank intervened all the way along the yield curve to control long and short rates, rather than operating solely in the short-term repo market as it now does. Building societies could only lend for house purchase until the Building Societies Act of 1986. Until 1988 individuals could not opt out of an occupational pension scheme into a private pension.

I could go on. All of these controls have been removed. The game is now much more of a free-for-all, with different types of financial firms able to compete across the board. Unsurprisingly, in this more robust game – rugby rather than cricket – a tough referee is necessary. So direct controls have been replaced by looser regulatory obligations, backed up with a statutory authority with disciplinary powers. In a game with fewer absolute prohibitions, you need a tougher referee.

If we could think and talk about the development of regula-

tion in this way, we might produce a better outcome. We might also understand that it is inherent in the approach successive governments have taken, both here and elsewhere, that there is more scope for market failure. Not all of that failure will be a failure of regulation, since regulation has been deliberately switched on to an *ex post*, rather than an *ex ante* basis. That is not to say, of course, that we do not need to learn lessons from those failures, and sometimes they will tell us that new regulations are needed. But we should not operate on the basis that a failure, even a major one, necessarily justifies a regulatory response.

Furthermore, we should not be surprised by failures of self-regulation. There is no point in being sentimental about a time when groups of chaps ensured that other chaps behaved in a way that did not damage the market. There is no easy basis for that form of self-regulation in financial markets now. Gone are the days when there was a group of fund managers, who had all been to the same school in Edinburgh, and who met privately in the recognition that all their reputations were bound up with each other's. That is now not the case in most financial sectors.

Indeed, a more robust approach to competition policy makes such quasi cartels rather difficult to sustain. One vivid example has occurred in the area of insurance broking. The major insurance companies decided that they would like to improve the quality of retail broking. So they set up a standards council and resolved to deal only through brokers who joined it. A small dissident group challenged this as an anti-competitive arrangement and won. So we now have statutory regulation of insurance broking as a result.

My presumption, therefore, is that if regulation is needed, it is highly likely to need some kind of statutory backing. Ministers do not especially like this conclusion, since they then run up against the cognitive dissonance problem, and also the more practical difficulty of finding legislative time.

In the case of accounting and auditing the industry has proved, to my satisfaction at least, that it can no longer be left to its own devices. The elaborate self-regulatory structure drawn up here at the end of the 1990s is not likely to restore public confidence. The government here has recognised that reality, to some degree, in the Companies Bill currently before the House. Unfortunately, the arrangement proposed, whereby the financial reporting review panel will become somewhat more proactive, but will still report to the Financial Reporting Council, rather than to a proper statutory regulator, is flawed. The review panel will have to use the FSA if it wishes to impose sanctions, which involves some rather clumsy legislative machinery. It would have been far better to do as the Americans have done and locate the accounting oversight function in a new agency, but under the authority of the statutory regulator.

So clearer thinking about the nature of regulation and about the appropriate balances between statutory and self-regulation is the right place to start. Against that background I confess to being a sceptic about the value of codes of practice and codes of governance. Some of them, I believe, are a triumph of form over substance. I do not, for example, think it is possible to define independence in a rigid numerical way, as the Higgs Code sought to do. Simply imposing a time limit on directors, in the hope that it will encourage independence, seems to me

to be doomed to failure. Indeed, it conflicts with the need for independent directors to have an adequate knowledge of the business, which will only be built up over time.

I believe we may have reached the point of diminishing returns in the construction of corporate governance codes. The original Cadbury code clearly added value in identifying some good practices and ensuring that they were spread beyond progressive, well-managed companies to the rest. We are now in the territory where recommendations are not self-evidently associated with success. For example, the prohibition on a chief executive moving into the chair of a company puts perhaps our most successful financial company, HSBC, into a position of non-compliance.

So it is likely that quite a number of companies will not, in fact, follow the terms of the revised code and no consequences will flow if investors are content. This may, in a sense, be just fine. But it should not be confused with regulation.

Indeed, I think there are other areas where there is confusion about what regulation is and is not. In the case of rating agencies, for example, there is a scheme of registration of agencies in the US, run by the SEC. While it is not entirely content-free, the SEC would explicitly acknowledge that it is not a regulatory regime in the normal sense of the word. Rating agencies need to prove that they qualify for registration, but thereafter their affairs are not overseen by the SEC and no checks are made to ensure that their ratings are based on accurate information or that their analysis is uninfluenced by conflicts of interest. I am not saying that they are guilty of these things, just that their regulatory status offers no observation on them, one way or another.

Yet ratings agencies have achieved a position of significant power and influence in the marketplace. The question of whether a company's bonds are investment grade or not can be a matter of life or death. Many investors define their permitted investments in relation to investment-grade status. In other words, they will not invest in companies that do not have it.

This is an unstable position and one from which we need to move, in one direction or another. It is largely an American issue, since only in the US are rating agencies registered with a regulator, and all these major agencies are essentially US firms (though the smallest is French-owned). The SEC has been thinking hard about whether to introduce a scheme of regulation that could properly be so described, or whether to acknowledge the current reality by withdrawing from rating-agency registration altogether.

My preference would be for the latter course, since it will be extremely difficult to devise a regulatory scheme that provides significant reassurance to investors. It would be preferable to allow competition to develop, and for investors to reduce the reliance they place on agencies. However, I recognise the political difficulty in current circumstances of moving in that direction. Indeed, the relevant committee of the European Parliament recently called for the introduction of a regulatory arrangement for rating agencies in the European Union, something that I very much hope we can avoid.

My general prescription in response to the unfortunate market developments of the last few years would be greater clarity about why and how we regulate financial markets, some extension of statutory regulation at the expense of self-regulation, and a reduction in the reliance on codes of conduct and

'soft law', which has not proved very effective in the past. At the same time, however, we need a very rigorous and selective approach to the extension of statutory regulation, sometimes, indeed, pulling back where it is unlikely to be effective without a massive investment of time and resources, and where the side effects could be positively damaging.

Last, I enter a plea for realistic expectations. I do not subscribe to the 'greed is good' school of Wall Street analysis. But greed will always be with us, and we will never eliminate either temptation or, indeed, failure. Just as we do not blame the police for the fact that there is still crime, nor should we think that any regulatory regime for financial markets, however perfectly designed, will eliminate fraud, embezzlement or, indeed, overweening ambition.

It would be nice if ethics were to play a stronger role in the management of financial firms and major corporations. In the case of investment banks, where the biggest lesson they have to learn is how to manage conflicts of interest more effectively, that is the most needed response. But that is another story. On that subject I would only say that the interaction between regulation and business ethics is an area ripe for new thinking.

2 No time for apologies

David Henderson

Westminster Business School

There is no need to apologise for capitalism, nor for profit-oriented business enterprises. They have long been, and still remain, forces for economic progress. This primary role of business has not changed. It remains the same in the twenty-first century as it was in the twentieth century or, for that matter, in the nineteenth. The idea that a new era has recently dawned, in which the purpose and mission of business have to be redefined in the name of 'corporate social responsibility' (CSR), is false.¹

Capitalism could function better than it now does, and the primary role of business could be better performed: I shall mention below ways in which such improvements could be brought about. But these come under the heading of policy. Before turning to that aspect I want to make some points under two other headings: firstly, *history*; and secondly, *profits and business conduct*.

¹ I have set out a case against CSR in a short book entitled *Misguided Virtue: False Notions of Corporate Social Responsibility*, published in London in 2001 by the Institute of Economic Affairs.

Capitalism and economic progress

Over the past century and a half or more, and especially since World War II, economic progress has been made on a scale that few, if any, predicted, through increases in productivity and output per head. Over the past six decades the world economy, and most though by no means all the regions within it, have grown at rates that were higher than past history would have suggested as likely or even possible. Within the group of countries that were already rich in 1950, every member has shared in this greatly increased prosperity. But the record of economic progress over the period goes well beyond this group of already advanced countries, in ways that half a century ago no one foresaw or even imagined, and which mark a decisive break with the past.

These developments have further confirmed what earlier economic history already clearly indicated – that everywhere the material progress of people, rich and poor alike, depends primarily on the dynamism of the economies in which they live and work. The progress of workers does not chiefly depend on the activities of trade unions or the regulation of wages and employment, which may indeed make economies less dynamic; and the advances made by poor people through the development of social services and progressive taxation can be overshadowed by the gains that arise from economic growth.

How is one to account for the kind of economic dynamism that makes possible substantial and sustained advances in material welfare? There are many ways of approaching this question, and many ways of answering it. But I believe that *the principal direct impulse to economic progress comes from profit-*

related activities and initiatives on the part of business enterprises. This is true of countries everywhere, past and present, rich and poor. From an economy-wide perspective, viewing enterprises from outside rather than within, the primary role of businesses everywhere, now as in the past, is to act as a vehicle, a conduit, for economic progress.

This business contribution results from the twin stimuli that only a market economy provides: wide-ranging entrepreneurial opportunities and pervasive competitive pressures. The two aspects are inseparable, since the competitive pressures largely arise from market opportunities, which are themselves opened up by economic freedom.

The role of business enterprises as vehicles of economic progress is linked, now as in the past, with capitalism, private ownership and profit-directed activity. In order to generate the necessary combination of entrepreneurial opportunities and competitive pressures, an economy has to be one in which goods and services are typically provided by commercially oriented private firms.

This primary role of business is not one that individual enterprises consciously set out to play: it is not, and cannot be, internalised by them. Economic progress does not at all depend on a commitment by businesses to bring it about. It results directly from business actions, but it is not the motive or the goal that underlies and propels those actions.

Profits, motives and the general welfare

In a well-functioning market economy, enterprise profits are performance-related: they can only be earned by providing

customers of all kinds with products and services that they wish to buy, and doing so in a resourceful and innovative way. Profits can thus serve as an indicator – not a precise measure, but an indicator – of each enterprise's contribution to the welfare of people in general. As such, profits provide an indispensable economic signalling function. Of the many anti-market slogans that are now in vogue, the most misleading, and potentially the most damaging in its effects, is that of 'people before profits'.

How reliable profits are as indicators of an enterprise's contribution to the general welfare depends on how far they are in fact performance-related. This in turn depends very largely, though not exclusively, on the extent of competition and economic freedom.

The positive function of performance-related profits is often overlooked or played down, while profit earning as such is widely condemned or viewed with suspicion. Some see the profit motive as simply a manifestation of greed: such an approach disregards the signalling function of profits and gives a distorted picture of business mentality.

A more moderate critique views the profit motive not as evil or unworthy, but as nonetheless inherently defective because it is unavoidably tainted by self-interest. This approach typically takes no account of the virtues that may go together with self-interest; makes no distinction between self-interest on the one hand, and selfishness, egotism and greed on the other; and gives insufficient weight to the benefits the lawful self-interested conduct of people and enterprises can generate within a market economy.

Critics of the profit motive, including advocates of CSR, typically fail to distinguish between profits that are performance-

related and those that are not, and fail to recognise the indispensable signalling function of profits. They focus on motives rather than results, and assume too readily that actions that will benefit others must involve personal sacrifice.

Does this mean that business conduct and morality are two separate spheres? Not at all. To emphasise the primary role of business, and with it the signalling function of performance-related profits, is not to imply that ethical considerations have no place in the business world. Today as always, profit-oriented businesses have moral as well as legal obligations. Situations can well arise in which directors and managers, and often shareholders too, may need to consider what it would be right for a company to do, as well as what is legally permitted to it or required of it. Further, managers have moral responsibilities to owners. Issues of professional ethics arise in business just as in other walks of life.

The doctrine of CSR provides no useful guidance on such questions, and is not consistent with sound principles of corporate governance.

It is too simple to view business conduct in terms of an exclusive choice between actions that are profit-oriented and those that are altruistic: other motives are involved, including the wish to be respected by others and the professional satisfaction derived from meeting and overcoming obstacles to success. Such motives typically help to improve entrepreneurial performance. But an acid test of whether business professionalism is well directed from the point of view of people in general is the profitability of its end product.

Reinforcing the primary role of business

There is a lot that can be done to improve the business contribution to the general welfare and to ensure that the primary role of business is more effectively performed. A leading objective of economic policy – of course it is not the only objective – is to improve the working of the market economy. This points to two headings for action: first, actions to make good the limitations of markets, in particular by dealing with external effects; and second, actions to maintain and extend the scope of competitive markets. Under both headings, the effect is to make enterprise profits more performance-related, and hence a better indicator of changes in the general welfare.

Again under both headings, the responsibility for deciding policies and for giving effect to them rests not with businesses but with governments. It is not through transforming enterprise goals and conduct, in the ways suggested by advocates of CSR, that the business contribution to the general welfare can be improved, but rather through actions by governments to widen market opportunities and increase competitive pressures through liberalisation. The aim and effect of liberalisation is to increase economic freedom.

Liberalisation is not designed to serve the interests of business, nor does it do so: more often than not, businesses are opposed to it. It does not increase the power of corporations. It opens up opportunities for individuals as well as enterprises. Exploiting opportunities is not the same as wielding power.

To argue a case for liberalisation today does not carry with it a commitment to some radical libertarian blueprint or to some generalised notion of 'leaving it to the market'. It implies no

more than a belief that, as compared with the present state of affairs, extending economic freedom would bring significant and widely diffused gains in material welfare, chiefly through reinforcing the primary role of business.

In today's world, there is everywhere ample scope for further liberalisation. It is not the case, in any country, that in recent years market-oriented reforms have been carried to extremes. These reforms have not established a 'neo-liberal hegemony', nor have they signalled 'the end of history'.

The main headings for liberalisation today include: greater freedom of international trade and investment flows; further privatisation, through arrangements that will further free entry and competition; further opening up to competition the supply of goods and services that are provided largely or entirely at public expense; 'marketisation', i.e. charging people, whether as individuals or as voters, for what are now free or heavily subsidised goods and services; and deregulation (or relaxing regulation) under many headings, including reversal of the general trend towards eroding freedom of contract.

Of course, economic policy has other aspects and aims. The case for enlarging economic freedom refers to the general welfare only, without regard to who may gain and who may lose from the working of competitive markets or from changes that extend their scope. But everywhere governments and voters are also deeply concerned with questions of distribution, equity and fairness. It is true that economic freedom and economic equality can go together. All the same, they are distinct goals, and they may conflict.

However, the case for liberalisation is not necessarily undermined if considerations of fairness, equality and poverty are

given weight. There are many anti-liberal measures that do not claim to promote equality: this is true, for example, of most trade restrictions, as also of the EU's Common Agricultural Policy and its counterparts in other countries.

Even where liberalisation brings with it greater inequality, the case for it may still be strong, especially if it makes poor people better off than they otherwise would be. Historically, the progress of poor people has largely resulted from the gains that economic freedom has brought, by opening up opportunities for them and others.

To conclude, I will sum up my two main propositions. First, the primary role of profit-oriented business enterprises, now as in the past, is to act as a vehicle for economic progress. Second, the effectiveness with which these enterprises perform that role chiefly depends, now as in the past, on the extent to which governments maintain and enlarge the domain of economic freedom.²

² The arguments set out above are further developed, and set in a wider context, in a short book of mine entitled *The Role of Business in the Modern World: Progress, Pressures and Prospects for the Market Economy*, published in 2004 in London by the Institute of Economic Affairs, and in Wellington by the New Zealand Business Roundtable.

3 The business of business is business

John Kay

Author of *The Truth About Markets*

Corporations and the people who run them enjoy great power in the modern economy. What makes the authority that these people exercise legitimate? That has been a fundamental political question for the two centuries since the modern business enterprise came into being.

This question has also troubled people in different ways and at different times. It worried social reformers in the period of the Industrial Revolution. It is obviously a question that was pursued by Marxists and, indeed, in different ways by social democrats, for a century or more. It disturbed the American trust-busters, who were concerned to rein in the power of what Theodore Roosevelt famously called 'malefactors of great wealth'. It is an issue that today concerns anti-globalisation protesters, and it is equally an issue for those who are concerned to revive faith in the integrity of corporations after the recent corporate frauds and stock-market bubbles.

So what is it that makes the authority of corporations and the people who manage corporations legitimate? David Henderson suggests a central answer to this question, which is that profit-making firms acquire legitimacy in a market

economy because the system itself has produced innovation and prosperity on an unimaginable scale.

Much of the debate I have described about the legitimacy of management authority was sidetracked for a hundred years by the Marxist argument. Marx essentially took the view that the question of what made managerial authority legitimate was one that, ultimately, had no persuasive answer, and that capitalism would therefore fail on the basis of the attack on that illegitimacy of corporate power.

There are several reasons why the Marxist analysis was wrong, but the most fundamental one was perhaps never better expressed than by Werner Sombart. In the somewhat mixed metaphors of his book, *Why Is There No Socialism in the United States?*, he said that on the reefs of roast beef and apple pie all social utopias meet their doom, and that is, broadly speaking, what happened.

People ultimately dismissed Marxist regimes in Eastern Europe and elsewhere for the reason that these regimes failed to supply the video recorders, the personal computers or the reliable cars that people wanted. Large corporations are actually very good at doing all these things, and it is these facts that make large corporations and the authority of the people who run them legitimate.

That is my philosophical starting point and I now wish to consider some implications of thinking in that way. I believe that business organisations have acquired legitimacy essentially because they deliver the goods and services we want. That is their role in a modern economy and a modern society. I have used the word 'role' here, and have been deliberate in doing so, because I wish to differentiate it from words such as 'function',

'responsibility' and 'purpose'. These words are all similar, and are all used – often interchangeably – to describe corporations, but they are not the same. While a broader analysis of these words would prove valuable, it is beyond the scope and remit of this study, and it will suffice to examine just two of the terms, 'motive' and 'role'.

Business organisations have acquired legitimacy because they deliver the goods and services we want, and that is the *role* of business in modern society. Equally, I don't believe the word *motive* is very sensibly used when applied to institutions, because individuals have motives, whereas corporations have objectives. They certainly have roles and functions, but I doubt if it is very meaningful to talk about the 'motives' of a corporation. That is a word we use in a slightly different sense.

However, it certainly makes sense to talk about the role and functions of a corporation – these being delivering the goods and services we want. And although it seems in many ways a trite answer, it is an answer that is different from the conventional answers given today by people on either the right or the left.

The standard right-wing answer to the legitimacy of corporate organisation is that it follows from a moral principle of freedom of contract – that corporations should be allowed to do whatever they like as long as it does not affect people who are not parties to the contract. I have three groups of problems with this argument. Firstly, I am not sure what the basis of this principle is, and in what terms one would argue with the very large number of people who clearly do not take the view that corporations should be allowed to do whatever they like. The argument that I and most other defenders of the market

economy would be inclined to use is the argument that giving considerable amounts of freedom of operation to large corporations produces generous material benefits for the public at large, and not just for those who run the corporations – but that is very different from the claim of moral imperative.

Secondly, the activities of large modern corporations are so extensive that there are very few matters that clearly fall within the scope of the principle, i.e. we can be confident they have no effect on people who are not party to the contract. Thirdly, few people really subscribe to this principle anyway. There are some people who think that water companies should be allowed to charge whatever they like, that the provision of guards on dangerous machinery should be a matter of private agreement between employer and employee, and that insider dealing and conflicts of interest within investment banks are just fine – but not many. Most people would favour freedom of contract within the scope of appropriate law and regulation. But since it is precisely the scope of appropriate law and regulation that we are arguing about, that is to throw the baby out with the bath water.

In my view, the fundamental justification for the market economy is pragmatic. We should support it because it works, not because we can deduce the necessity of it from some underlying moral principle.

I am resisting that standard right-wing answer to the question of what makes business authority legitimate. But at the same time, I am also rejecting the standard left-wing answer, which is to say that the only source of legitimate authority in modern society is the ballot box and, therefore, all aspects of corporations and corporate activity should

at least in principle be subject to political supervision and control. People who come from that stance find nothing at all incongruous in politicians pronouncing on whether the Ten O'Clock News on television should be at ten o'clock or some other time, find nothing inappropriate in legal regulation of the length of time for which shops should be open, and are perfectly happy that select committees should discuss what lending criteria banks should use in deciding to whom they will offer credit cards. I do find it incongruous that we should have political discussion of these issues, and I think it is that kind of approach that leads to a kind of dissonance, the cognitive dissonance about which Howard Davies, the director of the London School of Economics, has so eloquently written (see pages 3–15).

The legitimacy of business arises from its effectiveness in delivering goods and services, and that is the role of business in modern society. If we accept this role, my second proposition is that *the business of business is business*.

The role of business in modern society is to do the things that business conventionally does, of which the overriding, driving one is to provide goods and services that we want. In the course of doing that, their role is also to employ people and to pay them. In the course of doing that, their role is to use capital and to pay the people who provide capital, as well as to buy goods and services for resale and reward the people who provide these goods and services. The role of business is to conduct business. The business of business is business.

This claim seems banal, but it is different from the standard answers offered to these questions about the role of business in modern society today. Once again, it differs from the

answer conventionally given on the left and that conventionally given on the right.

In saying the business of business is business, I am saying it is not narrower than that and it is not wider. Arguing that it is not narrower means that I am rejecting the idea that the business of business is fundamentally financial. If business is run primarily to create shareholder value, then that immediately raises the legitimacy question, which I have defined, and in a form that allows no satisfactory answer. If we say the purpose of business is to make profits, then one naturally asks the question – and it is very evident that people do ask the question – ‘Why should we let them do that?’

The answer, once more, is the pragmatic one. ‘Letting them do that’ has the practical benefit, in many cases, of procuring the provision of wanted goods and services. But if that is the answer, then it follows immediately that the role of business in society is to deliver goods and services. The businesses and the people who are operating them may have many different motives in doing that, but it is in relation to their success in that activity that they enjoy the legitimacy of their position.

In other words, if the purpose of business were simply to create profits for shareholders, one would have to ask, and could not easily answer, the question of what makes that business legitimate.

But there are still more serious problems in this line of argument. If the purposes of business are primarily financial, then, as we have all seen over the last two decades, these financial purposes quickly produce a breakdown of morality within the business organisation and the business sector at large. The growth of a culture of individual greed and rapacity

within the corporation is a depressing phenomenon of the last decade, and it is clearly associated with the use of shareholder value. People who work for a corporation will do so effectively only on the basis of commitment to the values of the organisation, a commitment that can never be derived from statements of the kind that 'profit is the touchstone of everything we do'. To create organisations that will either command the respect of the community at large or that will effectively motivate the people who work for them, we have to accept and appreciate the values of the business as an organisation in its own right.

These values are only sustainable in a world in which we accept that the business of business is business. And so I reject the narrower view that says the purposes of business are primarily financial. Equally, I reject the wider view that says the role of business extends beyond the pursuit of business objectives. This latter observation implies business has neither the right, nor the obligation, to engage in political activities wider than the fulfilment of business objectives in terms of producing the goods and services we want.

This observation that business has no political legitimacy cuts both ways. It means that business has neither the obligation nor, for that matter, the right to promote environmental objectives. It has neither the obligation nor the right to lobby for Britain's entry to the euro, and no obligation or right to lobby against it. Equally, it has neither the obligation nor the right to engage in political lobbying against environmental measures.

I have framed these sets of observations in a completely symmetrical way, because they are symmetrical and they are

intended to be symmetrical. My analysis rejects that concept of corporate social responsibility, which asserts that business has a responsibility that goes beyond the ordinary responsibilities that you and I have as citizens in a democratic society – the responsibilities we have not to act in a racist manner or to help disadvantaged people or not to do unnecessary damage to the environment. We have these obligations as citizens and business has these obligations too, but there is no triple bottom line in which business objectives are extended in these kinds of ways. Business ought, instead, to operate by reference to a balanced score card of business objectives, which will certainly include the loyalty of their customers, and will certainly include the skills of their workforce, but will not extend more broadly into these political areas.

I am even more concerned by what I perceive as the growing political role of corporations. That has reached an extreme form in the modern United States, where it is now actually quite difficult to see pieces of legislation coming out of Congress that do not bear an identifiable stamp of some particular corporate lobby.

The same trends have also led to the emergence of corporations whose primary purpose seems to be to seek economic rents through political action. Corporations like Disney or big pharmaceutical companies correctly perceive that a high proportion of their profits has been dependent on the enactment of particular favourable or unfavourable legislation by Congress. And we now see corporations such as Halliburton and Carlyle, essentially sophisticated modern versions of the people in the Middle Ages who used to make personal fortunes by seeking favour as rich courtiers to the King and his retinue.

In saying ‘the business of business is business’, I am rejecting the political role of business in all these senses. The purposes of business relate to the traditional business functions of the provision of goods and services, of employment and of investment. Broadly, the corporate failures of recent times have been divided into three types of failure. There were the strategic errors – illustrated well by Marconi, for example. There was the self-aggrandisement problem – illustrated by Vivendi; and there was the straightforward fraud problem – illustrated by Enron, WorldCom, and Parmalat.

But all these failures have related origins. Each group of problems stems fundamentally from a climate in which we have moved from thinking the purpose of business is business, to thinking that the purposes of business are primarily financial. All of the problems come from businesses being too close to financial markets, and too much influenced in what they do by behaviour in financial markets.

The strategic errors that are exemplified by Marconi come from a view that was quite explicit on the part of the people who managed that company – or, rather, mismanaged that company. They saw their role as being a kind of super fund manager who bought and sold a portfolio of businesses in much the same way as investment managers buy and sell portfolios of shares. First of all, that is not what business is about. Secondly, we know that active fund management, which actually has much lower transaction costs than the buying and selling of groups of companies, is mostly value-destroying and this kind of meta-fund management, as practised so widely in the last decade, has been value-destroying on a much larger scale.

It is that kind of view of the function of a company that has

led to the self-aggrandisement of characters such as Jean-Marie Messier, former CEO of Vivendi. But in the environment we have operated in for the last decade, Messier was taken seriously both by investment bankers and by the press for several years. Eventually, the inherently absurd fiction that one might use a base as chief executive of a French water company to establish an American multi-media business degenerated into farce. It is not surprising when people are led into these kinds of activities that, in the end, the financial results of the business do not support the widely propagated reports of the genius of the promoters of these activities. They started to make up numbers to confirm their genius – whatever the accounting figures appeared to suggest.

What we need to do then is to move back from a world in which we regard the purposes of business as being primarily financial into one in which we see the role of business as being to develop competitive advantages in operating businesses. We need to have a corporate sector that is less financially oriented. We need to understand that the Stock Exchange is not actually an economic institution of central importance. Its capital-raising function in a modern economy is really of no practical importance at all. It is better seen essentially as a casino in which punters lose money, as they do in all casinos. The punters lose money to people who run the casino.

Stock-market investment is another form of gambling like roulette or horse racing. Yet horse racing is not the same as gambling on horse racing. Such gambling is, in many respects, harmless and we should certainly not want to suppress it, even if we could. But what the horses should do – our corporations in the analogy – is to get on with running the race as fast as they

An apology for capitalism?

can and be much less distracted than they have been over the last couple of decades by the activities of the punters at the side of the track.

4 Setting the rules of the game

Vincent Cable

Shadow Chancellor, Liberal Democrats

I suppose, if I have any qualification to discuss this subject, it is from the perspective of having been both a poacher and a gamekeeper. Most people start their lives as poachers, being aggressively critical of big companies, and then get somehow co-opted into the system. I have gone the other way round. I once fraternised with the fat cats and I now make my living being very rude about all the people with whom I used to work – banks and other corporate entities.

It might be useful to explain initially what I would describe as the theory of corporate social responsibility (CSR), how we have got where we are and why it is that this concept exists, and then to express some of my own scepticism about it. I will then seek to draw, in conclusion, some thoughts about what this means in terms of policy and regulation because, in a sense, the whole debate is about how we approach the issue of regulation of companies.

I think there are two basic strands to the theory of corporate social responsibility. When people talk about social responsibility they are making two underlying assumptions. One is an assumption about the way that markets work. There is a view

that we now have increasingly sophisticated, globalised markets in which there are increasingly sophisticated customers, shareholders and potential employees, who will have perhaps increasingly critical values. It is therefore the job of companies operating in these markets to try to attune themselves to these values which, very often, are very critical of the way that companies have traditionally operated. The fear that a lot of companies have, operating in this market environment, is that if they get these things wrong it will damage their reputation. Their reputation has a quantifiable value, which is the value of their brand. So, if they get these things wrong, they suffer potential commercial damage. They therefore need to be much more sensitive to these underlying social values than perhaps they used to be.

The second underlying assumption is that the nature of politics has changed as well. We have had the end of the Cold War. We now have an environment in which capitalism is the only game in town. From that the jump is often made to believe that business then has some major responsibility for many of the problems of the world – AIDS in Africa, or the global environment, or our lifestyles in general – and that we can achieve a consensual process by which business works with politicians and NGOs to deliver these wider social goods.

What lies behind the corporate responsibility movement, if one can call it that, is a mixture of a view about the way markets now work and a view about the way politics now works.

I would like to believe a lot of all this, but I am rather sceptical, and I am sceptical for several reasons. First of all, I am yet to be persuaded that companies who embrace the corporate responsibility agenda in a very proactive way – like Shell, which

is an excellent example of this – significantly improve their performance as companies.

I know there is some research evidence. The *Harvard Business Review* has produced some work that suggests that companies with a very active corporate social responsibility agenda produce better rates of return than other companies. I am not sure how strong the research is. There are people in the ethical-investment community who tell me that they can earn a better return on their portfolios than other investors, and if that evidence is sound then I am duly impressed, but I am rather sceptical of it.

We do have quite a lot of anecdotes that suggest that the world is not quite like that. Those companies that have really developed their brand on the basis of corporate social responsibility have some odd characteristics. If we take the banking community, the one that makes a deliberate pitch in terms of social responsibility is the Co-op Bank, which is a mutual and is not therefore accountable to shareholders. Many of the companies that a long time ago built up a reputation for corporate responsibility were private companies. I grew up in the city of York and the biggest employer was Rowntree, which – like Cadbury's – was one of a whole series of Quaker companies. They made an enormous play over being very socially minded, and I admired them greatly. I was brought up as a Quaker in York, so it was very much part of the ambience in which I grew up.

The problem is that those companies have all disappeared, or most of them. Clark's Shoes still exists, but the Quaker companies have disappeared. The reason they disappeared was that they were private companies, and private companies operating in global capital markets are at an enormous

disadvantage. They have effectively been bought out, and they operate now much like any other public limited companies.

Ultimately, this is an empirical question which is: do companies that take corporate social responsibility seriously do better than others?

I am sceptical, but I am interested to see the evidence. All I can say in relation to Shell (the company I used to work for, which I am a great admirer of and I still feel very loyal towards) is that when they were in an enormous amount of trouble with Greenpeace, amongst others, because of their role in relation to Brent Spar and Nigeria, as far as I recall it did not really make a great deal of difference to the company's share price or its return on capital.

However, in the last few years Shell has got some of the business fundamentals wrong – most obviously during the final months of 2003 – and has been in very, very deep trouble. This does perhaps suggest a wider lesson; that companies can take their eye off the ball, and that if they ignore what the basic rationale of their company is, they are likely to find themselves in considerable difficulties.

My second reason for scepticism about a lot of corporate social responsibility is that I suspect that, however much companies try, they are not likely to be able to assuage their critics. I say this for two reasons. First of all, many of the critics are not fundamentally interested in corporate social responsibility. They have another agenda. I was quite actively involved with Shell in Nigeria – not on the ground, but certainly in headquarters, trying to consider how one might develop a rational strategy towards this – and it was very clear that many of the people who were attacking the company were not the slightest

bit interested in whether Shell spent more money on local village schemes in southern Nigeria. This was just a convenient stick to attack a multinational company. That is fine. That is politics. They were not likely to be the least bit impressed by improvements in the corporate social responsibility agenda.

I am now a politician. I know how this works. I spend a lot of time at the moment attacking the banks, and I think for good reason. I am not attacking them because I am against banks or against bank profits, but I am attacking them because I think there is a complex monopoly, and I think it is my job to attack them on economic grounds. A lot of my constituents also feel they are overcharged and get bad service. I think, as a politician, I have good reasons for criticising them. I am not going to be bought off by glossy reports telling me how much money they give to Africa or the opera. I have a job and they have a job. Corporate social responsibility in the banking system, as defined by the banks, is not likely to pacify me one little bit.

To give another example, I spend a lot of my time making life miserable for my local water company, which operates a sewage factory adjacent to my constituency, and it creates a great pong which I think, and my constituents think, the company should have done something about many years ago by investing in anti-odour equipment. I criticise them very heavily and I continue to do so. But that company felt that it should do something about its social responsibility image. One of the things that it did was to organise a duck race on the Thames. MPs were encouraged to go out on to Westminster Bridge and drop ducks in the river. The duck that got furthest won and the MP would be given a £5,000 cheque to award to a charity in his constituency. Somewhat to the embarrassment of

the water company, I won the race. I duly collected the cheque and gave it to my local charity. The management was exceedingly peeved when, a week later, I brought out another tirade of abuse against their company. But that is my job. As a local representative, it is my job to criticise them. Glossy reports about their concern for the environment did not impress me one little bit. I am very sceptical about the effectiveness of a lot of the corporate social responsibility work that companies do because I suspect it is not going to meet the objectives of the people who criticise them, be they NGOs or politicians.

Thirdly, and perhaps more fundamentally, I do believe that a lot of the things that are demanded in the name of social responsibility are actually socially irresponsible. I will just take two perhaps slightly controversial examples – and I draw on my experiences at Shell again.

One of the problems with the Brent Spar controversy, which is often forgotten about, is that Shell took enormous trouble to ensure that their preferred solution was environmentally sound. It spent an enormous amount of time talking to environmentalists, talking to all the main governments around the North Sea in order to ensure that dumping in deep sea was best practice, and had got it all agreed. It was only when people started burning petrol stations in Germany that Shell panicked. It started looking at other options. It came up with other options which, at the end of the day, many environmentalists would argue were inferior.

The other example I would give is in relation to many of the campaigns that operate on labour practices in the supply chain, much of which is driven, frankly, by crude protectionism and a belief that developing countries should not be involved in

international trade in labour-intensive products like garments. One of the most immoral and damaging campaigns in recent times was a social responsibility campaign, which I think was spearheaded by the Lutheran churches in Germany, against the export of garment products from Bangladesh. Somebody had identified very poor conditions, low wages and young girls of thirteen working in some of these factories. The upshot of it was that many of these garment establishments were forced to close. The teenaged girls involved in them were then forced into other options, which are very limited. They included domestic service and prostitution because the labour market does not offer many alternatives in one of the poorest countries in the world. This was a campaign that was utterly counter-productive. It was vehemently opposed by the trade unions within the countries concerned, and very damaging. I suspect that many of the campaigns directed at supply-chain responsibility, the Nike campaigns, for example, have exactly the same motivation and potentially the same very damaging consequences.

In conclusion, I'd like to discuss the consequences of this for policy-making. There is a growing pressure – and I suppose I am part of it as a politician – to demand new legislation attached to the UK's Companies Bill for building corporate social responsibility into company prospectuses. I have mixed feelings about this. In general, transparency is to be welcomed. The more information that is out there in the public domain – and that is not covered by so-called commercial secrecy – the better. The more companies can publish about their operations, the more their customers, their shareholders and others, can make informed judgments, the better. I am generally in favour of anything that increases information transparency.

But there is a deeper issue, which is about the balance that we need to strike between regulation and self-regulation. Essentially, I think that corporate social responsibility is an attempt by business to self-regulate in response to many of the pressures that are coming from the political community. Companies want to be able to regulate themselves. Producing pamphlets and establishing social responsibility agendas is one way of heading off regulation.

As somebody who does the regulating, and often demands it, I can understand why they do this, because regulation is increasingly intrusive and costly, and it affects growing numbers of activities that companies do. One of the responsibilities that people like me have now – and I do not know what the answers are – is to find ways of dealing with the social pressures for regulation in ways that are less costly and less intrusive.

I think that one way we can deal with it is by having general duties, rather than the highly prescriptive rules typical of the European Union, or indeed, the British government. Let me just give you a couple of examples.

There is tremendous pressure to introduce all kinds of restrictions on what is regarded as unfair selling – whether it is doorstep selling, or the mis-selling of financial products or mobile-phone services – pressure to introduce very, very detailed prescriptive legislation to outlaw each and every one of these many practices.

I think, though I am not sure, that a better way of handling this is to have a general duty to trade fairly, which puts on companies a broad obligation for which, where there are extreme abuses, powers then exist for the local trading standards offices to intervene. The danger, of course, is that a lot of regula-

tors will simply go to town and abuse it. Companies say they want to know more precisely what they are required to do, but that is one way of getting round the detail and the intrusiveness of legislation.

Another example would be the fat-cat pay problem. The last thing we want in the present circumstances is to have governments defining precisely what senior managers should be paid. That takes us back to the worst features of the 1960s and 1970s. Nonetheless, there is a general concern expressed by politicians on this issue. I think the way to deal with it is to build on what the current government has done and to give shareholders the right to vote at annual general meetings on management pay packages, but to go further than the government has said and not just allow this to be advisory, but allow it to be mandatory and to produce mechanisms so that institutional shareholders can and should vote by having their votes declared on the internet. In other words, to make the whole process of shareholder involvement in decision-making easier and more transparent.

That way one is addressing a concern that fat-cat pay is gross and often unrelated to performance – a social concern – but one is doing it in a way that is not massively intrusive, and yet without leaving matters to self-regulation, which always has a kind of free-rider problem.

I am throwing that out for reflection. I am not sure that it necessarily solves all problems, but there is something that – as somebody who has been involved in business and is now involved in politics – worries me deeply, which is how we handle this pressure for more and more regulation, but do so in a sensible and sensitive way.

5 Reputation brings its own rewards

Neil Sherlock

Partner, Public Affairs, KPMG UK

The glossy brochure and public relations-led corporate social responsibility activity associated with the United States has done enormous damage to what is a strong business case for corporate social responsibility (CSR).

It is interesting to note, and certainly *The Economist* covered this in enormous depth at the time, that one of the seemingly most corporately social responsible companies the planet has ever seen was Enron. It was a member of every conceivable organisation that was engaged in corporate social responsibility and it poured, at least in theory, millions and millions of dollars into corporate social responsibility activities.

My contention is that most of that was very much public relations-led, and very much about people at the top of the organisation aggrandising themselves by great gestures to local communities. I do not think that that is what corporate social responsibility should be about at all. Those activities – and that is just one corporate example – have created a climate of scepticism not just in the NGO community, but also among some very senior business commentators as well.

The Enron scandal, alongside other recent episodes of

corporate malfeasance, has brought about an expectation, not least from government, but also from the media and from public opinion, for companies to act in a different way. Companies rightly must be transparent and accountable for what they do, and for how they act.

CSR is part of this. I am not evangelising and saying that everybody has to act in a similar way at all. That is exactly not my thesis. I am saying that executives have to look at their own businesses, what they are trying to achieve, and then see whether there is not a business case for them to act and to do things in a slightly different way. That is what I believe corporate social responsibility is about.

That brings me to where KPMG sees CSR and why we think there is a strong business case for it. As a service business, we are right in the spotlight – and rightly in the spotlight – of political, media and other attentions. We consequently face rising expectations of how we act. We have got rising expectations from government about how we are expected to act. This applies not just in a regulatory sense. For example, when you bid for government contracts there is an increasing raft of information that you have to provide about how you operate: what are your policies on diversity, what is your policy on the environment, and so on. It is equally true with contracts with local authorities. They expect information about what contribution you are making to the wider community beyond mere profit and employment. You cannot ignore that. That is a business driver.

Another business driver is reputation management. The Davos survey showed that 24 per cent of executives who attended the World Economic Forum thought that the most

important measure of corporate success was reputation and the integrity of the brand. CSR is part of that management.

You have got to practise some of the things you talk about when you go out to serve clients. Indeed, certain areas of serving clients you absolutely could not do unless you were doing it yourself. What credibility would KPMG have to verify social and environmental reports if we did not report on our own activities in these areas?

Therefore, we have engaged in a journey that started pulling together some very ad hoc things that people did around the business. There was an awful lot of senior-partner, top-down 'corporate social responsibility' in the early 1990s that didn't engage staff or our communities in any meaningful sense. I think the revolution that we had is that this activity needs to be driven as much bottom-up as it does top-down. We consulted our people about the sorts of activities they not only wanted the firm to get engaged in, but also wanted to get engaged in themselves. We found overwhelmingly that people wanted to engage in education – volunteering, working in schools and colleges – to help people who are much less fortunate than themselves in some of the inner cities of our country to improve their skills as individuals. In particular, KPMG people wanted to use their skills to improve the literacy and numeracy of young disadvantaged people.

That could be seen as very narrow, but on the contrary out of this volunteering what we find is that our staff broaden their own horizons, they see the world not from a narrow prism of privilege, but as it really is. This is a broadening experience that benefits them, KPMG and the young people in schools.

If I consider our volunteering programmes in general, the

people bring back benefits and extra skills and development, which would otherwise be vastly expensive to equip them with. In this way, the engagement not only has a cost benefit, but business benefits as well. It is a source of pride to us that we were able to report in our last annual report that some 2,000 KPMG people – over 20 per cent of our people – were engaged in 2002–03 in volunteering in KPMG time.

We are engaged, as other organisations are, in the fierce war for talent, particularly at the graduate end. KPMG is one of the biggest recruiters of graduates. You can dismiss this all you like, but one of the top three questions from people that might join firms like us is always something like: what are your policies around corporate social responsibility? How do you engage to be more responsible? What are you doing in your communities up and down the land? So that is another business-critical reason for our CSR programmes.

We find also that there are partnerships to be made where the private sector can work together in some of these volunteering and other activities to engage on some quite intractable social problems. This is done in a way that allows people to work together across companies so that they get that benefit, and equally allows people to put something back in a sensible way. A good example of this is our work on tackling homelessness by helping the homeless into work. This is a partnership under Business Action On Homelessness with KPMG, Barclays, Marks & Spencer and Marsh.

Each business, in its own way, has to look at what the business drivers are for it for this whole area, and then build programmes and engagement in a sensible way around problems that allow staff to contribute and the community to

An apology for capitalism?

benefit. I do not think that this is a new dawn or a fantastic insight. I just think that this is hard-nosed, good business sense, which also makes a real difference. Therefore, I would not say that CSR subtracts value. I would say, in a sensible way, it adds value, not just to the community but to the business itself, and that is good for business, as well as good for the community.

6 Sorry isn't good enough

Stephen Tindale

Director, Greenpeace UK

Greenpeace does not take a particularly positive view of corporate social responsibility (CSR), and I will endeavour to explain why. In considering the question 'Does this add or subtract value?', the obvious starting point is to ask: to what? Since I have never worked in the private sector, I do not feel well able to comment particularly on whether CSR adds value to individual companies, but I will examine the question with regard to capitalism in general.

Greenpeace is not opposed to capitalism or globalisation per se, but only to unsustainable practices. We work with companies where we feel there is common ground and where we feel we can promote our campaign agenda through doing that. We do not have a hidden agenda – indeed, I hope our agenda against unsustainable practice is very open.

The best example of working with companies that we have at the moment is a partnership with N-Power to promote green electricity called 'Juice', which we get no money from. Greenpeace does not take money from businesses or from joint ventures, but jointly markets the attractions and environmental benefits of offshore wind.

To us, capitalism, the market economy, economic growth – call it what you will – is a means rather than an end. To ask whether CSR adds value to or subtracts value from capitalism and the market economy is not for us. The primary question is: does CSR add value to what should be our end, which is the well-being of people, and the protection of the planet? That is the question I will try to answer.

At the simplest level the answer is yes. Corporate social responsibility is good in that it puts more information into the public domain. I agree with Neil Sherlock that the rule, by and large, is that the glossier the information, the less useful it is and the more the company has to hide. Information that comes in a raw form, particularly on websites, tends to be more useful than actual reports. Information in itself is good. Targets for improved performance are good. A number of companies set them for reducing their greenhouse gas emissions, for example. Giving money to good causes – that horrible phrase – is unlikely to do any harm.

The two key criticisms we have of CSR are, first of all, that it tends to focus more on process than it does on substance. The best, or worst, example in this respect is BNFL, a company that is deeply irresponsible and unsustainable to its very core. It has an excellent stakeholder dialogue process, which ties lots of people up in knots for lots of time. I cannot identify any changes, any significant changes, to business practice as a result of that, but it continues to report with great pride on its stakeholder dialogue process. So process is something to be treated with a great deal of scepticism.

The second problem with CSR is that it tends to be used in support of voluntarism as a means of resisting government

interventions. There is something of a paradox here, in that since the fall of Communism, since the (almost) triumph of neo-liberal ideology, companies say, 'We are capable of regulating ourselves. We are capable of behaving in a responsible manner. We do not need governments to tell us what to do. If governments tell us what to do, it will detract from overall welfare. It will reduce economic efficiency,' and so on and so forth.

Then, at the same time – or shortly afterwards – when faced with a demand to do the right thing in a particular area, the companies will come back and often the selfsame people will say, 'Oh, but we couldn't do that because we are constrained by the need to increase shareholder value in the short term,' or, 'We are constrained by the fact that our competitors would undercut us,' or, 'Our boards don't understand these issues.' On the one hand they are saying, 'Leave it all to us.' On the other hand, they are saying, 'We can't do it because we are a company and not a philanthropic organisation.' These two explanations are not consistent.

Our view is that they should be allowed to be companies, and not be expected to be philanthropic organisations. But that means that we need governments. We need public policy to promote the public good. The key point is that there is a difference between private good and public good. What is good for General Motors is not necessarily good for America. What is good for BP or Shell is not necessarily good for the UK. It may be. In many terms it is. But it is not necessarily. There are differences.

This gives us a dilemma as an environmental organisation and as part of the NGO movement, because politicians

are easy targets. It is quite difficult to stand up and say that politicians are good things. Governments are good things. There are probably many people who think that governments should get out of the way and leave things to companies. When you see governments behaving as they do over issues such as Iraq, where they have a very flexible relationship with the truth, it undermines trust in government, but it is part of the environmental agenda, I believe, to say that government is an important component and, in many respects, the most important component, to moving from unsustainable growth towards sustainability.

Greenpeace judges a company increasingly on its attitude towards public policy, not on its narrow performance in specific environmental indicators. There are some companies that are doing well in this regard. Marks & Spencer, for example, is actively lobbying in favour of regulation of chemicals so that it can be confident that the products that it sells to its customers are not going to harm the health of those customers. You would think it was fairly easy for companies to do that, but most retailers are not doing it. The Co-op is also actively lobbying on the chemicals issue and on the climate issue.

I would also include Shell in this category, and will not say very much about Brent Spar, other than that I do not agree that, in retrospect, the wrong environmental option was selected. If you take account of the full range of issues, including producer responsibility and the need to plan ahead for what you do with your waste, generally speaking, the fact that ocean platforms are being brought back on to land and recycled is good for the environment.

The other point I wanted to make is that burning petrol stations is absolutely not part of our agenda. It was not Greenpeace. It was condemned by Greenpeace at the time. Shell is now doing some good things, particularly on promoting renewable energy and promoting hydrogen. The partnership that it has in Iceland is one of the most exciting partnerships in the industrial world. Shell is also the company that, more than any other of the major oil corporations, is speaking out in favour of international action on climate change. That is the key point about why we would now say that Shell was narrowly ahead in the race, if you like, to become a more responsible and more sustainable oil company.

BP took the lead, with John Browne's speeches in favour of action on climate change in the late 1990s, but BP, since it has become more engaged in the American market and since it has acquired American assets, has tended to stop talking about the need for international action, in a regrettable sense. Shell is now the company that is being most responsible.

In stark contrast you have Exxon Mobil, which is actively campaigning to undermine international consensus on climate change. Greenpeace has been saying for the last three years that consumers and other companies should boycott Esso or Exxon Mobil, and this is why one million customers in this country are already doing that. It is not because Exxon's petrol is bad, as far as we know. It is not because it has worse emissions from its refineries, or that it has worse oil spillages, despite the Exxon Valdez. All companies are culpable in that respect. It is not because it has a worse respect for local communities. It is because it is actively undermining the climate science. It is lobbying successfully to get the head of

the Intergovernmental Panel On Climate Change removed and replaced with somebody who is, in its view, going to be more effective. And it is because it is effectively giving large sums of money to the Bush administration to make sure that action on climate does not happen.

In our view this is immoral behaviour. Already 160,000 people a year are dying as a result of climate-related events. By 2050 three billion people could be short of water as a result of climate change. Against this, the fact that Esso sponsors National Tree Week in the UK looks pretty cynical.

There are lots of other examples. Enron was a member of all the clubs, but it was going round actively lobbying against the government's attempts to promote combined heat and power as an efficient way of using gas and as a way of reducing greenhouse emissions, so I think that, on the public-policy test, Enron would have been seen for the charlatan that it was subsequently revealed to be.

In conclusion, in Greenpeace's view, CSR could add value to society. It is obviously better than CSI, corporate social irresponsibility, but transparency and comparability of information is the key in this respect. Here I think, rather than looking to companies – rather than actually going and regulating companies more to provide CSR reports in a particular way – I would look to the regulators, who are already gathering vast sums of information on companies, to provide information on corporate behaviour to the public in transparent and comparable ways.

CSR has some limit, but it is limited by competition, which is why we need a public policy framework. Companies that support strong public policy and use CSR to publicise that,

deserve support and get support from organisations like Greenpeace. Those who use CSR as a smokescreen behind which to block public policy or lobby against it deserve to be exposed as the unpleasant hypocrites that they are.

7 Let business take care of itself

Clive Crook

Deputy Editor, *The Economist*

Whether CSR as a general proposition is good for business is unclear. In some cases, CSR presumably does allow the good corporate citizen to increase its profits. In other instances, no doubt, CSR harms the company's narrow commercial interests. The distinction is important not just for managers concerned with profitability, but also for citizens in thinking about the ethical implications of CSR.

Why might CSR raise profits? If a company treats its employees well, it may find that it can recruit and retain better people. If it allows or encourages them to engage in charitable activities on company time, that too may improve the quality or productivity of its employees, at any given outlay. Expending resources on improving the company's relations with its neighbours in one sense or another could also be good for business. Sometimes, to be sure, CSR may be merely a tool of public relations – but there is no reason to object to that either. It is fine for a company to strive to improve its image or increase regard for its brand, provided it is not being obliged to respond to unreasonable demands, and so long as it is operating in a competitive environment.

None of these kinds of profit-supporting CSR activity seems to me to pose a problem.

What about CSR that reduces profits? To begin with, there is a straightforward ethical difficulty here – one that receives surprisingly little attention. When CSR reduces profits, managers of public companies are being charitable with other people's money. That seems to me straightforwardly wrong. Big private companies like Rowntree are largely now a thing of the past. Typically, today, the firms that embrace CSR and spend money on what their managers regard as good works are owned by dispersed shareholders. Managers are surely behaving unethically if they act on their beliefs about corporate social responsibility at others' net expense. By all means let managers finance not-for-profit good works out of their own ample compensation packages. That would be admirable. But philanthropy at others' expense is far from admirable.

This raises a broader point about managerial accountability. The profit motive holds managers strictly accountable both to owners and to consumers. Muddy this by maintaining that profit maximisation is no longer the goal – by saying that companies have broader social responsibilities – and the result is that managers are freer to run companies according to their own interests instead. It is probably no coincidence that Enron was a big believer in CSR: the mindset in such companies is that managers do not regard themselves as accountable to shareholders. Advancing the interests of shareholders is not their first priority. In effect, managers are treating the company as if they owned it, with the crucial difference that they are spared many of the risks and other burdens of ownership. This is an attitude that needs to be discouraged. Whether it manifests

itself as an enthusiasm for off-balance-sheet accounting or a passion for CSR, I think it is essentially the same idea.

A third problem with profit-reducing CSR is that it tends to erode competition. If CSR is costly then many companies will embrace it only if they think they have a reasonable prospect of pushing the same burden on to their rivals. Firms in this position will pronounce their belief in CSR, while calling on governments to force enlightenment on the less advanced. This is exactly the dynamic that Greenpeace and other anti-capitalist NGOs seek to exploit. The trouble is that managers in this situation may conspire with each other, and with governments, to adopt regulations whose economic merit is, to put it mildly, contested. For instance, many NGOs advocate criteria such as 'sustainability' and the 'precautionary principle' in the conduct of socially enlightened business. In practice, as guides for action, these criteria turn out to be useless or worse. At any rate, they ought not to be accepted as obvious and uncontroversial. An alliance of NGOs and supposedly enlightened companies to apply such principles as economy-wide standards is not in the public interest. It is profoundly anti-democratic as well.

Do we really want social policy to be decided in private meetings between NGOs and executives, all of them unaccountable to shareholders, consumers and the public at large?

The case for CSR proceeds from a false premise, in my view: namely, that capitalism is bad for people. The evidence is overwhelming that capitalism is good for people, and its power to advance prosperity should not be needlessly hobbled. Acting within the law and upholding ordinary standards of decency, let business take care of business. Indeed, we should insist on that. Companies can do good works where that serves the interests

of the firm's owners – and hence, in a competitive economy, the interests of the firm's customers and society at large as well. As individuals, needless to say, we should all strive to be compassionate, socially responsible and charitable. Beyond that, however, policies aimed at issues such as relief of poverty, social justice and environmental protection should be left fully and plainly in the domain of democratic politics, where the trade-offs can be recognised, discussed and resolved.

8 In the company of fear

Benjamin Hunt

Author of *The Timid Corporation*

I wish to focus on the way that innovation is being held back because of nebulous fears about the future and to argue that we are witnessing today an irrational self-restraint in the way we use new technologies. This is the impact of the precautionary approach. A good example of this is attitudes towards the new technology of radio frequency identification or RFID tags.

RFID tags are used in the retail sector. They are tiny chips that can be put into crates carrying goods in the supply chain. They are more efficient than bar codes in scanning deliveries for retailers and can be put into consumer goods – anything from clothes to shaving razors – and used for stock control on the shop floor. Retailers started to use them in the last few years to create efficiency gains and lower costs as a result.

New fears are increasingly expressed about the hypothetical risks of RFID, in particular the risk of corporations being able to track consumers with these tags, spy on them and invade their privacy. New groups have campaigned to ban the technology from use in consumer products, especially CASPIAN – Consumers Against Supermarket Privacy Invasion and

Numbering. It organised a campaign against Wal-Mart, which had a ‘smart shelf’ in a store outside Boston, in spring 2003. CASPIAN encouraged hundreds of privacy advocates and consumers to email the company with their complaints, and Wal-Mart was forced to remove the shelf.

A similar thing appeared to happen with Benetton. In March 2003, Phillips announced it would be selling 15 million tags to Benetton. CASPIAN immediately called for a worldwide boycott of Benetton. By April, Benetton, worried about negative publicity, issued a statement saying that it was not ready to use these chips on the shop floor, but was still experimenting with them.

Indeed, these chips have already been labelled ‘spy chips’ by commentators. An article for the *Guardian*, reporting on this issue in July last year, was entitled ‘Tesco Tests Spy Chip Technology’, reporting on a smart shelf in a Tesco store in Cambridge. Like Wal-Mart and Benetton, Tesco cancelled the shelf after this negative publicity and after protests.

Commentators have accused corporations of playing Big Brother in relation to this. An *Observer* article in November last year was entitled ‘Wal-Mart to Play Big Brother’. The writer expressed fears about the introduction of the technology and called for new regulation.

If we look at the concerns, the main fear is that consumers can be tracked by corporations and others after they buy goods. But in my opinion, and the opinion of others, this seems very hypothetical when you consider the technology. First, RFID tags can only give off highly localised signals to localised readers, they are not big and powerful enough to do anything else: to track people you need satellites and devices the size of mobile

phones. Also, the signals from RFID are apparently susceptible to being interrupted quite easily. A challenge for developers is actually to make them stronger to increase their effectiveness. Second, the chips can easily be disabled or deactivated in the store after being bought – although this might be a bad road to go down, simply because there may be all sorts of interesting uses of these chips in the home that consumers can benefit from.

However, fears seem to be increasing. In November of last year, in the US, an alliance of privacy advocates and consumer-rights activists called for a moratorium on the technology, echoing the same pattern seen in the genetically modified food and crops debate. They argued that the technology should not be used at all for consumer items on the shop floor until all the privacy ramifications can be properly discussed.

In the UK, RFID is now attracting the prospect of new regulation. Tom Watson MP organised a parliamentary debate on 27 January 2004. His speech acknowledged the benefits of this technology for productivity and the economy, while other MPs recognised that consumers cannot be tracked with this technology. But his primary focus was very much on risks and dangers: 'What I am trying to do is sound a note of caution, and perhaps persuade the industry, along with consumers and government, to examine the issue more closely... The risk is that with billions of active tags on every conceivable item and hundreds of thousands of scanners, a permanent surveillance will be established ... We must not allow the technology to be used without any regulation ... Strict guidelines are needed to reassure ... Public confidence in the use of RFID for entirely honourable reasons could easily be shattered – and nobody will benefit from that.'

Finally, a few weeks ago, the National Consumer Council held a conference on RFID and apparently argued that industry should proceed with caution.

There is certainly nothing wrong with discussing hypothetical risks to privacy. But in relation to the US-proposed moratorium, it is not clear why we should delay the technology and ban it from the shop floor. And if the chips are deactivated at the point of sale, this is a complete non-issue anyway. It is also not clear why corporations would want to spy on people. Yes, companies always want to get more information about individual customers. But this technology was not designed for that: its primary purpose and function is supply-chain efficiency and stock control. Indeed, companies are very worried about their ethical reputations at the moment: it is unlikely that they would suddenly use a technology like this in an incredibly sneaky way without the consumer's knowledge. There are risks to privacy in society, I accept that. But they come from forces that have nothing to do with RFID – I would suggest looking at society's new obsession with security and safety as a result of terrorism.

In the UK, I think we are starting to see some irrational attitudes to this technology already. Potential regulators acknowledge that consumers cannot be tracked and that RFID has benefits. This was acknowledged in the recent parliamentary debate. However, they still think that consumers need to be reassured and protected – because it is said that consumers have legitimate fears. But there is a danger that regulation of this nature will create those fears, and is a massive diversion of resources from research, development and innovation. It is common to hear that we should have a slowly-slowly approach:

we should have RFID perhaps, but only in a limited form at first. Again, this is a bit strange – if there are few risks, why can't we have a more ambitious application?

The example of GM crops demonstrates the parallel of what I call an 'irrational' self-restraint to innovation because of the precautionary approach.

Despite the ideas of people like Michael Meacher, Britain's former Secretary of State for the Environment, GM technology still has huge benefits and potential; it increases farm production, while requiring the use of fewer chemicals, and it allows us to increase the amounts of different vitamins in foods, specifically combating malnutrition. I believe it is worth examining the instructive example of how GM foods came to be prohibited in the UK.

Britain's GM saga kicked off in 1997. Campaigners such as Greenpeace and the UK Consumers Association began warning of the hypothetical dangers of GM foods. The *Guardian* ran a four-day campaign which was alarmist in talking almost exclusively about the hypothetical problems of GM. NGOs claimed that there are significant long-term uncertainties about health and environmental risks. In responding to these fears, retailers were defensive in pulling out of stocking GM products. The retailer Iceland was one of the first in 1998 and, indeed, their chief executive, Malcolm Walker, suggested that 'the introduction of genetically modified ingredients is probably the most significant and potentially dangerous development in food production this century.' In 1998 English Nature called for a moratorium on the commercial growth of crops, and an alliance of NGOs, trade unions, consumer groups and others called for a five-year freeze. Prince Charles denounced GM in a

famous article published in the *Daily Telegraph* that same year, where he said we are playing God.

By 1999, the other major retailers went on the defensive. Tesco, ASDA, Sainsbury and Waitrose announced they would not use GM in spring 1999. Yet the science of GM has always shown that the risks to human health and the environment are very low. All the evidence of use – and we are talking about billions of GM plants grown outside the EU for commercial use in America, Japan and so on – has shown that there are no predicted or unpredicted hazards. In terms of health, as the Royal Society has concluded, there is a very long history of DNA consumption from a variety of sources: additional eating of GM DNA is unlikely to have a special effect. Many scientists have concluded that there is no conceptual difference between traditional cross-breeding of plants and inserting new genetic material into plants. Nor is there other evidence to suggest problems such as allergic reactions. Back in 1986, the Organisation for Economic Co-operation and Development (OECD) suggested that there is no scientific basis for specific legislation to regulate the use of recombinant DNA organisms.

A major problem, however, was that the UK government (and also the EU, which created a five-year ban in 1999) did not use the considerable scientific evidence to counter fears. They avoided a strong political argument, making the mistake of attempting to reassure the public through regulation of GM and insisting upon further research. The creation of farm-scale trials in the UK is an example of this fudging of the issue. The whole debate around product labelling is another attempt to reassure the public, which simply reinforces the idea that there is something suspicious about GM food. The attempt to reassure

the public through regulation has only increased fears. It reinforces suspicions that there are high risks associated with the technology. Today governments are in a very precarious and difficult situation in facing this contradiction. In my view, they are still fudging the issue by only allowing one or two crops to be grown. This does not inspire confidence in GM.

In conclusion, we are seeing the creation of a more precautionary framework for innovation. This framework is characterised by three elements: First, a range of groups opposed to new technologies on the basis of hypothetical risks. Second, a more fearful and insecure society that is susceptible to fears of future risk. Finally, a business sector that is mistrusted, worried about its reputation and upsetting customers, and more prone to act defensively. Compounding this situation are the political elites that pander to society's fears and are keen to relate to society through the prism of safety and protection and reassurance, rather than promoting the benefits of innovation in a more confident fashion.

Science and technology are among the best things that humanity has. Through technology we have managed to make progress in a number of ways: in solving problems, overcoming natural limitations, increasing society's efficiency, and the creation of more choice and freedom within society. Yet today our elites feel very unable to put forward a confident argument for technological progress. The result is that we all suffer.

9 Precaution – the enemy within

Bill Durodié

Senior Research Fellow, King's College

'As we know, there are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns – the ones we don't know we don't know.'

That was US Defense Secretary Donald Rumsfeld getting his knowns and unknowns in a twist at a Defense Department press briefing on 12 February 2002. By doing so, he was, albeit inadvertently, announcing the return of the language of precaution to where it came from, which, it may surprise you to hear, was the political right – its natural home in the first place.

Interestingly, and even more confusingly, the concept of 'unknown unknowns' started off life in a paper written by the chair of Greenpeace UK, Robin Grove-White, a year before Donald Rumsfeld made use of it.

The language of precaution imbued more of Rumsfeld's press conference that day. He went on to conclude that 'the absence of evidence is not evidence of absence' – another common mantra of the environmentalist movement.

As others have indicated elsewhere, nobody has yet found a

way of providing evidence of absence except as a consequence of an accumulation of absence of evidence. I sometimes wonder whether the so-called ‘hawks’ in the White House realise quite how much they have in common with the environmental lobby.

I would suggest that the language of precaution is the language of paranoia and misanthropy. It is based on constantly deferring the potential of humanity in order to sort out some perceived, more immediate social problem in the here and now. The White House is beset with many of those paranoid problems at the moment.

There is no agreed definition of the precautionary principle. One of the more authoritative versions comes from the 1992 Rio ‘Earth’ Summit. It contains a rather famous triple negative, which is that: ‘*Not* having evidence is *not* a justification for *not* taking action’, a phrase that may now be familiar to many from the fiasco over the weapons of mass destruction argument in support of the recent war in Iraq.

Let me try to undo a couple of the knots in the triple-negative phrase above for you. As you know, two negatives make a positive, so if I remove two of the negatives from that statement, it should mean the same thing, and we are left with: ‘Action without evidence is justified’.

That is it, in a nutshell. The precautionary principle is, above all else, an invitation to those without evidence, expertise or authority, to shape and influence political debates. It achieves that by introducing supposedly ethical or environmental elements into the process of scientific, corporate and governmental decision-making.

It relies largely on a single assumption. That is that prevention

is better than cure. This is also known as ‘better safe than sorry’. While this may seem obvious to many, there is in fact precious little evidence for it. The problem with preventative measures is that they are of necessity general and long-lasting, whereas cures tend to be targeted and discrete.

What is more, it is possible to cure somebody, or something, without forming a moral judgement about that activity or person. But if your primary focus is on precaution, then it is morally wrong not to take preventative measures. Therefore, the whole language of precaution is imbued with excessively moralistic tones.

In actual fact, prevention is only better than cure if the probability of the particular problem you have got in mind occurring is rather high and the proposed preventative measures are largely accurate or effective.

But in the majority of risk debates that we encounter today, neither of these cases is actually met. Probabilities on the whole are pretty low, otherwise society would divert large amounts of resources and concern towards dealing with them, and there is little evidence that the precautionary measures taken actually work.

Take a typical health-screening programme, for example. Let’s assume a problem that affects 10 per cent of a certain population. The headline figure for breast cancer among women is of this order, although there are some problems relating to that, as it inflates the statistics by including those who die of other causes. In any case, you should note that 10 per cent for such a problem is already a fairly high percentage of occurrence compared to most.

Now, say you develop a screening technique that is 80

per cent accurate, which itself is also a very high degree of accuracy – certainly higher than in many current health-screening programmes. In a population of 1,000 people, if 10 per cent of them are affected with the problem, there are 100 people affected. Your screening, which is 80 per cent accurate, will correctly detect 80 of these, but also misses out twenty altogether. Worse, it falsely assumes that 20 per cent of the remaining 900 are also suffering from the same problem. In total then, 180 people will have to be subjected to unnecessary, intrusive, further precautionary investigations.

So, we had 80 correctly identified, but 180 false positives and 20 misdiagnosed. In other words, two-and-a-half times as many as are correctly assessed do not have the problem that you are trying to identify, but suffer further disruption. This is not just a made-up academic debate. It is an ongoing debate that has been exercising the medical authorities for quite some time, as can be evidenced by any cursory look through the pages of the *British Medical Journal*, the *Lancet* and many other publications.

It affects issues like whether we continue to have a breast-screening programme or, indeed, a screening programme for any other form of cancer or health problem because, invariably, the probabilities of having the condition are far less than 10 per cent and the accuracy in detecting and treating it are far less than 80 per cent. Indeed, screening, as you may realise, is actually a form of early cure. It is not really prevention. Real prevention is even more intrusive, more inaccurate, more long-lasting and more all-encompassing – a case, I would suggest, of society making itself far more sorry than safe.

Ben Hunt in his book *The Timid Corporation* points to a

very similar problem in relation to business. It is particularly pertinent in relation to the ongoing Enron case. Was the probability a high probability? In other words, was Enron typical of all business today? That is the first question you need to ask yourself. And is corporate social responsibility screening an effective cure? Or will the measures society has been pressured into taking work?

Now, interestingly, politicians, industrialists and scientists who come from what would once have been called the right of the political spectrum like to think that all of this precautionary, regulatory claptrap is a left-wing plot, stemming from radical environmentalists. I am sorry to have to disappoint you. The roots of precaution and corporate social responsibility, as Hunt correctly identifies, lie in the disillusionment of the elite and their loss of faith in their own system. The precautionary principle and anti-capitalism are a social reflection of elite fears.

Despite the old left's vulgar prejudices, business was always about more than merely making a profit. Commodities have to be useful. But, above all, as we know, through the discipline of competition, capitalists were forced to innovate, and through that they pushed society forwards. It was this that provided them with moral purpose and authority.

However, in a period when profits become harder to come by, or the notion of social change appears to be more problematic, it rather begs the question as to where capitalists derive their moral authority from. Indeed, in the aftermath of the post-war boom we can see an early period when the elite experienced a period of self-doubt coinciding with the supposedly radical 1960s.

It is not by any accident that the Club of Rome was formed by Aurelio Peccei, a director of the Fiat Motor company, together with Alexander King, scientific affairs director for the Organisation for Economic Co-operation and Development (OECD). These were not your usual environmentalist campaigners, but a leading businessman and a leading scientist. In 1968 they convened 30 world leaders, as they called them, together in Rome.

Failing to reach agreement amongst themselves, they simply ditched those they did not agree with, and subsequently produced the famously influential report *Limits to Growth* shortly afterwards. This contained, in essence, all of the key elements to a precautionary outlook.

In 1970 it was the millionaire Sir James Goldsmith who founded the *Ecologist* magazine, edited by his brother, Edward. Friends of the Earth was founded in the same year. And in 1971 it was a Republican senator, Paul Ehrlich, who wrote the misanthropic classic *The Population Bomb*.

Meanwhile, the left, which had traditionally seen science and technology as a means to challenging vested interests, tradition and power, had gradually lost its own faith in the possibility of achieving social change. This was, in part, due to its association of post-war American science, like the Manhattan Project or the Apollo Programme, with Cold War militarism. Sadly, it ended up throwing out the scientific baby with the military bath water. Then, following a long series of political defeats throughout the 1980s, the left chose to pick up the baton of environmentalism to give it a bit more clout and to enhance its numbers.

At about this time, the right was enjoying its last brief flurry of free-market capitalism under the supposedly deregulatory

politics of Margaret Thatcher and Ronald Reagan. But already, by the late 1980s, Sir Crispin Tickell, who sought to remotivate Western influence over the developing world as being necessary to prevent an impending environmental disaster, persuaded Margaret Thatcher to go green on climate change.

It is the convergence of the aristocratic right's traditional fear of change with the left's disillusionment, born from its own intellectual and political failures, along with the political right's lack of discipline in the absence of any threat from organised labour in the post-Cold War period, and the business right's loss of a sense of moral purpose in more difficult economic times, that has shaped the precautionary climate we now find ourselves in.

Precaution institutionalises this sense of limits. It allows politicians to seek to re-legitimise themselves as risk managers in a period when there are fewer political debates. According to this model, they are here to protect all of us from bad things out there and from each other. Precaution also allows business to reposition itself as socially responsible by prioritising issues like health and safety and, finally, it allows activists to fantasise about their power in changing things.

Precaution towards the environment may briefly have been symbolised by the likes of 'Swampy', who dug himself in under a planned new runway at Manchester airport, but such activists were not media-savvy and could not communicate the message of restraint required by business.

Accordingly, today it is Stowe School- and Brasenose College-educated George Monbiot who leads the charge, alongside the likes of Eton-educated Lord Peter Melchett and Zac Goldsmith, as well as Prince Charles's old school friend Jonathon Porritt.

It is important to understand that this is not simply an image change by business. This is not simply something that they do to keep governments and Greens off their backs. SustainAbility's client list reads like a Who's Who of the modern corporate world. Today it is McDonald's, Rio Tinto, Nike, Nestlé and British American Tobacco that lead the way in developing corporate social responsibility reports and sustainability reviews.

These are not token gestures. They are the core beliefs of the leading chief executive officers of our times. They coincide with broader social fears, representing a profoundly anti-human outlook, and end up reflecting them, but also re-enforcing them. In fact there is a very interesting symbiotic relationship between the nervousness of the corporate elite and people's fears in the outside world. Thus, every world economic summit has its alternative summit for NGOs adjacent to it and largely funded by industry.

Of course, there is a limit to these things. This is because if you simply adapt to popular perceptions about the risks that you face, while it may appear temporarily to provide business with an opportunity to somehow stabilise the regulatory environment, in fact, it opens business up to a rollercoaster of emotion, paranoia and fear, because people's mood swings move from one place one minute to another the next. Companies like BP and Shell have already discovered that, if you give the precautionary sustainable agenda one inch, it goes on to demand a mile.

There is also a very interesting, and possibly wilful, confusion of cause and effect going on. It is not clear to me that good corporate social responsibility and the adoption of the precautionary principle is what allows a company to become

successful. It rather strikes me that it is the other way round. It is successful companies that can afford to indulge themselves in producing corporate social responsibility reports and adopting a precautionary agenda in order to make themselves look responsible and, thereby, to revitalise their sense of moral purpose which, as I pointed out, is the real crisis that faces capitalism today.

Meanwhile, failing businesses, of which there are always many, get accused of failing to have the necessary socially responsible agendas in place to guarantee the kind of success that allowed The Body Shop to repackage itself as saving Amazonian Indians. Whether business is best served through this approach remains a moot point.

The final twist is that while the right had railed for quite some time against the concept of precaution, it failed completely to understand its fundamentally anti-human root. Accordingly, as soon as 11 September 2001 had occurred, it adopted a precautionary agenda of its own, shamelessly re-labelling it pre-emption.

In his book, Ben Hunt identifies the contemporary obsession with branding as quite revealing. Branding in the past was necessary in order to differentiate your product from that of the competition. Today it is a much more risk-averse concept. It is about holding on to your customers by meeting their presumed needs and trying to establish a sense of loyalty. Ironically, of course, none of the branded goods that we know and love today started off life that way. People at some point had to innovate and take a few risks. But the consequence of our cautionary climate is that, taking the pharmaceutical sector as an example, you now find that it employs more people in marketing than

in research and development. Thus the whole obsession with branding, re-branding and achieving customer loyalty will, I suspect, be bad news for customers in the long run.

In conclusion, I do not think precaution can ever be a spur to innovation because, fundamentally, it goes against the very spirit of exploration and experimentation that drives human-centred progress and development. Ultimately, that is the real war that some of us will have to fight in the future – a war against people who, like al-Qaeda, oppose social change, science and modernity. It is a war where we will find, as is often the case, that the enemy is far closer to home than we may like to think.

10 Necessity is the mother of invention

Julia Hailes

Founder, SustainAbility

I would like to begin by defining what I see as the precautionary principle. Essentially, I see it as the ability to act on people's concerns before it is rigorously, scientifically proven that those concerns are valid. I will use a number of common proverbs to describe what I mean by this.

'I smell a rat'

I spent about a year and a half travelling around South and Central America on my own as a lone woman. I found that using my intuition was really vital for getting me around safely. If I met somebody who was offering to give me a lift, or help me in any way, I had to really tune in to see whether I trusted that person or not. Clearly, I had no scientific basis on which to make this decision. I had to rely on my instinct.

In my view this instinct is important. Members of the public may be concerned about a new range of products on the market and this concern is often borne out by research at a later date. At the beginning, however, it is just a feeling – people are not comfortable with some of the processes going on. The whole

area of GM products is a good example. Ben Hunt, author of *The Timid Corporation*, said that GM products have been ‘proved to be a very safe technology’. I found that incredibly interesting, because I do not think it has been *proved* to be a very safe technology. In fact, one of the biggest issues from the precautionary side in relation to GM foods is that they had not been tested on mammals before they were introduced into the market.

In any sense of the word, that does seem to be a completely mad thing. We, as a society, were being used as guinea pigs to test out a technology – for what great benefit? We do not know, if they had done those tests, what they may have found. The one professor who did do some tests and who came up with some slightly worrying facts – Professor Árpád Pusztai – was absolutely pilloried for what he was doing. It was almost impossible to be seen to criticise GM. In effect, he was merely saying that more research was needed. He did not say it was definitely bad or it was definitely good, but simply that more research was needed because he was concerned that his results indicated that there could be problems to the immune systems of young rats. It was very difficult for him to put that argument, because the establishment had so much to gain by rubbishing him and rubbishing his research, and he was given an extremely hard time.

This has happened in a number of other areas. I remember visiting ICI in the late 1980s and still being told by people within the company that CFCs (chlorofluorocarbons) did not damage the ozone layer. At the same time, behind the scenes, they were working on innovative technologies that meant that they could probably get out of CFCs when it was proved that they *were* damaging to the ozone layer.

The first reaction of companies is often to fight concerns that may come up because they have a commercial interest in doing so. Often the signs that something may be wrong are patchy and inconclusive, making it harder to force a decision.

I am taken by the idea that the precautionary principle is being attacked in relation to ‘action without evidence’ being justified. In fact, in my view, if you introduce a new technology you are taking ‘action without evidence’ if you have not done the research properly, and that is equally at fault.

Companies should recognise that emotions and feelings, gut instinct and the outrage factor of consumers are often early warning bells, which may be just as important commercially as the scientific fact in terms of looking at products and how you should respond to them. It is not enough to keep insisting that people must wait for concrete proof.

Having too many vested interests involved prevents the free flow of information and has led to a general erosion of public trust in scientific decision-making.

‘It is better to be safe than sorry’

I do not agree with that statement right across the board. I think there can be extreme frustration if you cannot take any risk. But you also need to look at what you are gaining from the risk that you are taking. This is where the example of PVC in children’s dummies comes in. Greenpeace has campaigned against this, but the benefits are minimal and the alternatives are plentiful.

In effect, if you are a mother of a child and you hear that PVC is potentially a problem chemical, why would you give

your baby a PVC dummy when there are lots of other alternatives? It is no skin off your nose – if, indeed, you want to give your baby a dummy at all – to find an alternative.

On the other hand there is, of course, a far greater risk in taking your child in a car to nursery or to mothers' group, but the benefits you get back are far greater and, therefore, people are prepared to take those risks.

In that context it is very important to look, in relation to these new technologies, at what benefits you are actually getting from the potential risk that you may be facing.

Various people have mentioned the putative benefits of the vitamin A enhancement in a genetically modified product known as Golden Rice. One of the big arguments about GM food is that consumers are being forced to take the risk of eating it and are not enjoying any of the benefits. My understanding of the issues surrounding Golden Rice is that, although the product was developed to provide extra vitamin A in the diets of people where vitamin A was lacking, it transpired that you actually had to eat vast volumes of rice to get any benefit – indeed, four times more rice than it is possible to eat.

Probably, a far more innovative approach would have been to work out how to get the populations of those countries a larger supply of carrots. Perhaps, then, the people could eat a carrot a day to provide their dose of vitamin A, rather than using GM technology to enhance rice so that companies can make the case for how brilliant they are at saving the Third World, even though their product really doesn't make sense.

The key point here is that it is important to weigh up the advantages and disadvantages to those taking the risk. This

involves providing better and clearer communication to help people make that decision.

'Necessity is the mother of invention'

My contention is that, rather than the precautionary principle killing innovation, the precautionary approach actually promotes innovation, because there are many inventions that are provoked by people's concerns about existing technologies or new technologies coming on to the market.

If you go back to the example of the use of CFCs in fridges, companies and scientists had to produce an alternative to CFCs that did not destroy the ozone layer. Some of them came up with HFCs (hydrofluorocarbons), which do not destroy the ozone layer but, unfortunately, do exacerbate the greenhouse effect. Some of them went for pump-action aerosols and came up with more innovative solutions in that area.

Equally, we all know that almost every form of energy that we use causes environmental problems of one sort or other. Because of our concern over the greenhouse effect and emissions from coal-fired power stations, we are driving a whole other sector of innovation – unfortunately, in my mind, not fast enough. Nevertheless we are creating new methods of harnessing solar, wind, wave and, possibly, hydrogen-based sources of energy.

I recently came across a fantastic example of innovation when I was looking into the whole issue of alternatives to peat in mushroom growing. Almost all commercial mushroom growers use sizeable quantities of peat to grow mushrooms. Peat is something that is not very good to use in large quanti-

ties because it comes from areas of special scientific interest or unique habitats, which are shrinking, particularly in the UK and Ireland. When I was researching this I found that the National Trust had introduced a policy of 'no peat' in all their gardens, but in one of their houses they were recreating a mushroom house from 100 years ago. They had to tackle this problem of how to grow the mushrooms in the mushroom house without using peat. What they came up with was using a slag waste product, which actually turned out to be cheaper than peat and just as effective in terms of its use. So a problem created its own solution.

My feeling is that, in this whole area, the critical point is, of course, the degree to which you apply the precautionary principle. The principle is not an absolute. It would be absurd to say that new technologies should have zero risk. That would simply be impossible and would be nonsense. On the other hand, you can set your bar far too high and require a lot more proof than is really justified before you start taking the precautionary principle.

I think that was proved by the way that Monsanto – very ineptly, in my view – handled the introduction of GM technology. In many ways, it was its lack of concern and appreciation of the precautionary principle that has actually slowed down the introduction of that technology. Many of its competitors – companies like Novo Nordisk, for example – were really concerned about this, because Monsanto's approach completely destroyed many aspects of their business that were being introduced in a more responsible fashion.

It is therefore very important to take account of the precautionary principle, to handle it right and to recognise that it can

actually provoke fantastic innovations by forcing companies to seek alternatives and by making us find novel ways of doing things.

11 Ignoring CSR is a risky business

Stephen Godfrey-Isaacs

Managing Director, George Harrison Ltd

Otto von Bismarck joked that there was no threat of a socialist revolution in Britain because the Royals shared the common man's interest in horse racing; fortunately his foresight has been borne out. So we can accept that there is no immediate Cold War Communist revolution coming here. This threat to our cosy capitalist system seems remote. The dangers today are rather more subtle and nuanced.

Capitalism has thrived and flourished because it goes with the grain of essentially selfish human behaviour. When one is a capitalist, one is allocating capital. There are millions of individual decisions that make up this free-market world. When investors like you or me decide to put money into an individual savings account (ISA) or a pension, they are tempted to do so by the expectation of a profit. No one will put their capital on the line if there is not self-interest and an anticipated positive return on their investment.

The concept of return on capital is key to capitalism and, equally, we must accept that it is business's role to deliver this return. If our money is not earning, then it is only right and proper that we will reallocate it elsewhere. The same decision-

making process is employed by investment managers or, for that matter, directors of companies, in deciding where to allocate resources.

If we accept as a premise that companies and their shareholders make decisions based upon the requirement for a return on the shareholder's funds and that capital is not infinite, this is the principle of capitalism. Initially, these returns are necessarily short-term. Shareholders are beginning to understand that longer-term growth cannot be sacrificed in favour of immediate gains. Indeed, the lessons of Enron and WorldCom are that it was those very deadlines that created the pressure to inflate, and eventually create, the earnings themselves.

So where does corporate social responsibility (CSR) fit into company directors and owners wanting to make a profit?

It is very simple. Companies have millions of pounds at stake, all the time, in order to make profits and survive. CSR is yet another factor that has to be taken into play. It is not to say that directors necessarily have altruistic motives, rather, they recognise the risks to their business in not paying attention to key forces at work in an open society. This responsibility can be broken up into a number of roles.

Business reputation and brand

This, in many ways, is the most important asset for all companies. Products and staff can be changed, but a reputation is lasting. How does a company maintain and enhance its name? There is a combination of factors, including relations with suppliers and employees, general professionalism, media coverage, good practice and being law-abiding. Profitability

and success are good barometers and, yes, CSR can play a part in this. But companies like Microsoft and McDonald's are rated above all else upon their success. Conversely, Nestlé is still tagged with the Third World baby-milk-powder scandal many years after the actual incident. The facts of the case are now less important than the damage that was done to its reputation. Companies' websites basically constitute public relations exercises, and this is a critical function.

Importance and power of government

The reality is that business is subject to the power of government. Companies need a relationship with government to deal with regulations, taxes, employment laws and anti-competitive issues.

Whether it is providing computers to schools, as Tesco does, or free calls for the elderly by Merrill Lynch, business now recognises that an interface with the populace is productive.

External shocks

A major environmental disaster such as the Brent Spar incident can overnight project a company into the public eye. It is only sensible that an element of CSR in dealing with such events can make a vital difference to a company's business survival.

When Shell made a decision (after consultation with the government of the day) to try to dispose of its Brent Spar oil rig offshore, it did so because it was the cheapest option. The subsequent outcry necessitated Shell to look at serious damage to its business across Europe. Social responsibility and the way a

company is perceived goes back to the core of its reputation. In eventually deciding to pay ten times more for 'environmental' disposal onshore, there is no question that the company was making a business decision.

Railtrack's whole business was spectacularly jeopardised by serious crashes at Hatfield and Paddington. Any forward-looking business, particularly a multi-national or utility, should have a risk-assessment model that includes a social responsibility quotient. The public's perception is often volatile and needs to be managed. A CSR SWAT team may be a good safeguard.

Media companies search for the truth

Corporate social responsibility should go beyond the list of green, or for that matter, local community aspects. Businesses that are reporting news have an additional responsibility to maintain accuracy. Political bias can be flagged, but this in itself does not take away from a responsibility to be fair in stories.

The *New York Times's* long, enviable reputation was soiled when a star reporter started fabricating stories. Likewise, the BBC's status has been badly tarnished by the Hutton Report into the events surrounding the death of Dr David Kelly.

Hollywood has had to accept a degree of responsibility in the debate about the proliferation of sex and violence in its content.

Conclusion – swimming with the tide

The 21st century is a very different landscape for business, even

from twenty or thirty years ago. Consumers have so much more choice, with even telephone companies selling electricity and vice versa. There are more and more generic goods; it is simply not good enough to have the right product at the right price.

The collapse of the social hierarchy and deference means that consumers have become empowered and sceptical of government and big business's assurances. Whether it is the measles, mumps and rubella vaccine (MMR) or weapons of mass destruction (WMD), it is a fact people do not automatically trust what they are told. Nanny no longer knows best.

In this environment it would be foolhardy for companies not to use all means at their disposal to enhance and protect their business. In fact, many high-profile companies such as Nike and Benetton are active in pursuing an aura of social responsibility. This has become very much part of the ethos of their brands.

Business is criticised by academics for frittering away hard-earned shareholders' funds on token CSR programmes. But businesses are living in a world that cannot be so neatly compartmentalised. It is simply not possible to keep one's head down and just make money.

Should company directors or their shareholders feel aggrieved at this intrusion upon their capitalist right to make money and damn the consequences, they are welcome to join the debate about values and threats to our society. But to simply ignore CSR and hope for the best would be exposing their businesses and shareholders to huge risks.

12 Parting company with government

Philippe Legrain

Author of *Open World: The Truth about Globalisation*

Part company with most people on corporate social responsibility (CSR). People as diverse as Clare Short and Tony Blair, or Naomi Klein, author of *No Logo*, and Phil Knight, the head of Nike, agree that CSR applied globally is a good thing. Equally, we can all point to examples of companies doing good as part of their normal business or even of companies going out of their way to perform social aims that also benefit the bottom line.

But a much more pernicious trend is also at work here. It is not simply that we should have McDonald's in Spain benefiting itself and benefiting people with Down's Syndrome – an example quoted by Steve Hilton of Good Business – by employing them in its restaurants. I fundamentally disagree with the idea that companies should be taking on the role of governments, that governments are no longer capable of delivering on everything that we have looked to them to deliver on in the past, and that companies should take on this responsibility from them. This means that companies should aim to do more than make profits; they should also contribute to society in other ways, by promoting economic, social and environ-

mental progress more broadly. Worldwide, companies should be at the forefront of stamping out child labour, at the forefront of improving the environment, at the forefront of providing schools and hospitals in the Third World.

CSR has found favour in many quarters. Pundits and politicians praise this attempt to give capitalism a 'human face'. Companies latch onto it as the perfect foil for all those pesky protesters. Look, they can say, we are doing good: we put people before profits – although in fact, CSR is seen as enhancing their reputation and, hence, their profits. Consultants rack up huge fees for helping companies pursue their new aims. Pressure groups are all too eager to co-operate: CSR gives them a seat at the table and a vehicle for furthering their private agendas. International organisations are keen on the idea too: it gives them a piece of the action and makes them feel like they are doing good. Thus Kofi Annan, the general secretary of the United Nations, has proposed a Global Compact between business, governments, NGOs and the UN to raise standards across the world. 'The Global Compact is not a regulatory instrument or code of conduct, but a value-based platform designed to promote institutional learning. It utilises the power of transparency and dialogue to identify and disseminate good practices based on universal principles,' the UN's website declares. The Organisation for Economic Co-operation and Development (OECD) and the EU have also jumped on the bandwagon.

Nobody wants companies to behave irresponsibly or anti-socially. Yet CSR is not the force for good it is made out to be. One criticism is that it is just a load of waffle. Signing up to grand declarations is good PR, but it does little to tackle genuine economic or social problems. Corporate codes of conduct or

global compacts are vague and cannot easily be enforced. Fair enough. But even if CSR only does a little good, surely that is better than nothing? What could possibly be wrong with spreading 'good practices' based on 'universal principles'?

Well, for a start, it is undemocratic. Who decides what the good practices are? Who decides what the universal principles are? I imagine that if you were to ask people what the world's problems are, you would get a variety of opinions. If you asked them what we should do about those problems, you would get an even wider variety of opinions. If you then asked people about the means that we should use to achieve those aims, you would get an even greater diversity. If everyone agreed on the solution to the world's problems, there would be no need for politics. We could just appoint administrators and let them get on with the job. But, in fact, people disagree on just about everything. That is why we have elections, governments and political debate. It is a messy, rough-and-ready way of deciding society's priorities, but it is less bad than all the alternatives. Not least CSR.

The principle behind CSR, and NGOs are very clear on this point, is that there is an agreed set of things that are wrong with the world, that there is an agreed set way in which we should improve them, and that is through companies. I believe that this would only be true if governments were incapable of delivering those objectives, and if there was full agreement on what those objectives are. Neither of those conditions holds true.

CSR has not come out of nowhere. It is a response to pressure from anti-corporate campaigns and from public sentiment that business ought to behave in a certain way. Activists have quite deliberately picked off certain companies – Nike, McDonald's,

Shell – to try to force them to do what they want them to do. For these activists, this approach has a double appeal.

Companies are rich and powerful, and they are global enough that they can make a difference. At the same time, they are very vulnerable because their biggest asset is their reputation, and that reputation is easy to tarnish. Naomi Klein makes it clear in *No Logo* that the anti-globalisers and the anti-corporate campaigners have had far greater success in achieving their aims by targeting vulnerable companies than they ever had in lobbying governments.

‘People are beginning to fight the big global economic battles by focusing on one or two brand-name corporations and turning them into large-scale political metaphors,’ says Naomi Klein. ‘They are having more luck with this strategy than they had with decades of fighting these battles on a policy level with governments.’

But even if you take it as read that what these people are trying to achieve is right and desirable, going after Shell or McDonald’s or Nike is actually a very second-best way of achieving your aim. As Naomi Klein admits, campaigns typically concentrate on populist issues and target their fire at a handful of prominent companies. ‘The companies being targeted – Disney, Mattel, The Gap and so on – may not always be the worst offenders, but they do tend to be the ones who flash their logos in bright lights on the global marquee,’ she says. She recognises that the anti-globalisers are not trying to do this in the best way possible, that they are not even going after the people who are worst. Rather, they are just going after the people who are most visible. This cannot be a good way of improving the world.

Imagine, for example, a campaign that says that McDonald’s ought to do more to recycle its hamburger packaging. Is that the best way to go about it? Or is the best way to go about it to have a recycling law, which is debated by Parliament, on which all people can have their say and which is applied uniformly and transparently to all companies?

The critics of corporate power exist in a strange schizophrenia where they think that companies are the source of all evil – these terrible things that are threatening our very way of life – and, at the same time, that somehow they can tame them and get them to do what their critics think is good. They urge companies to take over tasks that were previously the stuff of elected representatives. For sure, theirs is partly a counsel of despair. Governments are impotent, they rail, so let’s try to tame the beasts ourselves. But it is also remarkably self-serving. Critics hope to harness those nasty companies to their own ends. It is far from obvious that campaigners’ agendas are popular, let alone sensible. Who exactly do Naomi Klein and her ilk represent? Ralph Nader, whose views closely mirror hers, scored 3 per cent in the US presidential election in 2000. Why do they have more say to decide how we should run our societies than other people?

Rather than fight their corner in elections, they prefer to bypass them. Bludgeon companies with consumer boycotts, threaten to besmirch their precious brands, then exact your price: we’ll lay off if you forward some of our agenda. How could companies resist this Faustian bargain? Soon, like rats conditioned by electro-shock treatment, companies no longer need prompting. They know what is expected of them – nay, they can use CSR to their advantage. ‘The next big thing in

brands is social responsibility,' says Wally Olins, a corporate identity consultant. 'It will be clever to say there is nothing different about our product or price, but we behave well.' We have come full circle. Except the people who matter – voters – have been left out.

Not only that. The protesters are wrong on nearly every count. Globalisation is helping poor countries, not harming them. Companies do not rule the world. Governments are not powerless. The protesters' mistaken views do not matter too much, so long as they are just the opinions of a small, albeit vocal, minority. But if they manage to impose their will on society by hijacking companies to their own ends, we all need to worry.

If you apply this approach globally you face a bigger problem, in that it is a new form of imperialism. It is advocating the implementation of the views of a small anti-capitalist minority in rich countries across the globe through the vehicle of corporations, imposing our prejudices, telling people how to run their lives, on the basis of what we think is right, not what those people want for themselves.

This can lead to quite terrible consequences. If, for example, you are campaigning against Nike and you say, 'It's terrible. Conditions in the Nike factory are so awful, we think either the Nike factory should shut down, or we shouldn't buy goods from this Nike factory,' the consequences of the 'success' of this campaign are terrible for those people who have chosen to work in a Nike factory. They were far better off working in the Nike factory than working in the fields or in still less savoury occupations, but have ended up far worse off as a consequence of the actions of these people. The premise behind this is

somehow that the way that Nike operates ought to be the same in Vietnam, say, as it is in the United States or in Britain. That premise is wrong.

It is true that there is exploitation in the world, and it is undeniable that in some cases unfair competition exists, but it is not true to say that standards in the Third World, which are lower than our own, are by definition a bad thing. On the contrary, they are a consequence of poverty, but it is only through the actions of companies like Nike, and their own domestic companies, and our buying of the goods that they produce, that we are actually going to see those standards rise.

Moreover, once big companies have accepted the CSR agenda, they have an incentive to burden their competitors with the extra costs, too. Chris Helzer, Nike's head of external relations in South-East Asia, is open about it. 'We are in favour of enforcing minimum labour and environment standards at the WTO,' he says. 'If we have to pay the costs, we don't see why our competitors shouldn't have to, too.' There you have it: undesirable aims achieved by undesirable means. Poor people in poor countries will end up poorer as a result.

I am not saying that consumers do not have a right to choose what they want to buy. Of course they do. Of course forward-looking companies should try to respond to the tastes and needs of their consumers. But there is a big difference between that and having a cabal of self-selected campaigners, and self-interested companies, setting social standards globally to the detriment of people everywhere.

Companies' social responsibility is to make profits, not to decide how, or how much, the environment should be protected. No more, no less. It is a duty that they have to

their shareholders who have entrusted their savings to them. Workers' jobs depend on it. So does a country's prosperity: scarce resources should only be tied up in a company if it is adding value. Profit is not a dirty word. Profits help pay for schools, hospitals and pensions.

Certainly, people have aims besides getting richer. They care about how the pie is shared out, as well as its size. They also care about how the pie is produced: whether corporate activity damages the environment or compromises workers' safety and dignity. These plural aims do not always conflict: companies with happy workers are often profitable, and vice versa. But sometimes they do. That is where there is a role for governments: to draft and enforce laws that express society's collective view about how, say, the balance between economic growth and environmental protection should be struck.

This traditional model of governance has many advantages. The lines of responsibility are clear: governments set the rules of the game, companies then aim to make profits subject to those constraints. This is not only democratic. It is also fair: laws are transparent, apply equally to all companies, and are impartially enforced by the courts. And it is flexible: laws can vary according to local conditions and preferences. The best way to help workers and the environment is generally through national laws drafted on the basis of democratic participation and consultation. Governments are more than capable, either individually or collectively, of achieving social aims through legislation.

13 Why their business is none of ours

Johan Norberg

Head of Political Ideas, Timbro

What's the role of Johan Norberg in society? How can I act so as to best benefit society? These anxious questions went through my mind during discussions about the role of corporations and how they benefit humanity.

I think this discussion is too much guided by a centralising instinct – it's actually too neo-classically authoritarian, as if people and corporations were means to our ends, which we could place where we think that they would most benefit us. It is also a very inaccurate description of the real reason that corporations exist, which is because they are made up of people. No entrepreneur wakes up in the morning and thinks, 'Today I will really work hard to be able to give a lot of taxes to the government,' or 'lower the unemployment rate' or 'increase GDP', for that matter. Rather, they do it because it's good to create, because it's a joy to accomplish things, or because they want to support their family, or perhaps to become rich, or because they want to change the world. Indeed, perhaps because they want to start a Body Shop to save the animals. But, most importantly, they act because of their own multitude of interests and preferences, not those of society.

John Kay believes that the argument that corporations exist to maximise the profit of the shareholders is insufficient because someone could ask, 'Why should we let them?' He couldn't think of an answer to this question.

I think there is an easy answer: *Their business is none of your business.*

What would give you or anyone else the right to interfere with others' creativity and voluntary forms of co-operation? If they want to have a Body Shop, a huge profit or just a great time, it's none of our business. To say that it is difficult to answer why we should let them be is a bit like saying that it's difficult to reply when a burglar asks why he should leave someone's house in peace – because it is not his house, of course.

Voluntary exchange

But there are things that we *can* demand from other people's actions – that they don't hurt us in the process and that they don't force us to co-operate with them. Thus we have the rule of freedom of contract and voluntary exchange. Corporations will only get the resources for their projects from us if they offer us something, which we consider to be better, in return – nice goods or the hope of good returns, perhaps.

Voluntary exchange is the basic moral rule of free-market capitalism. Its consequence is that profits are a reflection of how well a corporation responds to its consumers' needs, because we wouldn't have given them our money otherwise. The more profit a company makes, the better they have been at giving more value to us, at less cost to them. In other words,

profit is evidence that they are putting society's resources to an efficient use.

This is not why corporations exist – people have their own reasons to start them – but this is why we should be happy that they exist.

Capitalism does not need an apology, because some capitalists are guilty of mistakes, deceit or fraud. We know that people are prone to mistakes and ruthless short-term behaviour. That's not a surprise. That's exactly why we have invented the rule of voluntary exchange, so that we limit their power over other people and only allow them to use people's resources if they entrust them voluntarily. It also means that the moment we get information on mistakes or fraud, the trust is broken and investors and customers abandon the company. When things like that happen, we shouldn't feel ashamed of capitalism. On the contrary, we should feel proven right in choosing a decentralised market system, instead of some sort of economy that centralises a lot of decisions to the top.

Imagine if the executives at Enron governed the entire economy. They could merely have taken taxpayers' money to continue to finance their mistakes. This is precisely how every centralised economy has been brought down throughout history.

The genius of capitalism is that we abandon the failed and move on with the successes. Enron collapsed and the resources were recycled into other corporations and, even though many people were hurt in the process, American energy consumers hardly noticed the collapse.

CSR – responsible or irresponsible?

Where does this leave corporate social responsibility (CSR)? Possibly nowhere, at least not in its modern, ideological version, because if you agree that the best thing corporations do is to use society's resources as efficiently as possible, everything else they do will make them less productive and beneficial.

When CSR experts encourage corporations to improve the region, the environment, and their staff, or to build hospitals and schools, they say that corporations have to 'give something back to the community'. Give something back to the community? Where have these people been during the last few centuries? The innovators and entrepreneurs built this community and took us out of the squalor and misery that had always been the fate of mankind.

During the last 50 years the income of the average human has been increased by twice as much as it increased in the 500 years before. During the last 50 years, global poverty has been reduced more than it had been in the 500 years before. In the last 30 years, the average income in developing countries has been doubled and child labour and chronic hunger has been cut in half.

Despite all our problems, we live in the golden era of human improvement. And this is all dependent on wealth creation and the scientific and technological breakthroughs that are possible because of wealth creation. It is a result of corporations continually shifting resources from less profitable and efficient uses to the more profitable and efficient. Therefore, a corporation in its normal activities is on the whole something good, something fantastic, something worth encouraging.

If the owners of an individual corporation are interested in doing other things apart from that, they should feel free. But don't ever suggest that corporations who confine themselves to increasing production and productivity and giving us more and better goods and services are in some ways 'irresponsible'. That's not merely wrong. It's an insult.

Listening to protesters

Some say that CSR is a way of selling business, that customers will flock around a company that is seen as responsible and socially decent. In that case, CSR would be a way of giving consumers values and symbols they value more, in exchange for money they value less. I think there is something to this; people do not want irresponsible companies. But that does not mean that they want the specific behaviour that the CSR ideologues promote. If it were, corporations would be hoping that their competitors would forget about CSR and ethical behaviour in order for them to gain a competitive advantage. But they are not. Many corporations who go further with CSR – for example Nike – complain that it is unjust that they assume big costs for this, whereas others are 'free-riders'. They fight in business associations for self-regulation so that others follow them and, sometimes, also government regulations to force the others to comply. Why would they be doing this – if they really thought that social responsibility was profitable, a way of selling their goods?

I think they do it because social responsibility in this strict sense is not what the customers demand. Please note that advocates of CSR lobby corporations rather than consumers – and they are more successful in lobbying corporations. Specific

forms of ‘good behaviour’ or putting an end to bad practices are certainly a result of listening to the community. It is not a new thing that corporations take it into consideration, but the modern idea of CSR is not an answer to popular demand. It is an ideology about how corporations should behave and it is often developed by the enemies of traditional profit-seeking businesses – people from environmental organisations and anti-globalisation activists – who understand that they won’t get their way in politics but know that they can get timid corporations to follow them, especially if they are employed as CSR experts and consultants.

Do you ever wonder what happened to the hundreds of thousands of young people who protested against free trade and capitalism in the streets a couple of years ago? Many of them are now in boardrooms, wearing suits, telling corporations what to do. The corporations opened their doors – and a procession of demonstrators walked in.

A protection racket

So why are corporations listening?

This is not an entirely voluntary process. It is often led by a fear of the anti-corporate political climate, which might result in a heavier burden of regulations and taxes if the corporations do not act in a more politically correct way. Activists and many politicians act a bit like an old crime boss. They visit a company, take a look around and remark: ‘Nice little business you’ve got here. It would be a real shame if something bad should happen to it, wouldn’t it?’ And of course they can make sure that nothing bad happens. Just follow the political whims of the

day. This is an offer that corporations can’t refuse. Otherwise they’ll find a pile of new rules, standards and regulations beside them in the bed when they wake up in the morning.

And then the whole process takes on a dynamic of its own. The corporations who go the furthest will devote a lot of resources to help governments and NGOs to push for general self-regulation and, in the end, often government regulations. Corporations like that don’t sell out capitalism; they *buy* the end of capitalism with their public relations budgets.

We have been living with do-gooders in NGOs, our governments, the United Nations and other multinational institutions for a long, long time. They regularly hold enormous meetings where they say a lot of economically illiterate things about how important it is to conserve our resources – instead of using them to the benefit of us and the future of our planet. They say that we should improve working standards in poor countries radically – even though that would destroy poor countries’ chance of competing. They say that it is ethically problematic when corporations downsize and outsource – even though it’s precisely by doing more with fewer resources that a society gets richer and so is able to raise its living standards.

But the good thing about the do-gooders in the United Nations is that they are bureaucrats who talk and talk endlessly without any real results – they always come away from the meeting with a very long and very empty statement on how to improve the world. However, do-gooders are now being joined by corporations and businessmen who are actually able to produce results. They are serious people who might take these words and statements seriously – and in that case, we’re in for some very deep trouble.

14 Changing the world through business

Steve Hilton

Founder of Good Business

The Brent Spar incident has been cited as an example of companies giving the community what it wants. Sadly, what the community, in the form of Greenpeace, wanted was in fact completely wrong from an environmental point of view, as well as a financial one. Greenpeace has subsequently conceded that the tests it ran were falsified and that Shell was in fact correct to have identified the original plan as the most cost-effective and environmentally responsible way of disposing of Brent Spar. So I think that it is important to remember that it is not just companies that should be in this debate about being responsible. It is also non-governmental organisations (NGOs), pressure groups, the media and anyone else who has an opinion on the subject.

I think that the debate on corporate social responsibility is hard to conduct if we only discuss it conceptually. I think that we need to get down to specifics if it is going to make any sense. That said, I wish first to make a conceptual point.

In a civilised society, the appropriate mechanism for identifying and enforcing society's expectations is very clear. It is the democratic process. The outputs of that, as far as business

is concerned, are also very clear. They are the law, regulation and taxation.

So the first question is a very direct one. 'Should business obey the law, adhere to regulations and pay its taxes?' The answer is: yes.

The real question for this conference is this: 'Should business go further than that in the name of something to do with making the world a better place?' The honest answer to that question is: it depends. It depends on each company's market circumstances and its commercial objectives. We have to be specific about it. We cannot talk about it in generalities.

I believe that there are countless opportunities for companies to improve their market position, to meet their commercial objectives, by explicitly going beyond the law and regulation and the amounts they pay to society in the form of taxation, by explicitly trying to tackle social challenges.

I feel that these actions are not usefully described as 'corporate social responsibility'. The responsibility is to obey the law, adhere to regulations and pay taxes. For me this is something like corporate social leadership, or opportunity. It is the act of doing more than is necessary.

I know the world of corporate social responsibility very well. I work in it. I have to say that I am quite unusual in it, because I am a passionately pro-business person. Most of the people who work in corporate social responsibility are not that. They are not motivated by the same things that motivate me. They tend to come from a point of view that is anti-business. They forget that business already has a fantastically powerful, positive social role before it does anything else. It is the engine of social progress because of the wealth that it creates. For most

of the people in the world of corporate responsibility, it is about taking a bad thing and somehow making it good. For me it is about taking a good thing and making it even better – making it fantastic. Because I know how fantastic companies are and what they can do when they put their minds to it, I know that they can help deliver social progress more quickly by going beyond their obligations, but only if it makes sense for them commercially.

I wanted to discuss three specific aspects of that, with examples, just to show you what I mean. They are in the areas of employment, innovation and cultural attitudes.

In employment there is plenty of evidence that treating your workers with respect can lead to better business outcomes. For example, ASDA in this country – not exactly The Body Shop or The Co-operative Bank – goes way beyond what is required by the law or regulation in how it treats its employees. It consults them more widely; it is constantly coming up with innovations about how to treat people. In the last couple of months we have seen ASDA announce that any of its workers that want to have IVF treatment will be given paid time off to do that. Not just the workers, but also the partners of the workers. No regulation has told ASDA to do that, but it thinks it is in its interests. It has announced that temporary workers, whom it relies on very heavily as a business because it is a very seasonal business, will in future be granted the same benefits as permanent workers, so that it has a pool of loyal, trained workers during busy periods. Again, this is not required by regulation, but ASDA sees it as in its business interests to do so.

McDonald's in Spain is pioneering ways of including disabled people in the workforce in a way that actually helps the

business. It has discovered that people with Down's Syndrome are much more productive at certain tasks in the restaurants than other workers, because people with Down's Syndrome are very good at repetitive functions, so it has reorganised the workplace in order to be able to give employment to people with that disability. The result is helping with a key aspect of social exclusion, but also with increasing productivity in the restaurant.

In the area of innovation there are so many opportunities for companies to turn social needs into market opportunities and into opportunities for new revenue. Two examples come to mind. Firstly, in the developing world, Unilever has gone way beyond the traditional attitude of companies when faced with big social challenges like poor hygiene or water supply. In the past it might have donated money to UNICEF. Now it regards the very poorest people in rural communities and the developing world not as recipients of charity money, but as potential customers, employees and business partners. Unilever has reconfigured a lot of its products, markets and distribution to be able to sell soap, detergent and household cleaning products to the poorest communities. It both increases revenue for Unilever and leads to better hygiene and thereby better public-health outcomes.

Equally, HSBC has developed an entirely new business model based on creating financial services products that are consistent with Sharia law. 'Muslim Mortgages' was the media catchphrase for it. A whole new market has opened up, which derived from listening to stakeholders and turning a social need into a business opportunity.

Finally, in the area of cultural attitudes, there is huge scope

for brands to use their cultural power to change attitudes in ways that governments could never hope to do. MTV is an excellent example. For business reasons, in order to make its brand cool and in touch with young people, it has run a twenty-year history of campaigning on social and political issues, raising awareness of issues like safe sex and human rights and, most famously, voting, through its 'Rock the Vote' campaign. It did this because it thinks it is a good way of differentiating its brand, but it is achieving far more than any state-run campaign could do.

Another example would be Mates condoms, a few years back in the UK, which was a brand specifically launched to raise awareness on an important public-health issue: Aids. Its advertising accomplished far more than government advertising on safe sex, because it was a brand that was in tune with younger people.

There are so many ways that companies can do this, but I would argue that they should only do it because it makes sense for them commercially. I am as free-market as they come. I am not selling out in any way. I believe that those of us who do believe in freedom and in markets, and who want to see those things promoted, will only win the argument against the anti-business regulators if we argue for a positive vision of the future, rather than some kind of mean-spirited defence of the present and the past.

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