

Globalisierung – Segen oder Fluch?
Chancen und Risiken einer unumkehrbaren Entwicklung
Forum at Hauptkirche St. Jacobi, Hamburg, 10 June 2004

For more information on the Forum please contact

Dr. Martin Illert

Hauptkirche St. Jacobi

Jakobikirchhof 22

20095 Hamburg

Tel: + 49 (0)40 303737 – 0

Fax: + 49 (0) 40 303737 – 10

E: Illert@jacobus.de

Globalisation: Blessing or Curse?
Opportunities and Risks of an Unstoppable Development

Corporate Social Responsibility in the Context of Globalisation

Janet Sidaway,
Director, CSR Consulting

First may say I say how grateful I am to be here; the progress of globalisation is, as the title of the forum says, unstoppable, and I congratulate the organisers for having planned such an informative programme on how to respond to it.

The subject of my talk is corporate social responsibility in the context of globalisation.

I propose to talk about it in three areas:

- First, my understanding of globalisation, which has many different meanings: how you define it affects how you respond to it as a blessing or a curse.
- Second, to see what that means for corporate social responsibility: in other words, for the ethical issues involved.
- Third, and most practically, to recognise that we as individuals cannot help but be involved in globalisation, whether we like it or not, and to see what we can do to respond, as consumers and as investors: indirect as well as direct.

Definition of globalisation

Globalisation has become a "loaded" word. What does it mean? Does globalisation could just mean international interchange of ideas and services? Is the spread of democracy an aspect of globalisation? Does the word globalisation refer to its social or economic effects or both? Or is it a form of cultural imperialism with the West imposing its concepts and brands on the rest of the world? Does the world-wide reach of Coca Cola and McDonald's support the argument that "globalisation promotes a world view in which human identity is defined in terms of the

consumption of goods and the identification of people with particular brands"?¹ Or is it the new colonialism? One recent definition sees globalisation as "the process that forces democratic governments to become subservient to the financial power of the multinationals, promote the growth of the corporates, remove all hurdles in their relentless march towards exploitation of the poor, hungry, and the available natural resources with impunity."²

Such a statement is characteristic of the generally hostile generalisations about globalisation, equating it with the worst excesses of the capitalist system. Such generalisations are criticised, in my view rightly, by the economist Jagdish Bhagwati, who says that "popular discourse on globalization has tended to blur the lines between [its] different dimensions and to speak of globalization.... as if it were a homogenous, undifferentiated phenomenon."³

I would not dispute that there is exploitation, abuse of power by multinationals and cultural imperialism of brand names but I do not think these are synonymous with the term "globalisation." In the context of today's forum I will use the word globalisation in an economic sense. Even here there are many different dimensions. Economic globalisation can embrace trade, long term investment, short term capital flows, migration of people, and technology transfer in all areas including pharmaceutical, as well as telecommunications and media which are the subject of a separate talk to-day.

The globalisation I focus on is that of trade and long term investment by publicly quoted European companies in different trading blocs. But remember that no company, and indeed no consumer, can be wholly divorced from responsibility for the implications of international trade. I believe such globalisation can be a blessing not a curse, but it has to be handled in a socially responsible manner. This is where corporate social responsibility comes in.

Definition of Corporate Social Responsibility

Corporate Social Responsibility (which I will now refer to as CSR) has become the recognised title for any issue associated with good corporate citizenship. It involves a company's responsibilities to its shareholders, customers, employees, suppliers, sub-contractors, and the wider community. This group is collectively referred to as stakeholders, as all are deemed to have a stake in a company's actions, not just the shareholders of a company. The interests of the wider community are often looked after in a proxy form by Non-Government Organisations (NGOs) such as Oxfam; as well as by local, national and international Government regulations.

OECD Definition of CSR

Our preferred definition of CSR is from the Organisation of Economic Cooperation and Development: "Business's contribution to sustainable development, including returns to stakeholders, products and services to customers and societal and environmental concerns."⁴

Each of these phrases tells us about complementary aspects of CSR.

Sustainable development

First, what is *sustainable development*? Like globalisation, there are many definitions. It is often used in the ecological sense, as in the UK Cooperative Bank's report on the subject: "...sustainable development seeks to meet to-day's

¹ David W. Smith, *Against the Stream, Christianity and Mission in an Age of Globalization* (Leicester, 2003), p.36.

² John Madeley, *A People's World: Alternatives to Economic Globalization* (New York, 2003), p.20.

³ Jagdish Bhagwati, *In Defense of Globalization* (Oxford 2000), p.7.

⁴ OECD, *Corporate Social Responsibility: Partners for Progress* (2001), p.13.

needs and aspirations, whilst respecting nature's limits and not compromising the ability of future generations to pursue their own aspirations."⁵ A simpler definition might be: economic growth controlled by the need to ensure it can continue.

Returns to stakeholders

The next phrase, "*Returns to stakeholders*", is key. No business can survive unless it is profitable, and reward those who have provided it with its capital in the first place, i.e. its shareholders or bankers. For many anti-globalisation activists profit is of course a dirty word, synonymous with exploitation, and responsible for an increasing imbalance between rich and poor. But surely, if the profits are fairly distributed, (and this is of course a big if) wealth creation which a profitable business provides can be a force for good, in helping to alleviate poverty.

However shareholders and bankers are not the only stakeholders and the others also require returns. Employees must be rewarded fairly and treated properly, and suppliers paid on time. Equally, unless a company provides a good product or service, ultimately it will have no business as the customers will go elsewhere.

Societal and environment concerns

The design and manufacture of a product ought to take account of its impact on the environment, either as a finished item or in the manufacturing process. As the OECD statement says, sustainable development involves *societal and environmental concerns*. Companies should therefore be aware of and responsive to issues in the communities where they operate, and of their overall impact on the environment. Such responsiveness not only enhances a company's local reputation and ability to recruit, but can avoid public relations disasters which can affect a company's reputation for years.

Supply chain integral to effective CSR

As companies have developed globally, and are sourcing from and investing in locations ever further away from their original base, societal and environment concerns take on a new dimension. Companies with a proper CSR policy should be checking that the raw materials used are where possible from renewable sources; that they are running any local factories according to International labour and UN Human Rights standards, and appropriate environmental and health and safety standards; that through the whole supply chain similar standards apply; and that sub-contractors behave similarly.

The repercussions of this affect every company, not just those perceived as the multinationals. Every company, however small, will be buying some products made overseas. How have these been made? And even in a national context, how is the labour treated which delivers the goods or services? And what about the environmental standards of small suppliers?

In other words a responsible company must ensure that it does not keep its own reputation clean but its costs low by using smaller companies down the supply chain who exploit their employees or the environment.

Enhanced profitability

Companies which act in this way have the reassurance that they are good corporate citizens. But there is increasing evidence that profitability will be enhanced by ensuring that business is conducted in a corporately responsible way. At the negative level they are more likely to avoid the reputational disasters that affected, for instance Nike when it was shown to be exploiting its labour force in Vietnam. But at the positive level good corporate citizens attract and retain better employees; most people prefer to work for an ethical company; and the company's products and services are likely to reflect a more highly motivated

⁵ The Cooperative Bank, *Sustainable Development : Partnership Report 2002* (2003), p.17.

workforce, leading to a virtuous circle of better profitability enabling all stakeholders and the surrounding community to benefit.

Shareholder, Government and NGO Pressures

These economic reasons as well as the ethical dimension mean that CSR is no longer seen as an optional extra, and has now become a mainstream agenda item for governments and international organisations.

For example, in 1999, UN Secretary General Kofi Annan launched the UN Global Compact to bring together companies with UN agencies and civil society to support 9 principles in the areas of human rights, labour and the environment. 1500 companies have committed to the Global Compact and this month there will be a meeting of the participants to compare notes and it is likely to add a 10th principle focused on transparency, to tackle the issue of bribery.

At the European Union level, the Commission plans to publish a white paper on CSR in November 2004 to support the target of sustainable economic growth with more and better jobs and greater social cohesion.

At national level, there are initiatives underway in many countries to include CSR in the regulatory reporting framework.

In other words pressure from shareholders, NGOS and from Governments is forcing many more companies to take notice of CSR.

CSR must be more than PR

But I believe CSR should be more than a public relations job responding to outside pressure. The danger if it is was shown by a report by the UK organisation, *Christian Aid*. The title shows the argument: "Behind the Mask: The Real Face of Corporate Social Responsibility."⁶ It investigated three companies who made great claims for their CSR credentials: Shell, Coca Cola, and British American Tobacco, and gave details which Christian Aid said meant they breach of their own claims. Some of the details of the case studies have been disputed; what cannot be disputed is that many companies do use CSR simply as a public relations exercise, and do not, to use a current phrase popular in the UK, "Walk the talk"; the rhetoric is good, the reality is often disappointing.

Instead, CSR should be embedded in a company's culture. These policies should not just be for public relations benefit but every employee should be aware of and embody a company's commitment to CSR. Then companies can become a force for good, and contribute to making globalisation a blessing and not a curse. And we can all get involved in making this happen. So now I want to turn to the third part of the talk, on what we as individuals can do.

What we can do as individuals

There are two ways we can influence companies to become better corporate citizens: as consumers and as investors, direct or indirect.

Consumer pressure

As consumers, do we want to buy from a company which acts unethically? Surely not. If we find out about a company's dubious practices, e.g. from some bribery scandal, or publicity about some supply chain issue, could we not boycott the product and/or make our opinions known? The Exxon campaign by Greenpeace has proved very successful in that respect.

⁶ Published in January 2004.

Investor pressure

But often the companies are not those with which we are in direct contact as consumers. We also have influence as investors. But you may say, most of us are not investors. In that case you may be surprised to hear that you are, like it or not. The nature of the complex economic systems of the West means that we are all investors, even if only indirectly. We give money to insurance companies, to pension funds, to charitable institutions, to the church. What do they do with it? They invest it, and at least part of the investment is usually in shares.

We can therefore seek to influence the investment strategy of such institutions by asking whether they have a policy of investing in companies which are acting as good corporate citizens.

If we invest money directly and not through insurance companies or pension managers we have even more responsibility. We can check on a company's website or annual report to see if it has a CSR policy. Often this is supported by a code of ethics. Such codes have been found to be a good indication of responsible business practice. Philips for instance, certainly takes CSR very seriously: it has a very good code of ethics, and has just announced that will audit every one of its 20.000 suppliers to see that they are all observing the same standards.

We might prefer, however, to act as "Socially responsible investors" by looking to invest in ethical and or environmentally friendly funds. In the UK this has been an area of exciting growth. And it seems to be growing in Germany. You may be aware of the *Forum Nachhaltige Geldanlagen*, an organisation of 75 members for Germany, Austria and Switzerland, which encourages socially responsible investment. The latest statistics suggest that around 1% of the institutional money invested in Germany at the moment is in SRI funds. With pressure from investors this could grow; investors can put pressure both on the fund managers they use or the companies they invest in directly to ensure that ethical, social and ecological aspects have been taken into account in the investment criteria.

Conclusion

My conclusion is to agree with the title of the Forum: globalisation is unstoppable: but as I define it, it can be a blessing not a curse. By the nature of international trade, globalisation affects us all. As consumers and investors we cannot abdicate responsibility and leave it to the NGOs and to government regulations to ensure that companies act in a socially responsible manner. We too must be responsible stewards and put pressure on companies to be good corporate citizens, and ensure they do not exploit their employees, suppliers, or the communities in which they operate. When globalisation is properly managed according to CSR principles, the whole world benefits.

Janet Sidaway, MBA, MA

Janet Sidaway has worked in the engineering industry throughout her career in the public and private sectors, and for the last fifteen years was an engineering investment analyst. In 2002 she set up CSR Consulting Ltd. with a former colleague to advise UK companies on corporate social responsibility. Janet also has an MA in Systematic Theology and is working on a PhD on theology in the fourth century.

Janet.sidaway@csr-consulting.com