

VALUE FOR SOCIETY

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Raising the Bar, creating value with the UN Global Compact
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A company directly shapes community by providing decent work and income to the citizens who live there. The very nature of the working conditions and human relations at work affect the family circle and the quality of life in the community. The larger the company is in relation to the community, the larger its impact and responsibility. The company also affects society in multiple ways beyond jobs and salaries, beyond its purchases and its product sales. Just being there changes the landscape or the urban fabric. It creates new traffic patterns, and maybe noises or smells. It borrows water from the closest natural reservoirs; it returns it in better or worse conditions but never quite the same or it disseminates a part of it with its products or as vapour through its stacks. In similar ways it intervenes in all the natural cycles in obvious or subtle ways. It concentrates or disseminates any natural element it gets through its process and hardly ever returns the same quantity to the same place. It also generates new molecules that take a ride with its products and, because they are so stable, continue to drift and accumulate in nature long after the product is consumed. In the 1970s the techniques of detections started to bring home the magnitude of the material flux caused by the post war boom. Its ripple effects on human health, directly or through the food chains, accelerated the environmental movement and the policy infrastructure of environmental ministries and compliance agencies.

An array of legislative instruments and major conventions continues to this day to battle for the elimination or mitigation of the worst effects of our economic activity. Increasingly companies are coming under scrutiny for their impacts on global governance. Corporate lobbying of governments and inter-governmental bodies (eg. on Kyoto Protocol) can be critical to the outcome and is widely seen as a key component of their impact on society.

The generally accepted wisdom is that the producer/supplier, rather than the consumer/citizen, is the most efficient leverage point for change; for evidence the Polluter Pays Principle or the Extended Product Responsibility come to mind. There is a strong logic to this view: In the complex production-consumption system of our economy, business represents concentrations of knowledge, resources and an innovation capacity that give it the power to change while continuing to produce output and value.

Whether this “supply bias” to environmental policy is sufficiently effective; whether a “demand side” responsibility could also enhance our collective ability and speed to progress may well be the next stage of the sustainability debate. The discussion on sustainable consumption is an example. It is concerned about the evidence that many advances made on the supply side are overtaken by increasing consumer demand and unsustainable consumption patterns. Is new computer technology, praised for its “dematerialization” benefits, causing us to use less or in fact more paper? The challenge is to get consumers also to consume differently. The responsibility of the producer to provide product information

that enables consumers to make informed choices is only a part of the answer, necessary but not yet sufficient to cause an effective shift towards sustainability.

But, in the meanwhile, the “supply bias” is the context that generated Corporate Social Responsibility and the mantra of many business people – “we hold our license to operate from society”. As a businessperson you should recognize that this implies a number of tensions or dilemmas that are, as always, best managed through innovation.

One is the “tension of boundaries”.

You may consider yourself an excellent producer of paint, performing beyond any health, environmental, human resources standards that apply to your industry. You are keen to engage with stakeholders. In fact you have invited a group of prominent stakeholders to discuss your strategy to be “the most responsible supplier of coating materials” and now you are stunned by their feedback:

- » We congratulate for changing all your products from solvent base to aqueous dispersions; but now 40% of your of your product weight is water. How can you justify shipping around the world so much good water from the local communities where you operate? How do you defend the low price you pay for water?
- » You buy a lot of zinc oxide and other metal-based pigments. How confident are you that they are responsibly mined and not supporting local zones of conflict?
- » As much as 15% of paint is generally wasted at the end use. What do you do to avoid improper disposal of this waste?
- » What do you do to cause your customers to apply your paint to energy efficient surfaces? Don't you see, beyond coating materials, the tremendous needs for sustainable construction and affordable housing for the poor?
- » We command you for the high standards of your plants in developing countries. But what will you do about HIV/AIDS? The virus travels with your truck drivers, under your badge. It can't be your problem? Think again - no one else educates drivers; no one else provides affordable treatment in those countries.

This is the tension of boundaries.

You see your business as making an outstanding quality paint to satisfy home decorators and artisans.

But stakeholders see you with powerful ramifications that can ruin or save the world. Their expectations are serious and demanding; they voice the silent anxiety of millions who wish someone would take charge. How far in that space will you set your boundary of responsible excellence? Which of those wishful options are real opportunities?

Lars Rieben Soerensen, President and CEO of Novo Nordisk, the leading producer of insulin and diabetes cures, puts it this way: “Defeating diabetes is not just a business proposition – diabetes is a huge individual and societal problem, the consequences of which the world's leaders are only beginning to understand. As a company we deal with the rapidly growing epidemic of diabetes. We cannot solve the enormous problems of hunger, we cannot overcome illiteracy, or provide housing, sanitation or decently paid work to everyone. But what we can do is to acknowledge these factors and identify where and how we can make a difference.”¹

There is then also the “tension of expectations”.

- « Your strategic ambition envisions 30% more output in 5 years. But all your efficiency targets will be lost for your growth! You will absolutely use more water and more

¹ Novo Nordisk Sustainability Report 2002; Novo Nordisk, Novo Allé, 2880 Bagsværd; Denmark; www.novonordisk.com

pigments; you will release more CO₂ and cause more waste in the product chain! You are not sustainable...

In your mind the world needs more paint against corrosion, mould, filth and drabness. Paint is both an enabler and a signal of economic development; it also provides jobs. But the problem is that the collateral impacts of more paint in the world should go down; you cannot get stuck with arguing that waste should go up. This is why many still hold Sustainable Development as an oxymoron: It defines growth and reduction at the same time. More development, less environmental damage and human rights violations, more work but less cheap labour and discrimination. The very commitment to the Global Compact principles and the objectives of sustainable development imply that one resolves the tension of expectations in favour of the absolute reduction of negative impacts:

- « We will grow by 30% but our major new product line will have a coating power that will allow consumers to reduce usage by 20%. Combined with other process efficiencies we strive to improve our absolute fuel and waste numbers, or
- « While we grow output, our product coating power and longevity will increase. Seen over the life cycle from the consumer perspective our customers will get the same surface protection with 40% less paint....

This is easier to suggest than to realize. But the point is that society expects and needs bold visions and engagement. They have a strong business value – they prompt creative solutions and drive the innovation process. They also indirectly support the license to *grow* because a credible scenario of sustainable growth enhances the access to capital based on trust from a number of financial institutions. A license to grow is rather more valuable than still struggling to maintain the license to operate.

If the double advice to integrate society's needs by redefining the boundaries of corporate responsibility and resolve the tension of expectations in favour of doing more of the good things, if this advice is appropriate; why has not everyone already rushed to heed it? The reason is the same as what causes stakeholders and campaigners to bring the pressure directly on corporations – the failure of existing institutions to anticipate and deal with the problems.

Many of our sustainable development problems are just too complex for our existing institutions. They only work well with clear cause-effect situations. The ozone shield in the high atmosphere gets thinner and thinner; scientists assume that chlorofluorocarbons are the principal smoking gun; the producers argue for a while but consensus builds; harmless substitutes are developed; governments negotiate a compulsory phase-out timetable and, over time, compliance gets momentum. But almost two decades of climate negotiations to restrain an obvious smoking gun, with every household a source of CO₂ and no easy substitute for a long time, show how weak our institutions are in the face of complex global problems. This goes for poverty that pushes young children into work rather than school, for the rush from rural zones to urban centres, for personal mobility without the combustion engine, for trade rules that also work for the poor countries, and for a host of other situations. At best our institutions can monitor the problem and orchestrate some voluntary collective initiatives.

In many respects our institutions are just plainly deficient. The current economic undervaluation of public goods discourages investment into clean water supplies and sanitation; numerous subsidies privilege or shield certain economic actors from change at the expense of others and the consumers. The list of general institutional failures, obsolete or flawed economic conventions is long. They affect the most developed economies as well as the poorest.

But there are also country specific handicaps that make their people most vulnerable. The Heritage Foundation and the Wall Street Journal publish a yearly league-table to assess the factors that most influence the institutional framework of economic growth. Called the Index of Economic Freedom it has shown undeniably how clear, stable policies, instead of continuous government interference or repression, stimulate prosperity. In 2003 of 156 countries it only assessed 71 as “mostly free” to “free”²

These same conditions put limitations and risks on how far corporations can stretch their boundaries of responsibility. Why invest in water conservation if the price signals encourage every other competitor to use as much as they need? Or if the lack of property rights in a majority of regions undercuts legitimate entrepreneurship. How to gain market share for fuel-efficient engines or heaters when the inefficient technologies are offered at a discount? What to do with bureaucratic red tape when others cut through with envelopes to public officials? Most of the reasons that turn human rights and environmental champions to companies for change actually handicap companies to change.

Why bother? For two obvious simple reasons: Inertia only makes things worse, not better. Companies and organizations that bother are actually doing better, not worse.

This is the simple idea that drives the Global Compact and its supporters. It jumps over the pessimism of framework analysis and relies on the power of innovation and collective action by all willing actors. It proposes a shared virtual framework of accepted universal principles wherever the actual framework fails. It does not let governments of the hook but it is impatient for action. And action is happening.

PricewaterhouseCoopers published with the World Economic Forum an interesting survey of 992 CEOs from all regions in 2003. It could conclude:

“perhaps as a consequence of the increased importance of trust issues, more and more CEOs are coming to terms with their responsibilities as good corporate citizens and watchdogs for the environment.

79% of the CEOs agreed that sustainability – adding economic, environmental and social value through core business functions – is vital for the profitability of their companies.

In fact, 71% agreed that, when implementing a sustainability programme, they would consider sacrificing short-term profitability in exchange for long-term shareholder value.

In looking at these results we find much cause for hope. The world is an uncertain place. But if CEOs remain confident and committed to building trust and to acting responsibly, they and their companies will be uniquely positioned to overcome today’s challenges and to play a vital role in fostering global productivity and prosperity”³

² 2003 Index of Economic Freedom; The Heritage Foundation/the Wall Street Journal; www.heritage.org

³ 6th annual CEO Survey; leadership, responsibility, and Growth in Uncertain Times; 2003; PricewaterhouseCoopers; www.pwcglobal.com