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Can corporations contribute directly to society or only through regulated behaviour?

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Abstract: This paper explores the mechanisms by which corporations can contribute to society. It examines the roles of regulation and the autonomous contributions of corporations. The roles of incentives to managers to 'do good' and of corporate culture to foster social responsibility are considered. The investigation finds that modern corporations are bound by a web of rules and signals that both constrain and support action towards social goals. These include not only formal regulation, but also signals from consumers, compliance with standards, employee expectations, supplier demands, and pressures from civil society. Rules and signals vary by place and time and corporate social responsibility practices must evolve with these pressures from stakeholders.

Keywords: Corporate strategy, corporate social responsibility (CSR), regulation, stakeholders, corporate culture.

EXECUTIVE SUMMARY

Can corporations contribute directly to society of their own volition or do they need to be constrained by regulation into contributing beyond their own corporate goals, such as profit, growth, or market share? What might be the best mechanism for an 'autonomous' or non-regulated contribution?

The author suggests two potential mechanisms: the creation of incentives for key executives to contribute to societal values, represented by, for example, the United Nations Sustainable Development Goals (SDGs), and the creation of a company culture where societal values are built into corporate decision-making.

The research process revealed that corporations—defined as the legal entity—are not only constrained by regulations and their own business models, but also by a changing web of signals and rules that emanate not just from government but from many aspects of civil society. The mechanisms by which corporations can and do contribute to society are rich and varied, but a small-scale survey for the research supported the case for social goals to be included more generally in corporations' objectives.

The paper examines the way corporations contribute to society through three juxtapositions: regulation versus autonomous social action, compliance versus initiative, and regulatory authority versus good governance. It considers Lundan's (2018) three varieties of pro-social behaviour from the 'minimalist'—the idea that 'the business of business is business' and 'doing good by being good'—to the acceptance of 'burdensome responsibility', where the corporation commits to positive social change, even at a cost to its corporate profits.

The evolving concept of corporate social responsibility (CSR) lies in between, implemented either as an add-on, or as a shared value which the corporation may promote through its social goals. CSR may not impose costs on the business, but it may also fail to address major challenges effectively. The outliers to this spectrum are social enterprises and principled organisations.

The author sets out and compares three policy models by which corporations do or may contribute to society. The received policy is based on a top-down system of compliance. An international body sets the moral basis for a policy which is then implemented by national governments through treaties and agreements. Corporations then adjust their decisions to adhere to the policy.

In contrast, a direct policy model, implemented through proactive strategies, would start from the same international guidelines, but the objectives would be embedded in the strategic decisions of corporations, either through executive's incentives or corporate culture. The model for social enterprises is different, starting with their mission, which underpins strategic and sustainable economic or social goals. The outcome is a trade-off between sustaining business and achieving the goals.

Modern corporate governance means balancing authority and responsibility, through the ownership and organisational and capital structure of the corporation, and then through boards and directors. Debt or equity financing, the influence of large shareholders, standards, codes of conduct, other internal and external stakeholders, and the overall reputation of the firm all shape whether and how a corporation contributes directly to society. But these factors may still not be enough.

The paper argues that government regulation for pro-social activity among corporations solves the governance problem, in that firms need no further justification for diverting resources, and also the problem of competitive dynamics, since each firm knows all others will have to bear the costs of compliance. Proactive and forward-looking firms might enjoy a lower cost than lagging firms, but regulation helps level the playing field. To be administered effectively, regulation needs accurate, timely information, and the paper argues that firms can and should contribute to the common good by contributing that information.

Examining the case for and against corporations seeking social goals highlights market failures, distortions, and inequalities. The lack of government regulation and legal standards means that purchasing powers, the outcome of income inequalities, may determine what constitutes corporate social responsibility, and how it is supported. The author suggests that regulation is an essential element to ensure the welfare of those who are disenfranchised.

I INTRODUCTION

Purpose

This project examines the means by which corporations can contribute to society. It began by asking two nested questions. (1) Can corporations contribute to societal goals through their own volition or do they need to be constrained by regulation into contributing beyond their own selfish goals (profit, market shares, growth)? (See Table 1.) (2) What is the best mechanism for an 'autonomous' (non-regulated) contribution? Two potential mechanisms are: (a) the creation of incentives for key executives to contribute to societal values and (b) the creation of a company culture that is aligned with the greater good of society. (See Table 2.)

Two schematic diagrams (Figures 1 and 2) illustrate processes whereby corporations can contribute to societal goals. Figure 1 is the 'conventional' policy implementation and corporate response model, whereby corporations comply with societal goals driven by governmental regulations (at local, national, regional (EU), or global levels). Figure 2 represents an alternative direct, self-driven, 'autonomous' implementation of societal goals through corporate agency and action.

The second research question concerns the *mechanism* by which direct implementation is best achieved. The key mechanisms are: (a) incentives to executives to

Table 1. The contribution of corporations to society.

Regulation versus autonomous social action
Compliance versus initiative
Regulatory authority versus good governance

Table 2. The 'spontaneous' contribution of corporations to society: the mechanism.

(a)	Incentives to managers to achieve social goals
(b)	The creation of a corporate culture centred on social goals

Figure 1. The received policy model—corporations constrained by policy to contribute to society ('compliance') (source: author).

1 International bodies (e.g., UN) set moral basis for policy agenda

2 This is implemented in national government policies, on regulations and incentives and:
2a Is transmitted through international (regional, special-interest) treaties and agreements

3 Economic actors including multinational corporations respond to these policy initiatives by adjusting their decision making.

4 Outcome:

Direct policy results
and
Unintended consequences

Figure 2. Potential (direct) policy model—implementation through direct corporate action ('proactive strategies') (source: author).

1 International bodies (e.g., UN) promulgate objectives

2 These objectives are embedded in strategic decisions of corporations through (a) an incentive systems for executives and/or (b) a change in corporate culture.

(a) Incentives (b) Culture

3 Outcome:

Direct policy results
and
Unintended consequences

motivate them to comply with societal goals, such as the UN's 'Sustainable Development Goals', or (b) the creation of a corporate culture such that societal values are built into corporate decision-making. These mechanisms may be complements or substitutes.

The research process broadened these initial research questions. It became apparent that corporations are not only constrained by regulation and by their own business models, but also by a web of signals and rules that emanate not just from government but from many aspects of civil society. The mechanisms by which corporations can, and do, contribute to society are rich and varied. This is reinforced by the small-scale survey of fourteen key executives (see the Appendix) whose comments are included in this report. The numbers following the quote refer to the respondents (listed in the Appendix).[1]

In general, the companies interviewed supported the case for social goals to be included in their objectives, as the following quotes show. Indeed one US executive criticised the implication of 'selfish' goals in the question. However, there is some objection to the generalisation that 'regulation' is necessary and this raises issues about the type, context, and efficacy of 'regulation'.

> *I also agree that corporations can and do put together a business case for Corporate Social Responsibility and this is especially so if their activities under CSR can be aligned with their own business interests. A prime example of such alignment is the drive by Coca-Cola around the world to invest in clean water as such activities are in alignment with the need for Coke to have local clean water in order to manufacture and sell its product. (7)*

> *I believe corporations can contribute and that many indeed do so. … While these companies have many stakeholders to appease, they also look at societal issues as part of their mission and values. (8)*

> *It is sad and misleading to read the statement about corporations having 'selfish' goals, as if corporations are thoughtless individuals instead of organisations. Corporations employ people and, if industrial companies, they sustain many—sometimes hundreds or thousands—of families through suppliers and other value-chain networks. To call their goals 'selfish', brands all corporations with the stereotype of a few rotten corporate apples (which also exist in government, by the way); to do so perpetuates a harmful myth, very unfair to the many conscientious corporations that do good in the world. (9)*

> *I believe the answer to both questions is a 'yes'. Some businesses, especially consumer-facing businesses clearly feel the pressure of the expectations from their consumer base that they should at a minimum do no harm to society. Their corporate reputation improves*

[1] Criteria for inclusion in the sample of firms: (1) seniority; (2) responsibility (at some stage) for CSR issues in company; (3) availability and willingness to be interviewed.

> *if they are seen as doing good for the society. These market forces naturally push the businesses to think about their societal impact and address the issues. The answer to the question is a yes for such companies for the reason that the consumers of some businesses put such pressures on them. The pressure could also come from NGOs or other players (activists, media, etc.) as well. To the extent this is felt as a threat to the business, the business will act to address it. (11)*

> *I do not agree that businesses should be regulated to contribute to society. Regulation is needed at various levels. I believe we should have standards on water discharge, emissions, fundamental rights of the employees, etc. These are types of regulation that is already there to control the environmental and social footprint print of a business. (11)*

> *Businesses with an enlightened self-interest, which take a long-term view that their existence depends in the existence of the societies in which they live will contribute to invest in their future, but such thinking isn't too commonplace. This is a matter of leadership and culture, a strong tone at the top and walking the talk. The culture need not be an altruistic one, it needs to be an enlightened one as mentioned above. If incentives are connected to such existential philosophy, they could be effective. (11)*

The corporation

'The corporation' is here taken as a firm—a legal entity. (This includes both private and public companies.) As Casson (2016: 157) points out, economic activity does not require firms; it simply requires that specific individuals control assets or resources and can take account of other individual's plans when taking decisions. Firms are legal entities, controlled by individuals. They are legal constructs controlling a nexus of contracts that enable the organisation of risky team activities.

'The strategy of the firm' can be taken as set out by the chief executive officer (CEO) and endorsed by the board of directors. Firms are established by people (entrepreneurs) who have an idea and set up the future legal entity of the firm to achieve their mission. This mission is often taken to be to make a profit, but may include 'social' goals (including environmental improvement, help to socially disadvantaged groups, providing goods and services to meet a social need, or generating income for a charitable or social purpose).

The advantages of firms are:

- Longevity beyond the life of the founders.
- Tax advantages.
- Limited liability protects the owners' personal assets.
- As a nexus of contracts, firms can employ workers and sell products under their own name—these contracts do not have to be renegotiated if the founder dies.

- Firms act as a pool of capital for backers. They can hire capital from multiple sources. Shareholders spread financial risks and insure the firm against external volatility.
- Shares can be bought and sold, providing owners with personal liquidity and freeing their wealth from being tied up in perpetuity.

(derived from Casson 2016:158)

II THE SOCIAL PURPOSE OF CORPORATIONS

The classification of pro-social behaviour utilised here differs from that of Schwartz and Caroll's (2008) view of 'business and society' that suggested five frameworks—Corporate Social Responsibility, Business Ethics, Stakeholder Management, Sustainability, and Corporate Citizenship, although all these aspects are covered in this paper.

Three varieties of pro-societal behaviour

Three varieties of pro-social behaviour can be identified (Lundan 2018):

1. The classic win–win case of doing good by being good. This would include the creation of employment as a social contribution.
2. Social responsibility activities (CSR) that do not impose substantial costs on the business, but also arguably do not address the major societal challenges. Making a social contribution may also be a way of effectively competing and differentiating the firm from its rivals, as we see below. It should also be noted that spending on CSR reduces spending on other corporate activities such as R&D and marketing and, in this sense, its cost–benefit effectiveness should be judged against these alternative outlets for spending.
3. 'Burdensome responsibility': cases where substantial costs are associated with socially responsible activities (Lundan 2018).

For the first two categories, the motivation of the firm's owners or top management is sufficient for pursuing the social activities.

For the third category, where substantial social benefits can be had, but only at a non-trivial cost to the business, the only viable way to bring about action is through government regulation. The firms' CSR activities are complementary and necessary, but not substitutes for government regulation.

Government regulation solves two interrelated problems:

1. It solves the governance problem in the sense that profit-making enterprises do not have to justify why they are diverting substantial resources to non-productive aims.
2. It solves the problem of competitive dynamics, meaning that firms will not hesitate to make the necessary investments because they are assured that other firms in the industry will face similar investments and time frames.

In this case, proactive and forward-looking firms might still enjoy a lower cost of compliance than lagging firms, but regulation helps to level the playing field.

Effective regulation is information-dependent. In order to be administered effectively, regulation is an information-intensive activity, and much of the relevant information in today's global economy is private information held by firms. Control of 'private' information by companies is an increasing difficulty, not only in policy formulation and implementation. Consequently, aside from their CSR activities, firms can/should contribute to the common good by contributing the information that is necessary for effective regulation. In the area of environmental regulation, for instance, this means that private firms (usually dominant MNEs (multinational enterprises)) develop the technologies which then become best-practice models for abatement technologies or process redesign. In such cases, the relationship between firms and regulators has already shifted from command-and-control to some type of negotiated regulation.

The relevant information is private, and necessitates cooperation:

- The interconnectedness and complexity of markets and technologies mean that even more private information is needed than before.
- This is particularly the case in the new areas of the digital economy related to how firms collect, process, and disseminate information and how they influence consumers and citizens.
  - This creates a need for a new way to balance the competitive interests of firms in shielding their technological and organisational knowledge and the need on the part of regulators to have access to (parts of) this information.

Burdensome responsibility is burdensome not only because it increases costs for firms, but also because it necessitates responsible participation in the regulatory process (Lundan 2018).

Transparency

Schackenberg and Tomlinson (2016) review the literature on organisation–stakeholder relationships and utilise the following definition:

> Transparency is the perceived quality of intentionally shared information from a sender (2016: 1788).

Its key role is in creating, maintaining, or repairing trust in the organisation.

Reporting guidelines such as the Global Reporting Initiative (GRI) and the Sustainable Accounting Standards Board (SASB) are a beginning towards a more complete reporting requirement.

Corporate social responsibility

Corporate social responsibility (CSR) is a concept that attempts to bring a broader ethical understanding to the topic of business organisation. CSR refers to the idea that businesspeople should consider the social consequences of economic actions when making decisions; that there should be a bias towards decisions that have both good economic and social outcomes. (For a systematic review, see Pisani *et al.* (2017).)

The value of CSR has, nevertheless, been questioned: 'It is an error to suppose that profit-seeking, as such, fails to advance the public good, and that special efforts to give something back to society are needed to redeem it' (*The Economist* 2005).

Several executives took the view that either market forces or societal pressure make social objectives necessary for business sustainability.

> *Market forces will force industry to adopt societal goals. (1)*

> *We have an unwavering focus on our [employee] health programme—it has paid for itself. (3)*

> *Government bureaucracies would probably not effectively carry out a regulatory framework for 'constraining' corporations in this way; and I fear that the 'law of unintended consequences' would play out were such bureaucracies created and given a mandate. (7)*

> *Again, the absolute best mechanism for a self-directed contribution is to discover and implement actions which align the interests of the corporation with the interests of society such as the clean water initiative which has been made a part of the culture of Coca-Cola. (7)*

> *CSR gives access to pockets of the market—revenue opportunities, particularly in Europe. (13)*

Most famously the Nobel laureate Milton Friedman (1970) argued that in a free society, 'there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.' Several interviewees commented on this proposition:

> *The Friedman position is wrong—businesses should be pro-social and wealth creating. (4)*
>
> *Profits are like a social licence to operate. (4)*
>
> *A shift is going on in business and investment focus—away from a transactional world view to a relationship world view. (4)*

CSR is normally confined to the minimal level required to be able to make claims publicly about doing good to society, rather than genuinely wanting to have a large and extensive effect. Social impact can be an unintended externality rather than an explicit goal.

If we accept the premise that a complete set of competitive markets will bring forth private firms which, by working for private profit, work for the social good, then corporations naturally can and will contribute to society. There will be no externalities. A well-known manifestation of this world view is that of Milton Friedman, who is famous for saying 'The Social Responsibility of Business is to increase its profits' (Friedman 1970). It is then the job of governments to ensure competitive markets, which politically may be reflected in a belief in the need to avoid regulation of all sorts or to regulate to ensure competition (Clegg 2018).

However, given that in reality we are far from the situation of complete competitive markets, it then becomes much more complicated as to how to meet social welfare aspirations. And, if there is significant income inequality, then it is highly likely that the poorest people will not have any remedy through the market. Income inequality becomes important again in determining precisely the type of contribution to society that firms make. As soon as we accept that there is no complete set of competitive markets, and that there are significant externalities and income inequalities, we then move into the realm where contributions to society that do not focus on profit making are required to meet society's welfare aspirations.

Therefore, the questions are: 'what is to be done', 'who is to do it', and 'who is to decide?' Here, some advocates of CSR argue that, by being virtuous, corporations will be rewarded through the market and, then, will 'do well by doing good', which is a twist on Andrew Carnegie's original statement that corporations should 'do well in order to do good'.

A theme in explanations of CSR is that it consists of the design of new business practices that respond to civil society expectations of what good corporate citizenship should be. Thus, CSR would remove the need to set the responsibilities of corporations in legal terms. If this were to be an effective mechanism, then there would be no need for regulation. However, there are a number of problems. There is no standard about what can be defined as 'corporate responsibility'. As a result, managers with CSR responsibilities are able to select what social causes to support according to their preferences. CSR managers are generally poorly endowed with financial and human resources. In commercially straightened times (for example, during economic recessions), CSR budgets may be the first to be cut. Thus we have to ask, 'Are CSR managers generally listened to, and do they exert real power within organisations?'

It is perfectly possible for CSR to have an extensive and major effect in one particular area of society: for example, contribution to education or contribution to health. This is the 'weak' mission to 'do good'. However, this may well not be the core business of the corporation.

- While CSR initiatives may improve welfare in one respect, they may damage welfare in a different respect, the determination of the benefit to the corporation is the guiding feature. For example CO_2 emissions are made worse by higher ethical standards in meat production, but only the ethical achievement is publicised. Similarly, Walmart's environmental initiatives to reduce waste and improve energy efficiency in Chinese factories resulted in a reduction in workplace health and safety.
- Confectionery manufacturers publicise their CSR initiatives, but tenaciously defend their marketing of high-sugar products that are not consistent with promoting consumer health. It would be far better to introduce CSR in their core business, but no manufacturer will do it until they all do it. Therefore, regulation is needed (Clegg 2018).

'Reliance on civil regulation' or 'oversight by society'

The lack of government regulation and legal standards means that it is only consumers with purchasing power who determine what is defined as CSR, and what the CSR priorities of corporations are. This is an outcome of income inequality, and there is no solution other than regulation to ensure the welfare of those who are disenfranchised: for example, the marketing of junk food that is cheap but not consistent with a sustainable health agenda.

Certain organisations—trusts and family firms—may be capable of sacrificing profit for social good. So, alternative forms of business organisation may be more effective in contributing to society. A family-controlled business can be described as one in which a family or a founder holds at least 20 per cent of the shares or control over voting) (as defined by Credit Suisse).This would include Alphabet (the parent firm of Google), Alibaba, and many others. While there is something in this contention, the quality of being a family firm itself does not mean that the enterprise will have an enlightened social mission. For example, we could describe Facebook as a family firm, and so is the Murdochs' business empire. However, where the family firm does have an ethos of contributing to society, it has greater power to make long-term investments that will not pay off privately for many years, if at all, or to make investments that never pay off privately, but do good for society. The family-controlled business is free not to pursue profit maximisation and to pursue genuinely pro-social goals if they so choose. The interesting issue here is that private entities, and particularly 'social enterprises', choose to pursue pro-social goals through the medium of a *firm* rather than a trust or 'foundation'. This illustrates the institutional success of 'the firm'.

The distinction between private family businesses and public corporations with dispersed shareholding is blurred, and becoming more blurred, because of the more frequent involvement of private equity with a strong profit-maximisation motive, and the existence of dual-class voting shares that allow founders to hold onto control if and when companies go public.

As was pointed out by the chief executive of a large Canadian multinational private company:

> *Ownership is not strategy. (14)*

It is incorrect to conflate private ownership with socially responsible behaviour.

There are recent stories of the 'Tech for Good' movement, in which disillusioned technology workers have quit corporate life to pursue pro-social technological ventures, in disgust at the likes of Google, Facebook, and Microsoft. According to Nesta (the global innovation foundation that backs new ideas to tackle big challenges) there were 1,883 organisations of this type across the EU at the end of May 2017. Most of these organisations focus on education and skills training or participatory democracy; however, they typically consist of small-focus projects, lacking private funding. Yet there are some social enterprises that are not so limited in their impact: for example, Café Direct, the UK-based fair trade hot drinks business, now a major brand, offers consumers a genuine choice and puts pressure on other companies to improve their practices (Clegg 2018). An example comes from a US executive's interview:

> *Besides, there are plenty of good reasons for companies to act on their own: (i) business case for CSR—it enhances competiveness and company reputation; (ii) Wall Street investors pay attention; (iii) customers demand it; and (iv) employees—today's young talent pool—are inspired, increasing employee retention and loyalty. (6)*

CSR reflects actions in which companies consider the interests of all their stakeholders, including shareholders. The incorporation of stakeholders within CSR naturally align it to stakeholder theory (Freeman 1984). Definitions of CSR have varied, reflecting the broad nature in which it has been understood (Göbbels 2002). Despite apparent confusion and diversity in these definitions (see Dahlsrud 2008), the European Commission (EC) has produced a widely accepted definition:

> CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (European Commission 2002: 5).

A similar definition is provided by Aguinis (2011: 855): 'context specific organisational actions and policies that take into account stakeholder's expectation's and the triple bottom line of economic, social, and environmental performance.' This is summarised by Kolk as 'the triple bottom line of People, Planet, Profit' (Kolk 2010a, in Pisani *et al.* 2017: 591). The gist of these definitions is similar.

There seems to be consensus in the management literature that, in the long term, the instrumental conception of corporate responsibility (Waddock & Graves 1997) is compatible with increasing shareholder value (Barner 2007, Grayson & Hodges 2004). Even if some sacrifice of profits is necessary to fund CSR expenditure, this pays back in terms of improvements in corporate image and social acceptance (Donaldson & Preston 1995, Jones 1995, McWilliams & Siegel 2001, Wright & Ferris 1997). In the short term, however, there may be trade-offs between profit and other stakeholder objectives (Friedman 1970). Empirical results here are inconclusive (Griffin & Mahon 1997, McWilliams & Seigel 2001). A meta-analysis showed a slightly positive relationship (Orlitzky *et al.* 2003). Margolis and Walsh (2003: 277) found after a review of 127 empirical studies (1972–2002) that: 'the findings suggest there is a positive association between a company's social performance and its financial performance.' Kitzmueller and Shimshak (2012) find that CSR 'mechanisms' have limited relationships to induced innovation, moral hazard, shareholder preferences, or labour markets, but some effects on consumer markets, private politics, and pubic politics. Interestingly, irresponsible corporate behaviour has been found to lead to negative corporate financial performance (Engelen & Van Essen 2011). Potentially conflicting stakeholder goals remain an area of current research. The perceptions and values of managers are relevant and are also subject to current investigations (building on Henderson (2001) and Agle *et al.* (1999)). However, Husted (2005: 176) finds that firms have difficulty in justifying CSR investments on economic grounds—'A careful analysis of the costs and benefits of CSR projects in terms of cash flows, using traditional techniques of valuation, often leads to the decision to forge such investments.' Husted therefore used real-option analysis for the CSR decision process. Real-option models predict that companies will defer the (CSR) investment decision until more information is available or 'until after the nature of an uncertain environment has revealed itself' (Husted 2005: 177). This analysis is developed by Cassimon *et al.* (2014). As long as companies have some leeway in postponing the (CSR) investment decision in the absence of opportunity costs of waiting, they will delay investment. The optimal timing of investments in CSR is investigated by Cassimon *et al.* (2014). This analysis has important policy implications, which are developed below.

Shared values

The business concept of creating shared values (CSV) was launched by Porter and Kramer (2011). The concept is designed to show the mutual independency of the competitiveness of a corporation and the well-being of the society in which it is embedded. The concept has ramifications for product redesign (for instance, to cater to the 'bottom of the pyramid' in income terms (Prahalad & Hart 2002)), improving the value chain in terms of inclusivity and pro-development activities and improving poor areas by encouraging local clusters of development, improving suppliers, infrastructure, education, and institutions. This builds a social value proposition into corporate decision-making. It is claimed that this goes beyond the 'add-on' nature of CSR by building social values directly into the operations of the corporation. Examples of implementation include: General Electric's 'Ecomagination' programme; Dow Agro Sciences Omega-9 oils, eliminating transfats; and Nestlé's Moga Milk District in India and other 'milk districts' using the supply chain to generate local social benefits and stimulate development.

Nestlé

The creating shared values (CSV) agenda of Nestlé ties in closely with the United Nations Sustainable Development Goals (SDGs) where Nestlé's activities are mapped onto the SDGs. The strategy includes 'compliance'—conforming with law, business principles, and codes of conduct—'sustainability'—'protect the future' and 'sreating shared values' (nutrition, water, and rural development as the focus areas). Performance is monitored against leading indices (Nestlé website).

Australian Shared Values Project

> Shared value is defined as policy and practices that enhance the competitiveness of companies while improving social and environmental conditions in the regions where they operate. It is a business strategy focused on companies creating measurable economic benefit by identifying and addressing social problems that intersect with their business (Sharedvalue.org.au).

Positive social change

Stephan *et al.* (2016: 1252) define 'Positive Social Change as the process of transforming patterns of thought, behaviour, social relationships, institutions and social structure to generate beneficial outcomes for individuals, communities, organisations, society and/or the environment beyond the benefits for the instigators of such transformations.'

These are positively initiated through the activities of market-based organisations (termed autonomous actions and benefits in this paper). Stephan *et al.* (2016) distinguish change mechanisms, organisational practices, and positive social change (PSC) strategies, the latter combining the first two as a set of purposive decisions. For our purposes, private incentives in corporations may be considered as a change mechanism, corporate culture as an organisational practice, and PSC change as an autonomous strategy.

Stephan *et al.* (2016) differentiate between 'deep' and 'surface' level PSC strategies. They differ in the nature and speed of transformation experienced by targets and the quality, timing, and reach of the resulting social impact. Deep-level PSC strategies are tightly coupled with organisational practices; surface-level strategies are loosely integrated.

Usunier *et al.* (2011: 280) suggest three main sources of cross-national differences in the perception of the degree of compatibility between corporate economic and social responsibility goals:

1. Differences in the institutional environment influencing the 'rules of the game' and therefore the nature of principal/agent relationships.
2. Differences in accepted values (Schein 1986) that influence managerial decision-making (Hofstede 2001).
3. Management education, shaping the world views of future mangers by diffusing particular management ideologies (Ghoshal 2005): for example, 'if the dominant view is that social responsibility should be considered only as an instrumental goal while economic responsibility is really the terminal goal, the perception of compatibility is encouraged' (Usunier *et al.* 2011: 280).

There is evidence that corporations are cognisant of, and keen to publicise, their following of higher order or community goals. For instance Nestlé in their Stakeholder Community Survey 2017 say:

> Stakeholder perception of the alignment of our societal commitments in five areas with the UN's Sustainable Development Goals is promising, however and comes as a reassurance that we are going in the right direction' (Nestlé 2017: 1, foreword by Olivier Mercer, Public Affairs Manager).

Social responsibility of corporations—for and against

Arguments against *corporations assuming social responsibility*

1. It is inconsistent with long-term survival and profit maximisation:

> Beyond adherence to the law, refraining from taking advantage of gaps in the law and abuses of failure to enforce the law, including attempts to influence the law to their benefits, and being accountable for their own externalities, firms have societal responsibility. Within this domain, they should confine their engagement to activities that generate proprietary benefits and improve long-term competitive advantage. These activities include the creation of public goods that generate proprietary value in excess of public value, and social activities for which stakeholders are willing to pay a premium (Nachum 2017: 2).

2. Non-corporations (NGOs (non-governmental organisations), public bodies, governments) are better at achieving social goals than are corporations. This includes products and services whose externalities cannot become proprietary to corporations, such as environmental goals, services for which markets do not exist or are dysfunctional and high-risk investments whose returns are uncertain: for example, specialist drugs.
3. Corporations are at a competitive disadvantage compared to public bodies and NGOs in meeting social goals.
4. Corporations seeking social goals harms firms and society.There is no democratic control over corporations, no formal institutions to oversee the social causes they seek, so they have no legitimacy in these areas. The profit motive distorts corporations' attempts to seek social benefits.
5. Investment by firms following the profit motive results in a more efficient utilisation of resources and generates social value (Friedman 1970).

Arguments for *corporations seeking social goals*

1. The argument that maximising profit also maximises social welfare only works when market prices provide accurate signals of social costs and benefits:
   - Ignores negative externalities.
   - Ignores information asymmetries.
   - Assumes governments can provide public goods efficiently.
2. Market power and inequalities in incomes require government intervention (market failure).
3. Powerful corporations can distort or negate legislation/regulation, so correcting market failure is difficult (lobbying).
4. Control failures within the firm itself can result in societal disbenefits (Sachs *et al.* 2017).

Governance

The essential issue of modern corporate governance, balancing authority and responsibility, is answered by Arrow (1974) in terms of convergent answered expectations (Keasey *et al.* 1995: 4):

> Ultimately, it seems to me, authority is viable to the extent that it is the focus of convergent expectations. An individual obeys authority because he expects others to obey it … the functional role of authority, its value in making the system work, plays a part, though only a part, in securing obedience. This functional role will only be influential if in fact the authority is visible and is believed to be respected by others (Arrow 1974: 72–3).

The principal-agent approach to corporate governance takes a much narrower view of governance (Jensen & Meckling 1976). A terse definition is given by Shleifer and Vishny (1997: 737): 'Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.' This contrasts with the much wider 'stakeholder' view of corporate governance.

Hirshman's (1970) 'Exit, voice, and loyalty' framework is much broader. Exit relies on the ability of owners to exert pressure on managers by the threat or actual sale of their shares to other owners. Activist shareholders can thus pressurise managers to behave responsibly (or otherwise). The voice-based strategy occurs when owners are committed to the corporation over a long period of time because they are actively involved in the monitoring and disciplining of managers. Loyalty to the corporation by owners has to be earned.

Governance and the role of boards of directors

Boards of directors have a crucial role to play in the governance of the corporation. The composition of the board (Baysinger & Hoskisson 1990), the balance between insider and outsider directors (Rediker & Seth 1995), and the (social) functioning of the board (Pettigrew & McNulty 1995) have been shown to be factors in governance and strategy (Baysinger *et al.* 1991). The role of the board and governance issues feature prominently in the executives' commentaries on societal goals.

> *Corporate governance is everything and this comes from the board. (1)*

> *Board oversight and proactive CEO engagement are essential. With proper leadership, resources, and employee buy-in, a favourable organisational culture and climate can be created. (6)*

> *Critical need for the boards of directors and CEOs to drive the CSR initiatives from the top down. (7)*

> *The CEO's value system and or the competitive context plays a major role in deciding on the scope of the goal: shareholder only or multiple stakeholders. Usually it has been an external force (competition, activist groups, NGOs, customers, consumers, a very young and idealistic workforce, etc.) that has forced an organisation to adopt societal goals. A CEO's value system has driven societal goals and they have been used as a differentiator in a market entry strategy into a competitive market, and sometimes it has been used successfully by an incumbent as a form of competitive advantage pre-emptively. (10)*

> *The CEO's value system which drives the value system of his management team. Clear and specific societal goals and incentives for the organisation to drive toward those societal goals. Clear management routines that incorporate progress toward societal goals. Strong economic arguments that derive from driving societal goals: making money is compatible with driving societal goals. Have to look beyond the obvious to make a strong business case. Small experiments to showcase wins. Start small and then scale. Understand that employees feel good by doing good and when employees feel good they are extremely productive.' (10)*

Governance through argumentation

Corporations exist within civil society and civil society exercises a role in the governance of corporations. Indeed, civil society exercises 'governance through argumentation' (an additional element of governance in addition to governance through the market and governance through state coordination). This governance mechanism operates not only through NGOs but also through social movements, such as the cooperative movement, the mutuality movement (Kay 1994), and pressures from religious and other morally based organisations (the Quakers are a long-standing example). Lobbying organisations and social pressure groups are increasing 'augmentation' pressures on corporations on a global basis.

Ownership and control

The dispersal of ownership of the corporation can give governance problems if too much managerial control is allowed (Berle & Means 1968). Alternatively, the concentration of ownership in a few hands (for example, institutional investors) can lead to excessive owner-control (Short & Keasey 1977).

The capital structure of corporations—financing by debt or equity—gives rise to conflicts not only between equity holders and managers but also between debt and equity owners (Grossman & Hart 1982). Indeed, Williamson (1988) sees debt and equity as alternative governance structures—debt as a constraint; equity giving discretion to managers.

The market for corporate control constrains managers by the threat or actuality of takeover. This is largely construed as an incentive to performance, but it could also act as a censure for wrongdoing. The efficacy of the market for corporate control varies widely across jurisdictions (Franks & Meyer 1990). Bhide (1993) shows that high levels of stock market liquidity (to encourage exit) conflict with active corporate governance by shareholders (an echo of the exit–voice analysis).

The market for corporate control is, of course, subject to imperfections, notably the existence of large shareholders, including pension funds and 'blockholders' such as family holdings. The rise of 'activist shareholders', who aim to achieve not-for-profit goals is a force for a wider spread of outcomes. In addition, the existence of 'crowdfunding', through organisations such as Kickstarter, Crowdcube, and Seedrs, promises new avenues for web-based groups to utilise the capital market to achieve their objectives through start-ups or acquisitions of corporations.

There remains a crucial distinction between 'activity' and 'outcomes' (Rawhouser *et al.* 2017). There is a difference between what a corporation does and what it say that it does. It is an intriguing question as to whether this is picked up by the firm's capital-market valuation. Arguments are emerging that firms can sustain a capital-market downgrading in value if they are seen to be sustainable in the long run.

Stakeholders

Stakeholders are, 'any group or individual who can affect or is affected by the achievement of the organisation's objectives' (Freeman 1984: 46). It is useful (and customary) to distinguish between internal stakeholders and external stakeholders.

- Internal stakeholders are individuals or groups who work for or own the business. They include all employees, the board of directors, and stockholders.
- External stakeholders are all other individuals and groups that have some claim on the firm. Typically, this group comprises customers, suppliers, lenders, governments, unions, local communities, and the general public.

Depending on the interests of the main stakeholders, and the core activities of the company, different objectives will assume different degrees of relative importance. This implies that managers of corporations must question what their responsibility to such stakeholders is, and that the profit motive must be balanced against other aims and objectives. The challenge for corporations and their managers is to reconcile the different mandates that their stakeholders demand of them, and to deal, as best as possible, with the tensions that exist between them. There is no perfect solution:

> *I believe contributions should come down to individuals making independent decisions with a supportive company culture of giving back to their communities. (8)*

Reputation
'Firms which build a reputation for ethical collaborations over a long period are able to substitute cooperative outcomes for unsatisfactory cheating ones' (Keasey *et al.* 1997: 9). This 'contractual architecture' (Kay 1994) may be a source of competitive advantage. Firms with such a reputation will attract new trading partners (Buckley & Casson 1988, Kreps 1996). Adjustments to the internal and external contractual architecture of corporations can be of critical significance to social welfare.

What is a company's reputation worth?
For Unilever, a recent report valued the company's reputation in 2018 at £65,094 million; in 2017 Apple's reputation was estimated to be $317,890 million, while in 2017 the reputation of Ambev, the Brazilian brewing company, was valued at $47,888 million.

It has been hypothesised that a good reputation provides benefits, including lower costs, the ability to command premium prices, and higher status, and contributes to a more positive financial performance. A favourable reputation can also affect the willingness of buyers and suppliers to transact with a particular company.

Obligations of the corporation

Why should a business firm, which represents private property, have greater obligations to the local community than an ordinary citizen? (McMahon 1986: 181). One answer here is a 'social contract' explanation. Companies are given privileges by public authorities, such as limited liability, and it is arguable that these are given for a public purpose; therefore corporations owe a social (as well as private) duty.

The 'rights' approach and the 'power' approach (McMahon 1986) suggest a social contract model (Palmer 2001), leading to 'contractarianism' in which businesses need to earn a 'Social License to operate' (Demuijnck & Fasterling 2016). The power of corporations requires a responsibility model under which: (a) The greater the social power of the firm, the greater the firm's social responsibility. (b) Whoever does not use his or her social power responsibly will lose it. This can be broadened to a 'systems model', such as that of Galbraith (1972).

Governance outliers?
(This section assumes that 'normal governance' does not include social purposes.)

1. Social enterprises, explicitly ethical companies (Kerlin 2012):
   Social enterprises (Mair & Marti 2006) are organisations that:
   - are led by an economic, social, cultural, or environmental mission consistent with a public or community benefit;

- trade to fulfil their mission;
- derive a substantial proportion of their income from trade; and
- reinvest the majority of their profit/surplus in the fulfilment of their mission.

(Barraket *et al.* 2016: 1)

Social enterprise is a business founded for a social purpose, rather than to maximise profit. These can be not-for-profit or for-profit. An example of a social enterprise that is for-profit is auticon, founded to support autistic people into, and within, the workplace. Social enterprise may well be an important trend for the future. (For a review of research on social entrepreneurship, see Saebi *et al.* (forthcoming).)
See Figure 3.

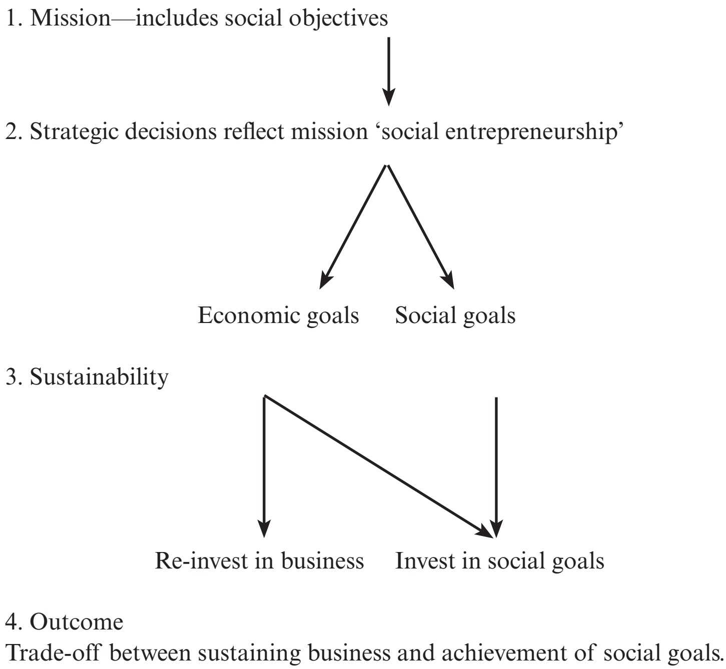

Figure 3. Social enterprises. (source: author).

Examples include: Fourphone, Kwyishi, and MUD Jeans.

2. Companies founded with a social mission: examples include: Unilever and Cadbury. It should be noted that corporate missions change over time and this is well illustrated by the business history of these companies.
3. Companies founded on principle: for example: 'Fairtrade'.

Corporations are not uniform. Governance solutions are, and have been, sought through non-contractual governance (Mccauley 1996), reciprocity

(Boddewyn & Buckley 2017), relational contracting (Fiske 1992), and myriad forms of cooperative agreements (Mariti & Smiley 1983). Governance in the round, even just considering the corporate level, is not uniform or 'one-size fits-all'.

III REGULATION AND CONSTRAINTS ON THE CORPORATION

Ideally, tax systems should attempt to raise revenue in the least damaging way. Regulations should seek to deliver certain specified objectives, again with minimal damage and downside risk. Tax and regulations, therefore, are not optimal as tools of industrial policy.

Constraints on corporate behaviour cover far more than regulation. Issues of compliance versus social purpose go beyond simple regulation. Among the constraints on company behaviour are codes of conduct; 'standards'; and pressure from social movements, NGOs, employee involvement chains, and lobbying organisations.

Regulation can be burdensome and even counterproductive. Compliance can be so demanding that corporations do not have time to achieve other objectives. It can also create so much compliance 'paperwork' that the primary task of the organisation is lost. Simple and effective regulation is needed, but is often not achievable. A sharp distinction between 'compliance' and 'non-compliance' leaves little room for discretion, and this study shows that discretion by corporations is necessary for them to achieve societal goals.

'Regulatory capture' is a major problem, and corporations often have the resources and skills to subvert the purposes of regulation. The appropriation of regulatory perogatives is not unknown.

Furthermore, Goodhart's law may operate—where a measure of (societal) performance becomes a target, then it ceases to be a good measure.

> *Regulation is absolutely necessary. (1)*
>
> *Visionary governments can invest in breakthrough technology to enhance societal goals that can provide incentives for private industry to invest and/or engage in public–private partnerships without actually regulating any industry or a specific societal goal and thereby disrupt the market conditions. Regulation will be possible only in accordance with the political ideology of voters. (2)*
>
> *Doubtful that government bureaucracy can play an efficient and effective role in mandating and monitoring social responsibility/sustainability actions of private sector. However, a more appropriate role for the governments is to establish standards and mandate for public disclosure of such activities. This would go a long way towards enhancing transparency around companies' impact on society. (6)*

Regulation brings in lawyers, auditors, etc., results in minimal compliance. (13)

It is better for companies to own *being part of the community rather than minimal [compliance] effort. (13)*

Private regulation

It can be argued that FIFA (Fédération Internationale de Football Association) has successfully developed its own private legal system to regulate the international football (soccer) industry (Gomtsyan *et al.* 2018, Hock & Gomtsyan 2018). The researchers quoted suggest that this leaves the organisation free of accountability to governments or to civil society. FIFA's rules have a largely unprecedented degree of sophistication and independence from state authority that nevertheless bind football clubs, players, and national teams to FIFA's rules. Disputes are usually solved not in normal courts of justice but in special sports arbitration tribunals and backed by special FIFA sanctions (for example, bans from paying football). This provides common rules across the sport and promotes predictable contractual relations and equal conditions for competition and swift resolution of conflict. However, this creates vulnerabilities—lack of transparency and the potential for power appropriation and bureaucratic control. The authors argue that FIFA's private legal system is the result of an implicit contract with states and supranational organisations giving away part of their monopoly powers of regulation. This is tolerated as long as it promotes the interests of broad stakeholder groups—clubs, players, and spectators. The special status is weakened when special-interest groups are privileged. This provokes regulations to investigate governance issues within FIFA and to threaten taking regulatory control. This would remove abuse but lose the benefits of tailored rules and innovation.

Compliance versus social purpose

Figure 4 illustrates the practices of compliance and social purpose.

National regulation

China, Denmark, Malaysia, and South Africa are among the countries that require the reporting of sustainability and social responsibility. Ioannou and Serafeim (2015) say 'Current efforts to increase transparency around organisations' impact on society are effective at improving disclosure quantity and quality as well as corporate value.'

It is also notable that 'user-friendly' regulation can stimulate voluntary compliance. A good example here is the impact of advance transfer pricing agreements on voluntary compliance (Cipek 2018).

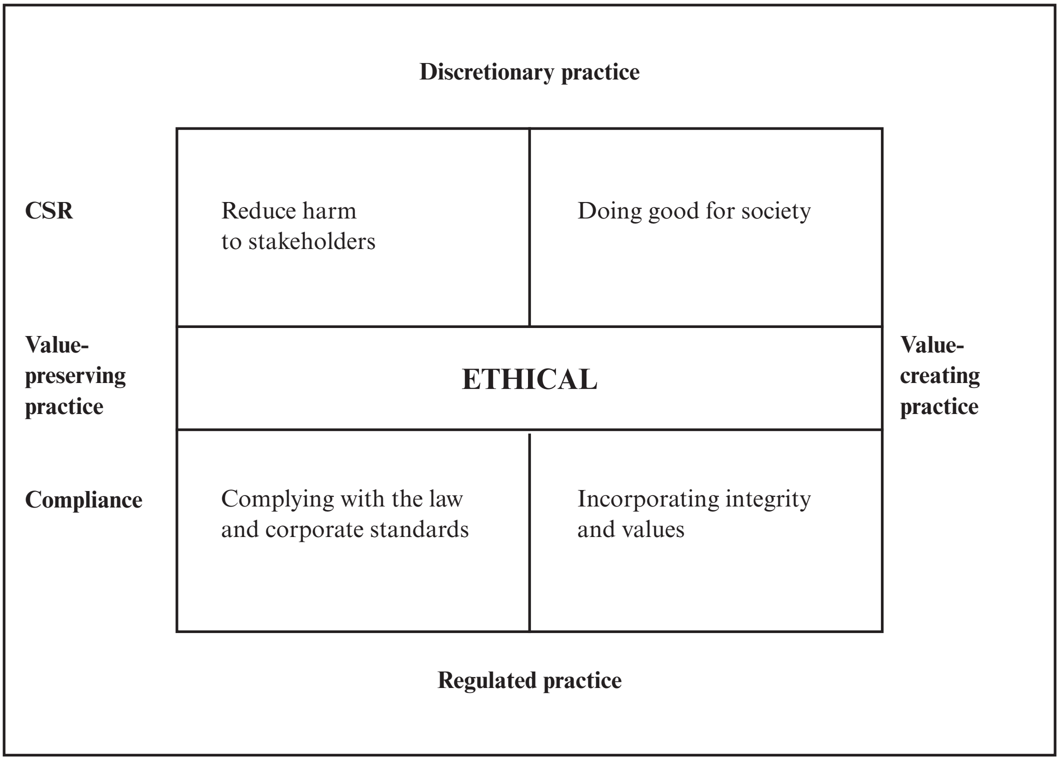

Figure 4. Compliance and social purpose (source: Weller 2017: 20; adapted from Schwartz & Carroll 2008).

Indian law requires companies to give 2 per cent of profits to charity. India is the first country in the world to enshrine corporate giving into law. It is arguable that other countries do this less explicitly (for example, France; and allocation to housing and health care provision in several countries). Following a change in company law in April 2014, businesses with annual revenues of more than 10 billion rupees (£105 million) must give away 2 per cent of their net profit to charity. Areas in which they can invest this money include education, poverty, gender equality, and hunger (https://www.theguardian.com/sustainable-business/2016/apr/05/india-csr-law-requires-companies-profits-to-charity-is-it-working).

OECD Guidelines

The OECD Guidelines are recommendations jointly addressed by governments to multinational enterprises. Forty-two countries adhere to the guidelines: thirty-four OECD members and eight non-members The common aim of the governments adhering to the guidelines is to encourage the positive contributions that multinational enterprises can make to economic, environmental, and social progress and to minimise the difficulties to which their various operations may give rise. The guidelines provide principles and standards of good practice consistent with applicable laws and internationally recognised standards. Observance of the guidelines by MNEs is voluntary and is not legally enforceable.

The content of the guidelines is extensive, covering a range of diverse areas such as:

1. human rights,
2. disclosure of information,
3. labour and industrial relations,
4. the environment,
5. anti-bribery,
6. consumer protection,
7. science and technology.

The mostly commonly referred to chapter of the guidelines relates to human rights, while the sector that references the guidelines the most is financial services. A key emphasis of the 2011 guidelines, and an area in which they are perceived to have had real impact, is on the MNE's due diligence and responsible supply-chain management.

Codes of conduct

The UN has made concerted attempts to introduce societal goals into economic policies and actions. Its Millennium Development Goals (MDGs) followed by its Sustainable Development Goals (SDGs) represent frameworks intended to guide policy and the actions of firms, and indeed of civic society and outcomes. In September 2015, the UN adopted the SDGs, a set of seventeen goals to end poverty, protect the planet, and ensure prosperity for all, as part of a new global sustainable development agenda. Each of the goals has specific targets to be achieved over the next fifteen years ('The 2030 Agenda').

A 2017 KPMG survey showed that the SDGs have resonated strongly with businesses worldwide in less than two years since their launch. Around four in ten corporate responsibility reports from the top hundred companies by revenue in each of the forty-nine countries researched in the study, and the world's 250 largest companies by revenue based on the Fortune 500 ranking of 2016 made a connection between the company's corporate responsibility activities and the SDGs. (See Table 3 for the UN Global Compact.)

The moral framework set by the UN is not the only international mechanism promoting corporate social responsibility. The OECD Guidelines for Multinational

Table 3. The ten principles of the UN global compact.

Human rights	Labour	Environment	Anti-corruption
1 Businesses should support and respect the protection of internationally proclaimed human rights; and	3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	7 Businesses should support a precautionary approach to environmental challenges;	10 Businesses should work against corruption in all its forms, including extortion and bribery.
2 Make sure that they are not complicit in human rights abuses.	4 The elimination of all forms of forced and compulsory labour	8 Undertake initiatives to promote greater environmental responsibility; and	
	5 The effective abolition of child labour; and	9 Encourage the development of environmentally friendly technologies.	
	6 The elimination of discrimination in respect of employment and occupation.		

Enterprises contain a grievance and promotion mechanism—the National Contact Points (NCPs) for Responsible Business. These are not legally binding and can be characterised (e.g., Nieuwenkamp 2018: 1) as 'international soft law'. NCPs are mandated to promote corporate responsibility and to impartially problem-solve. They incorporate ILO (International Labour Organization) labour standards and the UN Guiding Principles on Business and Human Rights and—in 2011—were revised to include global value chains. The grievance mechanism has an impact on all global value chains with a link to any of the forty-eight adherent governments (Nieuwenkamp 2018). Case law by the NCP covers hundreds of business operations, including ending forced and child labour, improving health and safety, improving human rights through due diligence, and actions to secure compensation for indigenous peoples. From this review of NCPs, Nieuwenkamp (2018: 2) concludes: 'Responsible business conduct is no longer voluntary in the sense of being optional, even though it is still not legally binding. There is an increased uptake of corporate responsibility and due diligence standards in legal instruments.'

Consequences do follow from non-observance of the guidelines and national governments do have tools to incentivise companies to behave responsibly. Export credit agencies can withdraw support for irresponsible ventures. Institutional investors can use their agency to promote better behaviour and activist stakeholders can access the decisions.

It can be argued that such multilateral frameworks have little effect on policy or outcomes. However, there is substantial and increasing evidence that MNEs do take account of such moral frameworks and are increasingly constrained to do so by their stakeholders. One example is Nestlé who in the Foreword to their Stakeholder Community Survey 2017 said: ‘Stakeholder perception of the development of our societal commitments in five areas with the UN’s Sustainable Development Gods is promising, however, and comes as a reassurance that we are going in the right direction’ (Nestlé 2017: 1).

The increase in shareholder activism, stakeholder pressure, the importance of conforming to (global) standards, the increase in ethical consumerism, and public and social pressure in general require MNEs, in particular, to pay increasing attention to moral standards in business behaviour, not just in ‘corporate social responsibility’ or ‘shared value’ but as a means of long-term sustainability and survival.

The moral framework of policy at both international and national levels provides a set of constraints and incentives to corporate behaviour that cannot be ignored. The complex web of hard, legally binding, and ‘soft’ law overarches international business conduct. And it transcends the ‘governance triangle’. These ‘moral’ effects on inward and outward FDI (foreign direct investment) are concrete and operate through markets, governments, and civil society.

There is a great deal of overlap (for example, on ‘sustainability’) between ‘private’ guidelines, such as the Guidelines of the International Chamber of Commerce, and voluntary intergovernmental codes such as the ILO MNE Declaration, the UN Guiding Principles and the OECD MNE guidelines (Sauvant & Mann 2018), suggesting strong convergence. Similar codes on a regional basis are also extant—such as the Pan African Investment Code (2015). The focus of recent codes is to bring investment rule-making into the multilateral trading system and to facilitate (increasing) investment rather than just protecting investment and reducing risk (Mbengue 2018).

Standards

The International Organization for Standardization (ISO) is a non-governmental organisation (NGO) established in 1946 in Geneva with a membership of 161 national standards bodies (ISO.org). ISO develops and publishes international standards that underpin technology and ensure quality. Standards have become strategic tools for companies that reduce costs, minimise waste and errors, and improve productivity. International standards provide a level playing field across international markets, reduce transaction costs, and facilitate trade.

Key standards for international business include the ranges ISO 9000, ISO 14000, and OHSAS 1000 (these are best thought of as ‘families’ of standards). The current standard ISO 9001 is a quality management system across all areas of business, including continual improvement tools. Certification is close to a requirement for meeting regulatory requirements internationally. ISO 14001 is an environmental management standard that demonstrates commitment to controlling the external environmental commitment of activities. The standard OHSAS 18001 Health and Safety Management System is an internationally recognised standard that provides a systematic approach to managing health and safety risks and seeking opportunities to manage high-risk activities. All these standards relate to management processes and, as such, have significant impacts on management objectives, style, and structures, including systems auditing.

Compliance with standards is technically voluntary. However, it is virtually impossible to conduct international business without certification. Compliance with standards therefore combines 'regulated behaviour' with 'autonomous social contributions' to the extent that standards incorporate social well-being.

One example of the use of private standards to restore credibility to a commodity-based industry is the case of palm oil (Nesadurai 2017). The problems of tropical deforestation, biodiversity loss, greenhouse gas emissions, disturbance of carbon-rich peatland, exploitation of workers, and 'land grabs' have been evident in palm oil extraction. The principal producing countries (Malaysia and Indonesia) have historically been reluctant to regulate production, despite pressure from NGOs. In 2004 a multi-stakeholder Roundtable on Sustainable Palm Oil was established and in 2007 a comprehensive certification scheme with defined environmental and social standards provoked limited reforms.

Voluntary governance schemes rely on the market in using downstream corporate buyer's demand for sustainably produced products to incentivise upstream producers to act responsibly. 'Whether production practices change depends on the strength of these market incentives and signals, their unimpeded transmission along the supply chain as well as the capacity of private standards to reinforce and comply those incentives and signals' (Nesadurai 2017: 1). Difficulties in monitoring, auditing, and enforcement and fragmented supply chains reduce the incentives for growers to adopt certification. Selling to 'non-green' markets (such as India and China) reduces the pressure on growers.

The Palm Oil Innovation Group (2013) backed stronger standards proscribing deforestation, the use of peat soil, and social exploitation to provide benchmark standards (No Deforestation, Peat, Exploitation—NDPE). The agribusiness firm predominant in palm oil production—Wilmar—pledged 'No Deforestation' in December 2013, leading other producers to source NDPE palm oil and this now covers approximately 60 per cent of production (Nesadurai 2017: 2). The crucial change is 'supply-chain traceability' as a key industry norm requiring detailed verification of the source of palm oil to the grower. Demand pressure reaches growers through surveillance of supply-chain actors, evaluation of responsible behaviour, and education and training. NGOs are key players in all these processes in sustainable supply chains.

Official (governmental) policies have *followed* these developments. Sub-national authorities of South Sumatra province and Seruyan regency in Indonesia and the State of Sabah in Malaysia have 'implemented jurisdictional certification for all palm oil produced in these jurisdictions' (Nesadurai 2017: 2). The Malaysian and Indonesian central governments are developing mandatory national certification schemes and, although these are weaker than private sustainability standards, they place sustainability in the centre of national discourses.

Such tripartite agreements are not a panacea, nor are they secure in results. Rainforests are reportedly still being destroyed by palm oil suppliers to major corporations (Webster 2018). This raises questions about the assurances of the roundtable that rainforests are protected. Major customers of the alleged deforester immediately announced investigations and suspensions of supply contracts. The supermarket Iceland announced that truly sustainable palm oil was not possible on a mass scale and committed to eliminate palm oil from its own-brand products—a possibly 'burdensome responsibility' action.

This case shows that private governance can lead reform but that progress can be slow and contested. A global standard on what constitutes sustainable palm oil and a common system to implement it are still needed (Rosenbarger 2018). Private governance standards can incentivise even poor small remote farmers to adopt strong sustainability standards if given technical and financial assistance.

The introduction of ISO 26000, guidance on social responsibility, brings together the UN's SDG goals and operating standards. It contains over 450 recommendations that have a direct impact on the SDG goals, with guidance on how corporations can operate in an ethical and sustainable way that contributes to sustainable development (ISO 2018).

> *Must have adherence to formal standards (ISO), certification and a quality system —'Our quality journey. (3)*
>
> *CSR does not have the same impact as standards because it is harder to justify its impact on the bottom line. (3)*
>
> *We visit suppliers and make sure we are buying from suppliers who deliver quality. (3)*

Employee involvement

Employees are an important stakeholder in the corporation. They can be involved via share ownership in order to achieve an alignment of goals between employee and owners—hopefully resulting in an increase in employees' commitment to the firm and increasing their voice in decision making. Employees can also be involved in boards of directors or other decision-making bodies in the corporation. This is a subject on which there is considerable recent research and it requires further development and investigation. (See inter alia Aguinis & Glavas (forthcoming).)

In the labour pool millennials are very engaged. (13)

Younger people are agitators for more CSR. (13)

Demand pressures

Demand pressures on the corporation to produce 'ethical goods' and 'responsible products' are increasing dramatically. The reputational damage to transgressing societal limits are potentially enormous.

Certification

Voluntary certification at corporate level is provided by 'Certified B Corporation' status. 'B Corps are for-profit companies certified by the non-profit B Lab to meet rigorous standards of social and environmental performance, accountability and transparency' (http://www.bcorporation.net). There are currently over 2,100 certified B Corps from fifty countries and over 130 industries. Performance requirements on 'using business as a force for good' are required. External certification is increasingly gaining acceptance (*The Economist* 2018). [2]

Product certification
'Businesses can signal to internal and external stakeholders that they are conforming to received ethical business practices by using ethical labels or 'ecolabels' for their products' (Voss 2018: 361). These can be local: 'Water Lily' in Lithuania and Afrisco Certified Organic in South Africa; or international, such as Fairtrade or Rainforest Alliance. These certifications rely on trust in the effectiveness of the certification system and continuous monitoring of the certification criteria. Non-governmental, non-profit organisations, such as the Rainforest Alliance, Cotton Made in Africa, or Forest Stewardship Council, provide corporations with the opportunity to enhance brand reputation and equity, and legitimise their operations.

[2] *The Economist* (2018) claims 'some 2500 have been certified'.

Socially responsible investment

As Yan *et al.* (2018: 1) say, 'Socially responsible investing (SRI) is gaining traction in the financial sector, but it is unclear whether the dominant financial logic competes with the social logic in the founding of SRI funds.'

Sustainable investing

Sustainable investing is carried out not only as a matter of moral responsibility, but also to generate better returns for clients. The trade-off between these two objectives and the potential short-term versus long-term returns issues remain to be explored. Sustainable investing covers environmental, social, and governance goals. Companies such as Blue Harbour claim that social and environmental issues have become integral to their asset portfolio. Despite some preliminary evidence on higher annualised returns (Amel-Zadeh & Serafeim (forthcoming) and Grewdal *et al*. (forthcoming)), the jury remains out on long-term improvements in returns.

The current position on sustainable investing was the subject of the interview with a senior consultant of a 'big 4' UK consultancy:

> *Some big insurance companies are leading in social investment, particularly those from continental Europe. People in key positions are pushing sustainability because they want to take a long term view.*
>
> *The European Commission High Level Expert Group are driving the agenda [on sustainable investment] following the Paris Climate Change Convention. This is not yet legislation so much as potential legislation and persuasion.*
>
> *Mark Carney [Governor of the Bank of England] is pushing for more climate impact disclosure in the reporting for public corporations.*
>
> *This is voluntary at the moment but many companies are taking it into account for investment, reporting, and supply chain issues.*
>
> *There is a lack of data to drive the agenda forward on climate change impact. There are more indexes and benchmarks beginning to appear on sustainability such as the Brookings Institution Global Impact Bands Database.*
>
> *A number of trailblazers in sustainable investment exist such as Unilever's commitment to the SDGs as 'top of the leader board'.*
>
> *Tax incentives help with sustainable investment such as the [2014] Social Investment Tax Relief [SITR]. Government backing for the Principles for Responsible Investment, as given by Teresa May is critical. Wider incentives obviously help.*
>
> *The emergence and development of Special Impact Investment has been rapid. As of 2017 there were 108 contracted Social Investment Bonds [SIBs] in 25 countries. The UK is the leader with 42.*

> *Social Investment Banks such as Big Society Capital are poised to grow and become significant players.*
>
> *A change in culture needs champions to drive it and it has to be a person of influence such as the Head of Strategy or Head of Investment in order to lead cultural change. (12)*

Auditing (independent auditing) is an important external pressure on compliance.

Supply chain

The section on 'standards' above drew attention to supplier codes of conduct and audit. The externalisation of societal audit also provides an opportunity for compliance experts to audit social responsibility and affect the policies and practice of corporations on a global basis. Corporate responsibility in corporations as spread through their supply chains internationally is a potentially important source of transmission of CSR. (See, for example, the jewelry and gold supply chains (Human Rights Watch 2018).) The OECD has developed a 'human-rights due diligence' approach (OECD 2010) for conflict areas. This is one of a series of 'Responsible Business Conduct by Sector' guidelines.

> *Monitoring of the supply chain is becoming more crucial. (5)*
>
> *European companies require their whole supply chain to be up to CSR issues. (13)*
>
> *Configuring the value chain—'end-to-end' view of internalisation. Transport/Packaging/ Standards. (14)*

We should note 'government failure' as well as market failure. A recent report on supply chains in apparel notes that (weak) governments require support in regulating international supply chains. Nachum (2018: 3) says:

> to date, Bangladesh's government has not displayed the ability or willingness to embrace actions. They propose several alternative constituencies that should assume the responsibility for instilling change, including the ILO, the global brands and their home governments, as well as social activists and NGOs. They also extended a call for consumers to endorse in their consumption behaviour ethical practices in the apparel supply chain, and ease pressure on the bonds.

Thus the host government is proposing a form of 'new transnational governance mechanism' (see below) to reinforce its regulatory authority.

Summary

This is the era of the constrained corporation. Corporations are constrained not only by official government regulation, but also by codes of conduct, compliance to standards, the influence of social movements (including employee involvement), demand pressures (including 'ethical' consumers), and social auditing. The Zeitgeist is against unconstrained capitalism and the contribution of corporations to society has to be seen against this backdrop of constraints. Such thinking has led to the 'governance triangle' approach to corporate policies (Abbott & Snidal 2008): the suggestion of a web of processes involving cooperation between the state, civil society, and the market (Figure 5).

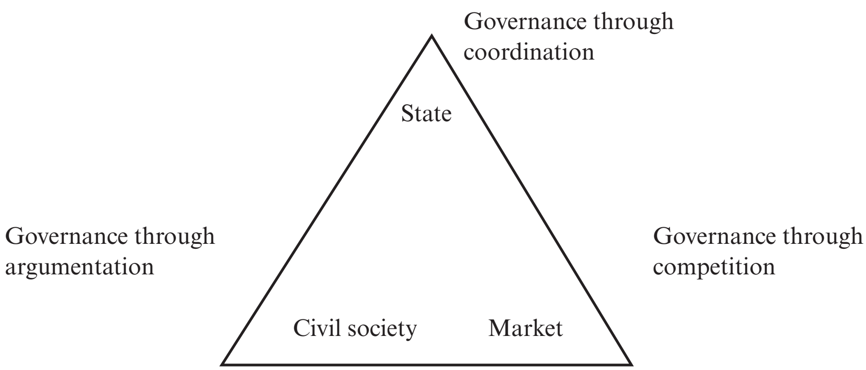

Figure 5. The governance triangle (source: adapted from Abbott & Snidal 2008).

Measurement issues of social impact of business

Constructs such as socially responsible investment, corporate social responsibility, and social entrepreneurship are widely and inconsistently used (Rawhouser *et al.* 2017: 21). There is a strong case for the careful conceptualisation and definition of these key concepts.

IV ORGANISING SOCIAL CONTRIBUTIONS BY INCENTIVES

One answer to 'making managers do good' is to manipulate their incentive structure. Reputation effects are effective in small social groups (elite managers) or where transparency makes individual action clear. Thus, enlightened self-interest leads managers to social goals. It is likely that the cost of such an incentive structure—its design, monitoring, and delivery—will be high. The information content of such a system is likely to be great (Casson 1991, Klein & Leffler 1981). A reputation for trustworthy behaviour is an important asset and this helps to sustain trustworthy behaviour.

The role of leadership in an incentive-based system is to institute and support formal monitoring and to ensure the transparency and integrity of the reward system. The monitoring of contracts is a specialised and complex activity.

- Can companies ensure that their reward system is consistent with their values?
- Monetary rewards may *reduce* pro-social motivation (by 'cheapening' it).
- Why should incentives *reduce* pro-social motivation when it does not do so for 'normal' activities?

Incentives are potentially important, but the interviewees suggested that they need careful consideration and management.

> *Incentives can be temporary. (1)*
>
> *Designing incentives to 'do good' leads to complications—how are trade-offs managed? (2)*
>
> *How do you trade-off 'social benefit' against increasing sales? (2)*
>
> *Incentives can be given if the targets are clear enough. (5)*
>
> *If a corporation is committed to contributing to societal goals, they will find ways to motivate and inspire their employees, suppliers, and customers to adapt to these values. The idea of monetary incentives could work, but monetary incentives in and of themselves are somewhat of a blunt motivational instrument. It would be much better to create a culture that promotes social contributions, and hires employees who share that culture and want to do something to enhance it. (9)*
>
> *Incentives generate unintended consequences. (13)*

Here, the salience of the issue may be important.

From the firm's point of view a 'cost–benefit' analysis of the resource utilisation may bring clarity. (An example is Apple being asked to break into an iPhone for security reasons. This will have a negative effect on all Apple customers if the company can access all personal data stored on their devices.)

V ORGANISING SOCIAL CONTRIBUTIONS VIA CORPORATE CULTURE

As Casson (1991: 3) points out, 'An effective culture has a strong moral content.' Trust, in an organisation or an economy, has transactions-cost-reducing effects (Buckley & Casson 1988). A formal culture can overcome problems that procedures (including incentives) based on monitoring or compliance with contracts cannot. 'A strong culture therefore reduces transactions costs and enhances performance' (Casson 1991: 3). This, however, does not mean that the only reason for moral content in corporate culture is purely instrumental.

Trust is a valuable asset in any organisation, as it improves spontaneous coordination and avoids recourse to law or regulation. Even the most secure contract cannot always ensure that the victim of a dispute will be able to enforce a penalty against an offender (Loomes & Sugden 1986). Legal costs may be prohibitive and evidence hard to collect. Goodwill is an effective substitute for legalism (Dore 1983).

Can managers be trusted to 'do the right thing' in the absence of well-specified contracts and targetted incentives? (The section below considers the manipulation of incentives.) Moral commitment is an alternative to enlightened self-interest. In such a system, managers 'punish themselves' (forgo reward) rather than relying on third-party sanctions. Mangers become 'self monitoring agents' (Casson 1996: 17). Forbearance from cheating sustains mutual trust where it can be observed and reciprocated (Buckley & Casson 1988).

The question of the mechanisms by which a strong moral culture can be created in a corporation and the role of leadership are crucial. The leadership role here is of a 'moralist and exemplar who engineers commitment in order to build up trust between the followers' (Casson 1991: 18). Potentially, the engineering of commitment by a leader or leadership group will enjoy the active consent of the followers (Lauterbach 1954). This often represents replacing private wants with collective ones; selfish concerns with altruistic ones. Changing preferences is not an easy task. Followers (managers and workers) may be attracted by a leadership style of which they approve. Thus, behaviour becomes self-reinforcing at the organisational level. The 'social license to operate' (Demuijnck & Fasterling 2016) becomes generalised throughout the corporation. A reputation for moral commitment is a valuable asset and cheating is punished, at individual and corporate level, by loss of reputation (Axelrod 1984, Kreps & Wilson 1982). Leadership—moral leadership—therefore involves changing the preference structure of managers to incorporate or to emphasise social good in their decision making. The task of top managers and owners is to effect this preference change.

Corporate culture 'gives hierarchical inferiors an idea *ex ante* how the organisation will react to circumstances as they arise: in a strong sense it gives identity to the organisation. More than this, corporate culture communicates an organisation's identity to hierarchical superiors' (Kreps 1996: 256). Corporate culture thus substitutes for an infeasible centralisation of decision making, the costs of which would be prohibitive. 'Corporate culture also provides a means of measuring the performance of hierarchical superiors' (Kreps 1996: 257).

There is no single 'corporate culture' in any business firm—as interviewee (1) says, it is patchy and variable both by time and place:

> *Culture exists in pockets throughout the company—there is no overall, all-pervasive corporate culture. (1)*

> *Company culture comes from the original founder but is affected by market realities. Company cultures have to compete and to adapt. Cultures are exposed to competition, just like anything else. (5)*

> *If a corporation is committed to contributing to societal goals, they will find ways to motivate and inspire their employees, suppliers, and customers to adapt to these values. The idea of monetary incentives could work, but monetary incentives in and of themselves are somewhat of a blunt motivational instrument. It would be much better to create a culture that promotes social contributions, and hires employees who share that culture and want to do something to enhance it. (9)*

> *An effective way to start a cultural transformation is for a company to outline publicly a broad reason for its existence, and the values it intends to pursue. A 'company purpose' or 'mission statement', complemented by clear 'corporate values', can go a long way to establishing the correct climate inside the company—as long as its leadership walk-the-talk. (9)*

VI SURVEY RESULTS

This research is supported by a small-scale sample survey using interviews (Appendix). A total of fourteen executives were interviewed: four in the UK, six in the USA, one in Switzerland, one in Australia, and two in Canada (three British citizens, seven US, one German, one Swiss, one Australian, one Canadian). The interviews were conducted anonymously—see the Appendix. The results echo those of Parker (2018), signalling a deep concern with the role of corporations in society and an acceleration of the pace of change in corporate activity in seeking to promote societal goals.

It is worthwhile comparing these interview results with those of Parker (2018). There is great accord between the two sets of interviews, pointing to a change in the Zeitgeist of a significant cohort of business leaders.

VII MECHANISMS OF CHANGE

The research underlying this report suggests that there has been an acceleration in the pace of change of corporations recognising societal values:

> *Regulation is absolutely necessary. (1)*
>
> *Companies are increasingly losing the understanding of where they add value to society. (5)*
>
> *Distance and intermediaries [in supply] chains can put barriers on the way of monitoring but it is essential to provide sufficient means to achieve the goals of an impeccable supply chain. Companies should enlist the help of government bodies and NGOs to achieve this. (5)*

Several key mechanisms of change have been identified:

1. *New forms of transnational governance mechanisms*
   The 'governance triangle' depicted in Figure 5 highlights not only governance through the market and through state regulation (the two processes outlined at the beginning of this project) but also 'governance through argumentation'—pressure from civil society. Corporations, NGOs, private regulators, and standards and accreditation bodies have come together to provide a means of corporate governance that acknowledges and pursues societal goals. This meshes direct policy initiatives of corporations with the demands of national governments and NGOs (Figure 6). Examples include: the Palm Oil Innovation Group and ISO 26000.
2. *Consumer pressure*
   The rise of the 'ethical consumer' has profound effects on corporate behaviour. Through the adoption of standards, ethical norms are pursued throughout the supply chain and thus have a transnational impact.
3. *Pressure from civil society*
   It is not only as consumers that individuals and small groups can influence corporate behaviour. The 'global war for talent' (reference Arie Lewin) means that the 'material generation', who are generally more in favour of societal goals being pursued in business arenas, have strong preferences for joining 'ethical companies'.
4. *'Burdensome responsibility'*
   Evidence is needed on situations where corporations forgo profits for social goals. This needs careful experimental design in research.

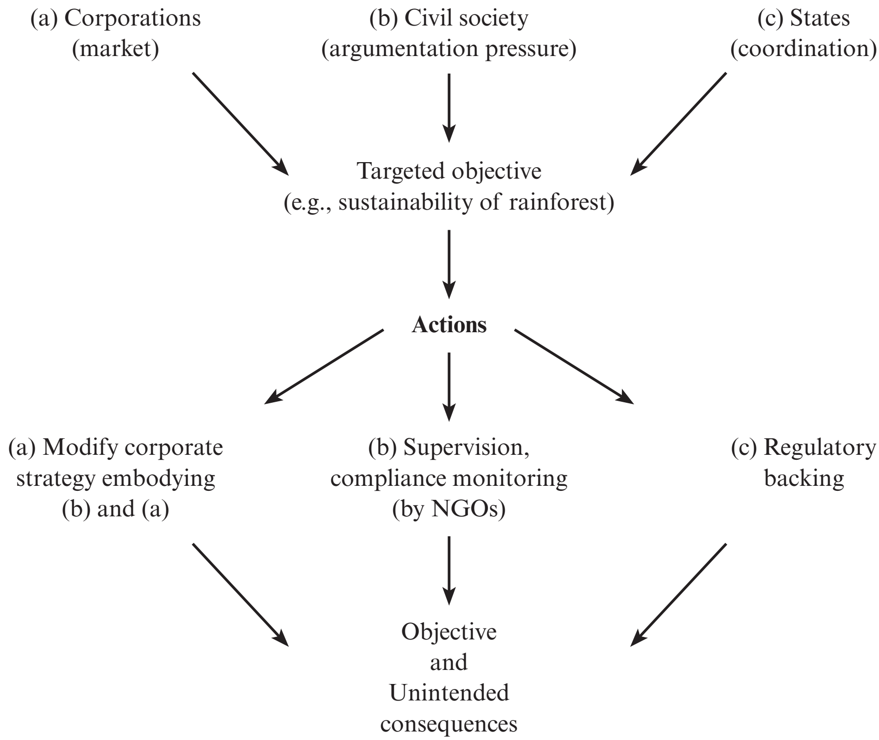

Figure 6: 'Governance triangle' implementation.

5. *Stakeholders versus shareholders*
   Shareholders are becoming translated into stakeholders by sustainable investing. Pressures for employees, consumers, and along the value chain are growing for the embodiment of social purpose into corporate behaviour (Friedman 1984).

VIII POLICY IMPLICATIONS

Subsidies and taxes can influence the returns on investments in corporate social responsibility. The removal of such subsidies is likely to result in the reversion of such investments. (An example is the European subsidies to 'renewable energy' (Cassimon *et al.* 2014: 21).) Using the real-options framework, options to invest in positive social change can be improved by reducing the long-term uncertainty surrounding such investments. One way to do this is to encourage self-regulation by corporations—possibly in association with the public sector and NGOs. Examples include codes of conduct, compliance to standards, certification, and adherence to declarations such as 'shared value'. This not only increases option value, but it also builds public and consumer awareness and stakeholder buy-in to corporate strategy, ultimately increasing the value of corporations' investment in social welfare.

IX CONCLUSIONS

Richardson (1972: 884) describes 'a dense network of cooperation and affiliation by which firms are inter-related'. Equally, we can envisage a dense network of regulations, codes, rules, and standards to which corporations have to conform.

Corporations thus operate within a web of rules and signals. Only some of the rules emanate from governments—others are from compliance with standards, customer expectations, supplier demands, and civil society norms. Signals come from all of the corporations' stakeholders, not only expressed as price signals but also through means such as social movements, ownership changes, and lobbying. Corporations are not passive receivers of rules and signals; they also make them. Business organisations, collectively and individually, formulate rules and send signals to the rest of society.

Rules and signals vary by time and place. Rules evolve and signals mutate over time. Place and space are important. Where a corporations is domiciled and where its activities are located are crucial determinants of behaviour. Space between operations influences operations and behaviour as in cross-border trade and cross-cultural management.

Governance is determined by all the above influences. However, elements of governance represent a crucial choice for the management of corporations. Government policy is not the sole determinant of governance modes, although it is an important one. The choice to go beyond what governments (all governments including supranational ones) require is often made by corporations (and sometimes forced on them by the non-governmental pressures examined in this paper). The importance of company culture in this process is paramount and largely undisputed. The impact of specific incentives for managers to 'do good' is much more contested.

We might, therefore, suggest a conceptual spectrum of corporations' contributions to society (Table 4). The minimalist conception of doing social good is that simply by operating efficiently and maximising profits, corporations thereby fulfil all their conceivable and feasible contributions to society. A more concerted effort can be made by corporate social responsibility activities, which range from 'add-ons' (contributions to charities) to attempting to disseminate value more widely through stakeholders and beyond by setting social goals. Corporations can undertake 'burdensome responsibility' by pursuing social goals that will negatively impact on their 'bottom line' and decrease (short-run) profitability. Finally, there are 'outliers': companies designed with a social mission, social enterprises, and 'principled organisation' operated solely for social good. The current ecology of business includes a mix of all these ideal types.

X FURTHER RESEARCH

This investigation suggests a wide range of opportunities for further research.

1. Gaps in existing knowledge:
   - Conceptual clarity
   - Frameworks for analysis
   - *Does* 'normal governance' include a social purpose (implicit?)
   - *Should* governance include a social purpose?
   - Measurement of key constructs of 'social impact' of business.
2. Overarching and recurring issues that corporations, policymakers, and academics need to address

Corporations

- Clear statement and understanding of the purpose of the corporation.
- To achieve social goals? by culture or incentive?
- Compliance or positive pursuit of social goals?
- The role of employee involvement in CSR activities
- How do companies reconcile multiple goals? (CSR goals and commercial goals)

Policymakers

- Clear definition of the responsibilities, rights, and fair treatment of corporations.

Academics

- Deep conversation on concepts and frameworks for the analysis of the interaction of corporations and 'society'.
- Investigate the relationship between social investment and profitability.
- Does the move away from a single clear metric (profitability) create problems in financing economic activity?
- Better models of investment in CSR, possible along 'real-option' lines.

- There are important and unresolved measurement issues in CSR.
- Empirical investigation: interview *all* stakeholders including labour bodies (unions, or the Trades Union Congress).
- The role of business school education in corporations' role in society.

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APPENDIX: SURVEY RESULTS

This research includes a small-scale survey (utilising interviews) of top executives in targetted companies (theoretical sampling).

The interviews yielded a large number of rich insights.

1. Chief executive of AIM listed PLC (UK) British citizen

   Regulation is absolutely necessary.

   Corporate governance is everything and this comes from the board.

   Incentives can be temporary.

   Reputation is more important than culture.

   Culture exists in pockets throughout the company—there is no overall, all-pervasive corporate culture.

   Market forces will force industry to adopt societal goals.

2. (2) Senior executive, international publishers (UK) US citizen

   Designing incentives to 'do good' leads to complications—how are trade-offs managed?

   How do you trade-off 'social benefit' against increasing sales?

   Visionary governments can invest in breakthrough technology to enhance societal goals that can provide incentives for private industry to invest and/or engage in public–private partnerships without actually regulating any industry or a specific societal goal and thereby disrupt the market conditions. Regulation will be possible only in accordance with the political ideology of voters.

3. Group managing director, Australian private company (Australia) Australian citizen

   Must have adherence to formal standards (ISO), certification, and a quality system —'Our quality journey'.

CSR does not have the same impact as standards because it is harder to justify its impact on the bottom line.

We visit suppliers and make sure we are buying from suppliers who deliver quality.

We have an unwavering focus on our [employee] health programme—it has paid for itself.

4. Chief executive of UK institutional investor (UK) UK citizen

The Friedman position is wrong—businesses should be pro-social and wealth creating.

Profits are like a social licence to operate.

A shift is going on in business and investment focus—away from a transactional world view to a relationship world view.

5. Consultant and former senior manager (Switzerland) Swiss citizen

Companies are increasingly losing the understanding of where they add value to society.

Distance and intermediaries [in supply] chains can put barriers on the way of monitoring but it is essential to provide sufficient means to achieve the goals of an impeccable supply chain. Companies should enlist the help of government bodies and NGOs to achieve this.

Company culture comes from the original founder but is affected by market realities. Company cultures have to compete and to adapt. Cultures are exposed to competition, just like anything else.

Incentives can be given if the targets are clear enough.

Monitoring of the supply chain is becoming more crucial.

6. Retired vice president of major US multinational (US) German citizen

Doubtful that government bureaucracy can play an efficient and effective role in mandating and monitoring social responsibility/sustainability actions of private sector. However, a more appropriate role for the governments is to establish standards and mandate for public disclosure of such activities. This would go a long way towards enhancing transparency around companies' impact on society.

Besides, there are plenty of good reasons for companies to act on their own: (i) business case for CSR—it enhances competiveness and company reputation; (ii) Wall Street investors pay attention; (iii) customers demand it; and (iv) employees—today's young talent pool—are inspired, increasing employee retention and loyalty.

Board oversight and proactive CEO engagement are essential. With proper leadership, resources, and employee buy-in, a favourable organisational culture and climate can be created.

7. Board member of major US multinational (US) American citizen

Government bureaucracies would probably not effectively carry out a regulatory framework for 'constraining' corporations in this way; and I fear that the 'law of unintended consequences' would play out were such bureaucracies created and given a mandate.

I also agree that corporations can and do put together a business case for corporate social responsibility and this is especially so if their activities under CSR can be aligned with their own business interests. A prime example of such alignment is the drive by Coca-Cola around the world to invest in clean water as such activities are in alignment with the need for Coke to have local clean water in order to manufacture and sell its product.

Again, the absolute best mechanism for a self-directed contribution is to discover and implement actions which align the interests of the corporation with the interests of society such as the clean water initiative which has been made a part of the culture of Coca-Cola.

Critical need for the boards of directors and CEOs to drive the CSR initiatives from the top down.

8. Managing principal, US consultant (US) American citizen

I believe corporations can contribute and that many indeed do so. … While these companies have many stakeholders to appease, they also look at societal issues as part of their mission and values.

This is debatable and as I do not believe there is one good answer that fits all situations.

Politics play an important role as well and could muddy the waters of good intentions.

I believe contributions should come down to individuals making independent decisions with a supportive company culture of giving back to their communities.

9. Retired CEO of major multinational (US) American citizen

It is sad and misleading to read the statement about corporations having 'selfish' goals, as if corporations are thoughtless individuals instead of organisations. Corporations employ people and, if industrial companies, they sustain many—sometimes hundreds or thousands—of families through suppliers and other value-chain networks. To call their goals 'selfish', brands all corporations with the stereotype of a few rotten corporate apples (which also exist in government, by the way); to do so perpetuates a harmful myth, very unfair to the many conscientious corporations that do good in the world.

If a corporation is committed to contributing to societal goals, they will find ways to motivate and inspire their employees, suppliers, and customers to adapt to these values. The idea of monetary incentives could work, but monetary incentives in and of themselves are somewhat of a blunt motivational instrument. It would be much better to create a culture that promotes social contributions, and hires employees who share that culture and want to do something to enhance it.

An effective way to start a cultural transformation is for a company to outline publicly a broad reason for its existence, and the values it intends to pursue. A 'company purpose' or 'mission statement', complemented by clear 'corporate values', can go a long way to establishing the correct climate inside the company—as long as its leadership walk-the-talk.

10. Retired chief executive officer of major multinational (US) American citizen

The CEO's value system and or the competitive context plays a major role in deciding on the scope of the goal: shareholder only or multiple stakeholders. Usually it has been an external force (competition, activist groups, NGOs, customers, consumers, a very young and idealistic workforce, etc.) that has forced an organisation to adopt societal goals. A CEO's value system has driven societal goals and they have been used as a differentiator in a market entry strategy into a competitive market, and sometimes it has been used successfully by an incumbent as a form of competitive advantage pre-emptively.

The CEO's value system which drives the value system of his management team. Clear and specific societal goals and incentives for the organisation to drive toward those societal goals. Clear management routines that incorporate progress toward societal goals. Strong economic arguments that derive from driving societal goals: making money is compatible with driving societal goals. Have to look beyond the obvious to make a strong business case. Small experiments to showcase wins. Start small and then scale. Understand that employees feel good by doing good and when employees feel good they are extremely productive.

11. Non-executive board member of major multinational (US) American citizen

I believe the answer to both questions is a 'yes'. Some businesses, especially consumer-facing businesses clearly feel the pressure of the expectations from their consumer base that they should at a minimum do no harm to society. Their corporate reputation improves if they are seen as doing good for the society. These market forces naturally push the businesses to think about their societal impact and address the issues. The answer to the question is a yes for such companies for the reason that the consumers of some businesses put such pressures on them. The pressure could also come from NGOs or other players (activists, media, etc.) as well. To the extent this is felt as a threat to the business, the business will act to address it.

I do not agree that businesses should be regulated to contribute to society. Regulation is needed at various levels. I believe we should have standards on water discharge, emissions, *fundamental rights of the employees, etc. These are types of regulation that is already there to control the environmental and social footprint print of a business.*

Businesses with an enlightened self-interest, which take a long-term view that their existence depends in the existence of the societies in which they live will contribute to invest in their future, but such thinking isn't too commonplace. This is a matter of leadership and culture, a strong tone at the top and walking the talk. The culture need not be an altruistic one, it needs to be an enlightened one as mentioned above. If incentives are connected to such existential philosophy, they could be effective.

12. Consultant at major British consultancy firm (UK), UK citizen

Some big insurance companies are leading in social investment, particularly those from continental Europe. People in key positions are pushing sustainability because they want to take a long-term view.

The European Commission High Level Expert Group are driving the agenda [on sustainable investment] following the Paris Climate Change Convention. This is not yet legislation so much as potential legislation and persuasion.

Mark Carney [Governor of the Bank of England] is pushing for more climate impact disclosure in the reporting for public corporations. This is voluntary at the moment but many companies are taking it into account for investment, reporting and supply chain issues.

There is a lack of data to drive the agenda forward on climate change impact. There are more indexes and benchmarks beginning to appear on sustainability such as the Brookings Institution Global Impact Bands Database.

A number of trailblazers in sustainable investment exist such as Unilever's commitment to the SDGs as 'top of the leader board'.

Tax incentives help with sustainable investment such as the [2014] Social Investment Tax Relief [SITR]. Government backing for the Principles for Responsible Investment, as given by Teresa May is critical. Wider incentives obviously help.

The emergence and development of Special Impact Investment has been rapid. As of 2017 there were 108 contracted Social Investment Bonds [SIBs] in 25 countries. The UK is the leader with 42.

Social Investment Banks such as Big Society Capital are poised to grow and become significant players.

A change in culture needs champions to drive it and it has to be a person of influence such as the Head of Strategy or Head of Investment in order to lead cultural change.

13. Vice-president of investor relations, Canadian multinational corporation, American citizen

CSR gives access to pockets of the market—revenue opportunities, particularly in Europe.

European companies require their whole supply chain to be up to CSR issues.

In the labour pool, millennials are very engaged.

Incentives generate unintended consequences.

Younger people are agitators for more CSR.

Regulation brings in lawyers, auditors, etc.. results in minimal compliance.

It is better for companies to own being part of the community rather than minimal [compliance] effort.

14. Chief executive officer of large multinational Canadian private company, Canadian citizen.

Ownership is not strategy.

We have 501 (c) 3 non-profit arm '[Company name] International Development' with seventeen projects in thirteen countries—mainly African.

In 2013 we bought a satellite imaging company. This enables us to track green biomass. Entry into big data through our data platform. Direct, real-time advice to farmers.

Configuring the value chain—'end-to-end' view of internalisation. Transport/Packaging/ Standards.

The configuration of the value chain is important—we take an 'end-to-end' view of internalisation.

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