

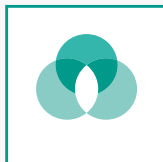
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The missing link in Corporate Responsibility
Connecting for sustainable growth

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Linda O’Riordan / Nina Marsh / Jan Jonker

KCC White Paper



**KCC KompetenzCentrum
für Corporate Social Responsibility**
der FOM Hochschule für Oekonomie & Management

Linda O’Riordan / Nina Marsh / Jan Jonker

The missing link in Corporate Responsibility
Connecting for sustainable growth

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1 Introduction

The fallout from the global economic crisis and other ‘events’ have re-intensified the spotlight on the role of business in society (O’Riordan, 2013), leading to a growing emphasis on Corporate Responsibility¹ (CR) and Sustainable Development (SD). This has re-sparked an increasing awareness and concern among many people that major unintended changes are occurring on our planet which are influenced by and influence an ever-growing human population and their natural ‘habitat’ (e.g. Jonker, 2012; Hawken, 1993; Brundtland Report, 1987). This negative trend is happening at an accelerating speed despite some positive undertones over the past decades driven by some influential change agents (such as Clinton, Ban Ki Moon, Gore, Mandela and many others). Ultimately, these events are related to the way in which power is distributed among groups and institutions within the diverse publics, systems and stakeholders in the macro-environment of a pluralist but inter-connected society (Carroll and Buchholz, 2009:8).

Against this backdrop, a growing concern can be observed in society at large regarding inequalities in the distribution of the wealth that is created by business (see for example Wilkinson and Pickett, 2009). This has led to a swarm of commercial responsibility and sustainable responses (such as reporting initiatives, eco-labels and organisational initiatives), which indicate a modest start in the quest for improved efficiency in the use of commodities and resources to create economic wealth. However, these responses are often the result of reflex (re)actions fuelled by an undefined collective ‘mindset’ of (mis)understandings with respect to the sustainable opportunities inherent in business solutions. Possibly due to the range of perspectives and the multitude of interests involved, it is not surprising that CR academics and management practitioners observing these developments over the past ten if not 25 years since the seminal report “Our Common Future” (Brundtland, 1987) have compared the current scenario facing decision-makers with that of attempting to navigate in a maze in

¹ Although CSR (Corporate Social Responsibility) is typically the most common label employed in Europe, in this paper the word ‘social’ has been deliberately omitted from this term in order to reflect the fact that not only social, but also ecological, moral, financial and other key responsibilities are implied in this acronym of which ‘social’ matters are merely one (albeit highly salient) component.

which the exploration and construction of a new compass – guiding in a moral, political and business sense - is part of the solution. In the collective quest for integrating sustainable CR and SD solutions to address some of the key challenges of our time, this raises the question: where did we get lost? In hindsight, it appears as if the ‘clockwork of society’ has become split into an almost infinite number of fragmented domains acting without synergy or connection.

Central to the predicament inherent in the on-going debate on CR and SD is a growing awareness that something is ‘missing’ in the approach in which our institutions and citizens produce and consume products and services. This concern is triggered by evidence of past ineffectiveness with respect to the employment of resources (land, capital, and labour) to build sustainable livelihoods. Such ineffectiveness appears to be at odds with alleged ‘rational’ behaviour which recognises that addressing environmental and other social concerns could sustain livelihoods, and hence, makes citizens better off in a more meaningful sense (Harford, 2007). This realisation is significant because by suggesting a weakness in the powerful role of business as a catalyst to ensure the effective conversion of the resources it invests into products and services that serve mankind, it calls into question the legitimate role of business in society (see for example O’Riordan and Fairbrass, 2013). Most importantly, this recognition highlights potential incompatibilities in the synergic interplay between economic and financial growth as well as social development, which simultaneously protects the environment and the ecosystems this planet depends on. These inconsistencies indicate that as a society, we might be currently functioning in a vacuum due to a profound ‘disconnection’ between our economic system (including by definition our business strategies and models) and our social system (driven by a sense of responsibility as human beings). This is the ‘missing link’ we elaborate in this essay.

The missing link has three key components. These include: 1.1 Separation of ownership and responsibility, 1.2 Emphasis on monetary transaction value and 1.3 Lack of transparency. Each of these components is now briefly explained below in greater detail.

1.1 Separation of ownership and responsibility

This first component is linked to Return On Investment (ROI) as a capitalist economic principle of the way we do business. Possibly due to what Freeman (1994) calls the ‘separation fallacy’ the current ‘mindset’ often considers the field of ‘business’ and ‘ethics’ as ‘separate’ rather than as ‘productive partners’ (Nash, 2000). This mental construct in which companies have almost exclusively pursued the interests of their shareholders has driven managerial capitalism through the 20th century and still remains the prevailing narrative of business today (Freeman, Harrison and Wicks, 2007; Rappaport, 1998). This fallacy has influenced not only the strategies, operating tools and the measurement techniques adopted by business, but has also set the tone for business education on a global scale.

1.2 Emphasis on the monetary transaction value

As a consequence of the previous point, money has come to be perceived as the most rational method to measure value and value creation. Accordingly, virtually all business activity is transacted and its value calculated via a straight-forward cost - turnover equation. The underlying profit equation focuses on striving to maximise ROI by maximising sales and minimising costs as its main aim. Within this approach, human behaviour and performance is measured almost exclusively in monetary (cost) terms. In this regard however, it is too simplistic to diagnose the cause of the current challenges to lie in the greed of individual business executives. Instead, the role of markets and business in society needs to be reconsidered (Sandel, 2012:7). Significantly, within the context of these economic developments, market values now play a greater role in social life. It could even be reasoned that the collective impact of political and economic forces have caused an expansion of markets and market values into spheres of life where they do not belong (O’Riordan, 2013). As a result, money seems to have become the key transaction value used to estimate profit and loss on business and societal balance sheets. This has led to what could be considered an obscure perception of how resources are valued in the corporate conversion process on monetary and social markets’ (Heyman and Ariely, 2004). Consequently, it appears as if markets with an emphasis on money seem to disregard the fact that there is much more to life than what gets measured in accounts (Harford, 2007).

1.3 Lack of transparency

Transparency is a frequently misused term that means more than the ability to ‘see’ and appropriately judge the actions of an organisation. Crucially, ‘transparency’ demonstrates how a complex set of organizational variables (e.g. processes, decisions, material flows, human capital etc.) are systemically linked (Berggren and Bernshteyn, 2007).

A fundamental tragedy of our time is that we no longer understand or feel how we as human beings are connected to the system. Because we cannot ‘see’ the connections, our behavior often takes place in a ‘vacuum’ and is disconnected from what matters. So lack of connectivity and lack of transparency function like a pair (negatively) reinforcing each other. A key complication in this lack of connectivity is that because we are hardly aware of the inherent disconnections involved, we frequently fail to identify ways to ‘connect’ in order to address this ‘missing link’. Like fish that have forgotten that they live in water, we are depleting the resources we share by acting independently and showing preference for immediate profits over benefits that would serve our self-interest over the long(er) term. This happens despite the clear intuitive understanding that diminishing the common resource is contrary to the group's long-term best interests. A further related complication of this disconnection is that we are unable to ‘see’ the connection between meta-level social, economic and ecological matters and our daily lives and actions. This is confounded by a lack of sufficiently reliable, accessible, user-friendly, actionable data for those attempting to recognise and address these missing links.

2 The significance of connecting

The three ‘missing link’ inconsistencies elaborated above imply a profound ‘disconnection’ between our economic and our social system. Consequently, the quest for identifying and developing more effective ways of regulating the use of common resources without resorting to either private property rights or government intervention is a theme that stands central in debates aiming at connecting the dots. This urges a revision of our social contract that takes into account the ecological and natural ‘rights and duties’ of those who have a voice (such as those to nobody is listening e.g. minorities and vulnerable groups often in developing regions), and those that do not have the ability to speak (such as animals, plants and trees).

Essentially, this essay asserts that a key solution for the “missing link” requires that individuals in society ‘feel’ responsible, encouraged, and inspired to address the sustainability challenges which we face. Ultimately, such a transformation could potentially lead to more effective (business) solutions, which could in turn enhance the creation of welfare for human beings and nature, and thereby achieve a fairer distribution of the wealth generated by the corporate conversion process (Jonker, O’Riordan, Marsh, 2013).

Following this reasoning through to its logical conclusion highlights that the current system lacks effective mechanisms and measures which enable a basic connection of people with an operational ‘sense of responsibility’. The consequence of this observation is that individual actions are not connected to - and do not have an impact on - what matters collectively.

Ominously however, despite some advances, a recent report by the Intergovernmental Panel on Climate Change (IPCC, 2013) concluded that the collective negative impact of previous economic, political and social forces continues to directly affect the quality of life of every person on this planet. Given the need for transition, these concerns call for concrete strategic long-term political proposals to address these alarming trends. This challenge that we face as a society requires a critical examination of the effectiveness of the systems and structures which we have created to achieve the outcomes so urgently needed by the planet (O’Riordan, 2013).

3 Exploring a way forward

How to connect? There is a clear and urgent need to identify successful strategies to address the negative impacts which humankind has caused to achieve a more sustainable future. Progress on these matters is inherently dependent on the shared conviction that it is possible to build a future that is more prosperous, more just and more secure for all (e.g. Brundtland, 1987). This requires sustaining and expanding the basis for development by connecting economic interests with social and ecological welfare (Jonker, O’Riordan and Marsh, 2013) in line with the triple bottom line principles (e.g. Elkington, 1997) combined with a more long-term focus (e.g. Lozano, 2008). This could involve stronger collaborations between governments, the private sector and non-profit organisations to enable, encourage and activate the many instances of positive energy inherent at the ‘grass-root’ level of ‘ordinary’ society.

This calls for a new generation of (business) strategies and business models enabling the use of various transaction values. It in turn opens up the possibility to develop business proposals contributing to solving social problems. This approach is what Clinton calls ‘mobilising for impact’ which he reasons ‘... empowers people faster, more effectively and at lower cost than other alternatives’ (2013). Significantly, similarly imaginative (often ‘unusual’) initiatives of an equally long-term, large-scale, ambitious nature drive Google’s penchant for ‘new horizons’ which have catapulted the company into one of the most successful global players in the business world today. One could call this organising with social transition in mind.

This essay concludes that despite the negative impact of mankind on the planet and notwithstanding the arguable separation-fallacies in mind, it is the responsibility of business, governments and citizens to consider such examples in the search for inventive ways to address the “missing link” challenges relevant to their own scope of influence and action. In this endeavor, the responsibility rationale is simple: if we as the human beings on this planet who have everything to lose from the devastating developments of our time do not employ our resources to recognise and respond to these challenges, how else are they going to do be addressed and over time resolved? Crucially in this regard, if we as a society place value in an adequate response from business, the ‘link’ between *markets* and *morals* needs to be re-considered and more wisely ‘connected’.

About the Authors

Linda O’Riordan

Linda O’Riordan is a Professor of International Management at the FOM University of Applied Sciences in Germany where she teaches Business Strategy, Intercultural Management, Marketing, Management Consulting, and Customer Relationship Management to MBA and Bachelor students. Her research focus is on Corporate Social Responsibility (CSR) and Sustainability Management. She is the director of a competence centre for CSR at the FOM University of Applied sciences (KCC). Her research investigates mechanisms and measures which promote a fairer and more sustainable distribution of the resources employed in the economic resource conversion process via the enablement of more effective ‘connections’ between people, organisations and the macro-level systems in society. Her work has been published in internationally renowned peer-reviewed journals such as the Journal of Business Ethics.

Linda is a general manager by background with a PhD from the University of Bradford in the UK. She is a guest lecturer and at the University of Applied Sciences, (FH) Düsseldorf and the Heinrich Heine University, Düsseldorf. As well as being an academic, she has business and consultancy experience from working in industry. Linda has worked for Accenture, UCB-Schwarz Pharma, and for the Government of Ireland (Bord Bia) to market Irish food and drinks products in Northern Europe.

Linda’s additional qualifications include a Bachelor’s degree in Business Studies from the University of Limerick, Ireland, as well as an MBA and a Masters in Research from the University of Bradford, UK.

Nina Marsh

Nina Marsh graduated from FOM University, where she received an MBA with distinction in 2013 for her thesis ‘Investment Behaviour and CSR: Utilising Existing Mind-Sets to leverage Sustainable Business’. During her studies she intensified her skills and expertise in management, sustainability and psychology via training courses at international scientific institutions such as the London School of Economics and Political Science (LSE) and the California Institute of Technology (Caltech). In addition to her work in the public sector, Nina was appointed to become a research fellow at the KCC at FOM University in 2012. Since January 2013 she is involved in a European research project on ‘New Business Models’ initiated by Prof. Jan Jonker of the Nijmegen School of Management in which the FOM University is one of the participating institutions.

Her research focuses on the question: Why are most individuals sensitive and feel responsible towards the environmental and social challenges of our time but when it comes to actions they show preference for immediate profits over benefits that would serve their self-interest over the long term? Within this theme she investigates the role of social and monetary markets and how they affect and are connected to society and organisations. To achieve these aims, she applies insights from the field of behavioural economics to explore its potential beneficial impact on sustainable business solutions.

Jan Jonker

Professor Dr. J. (jan) Jonker is a specialist in the field of sustainable development. He is employed as a professor at the Nijmegen School of Management (NSM) at the Radboud University Nijmegen (RU – Holland) where he holds the chair of ‘Sustainable Entrepreneurship’. Professor Jonker’s research interests are at the crossroads of management, corporate social responsibility (CSR) and sustainable development (SD), specifically, the development of organisational concepts, strategies and (new) business models. Within this focus, Professor Jonker is increasingly concentrating on how to enable and foster fundamental change and transformation leading to (inter)organisational sustainability. In this respect, he is more of an academic entrepreneur creating a variety of projects in order to have a lasting impact. One of his many initiatives is a part-time PhD Program called RESORG for professionals started in 2010 (see www.ru.nl/resorg). Professor Jonker also initiated a EU-funded trans-European (pilot) program for CSR managers in 2012 (www.csr-tempo.eu). In 2010 - 2011, with over 400 participants he carried out the crowdsourcingproject ‘OCF 2.0’ (www.ourcommonfuture.nl) and edited the Dutch ‘green bestseller’ entitled *Duurzaam Denken Doen* (13.000 copies sold to date). At present he concentrates his research on developing a ontology of sustainability strategies and unravelling the building blocks for a generation of (new) business models. In early 2013 he published the edited book “WEconomy” and is now working on a business model methodology to be published as a book to be launched in November 2014. All of Professor Jonker’s books, projects, lectures and encounters comprise the common goal of assisting the progress in sustainable development in and between organisations and people. He firmly believes that our society and the people within hold the power to make changes. Thus far, he has written and co-written 25 books and published over 150 articles. He has delivered many public lectures and acted as a visiting professor in countries including the United States, France, Denmark, Australia, Italy, Spain, Norway, Morocco, Germany, Poland and China. Professor Jonker can be reached at j.jonker@fm.ru.nl.

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