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## **Do Green firms Mirror Markets?**

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### **Historically, companies often try to craft their image to reflect the values of society**

When Hudson's Bay Co. and Canadian Pacific Railway were established, they were granted licenses to operate in exchange for providing some social benefit. That social benefit came in the form of surveying and developing the new land.

Today, socially responsible corporate behaviour centres squarely on the environment and human rights. Though the issues that define corporate social responsibility may be new, the concept is ancient.

"This has been an ongoing debate throughout history," says Mel Wilson, senior manager and environment management specialist at PriceWaterhouseCoopers in Calgary.

In classical Greece, for example, "business was expected to be of social service to the community," explains Nicholas Eberstadt, Henry Wendt chair in political economy at the American Enterprise Institute for Public Policy Research in Washington, DC.

"Ostracism was not unthinkable punishment for immoral business practices and corporal punishment was frequently the penalty for fraud."

In the ancient Far East, social good was ascribed no less importance in commercial relations. "In the Hindu and Confucian tradition," explains Eberstadt, "merchants were subject to a lot of suspicion. Because of this suspicion, there was a great deal of regulation of business practices."

Regulation figured prominently in business in Europe during the Middle Ages (1000 – 1500), where the Roman Catholic Church and the State were more or less a single entity. Profit-seeking was synonymous with greed and punishment could range from corporal means to excommunication. Usury, the charging of interest on borrowed money, was forbidden.

"The good businessman was expected to be honest in motive and actions, sell at a 'just price' and provide a 'living wage' and use profits in a responsible manner," says Eberstadt.

From 1500 to 1800, European society's view of business shifted to Calvinistic doctrine, in which individual achievement and business success were seen as part of God's great plan. This period also witnessed rising involvement of government in business systems, which viewed

economic growth as essential to public welfare. The modern corporation appeared, often with a social agenda attached to its charter to operate.

“Some of the corporations earned their charter by pursuing national interests abroad,” explains Eberstadt. In Canada, Hudson’s Bay Co. was awarded its charter in 1670 and given a monopoly on the fur trade in exchange for surveying land in the name of the British Crown. “A number of companies were established solely to employ the poor in impoverished communities and underdeveloped industries,” says Eberstadt.

Another homegrown example was the awarding of the charter to the builders of the Canadian Pacific Railway in the late 1880s.

The Macdonald government wanted to build a railway that stretched from the Atlantic to the Pacific, in part to encourage British Columbia to join the new country, in part to compete with the new transnational railways in the U.S.,” says Wilson.

“The government couldn’t afford to do it without increasing taxes substantially,” he continues. “Instead, the government gave CPR the land in return for putting the tracks down.”

Other social benefits from the construction of the Canadian Pacific Railway were jobs and an improved transportation corridor for moving products and raw materials east and west.

Despite the perceived social benefit, however, not all was virtuous. Says Wilson: “In the early stages of the CPR project, Macdonald’s government became entangled in a political scandal relating to accusations of backroom dealings and patronage.

“In addition, CPR relied heavily on immigrant workers, especially Chinese immigrants, to carry out some of the most dangerous tasks during construction, and many were killed on the job. I guess you could say people of the 1880s were no more towering examples of social concern than they are today.”

Indeed, but the homogeneity of cultures hundreds of years ago did make agreement on the important issues somewhat simpler.

“One of the realities now, especially in Canada and the U.S., is that we live in a pluralistic society with multiple voices of what constitutes the greatest good,” says Wilson.

“While we value diversity and a pluralistic set of values, the result of all this is a clamouring of what people feel are the values of our society. Because companies often try to craft their image to reflect the values of society, we now get very different companies trying different things, each in an attempt to attract a special stakeholder niche.”

Some firms, for example, focus on alleviating or reducing their environmental impact, while others brand themselves proponents of human rights or adherents to high labour standards. Others, seeing the ultimate social good as maximizing profits for their shareholders, will concentrate their efforts accordingly. This fragmented, 21<sup>st</sup>-century picture of corporate social responsibility is further complicated by the fact that values tend to change over time.

“If you go back to the Second World War,” says Wilson, “the concept of social responsibility was connected to making a meaningful contribution to the war effort. In the 1950s, the big social issue was anti-communism and corporations were lining up behind one another showing how patriotic they were.”

The increased granting of power to corporations dates to around the end of the U.S. Civil War in the 1860s. “The rise of laissez-faire economics gave rise to the debate of whether business should be responsible for the social welfare of the state, arguing that perhaps the ‘invisible hand’ was what was needed and governments should simply encourage the growth of unregulated business,” says Wilson.

The invisible hand theory is attributed to the 18<sup>th</sup> century British economist, Adam Smith, who in *The Wealth of Nations* argued that social good would come through profits, a view many of today’s business people endorse.

But it may be that Smith is being endorsed in another way than as he intended. In addition to being an economist, he was a professor of moral philosophy and held strong views on ethics. “For Smith, the problem was how to make the capitalist system work for the benefit of everyone – a socialist goal – while allowing people to pursue their self-interests,” says Wilson.

Eberstadt adds, “He (Smith) had no illusions that most economic agents would not do anything other than to selfishly pursue their own interests, and his insight was that under certain conditions of open competition, social benefit could be created as well.”

In fact, the ‘open’ markets of Smith’s day were considerably more regulated than those of today, says Eberstadt. “What do you do in a situation where it’s not so tightly regulated?”

One way is through the voluntary adoption of best practices or standards. “The European energy conglomerates like Shell have professed to be doing the most social good by having a more environmentally friendly and socially responsible approach than, say Exxon,” says Eberstadt. “On the other hand, a company like Exxon could proclaim to be doing the most good by staying within the law, within responsible boundaries and earning as many profits for their shareholders as they can, and ultimately let the shareholders decide what to do with the money.”

Perhaps the best a society can hope for in this murky debate, says Wilson, is collective recognition that business’s contribution to society extends beyond pure profit-making for its shareholders.

“There is a role that corporations can play to achieve some goal that is beyond just the profit and that may not have a specific value to the company itself but has a greater value to the bigger population outside the company,” he says.

Corporate social responsibility is about the role of business in society, not about environmental issues, human rights or labour standards. These are temporary focus points, but corporate social responsibility as a whole has always been about what is the moral responsibility of business in society.”

The issues of today are oddly similar in many ways to those faced over centuries of commercial history. “They’re just under a bigger microscope now – a global microscope,” says Wilson.

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