

Statement on Corporate Responsibility

The Business Roundtable
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Introduction

The Business Roundtable issues this statement out of a strong conviction that the future of this nation depends upon the existence of strong and responsive business enterprises and that, in turn, the long-term viability of the business sector is linked to its responsibility to the society of which it is a part.

As our colleague Reginald Jones, former chairman and chief executive officer of General Electric, has put it:

"Public policy and social issues are no longer adjuncts to business planning and management. They are in the mainstream of it. The concern must be pervasive in companies today, from boardroom to factory floor. Management must be measured for performance in noneconomic and economic areas alike. And top management must lead."

Over the past century, large organizations have emerged as central elements in the social, economic and political life of the United States, including big government, big universities, big trade unions, big foundations, and big business organizations. These institutions have evolved in response to felt needs. As corporations have evolved and developed through the years, society's expectations of them have changed greatly. Their importance to the well-being and quality of life of the average person has created perceptions

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and expectations that go far beyond what many considered their historic purpose, which was the creation of goods and services at a profit.

In his 1980 book, *The Revolutionary Corporations*, John Desmond Glover, professor emeritus of the Harvard University Graduate School of Business Administration, wrote that the extraordinary levels of American production and consumption would simply not be possible without an industrial organization of the sort represented by corporations. He called corporations the "principal engines" creating plenty, pushing growth, and leading change in the United States. And yet, he granted that the corporation "is also one of the least understood of our institutions, and one of the most controversial."

There is a widespread idea that corporations have relatively unlimited power, and there is unmistakable evidence of much mistrust and resentment of corporations and their perceived effects on society. To some degree, that set of attitudes is based on reality — mistakes, failures, and aberrant performance by people who manage and work for corporations. To a considerable extent, the antipathy toward corporations is rooted in misconceptions of what corporations are and what their role is in the economic system. Corporations' record of efficiency in the production of goods and services has led to unrealistic expectations that they can do the same in solving social problems. The most challenging aspect of these attitudes lies in the fact that public expectations with regard to corporate performance

have changed materially and are continuing to change. At the same time, corporations have been progressively surrounded by limitations imposed by economics, law, government regulation, and taxation.

The public debate about the proper role of corporations in the society has been underway for years and can be expected to continue well into the future. Earlier, the discussion turned largely around issues of corporate governance. In 1978, *The Business Roundtable* issued a position paper dealing with some fundamental aspects of that subject.*

Today the discussion centers more directly on the substantive side, although some structural issues are still quite current. It is clear that the corporate community must deal effectively with the issues in this debate, either by explaining the corporate role satisfactorily (and thereby changing public expectations) or by meeting new expectations — or both. If public expectations and perceived corporate performance are at odds, corporations will be attacked more and more on social and political as well as economic grounds. The result would be adverse public opinion leading to further government involvement in their operations.

**The Role and Composition of the Board of Directors of the Large Publicly Owned Corporation*, January 1978.

Public Expectations

Many people believe that corporations are generally concerned only about profits and not about the impact their operations may have on society. At the same time, it is clear that a large percentage of the public now measures corporations by a yardstick beyond strictly economic objectives.

People are concerned about how the actions of corporations and managers affect them not only as employees and customers but also as members of the society in which corporations operate. While the range of these concerns is broad, some of the most prominent relate to:

- product pricing, quality and advertising
- fair treatment of employees
- health and safety in the workplace
- plant openings and closings
- effects on the environment
- role in the community
- philanthropy

At a time when the Federal Government has set a policy of less rather than more regulation and aims to reduce the rates of increase in government spending, public expectations of corporate performance in these areas of concern are

even higher. As a result, the responsibility problem for corporations is even greater. More than ever, managers of corporations are expected to serve the public interest as well as private profit. While the business sector must deal with this new challenge, it should not be expected to substitute corporate dollars for a large proportion of the Federal funds that are being reduced or eliminated.

As the corporate community addresses growing public expectations with regard to corporate performance, there must be recognition of the fundamental importance of profits and their contributions to the long-term economic viability of the enterprise. If a corporation is not profitable in the long run, there is no way that it can fulfill any responsibilities to society. If the bottom line is a minus, there is no plus for society. Thus corporate long-term viability and corporate responsibility to society are interrelated.

The Expectations of Constituencies

Corporations operate within a web of complex, often competing relationships which demand the attention of corporate managers. The decision-making process requires an understanding of the corporation's many constituencies and their various expectations. Key among these are the following:

Customers. Customers have a primary claim for corporate attention. Without them, the enterprise will fail. They expect reliable products and services, fair value, good service and accurate advertising. If customer expectations are

not satisfied, the corporation suffers long-term as well as short-term damage. The public attitude toward business is substantially conditioned by the marketplace.

Employees. Management's relationship with employees once was expressed simply as a fair day's pay for a fair day's work. Now the relationship is more complicated. Employees expect not only fair pay but also such conditions as equal opportunity, workplaces that protect health and safety, financial security, personal privacy, freedom of expression, and concern for their quality of life.

Experience has shown that employees will perform well for corporations which have earned their loyalty, rewarded their performance, and involved them in the decision-making process. At the same time, corporations need to weigh employee benefits in the light of competition around the world and the fundamental necessity to produce profits to support the continuing existence of the enterprise.

Communities. While much of the public discussion about the impact of corporations on the lives of people is cast in general terms, corporations most closely touch people's lives in the individual communities where they operate. Here they are expected to be concerned with local needs and problems—schools, traffic, pollution, health, recreation—and to explain their activities to the people of the community.

Society at Large. Operating in national and multinational spheres, corporations affect the lives of people around the world. Their performance is subject to scrutiny by a diverse

public which includes academia, government, and the media. They are expected to respond to concerns and issues of national and international significance. At the same time, the corporation's first responsibility to society is to maintain its economic viability as a producer of goods and services, as an employer, and as a creator of jobs.

Suppliers. Most suppliers to corporations are smaller businesses, which expect and need fair purchasing practices and prompt payment. The relationship between the large corporations and the supplier is a vital element in the economic system, for the very existence of many suppliers is dependent on fair treatment by corporations.

Shareholders. Shareholders have a special relationship to the corporation. As providers of risk capital, shareholders make the corporation possible. They supply funds for corporate birth, development, and growth. Any approach to corporate responsibility must begin with the practical recognition that the corporation must be profitable enough to provide shareholders a return that will encourage continuation of investment. The interest of shareholders must be considered in all important activities of the corporation.

At one time most shareholders were long-term, personally-involved individual investors. Now a high proportion of them is made up of institutionally-grouped and often unidentified shorter-term buyers most interested in near-term

gain. This has affected their role among business constituencies. The expectation of near-term gain can exert pressure to subordinate long-range objectives to more immediate profit considerations. Despite such expectations, management needs to maintain long-range perspective.

Balancing the Interests of Constituencies

Carefully weighing the impacts of decisions and balancing different constituent interests—in the context of both near-term and long-term effects—must be an integral part of the corporation's decision-making and management process.

Resolving the differences involves compromises and trade-offs. It is important that all sides be heard but impossible to assure that all will be satisfied because competing claims may be mutually exclusive.

A classic example of the varying interests of constituencies arises when management must consider whether to establish, expand, or close a plant. For shareholders, customers, and society at large, closing a plant could bring positive results by paving the way for production of better products more economically in a new plant at a new location. It may be only in that way that the company is able to meet domestic and foreign competition. Employees and the community, however, may object to the plant closing because of the impact on jobs and other local economic factors. Sensitive community issues also arise in connection with

decisions on the location of new plants and expansion of existing ones.

Balancing the shareholder's expectations of maximum return against other priorities is one of the fundamental problems confronting corporate management. The shareholder must receive a good return but the legitimate concerns of other constituencies also must have the appropriate attention.

Striving to reach the appropriate balance, some leading managers have come to believe that the primary role of corporations is to help meet society's legitimate need for goods and services and to earn a reasonable return for the shareholders in the process. They are aware that this must be done in a socially acceptable manner. They believe that by giving enlightened consideration to balancing the legitimate claims of all its constituents, a corporation will best serve the interest of its shareholders.

Corporate Response

How can companies best react to the various new demands being made on them? How should their response be organized? Leading managers have been at work on answers to those questions.

Many companies now include the whole spectrum of corporate social objectives in strategic planning. This requires planners to consider not only economic and technological trends and events but also the social and political; to study

not only the expectations of shareholders, employees, customers, and suppliers, but also those of the community and the public. Such an approach encourages a broad, systematic corporate overview and an evaluation of a wide range of performance expectations.

Some companies have established committees of the board of directors to deal with corporate responsibility issues. Such committees provide guidance to management in defining the company's role, assessing the effectiveness of performance, and recommending changes. These committees of the board can serve as independent auditors of issues affecting the company and of how those issues are being addressed.

In companies which have developed a structured approach to matters of responsibility, staff groups (often including an officer of the company) examine and raise questions related to these issues. They seek to encourage employees in all sections of the business to recognize public policy as part of their regular work and call on them for analysis of the particular issues in their area. Such companies have a process for checking what is being done by employees throughout the company with regard to total performance objectives. That performance then becomes part of the evaluation of employees.

Companies have also found it useful to have such policy instruments as:

- a written code of conduct
- a written policy on corporate disclosure
- well-defined corporate policies with regard to such matters as executive compensation, fair pay, equal employment opportunity, personal privacy, freedom of expression
- a continuing focus on corporate impact on the environment, health and safety in the workplace, and the impact of plant openings and closings on communities and employees
- continuing concern about product quality, acceptable pricing policies, and ethics in advertising
- a high priority for and high level attention to the size and direction of corporate philanthropy*
- a program designed to inform, sensitize, and train present and future management to deal with public policy and corporate responsibility issues

It is in the day-to-day—even hour-to-hour—management of the business at all levels that corporate objectives for total performance must be carried out. Top managers regard the selection, training, and motivation of people as essential to success in dealing with these issues. They also stress that it is not enough that top management and headquarters organizations have well defined goals of responsibility. To assure that these objectives will be effective in field operations and factories, specific programs should be developed and implemented throughout the organization.

*In March 1981 The Business Roundtable issued a position paper on corporate philanthropy urging corporations to increase contributions for educational, health, welfare, and cultural activities and to give philanthropic efforts greater importance.

Recommendations and Conclusions

Corporations have a responsibility, first of all, to make available to the public quality goods and services at fair prices, thereby earning a profit that attracts investment to continue and enhance the enterprise, provide jobs, and build the economy. In carrying out this mission, corporations have made an impressive contribution to the well-being and standard of living of people in the United States and many other countries.

That economic responsibility is by no means incompatible with other corporate responsibilities in society. In contemporary society all corporate responsibilities are so inter-related that they should not and cannot be separated.

The issue is one of defining, and achieving, responsible corporate management which fully integrates into the entire corporate planning, management, and decision-making process consideration of the impacts of all operating and policy decisions on each of the corporation's constituents. Responsibility to all these constituents *in toto* constitutes responsibility to society, making the corporation both an economically and socially viable entity. Business and society have a symbiotic relationship: The long-term viability of the corporation depends upon its responsibility to the society of which it is a part. And the well-being of society depends upon profitable and responsible business enterprises.

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Just how a corporation focuses on these interrelated responsibilities will vary from one company to another. Each corporation has an individual character, related to its products, markets, facilities, manufacturing processes, and other aspects of its business.

Amidst that diversity, it is possible to set out some fundamental approaches. The Business Roundtable recommends that the directors, officers, and managers of corporations consider:

1. Which issues of responsibility have particular relevance to their business.
2. Whether the company has effective policies, the right personnel, and adequate structure to deal with both the economic and social expectations of constituencies and the general public.
3. What changes, if any, should be made in company structure, staffing policies, operations, attitudes, and behavior in order to deal effectively with public policy and social issues.
4. What steps can be taken to assure that responsibilities to all corporate constituents are given adequate consideration in the selection, assignment, evaluation, and compensation of employees.
5. How the company can inform, sensitize, and train present and future management to deal with these matters.
6. What can be done to assure that the company's larger role in society is understood by management, employees and other constituencies.

7. What are the most effective ways for the company to communicate its concern for all its responsibilities to the general public.

While it would be neither sensible nor possible to direct the full thrust of the corporate community's efforts to curing all the nation's social ills, it is important that each corporation give attention to all the consequences of its activities. Business enterprises are not designed to be either political or cultural institutions, but the business community will be well served by a habit of mind that stays alert to social currents.

In considerable part, increased public confidence in business as a positive force in society will depend upon the way corporations respond to the public's new and expanded expectations regarding business.

Corporations are surrounded by a complicated pattern of economic, social, ethical, and political ideas and expectations. They have a responsibility to themselves, to each other, and to their constituencies—including society at large—to make a reasonable and effective response.

A corporation's responsibilities include how the whole business is conducted every day. It must be a thoughtful institution which rises above the bottom line to consider the impact of its actions on all, from shareholders to the society at large. Its business activities must make social sense just as its social activities must make business sense.