

# The Corporation:

today's morphing ugly duckling,  
tomorrow's model citizen



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*The goose doesn't worry much about its reputation. It is too busy creating wealth and benefits and providing jobs, in other words, laying golden eggs. But then some dissatisfied person comes along and fires a shot at the goose...Soon another critic takes a few shots...finally a crowd has gathered and everyone is blasting away. The goose knows it is getting weaker...but it still isn't worried...The goose believes it has only to hang up there and one day the crowd will realize where the golden eggs are coming from, come to its sense and cease fire. Meantime the goose struggles to stay aloft. By now, as all of us are surely aware, the crowd shooting at the golden goose we know as business shows no signs to dispersing. Instead it has grown huge and even more hostile towards the goose. Perhaps it is time to ask: why is no one rushing to the defense of this endangered species?*

- John D. Harper, retired chairman, ALCOA<sup>1</sup>

Corporate responsibility in the 21st century continues to define itself in several ways. Corporations taking up the challenge to be socially responsible members of society are changing the perception that a corporation's sole goal is profit for stockholders. Corporate responsibility is making it the case that duties owed by corporations go beyond their responsibilities to stockholders and, instead, extend to labour, capital, management and the community<sup>2</sup>. Currently, corporate responsibility is defined by a socio-economic approach to wealth maximisation and social responsibility as performed by corporate officers within the scope of their fiduciary duties to the corporation and its shareholders<sup>3</sup>. Corporate responsibility parts from Nobel Prize winner, economist Milton Friedman's once popular view that the sole purpose of the corporation is to make profits and that social responsibility is the job of humans, not corporations as corporations are artificial persons, thus incapable of such<sup>4</sup>.

## The web of corporate responsibility and society

Corporate responsibility "should be seen as an integral part of, and not in any way separate from the function of profitable production and distribution of goods and services."<sup>5</sup> It is now defined as being accountable for the effects (health & environmental) of production and manufacturing, the economy, environmental and sustainable development, assistance for public health, community relations, improving the corporate image itself though better schemes of corporate governance and ethical behaviour.

The success of corporate responsibility can only be ensured if members of society actively work with corporations towards the desired aims by lobbying, rallying, engaging in dialogue, and investing ethically. It is important for people with different levels of education, interest and knowledge to contribute to the proliferation of information, education, and debate about corporate responsibility. It is important for corporations to be informed of the various concerns in different communities so that their work focuses on specific needs. Currently, there are no

uniform standards by which corporations are held accountable.

## One needs to walk before they can run<sup>6</sup>: corporate responses to need

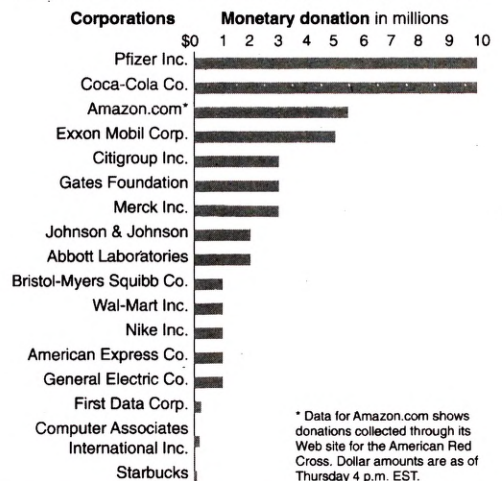
In recognition of the myriad of societal needs, corporations have taken different measures to ensure their participation in solving those problems. It is unrealistic to expect all corporations to take part in corporate responsibility. Additionally, it is not possible to generalise corporate responses because response to particular concerns depends on the size, location, nature of the corporation and general management objectives.

## The better half of mixed intentions - media and the corporate image

The reasons why corporations become responsible is an issue of constant debate. There is no doubt however, that it is beneficial for corporations to maintain a positive public image. The need to avoid negative media attention as the reason for being responsible is regarded as disingenuous. In reference to assistance given by American corporations to the Boxing day Tsunami, New York public-relations guru Howard Rubenstein said that an opportunity for some good PR was probably not the only motivating factor in the corporate outpouring, "I think it's a humanitarian instinct," he said. "And the by-product would certainly be good PR for the corporation....."<sup>8</sup>. Rubenstein also thinks that community assistance by corporations that have done wrong in the past, is a means of apologising and showing goodwill.

## Corporate monies to help tsunami relief

U.S. corporations donated millions of dollars in cash and supplies to victims of the tsunamis along the Indian Ocean that have claimed more than 117,000 lives. The corporate donations easily eclipsed the initial \$35 million in aid earmarked by the U.S. government.



It is incumbent on businesses to decrease the legitimacy gap in order to avoid losing legitimacy and to keep up with social expectations because 'at any given time, there is likely to be a gap between performance and societal expectations'<sup>10</sup>. This also allows businesses to



'claim its share of a society's physical and human resources and to maintain maximum discretionary control over its internal decision making and external dealings'<sup>11</sup>. The following diagram exhibits the manner in which the legitimacy gap can be narrowed:  
Business performance → Legitimacy gap → Social expectations

'Business strategies:

1. Do not change performance, but change public perception of business performance through education and information.
2. If changes in public perception are not possible, change the symbols used to describe business performance, thereby making it congruent with public perception. Note that no change in actual performance is called for.

In case both (1) and (2) are ineffective, bring about changes in business performance, thereby closely matching it with society's expectations.<sup>12</sup>

It can therefore be concluded that corporate responsibility serves many goals including its primary one of profit, but undoubtedly another of which is harmonizing global citizenship through the participation in making the world a more liveable place.

### Cleansing the corporate image

Other than media image, corporate responsibility can also be seen to include the corporation's responsibility for itself. The effects of the fall of corporations such as Enron and HIH, have encouraged cooperation between law, business, management and other academic and practical areas to formulate corporate governance strategies in a manner in which corporations will abide by the law and take responsibility for their actions. Since corporate governance, as previously shaped by legal systems, inflicted 'constraints on corporate decision making over time and between nations, corporate directors in different countries often have different concerns, advocate different policy initiatives, and draw different conclusions'<sup>13</sup>.

### Corporate responsibility and partnership

In addition to the Tsunami, another relatively recent media-worthy instance of the continued, corporate commitment to social responsibility was exhibited at the World Economic Forum (WEF) in Davos, Switzerland. Corporations partnered with governments and Hollywood stars to show that they are a critical element in society. WEF's Corporate Citizenship Initiative (GCCI), a coalition of over 40 corporations, recognised that 'multiple stakeholder partnerships are neither easy nor a panacea. They often have high transaction costs and are difficult to establish and sustain. Many are new and untested. Yet, they offer an important new approach that has the potential to drive innovation, improve governance, raise living standards, and

provide opportunity to millions of people'<sup>14</sup>. GCCI also recommends ways in which corporations and governments can do the above.

By recognising that corporations should be responsible for their actions and thereby being able to be held accountable, governments have the potential to further encourage the process of corporate responsibility. After all, governments have the authority to make and enforce laws that are in the best interest of their countries. At a national level, corporate forces can be coupled with organisations such as unions, non-governmental organizations and trade associations. These organisations operate in different fields, and as a result, might have better insight than corporations on how corporations can be more responsible whilst maintaining their profits.

At the international level, trade and business organisations can help by encouraging corporations native to those countries abide by international standards. The United Nations system is already heavily burdened so it may not be able to monitor such a project. Therefore watchdogs, lobby groups and non-governmental organisations will need to take an active role in ensuring that corporations abide by a minimum standards. Adding to the difficulty of the task are the lack of uniform international corporate responsibility standards, and the threat of individual states refusing to abide by, or enforce, any standards which may be developed.

### The future of corporate responsibility

The success of corporate responsibility is dependent on the contribution of all members of society in constructing the standards to suit the changing nature of societal problems and the corresponding need for solution. There are no simple answers or immediate solutions. Rather, it is a process that will need to be monitored, evaluated and updated as often as possible to ensure that we are progressing towards the most optimal model for the accountability of corporate actions while ensuring that corporations remain the profit motivated structures that they are.

- 1 Cited in "The Embattled Businessman," Newsweek, February 16, 1976, p 58 as cited in S. Prakash Sethi *Advocacy Advertising and Large Corporations: Social Conflict, Big Business Image, the News Media, and Public Policy* (1977) 57.
- 2 P Redmond. *Companies and Securities Law: Commentary and Materials* (3rd ed, 2000) 85.
- 3 Robert Ashford. "What is the "New" Corporate Social Responsibility? The Socio-Economic Foundation of Corporate Law and Corporate Social Responsibility' (2002) 76 (5&6) *Tulane Law Review* 1187.
- 4 Milton Friedman, A Friedman Doctrine - The Social Responsibility of Business Is To Increase Its Profits, N.Y. Times (New York), Sept 13, 1970 (magazine).
- 5 P. J. Dunstan, *The Social Responsibility of Corporations* (1976) 10.

- 6 Well known proverb.
- 7 In addition to American corporations, Canadian corporations <http://www.itcan-cican.gc.ca/department/highlights/2005/tsunami-crisis-en.asp> and corporations from other countries continue to assist, but the figures from US corporations lead the way in corporate giving. What about Australia?
- 8 Michael Regan, 'Corporations donate millions to help tsunami victims' *Associated Press* (Morris County NJ) 31 December 2004 <http://www.dailyrecord.com/business/business1-corp1231.htm> at 25 January 2005.
- 9 Ibid.
- 10 S Prakash Sethi, *Advocacy Advertising and Large Corporations: Social Conflict, Big Business Image, the News Media, and Public Policy* (1977) 58.
- 11 Ibid.
- 12 S Prakash Sethi, *Advocacy Advertising and Large Corporations: Social Conflict, Big Business Image, the News Media, and Public Policy* (1977) 58.
- 13 Yoshiro Miwa, 'Corporate Social Responsibility: Dangerous and Harmful, Though Maybe Not Irrelevant' (1999) 84 *Cornell Law Review* 1228.
- 14 Global Corporate Citizenship Initiative, 'Partnering for Success: Business Perspectives on Multistakeholder: Executive Summary' (World Economic Forum, Davos, Switzerland, January 2005) 3.

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The Cornell Club 'Transcript Corporate Social Responsibility: Paradigm or Paradox?' New York City, November 6, 1998, 84 *Cornell Law Review* (1999). ■