

Two companies and two very different sensibilities, with the State playing a different role on various questions; today they are experiencing the same repeated scandals originating from the same source. The

From Enron to Parmalat: Europe and the USA line up

CIVIL SOCIETY 2

edited by Cinzia Carnevale

point of view of two Italians, Marco Frey and Giovanni Moro, and two Americans Sandra Waddock and Charles Derber, reaching conclusions about the issue of corporate social responsibility...

Organized by Fondaca (Foundation For Active Citizenship), last 21 June was held in Rome a conference on the theme of corporate social responsibility in the Usa and in Europe after Enron and Parmalat scandals. Opened by Giovanni Moro, President of Fondaca, the conference hosted as speakers Professor Sandra Waddock, of Fallace E. Carrol School of Management of Boston College; Charles Derber, Professor at the Department of Sociology by the same Boston College; and Marco Frey, Professor at the Scuola Superiore Sant'Anna in Pisa. The conference, which is part of a series of meetings of the program "Euro-American Discussions on Citizenship", was held during the inauguration week of the Master in Corporate Citizenship.

east publishes in exclusive an excerpt of the debate.

Giovanni Moro The issue of corporate social responsibility is tightly correlated, or better, embedded, in the widest concept of citizenship. There is a strong correlation between social responsibility in the private sector and citizenship. Asking public and private companies (mainly founded on

profit and increasing corporate value) to integrate issues like welfare, the environment and the safeguarding of rights in their missions, and to generally consider their impact on the stakeholders within the production process, is asking them to exercise civil responsibility.

Just like citizens, both individually and in an organized fashion, companies have rights and duties, powers and responsibilities in public life. Nevertheless, the methods through which they commit to addressing social, ethical and environmental concerns and playing a constructive role in society are closely linked to the social and institutional structures which constitute citizenship.

From this point of view there is a profound difference between Europe and the United States: e.g. the concept of companies having to give back to society the benefits that they received from it has deep roots in the experience of American citizenship, whereas it does not exist in European culture. This is mainly due to the different role performed by the State, within the European context, in managing issues of general interest: traditionally, citizens, like companies, delegate many of the welfare



Corporate citizenship in the U.S. and Europe was the subject of a round table discussion organised by Fondaca with (from left to right) Marco Frey, Sandra Waddock, Giovanni Moro and Charles Derber

questions to the State. Despite these substantial differences, the issue of corporate behavior has recently become a hot topic in the USA and Europe. This is not only due to an increase in the level of sensitivity and attention that civil societies and public opinion have for the behavior of companies, but was also brought about by financial scandals, such as those involving Enron and Parmalat. They not only damaged the economies and shareholders, but also caused distrust among stakeholders, inevitably worsening the companies' reputations. These tragic events have had a series of consequences common to Europe and America. The most important of these is probably the examination of the methods through which corporate governance can negatively or positively influence the social performance of companies. This examination has then expanded to other matters, such as the role of advisors, public authorities, forms of regulation, the existing information asymmetry which acts to the detriment of shareholders and stakeholders, the relation between philanthropy and compliance with laws, rules, standards, and so on. In light of these considerations, and

especially in the wake of the disastrous consequences of these scandals, the discussion held here can only widen the reciprocal knowledge of what is happening in Europe and in the United States.

Sandra Waddock You cannot speak about corporate citizenship without focusing on the social context in which this concept seems to be born, which by nature constitutes a paradox. In light of the recent financial scandals, of which Enron and Parmalat in particular are macroscopic examples, many categories of experts in this phenomenon have become increasingly convinced that corporate social responsibility is nothing more than an effort made by companies to counterbalance the criticisms they received from society concerning their hidden strategies (success under-strategies). In the United States the activities of corporate social responsibility are linked to the concept of "giving back": companies are committed to "returning" to the local community the benefits they received, through charitable institutions, supporting local non-governmental organizations: basically, through philanthropic activities aimed at building a better company image. This is an interpretation and does not constitute the real corporate social responsibility. There is a dark side, intrinsically connected to the success of large firms: the seeds of their economic growth seem to bear fruits which can have socially negative impacts.

The bigger the company's results from a financial and strategic point of view, the more citizens feel discouraged and worried about issues such as quality of life, the ecological sustainability of the planet and the growing problems of materialism and consumerism. These values are heavily compromised by the impact of corporate success. The paradox lies in that these multinationals, which seem to be a source of concern for citizens, were the first to undertake the route of corporate social responsibility.

If we add to these considerations the fact that 51 of the top 100 world economies are not made up by national States but by private businesses, and that, therefore, we live in a context of "excessive economic power", I think that it is more than understandable to ask yourself how powerful the control on companies should be and what role corporate social responsibility can play.

The case of Wal-Mart is a good example. Wal-Mart is the most powerful company in the world in terms of revenues. It is immensely profitable for shareholders: Wal-Mart shareholders and employees are enthusiastic and really love their company. From a financial and strategic viewpoint, it is a great success. Wal-Mart basically wrote the book on logistics of supplying goods and has the most efficient distribution network in the world. Nevertheless, in the United States there are many people who are concerned about the social and ecological impact of this multinational. For example, some believe that the arrival of Wal-Mart in a community has devastating effects on small commercial areas of the suburbs and the local community. An additional negative impact comes from the loss of variety in choosing purchases and the reduction in salary levels, which before offered workers a reasonably comfortable life. Indeed, Wal-Mart tends to pay lower wages to a workforce mostly made up of temporary or part-time employees. Once Wal-Mart arrives in an area there is only one place where you can shop locally: Wal-Mart. Furthermore, the pressure exercised by this multinational on its suppliers in order to create a situation of "lowest prices always" for consumers, has led to situations of abuse. Companies like Gillette (acquired

by Procter & Gamble to be more competitive against Wal-Mart) and Rubbermaid (to name just two, though the list is long) have been brushed aside due to the competitive prices of this multinational. These are only the direct and most evident effects. There are numerous indirect repercussions. The success of Wal-Mart arouses concerns about the environmental consequences of what is commonly defined as the disjointed spread of urban and suburban sprawl, which forces people to drive considerable distances to buy basic necessities. A source of concern is also the homologation in consumer choice, which is occurring at a global level: the purchasing opportunities are no longer selected by consumers but created, and therefore imposed, by the company.

In short, the dark side of corporate citizenship is closely correlated to the high level of importance attributed by companies to short-term profit; a phenomenon caused by pressure exerted by financial markets on companies for these to reach their quarterly profit objectives. All of this does not combine with the communities' need for long-term prospects, which are desirable to be able to make long-term investments and necessary to create healthy communities. Thus, there is a gap between the corporate social responsibility of companies in terms of "good actions" or "giving back" to society, and company strategies.

Charles Derber Setting aside the substantial differences between Europe and the United States relating to the structure of citizenship and the relation of companies with society, I would like to review one issue which in recent years seems to have become a problem shared on both sides of the Atlantic: the crisis of democratization and processes of citizenship. Concerning Europe in particular, when reading and listening to comments about the reasons for the negative outcome of the referendum on the European constitution, one can sense people's complete distrust towards the political and financial elite of the various European States, which over time have shown an ever greater lack of interest towards the needs of sharing and participating in the political life of common

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people. Certainly the problem of citizenship is very different in Europe compared with the United States. In the US, globalization has contributed to intensifying a problem that was already serious: the deep rooted lack of hope for the common citizen who claims his/her democratic inheritance. To say it in simple terms, I think that Americans, especially in recent years, have lost the original vision of the United States as a democratic society, as a community which really reflects the practice of active citizenship. Probably, what the USA is experiencing in these years is the most serious political and social crisis it has ever witnessed. Europe, on the other hand, is now starting to feel the negative effects of globalization and to experience a crisis which is well established in the United States. These days a disease is spreading throughout western cultures, and probably across the whole world, connected to global corporate development processes which create companies and financial transactions so powerful as to overwhelm and suffocate the practice of democratic participation, an idea very strong in the US, just like the

idea of the social state and welfare policies throughout most of the twentieth century in Europe.

The contradictions of Wal-Mart make up a macrocosm of contradictions within American society: the language of corporate social responsibility has become the main language of the business world. The impression one gets from the spread of this phenomenon is that society needs to acquire this idea of corporate citizenship. These days, basically all the top American companies feel the need to declare that they are socially responsible. However, the spread of this language and this point of view throughout the United States has caused social and living conditions of Americans to worsen. When examining all the indicators of social well-being in American life – I refer to causes of inequality, the gap between rich and poor, poverty levels, crime in its different shapes, public assistance, pensions, healthcare, quality of education, infrastructure, quality of assistance for infants and the elderly – all these standards have deteriorated significantly in every way. As soon as the

language of social responsibility became dominant within American business culture, the reality of the American social contract started to dissolve. All of this is happening in Europe too, probably because it is heavily subject to the effects of American ideas and the globalization process, which in a certain way is no more than a process of Americanization. There are deep flaws in the current model of corporate social responsibility, maybe in all the models of corporate social responsibility. One of these is the idea that corporations have the responsibility to solve all social problems. In the United States 50 million people do not have healthcare. According to a common view of social responsibility, the task of solving this problem falls on companies. I do not believe this. Healthcare, in the same way as many other important aspects of social life, should be kept outside the market; broadly speaking, it should not become a consumer good, it should not be sold to make a profit but organized, based on different principles from market logics. We've gone too far down this path, as in the military sector, a very important sector for the economy and the identity of the United States as an imperialist power, which seems increasingly more privatized. For example, many of those who fight in Iraq are not really American soldiers, but rather people contracted to work for private companies subcontracted by the United States government. Likewise, many educational institutes are managed by the private sector today.

It is important to recognize that companies have a role in society, though this role must be carefully defined. I think that part of the meaning of the notion of corporate social responsibility also lies in keeping them out of some critical sectors of social life. On the other hand, I disagree on the idea that, due to this paradox, we must do away with the idea of corporate social responsibility: it must not be totally excluded, but rather clarified in its meaning and its limits.

When the constitution of the United States was written 200 years ago, the word corporation was never used. Thomas Jefferson, James Madison and all those who wrote the constitution, essentially most of

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the founding fathers, were very worried about the consequences deriving from the accumulation of financial power. They believed that there was an underlying dichotomy between the growth of wealth and the survival of a democracy of citizens. This resulted in American legislation to quickly define corporations in a rigidly regulated way. They were deliberately created as entities with serious limitations. People were very scared, especially of banks and financial centers, so much so that in most of the first statutes, prior to the American Civil War, corporations could not exist for more than twenty or thirty years and then, in some States, they had to be broken up. After the Civil War there was a tendency to review their role. Ten of the eleven presidents following the Civil War were very conservative republicans, close to the business world and tightly linked to the modern definition of corporation. In one case, the Santa Clara Act, at the end of the nineteenth century, for the first time companies were awarded the same status as citizens.

What I want to underline is that when we



speak about corporate social responsibility we cannot separate responsibility from rights. They are two sides of the same coin. Therefore, if citizenship is granted to corporations, these are also granted the rights of citizenship. What happened in the United States in one hundred years of law and important constitutional amendments is that the development of the language of corporate social responsibility, which dates back a hundred years, has been accompanied by a series of changes within the constitution, which have granted many important rights to corporations, the most significant being the first amendment on the freedom of speech. The United States Supreme Court has leveled the freedom of speech to the financing of elections. Companies, considered as citizens, are protected by the First Amendment, which grants them the right to freely hand out huge sums of money to political candidates. Last year, when Bush was re-elected, corporations earmarked 2 billion dollars for the elections. The question we must ask ourselves when we reflect on this subject is: do we really want to grant large powerful

companies such as Wal-Mart the same sacred rights of citizens? This does not mean abandoning the idea, but is rather an invitation to be very careful of how to define this phenomenon, because the language we use and the way of defining it will have enormous consequences on what happens to society and to our rights as citizens.

Apparently, in the US, following the Enron case, the question seemed to have taken a different twist: the financial collapse of the company not only caused mistrust amongst citizens, but also at the heart of the market: investors. The same Bush administration, largely dominated by the financial system, could not ignore this crisis. As a consequence of this turmoil, the Sarbanes-Oxley Act was passed, a regulatory law which for the first time seemed to take a step backwards for companies and translated into truly important changes, both in the structural environment within which financial firms operated and in the wider perception by the community. However, after only two or three years, America has shown itself to have an extremely short memory. The new chief of the US Security and Exchanges Commission, which regulates the relations between corporations, has begun the Act's withdrawal. The Sarbanes-Oxley Act is now defined as an impediment for corporations, while the social impact of corporate negligence and the issue of financial transparency are being reconsidered: as a matter of fact companies announced that they want to be freed from regulations and responsibility.

Marco Frey I would like to concentrate on the analysis of a series of data concerning themes that introduce the issue of corporate social responsibility, referring to the perception of European citizens with regard to the performance of elements that concern the quality of life.

A survey conducted by Eurobarometro in 2004-05 in 25 EU countries, on a series of topics closely correlated to the issue of corporate social responsibility, found that the most critical aspect concerns the level of unemployment in one's own country (76% negative perception), followed by the economic situation (62%), welfare (53%),

and the environment (51%). Thus, the three elements of the European model of corporate social responsibility, which make up the Triple Bottom Line (economy, environment and welfare), seem to be facing a crisis. The situation changes when referring to the present European economy as a whole. The positive percentage value (49%) here is explained by the optimistic opinion of the countries that have recently joined the EU, which hope to improve their domestic economy by participating in the European project.

On the other hand, when looking at the value concerning the improvements expected over a 5-year period, the most critical parameter refers to welfare. From this standpoint, the crisis of the European model is evident in forward-looking terms, while for all the other parameters considered (employment, domestic economy, European economy, quality of life), there appears to be room for improvement. In the present crisis, welfare is the only aspect with no prospect of progress.

Based on this data, it may seem that the newly enlarged Europe is fertile soil for corporate social responsibility, in light of this positive prospective vision. However, one should not overlook the dichotomy existing between future confidence and the strong present mistrust, that is, between what there is and what there may be. Another element that should not be neglected in this framework is the huge differentiation of situations in the various EU countries. When looking at data concerning the domestic economic situation and the way in which the level of quality of life is perceived, there is a huge difference between the northern European countries, which feature a more structured welfare system and therefore a better quality of life, and the countries from the Mediterranean area. In particular, countries like Denmark, Luxemburg, Sweden and Finland rank first when analyzing data relating to the economic situation. Countries like France, Italy and Greece, on the other hand, are below the European average. This translates into a completely asymmetrical distribution from the highest to the lowest levels.

The data concerning the third element of

the Triple Bottom Line suggest that the environment plays an important role for Europeans: 72% of European citizens believe the environment significantly affects their quality of life. Below this average are Holland, Germany and Austria which, having strongly invested in environmental issues, have more closely experienced the objective difficulties encountered in this field. These data confirm the consolidated sensitivity of Europeans to environmental issues and their consideration for environmental policies and economic development opportunities of the various countries. Reputation is another element that companies need to consider these days. A survey conducted in 2003 by CENSIS found that "critical consumption" is an expanding phenomenon: 50% of Italians declare that in the last year they bought products after having verified that these do not pollute and that no child labor was employed for their production, out of respect for workers' rights. 40.5% declared they had avoided buying products after having discovered that these were being manufactured by companies that had assumed unethical conduct. 14.2% reacted more directly by taking part in boycotting campaigns against companies believed to be unethical. These data, however, lose credibility when compared with the results of the survey that Eurisko conducts every year, at European level and also as a comparison with the United States, on citizens' ability to identify companies that are really socially responsible. Italian rates have surprisingly decreased, while in Europe and in the United States they are on the increase. Why are Italians unable to name socially responsible enterprises? Probably because this phenomenon is not widely known yet. This is confirmed by a study carried out in 2004 by some colleagues from Bocconi University, who analyzed the driving factors behind the reputations of companies in Italy, in the US and in one other country of the European Union: in Italy the "product service" factor plays a fundamental role for the reputation of enterprises, as opposed to social responsibility, which is perceived as the least important factor. This result derives from the limited knowledge of the subject.



All the top American companies feel the need to declare that they are socially responsible but now more than ever the social and living conditions of Americans have worsened. The reality of the American social contract has started to dissolve

S. W. Corporate social responsibility has a bright and pleasing side that lives next to an obscure and more problematic side, a sort of paradox of light and shadow. The bright side is associated with the concept of “giving back” described above. A large company creates economic advantages for itself and for the community where it operates. Companies offer us a wide range of products and services and better value for money. But there is a dark side, too: the commercial success of corporations that are already very large, very powerful, and which control many resources implies that they must continue to grow at all costs. Continuous growth becomes a fundamental imperative. This means that profitability is an objective of fundamental importance and, according to the classic model of the new economy, economic profitability implies the outsourcing of all possible costs for the company, with inevitable consequences for the community (pollution and social costs). Furthermore, these companies control resources, markets, the possibilities of choice that customers

actually have, and choices in terms of employment at people’s disposal. In light of these considerations it is plausible to ask oneself: is all this talk about corporate social responsibility really meant to mitigate some of the effects of the dark side of business success? Or is this rather a cosmetic move, a strategy based on public relations and marketing, as many skeptics about the issue seem to suggest?

The problem mainly lies in that too many companies, Wal-Mart being the first, adopt this restrictive interpretation of corporate social responsibility, which essentially translates into a series of philanthropic activities rather than into a strategy of business reform. In this sense, social responsibility would appear to be only a way to publicly present the operations of companies, which in reality derive from a series of negative sub-products. I would like to conclude by saying that freebies or good actions on their own no longer suffice when the corporate model breaks the social contract and is irreversibly harmful to the community and nature. When reflecting on the essence of

corporate social responsibility, we need to look beyond entrepreneurship aimed at success and consider the health of the community, social wellbeing and ecologic sustainability.

C. D. The issue of corporate social responsibility and its success as an integration project significantly depends on the way in which European and American models tackle this crisis of social activism and democratization. If social responsibility becomes an instrument through which the practice of democracy may become deeper, more real and spread further within society, it will play a more important role in the future. At the moment it is impossible to tell because, both in Europe and in the US, this movement, this idea and their present display are so new and contradictory that no one can predict whether the project of corporate citizenship will contribute to the erosion of civil participation and democracy, or will instead give more power to citizens and contribute to promoting the democratic process.

I believe that two lessons can be learned from all this. The first is that we shall make sure that corporate citizenship, as an idea and as a movement, contributes to democratization and solving the social crisis rather than eroding it. In the United States, citizens do not sit at consultation tables unless corporations ask them to do so. In Europe there is a very similar situation, as confirmed by an article recently published in the "Herald Tribune", which tried to explain the negative vote expressed by Europe on the constitution. The reason behind it was the lack of a direct involvement of citizens at the table for the design of Europe. Corporate social responsibility must be a movement of citizens and not just companies: only their participation can make a difference. The second lesson is that corporate social responsibility cannot be conceived as the project of one single company. Profound changes need to be made to the corporate policy for a democratization process to be started. The idea of corporate social responsibility will have to face a cultural challenge, both in Europe and in the US, and the only way to legitimate it is by making sure that the citizens are actively involved in all aspects of this movement.



M. F. Corporate social responsibility is not charity. It goes beyond the respect of laws and rights and makes stakeholders the core of its process. European policies have a very clear objective in this respect, the one declared in Lisbon, aimed at combining two elements that are difficult to join together: increase the competition and dynamism of the knowledge economy around the world while fostering a sustainable economic growth accompanied by qualitative and quantitative improvement in employment and better social cohesion. European documents on corporate social responsibility state that a socially responsible corporation must be transparent, have a long-term strategic perspective, feature participative management models, and be oriented towards self-assessment and continuous improvement, all in an ongoing process. The arrangement of the European Union, the Green Papers and all the documents drawn up in the last ten years are consistent with each other and have the potential to be implemented in light of the results of the data examined above.

Europe aims at combining two elements: increase the competition and dynamism of the knowledge economy around the world while fostering a sustainable economic growth accompanied by qualitative and quantitative improvement in employment and better social cohesion

Is this a new approach for European culture and Italian culture in particular? One may state that our country offers several examples of areas with a similar arrangement: the Olivetti case is even mentioned in a book by Gallino where Adriano Olivetti is said to have somehow anticipated the content of corporate social responsibility. In this sense, cooperatives and the world of cooperation in general also somehow anticipate corporate citizenship. But is this what corporate citizenship is about? If that were the case, we may be giving a different name to something that already existed. I do not think so. Big companies like Olivetti and the cooperation world have big limitations, mostly due to their self-referencing. Social responsibility translates in these scenarios according to a top-down logic and is therefore strongly paternalist, something similar to the patronage of the Renaissance, rather than being absorbed within the company according to a process involving all corporate levels and its stakeholders. These, together with the social context in which the company is set up and operates,

should create a connective tissue in which the company operates, following socially responsible principles.

With further regard to Italy, I believe that another problem to be overcome for companies to absorb the idea of social responsibility, in addition to the paternalistic logic, is that concerning the corporate financing process started in the '80s. With a view to social responsibility, one of the objectives of Lisbon is long-term profitability. This is in contrast to a scenario in which companies are subject to pressure from financial markets which, in contrast, require short-term profitability. In Italy it is very difficult to separate the concept of "doing business" from the concept of "giving back", since the latter aspect, at least in Italy, is more related to the catholic culture which at the most can lead to the "silent" social responsibility of small and medium enterprises (according to the evangelical motto: "do not let your left hand know what your right hand is doing"), rather than to a systemic and structured approach within the corporation. The first thought goes to obtaining the maximum profit and then one may think of paying society its dues.

In conclusion, especially in light of the data analyzed, I think that it can be stated that in Europe there is still no differentiation, compared with the US, in the assimilation of practices of corporate social responsibility, despite the presence of fertile ground in this sense. There is no doubt that, in the last few years, companies at all levels have increased their use of tools of corporate social responsibility, though in a quite disjointed manner. There is still little spreading of policy featuring all the above-mentioned ingredients which would therefore combine the awareness of top management with a structured policy in which corporate social responsibility is integrated in corporate strategies as a whole.