~ CSR 2.0 ~

From the Age of Greed to the Age of Responsibility

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The point is, ladies and gentleman, that greed, for lack of a better word, is good. Greed is right, greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, for knowledge has marked the upward surge of mankind.

– Gordon Gekko, Wall Street (the movie)

Responsibility is literally what it says – our ability to respond. To be responsible is to be proactive in the world, to be sensitive to the interconnections, and to be willing to do something constructive as a way of giving back. Responsibility is the footprints we leave in the sand, the mark of our passage. What tracks will you leave?

- Wayne Visser, Business Frontiers (the book)

Abstract

The 1987 movie *Wall Street* and our recent global financial crisis (GFC), despite one being fictional and the other painfully real, tell a common story. Over the past few decades, we have been living through an Age of Greed, characterised by a colossal failure of corporate responsibility and corruption of individual morality. This Crisis of Responsibility has had catastrophic consequences for the global economy, bankrupting whole economies (like Iceland) and wreaking havoc with the lives of ordinary citizens around the world, many of whom are now without a job and without a roof over their heads.

In this chapter, I want to explore the ways in which the GFC represents a multi-level failure of responsibility – from the individual and corporate level to the finance sector and entire capitalist system. I will also examine the impact of the GFC on what is traditionally viewed as corporate social responsibility (CSR). To conclude, I will set out my conviction

that unless CSR itself is fundamentally transformed, into CSR 2.0, it will do nothing to prevent an equally (if not more) devastating Crisis of Responsibility from recurring in future.

The Age of Greed

Gordon Gekko's words, although spoken by a fictitious character of Oliver Stone's imagination, captures the spirit of a very real age: the Age of Greed. This was an age that, in my view, began when the first financial derivatives were traded on the Chicago Mercantile Exchange in 1972 and ended (we hope) with Lehman's collapse in 2008. It was a time when 'greed is good' and 'bigger is better' were the dual-mottos that seemed to underpin the American Dream. The invisible hand of the market went unquestioned. Incentives – like Wall Street profits and traders' bonuses – were perverse, leading not only to unbelievable wealth in the hands of a few speculators, but ultimately to global financial catastrophe.

The story of Gordon Gekko (and his modern day real-life equivalents like Richard Fuld, the captain of the titanic Lehmans before it hit the iceberg) gets to the heart of the nature of greed. The word 'greed' – from the old English *grædig* – has etymological roots that relate to 'hunger' and 'eagerness'. This is similar to the older word, *avarice*, coming from Old French and Latin (*avere*), meaning 'crave or long for'. Those are characteristics that Gekko and Fuld had in spades. The Greek word for greed – *philargyros*, literally 'money-loving' – also has a familiar echo in their stories. The trouble is that capitalism in general, and the American Dream in particular, has tended to interpret greed as a healthy trait. Gekko and Fuld didn't believe they were being unethical, or doing anything wrong. Each was playing the capitalism game – extremely well – and being rewarded handsomely.

Perhaps we would do well to recall the German root of the word for greed (*habsüchtig*), which means 'to have a sickness or disease'. Greed acts like a cancer in society – whereby an essentially healthy cell in the body becomes selfish and ends up destroying its host. As important as the greedy cell is the environment which enables it to live and prospers. A certain measure of selfishness is natural, but it needs to be moderated by norms, rules and cultural taboos that keep its destructive tendencies in check.

The Age of Greed was not something 'out there'. It was not the preserve of a few rogue traders or evil moguls. We were all caught up in its web. It is in fact a multi-level phenomenon, incorporating executive greed, banking greed, financial market greed, corporate greed and ultimately the greed embedded in the capitalist system. These different facets of greed are each explored in turn below, before considering what the alternatives might be.

Executive Greed

The most convenient explanation for the financial crisis is to point a finger at the greed and irresponsibility of a few individual executives, like Enron's former CEO Jeffrey K. Skilling and Lehman's Fuld. It is an argument with significant weight.

In 2000, Enron was the 7th largest company in America, with revenues of $111 billion and over 20,000 staff. When the company collapsed in 2001, due to various fraudulent activities fuelled by a culture of greed, the average severance payment was $45,000, while executives received bonuses of $55 million in the company's last year. Employees lost $1.2 billion in pensions; retirees lost $2 billion, but executives cashed in $116 million in stocks.

At the end of 2007, when the GFC writing was already writ large on the wall, in large part due to the greed-hyped activities of Lehman and other financial institutions, CEO Fuld and president Joseph Gregory paid themselves stock bonuses of $35 million and $29 million respectively. Fuld lived in an enormous Greenwich mansion, over 9,000 square feet, valued at $10 million. He had four other homes and an art collection valued at $200 million. Hardly a picture of responsible restraint.

Taken on their own, these executive pay packages are outrageous enough. But the extent of creeping executive greed comes into even sharper focus when we look at trends in relative pay. In 1965, U.S. CEOs in major companies earned 24 times more than a typical worker, a ratio that grew to 35 in 1978 and to 71 in 1989. By 2000, it had hit 298, and despite falling to 143 in 2002 (after the post-Enron stock market slump), it bounced back again and has continued rising through the noughties (2000s).

According to Fair Economy, in 2007, despite the looming economic recession, CEOs of the largest 500 companies in America (S&P 500) averaged US$10.5 million, 344 times the pay of typical American workers and 866 times as much as minimum wage employees. The same year, the top 50 hedge and private equity fund managers earned an average of $588 million, according to Alpha magazine – more than 19,000 times as much as average worker pay. And in 2008, while the financial crisis was beginning to bite for ordinary citizens, average CEO pay went up to US$10.9 million, while CEO perks averaged US$365,000—or nearly 10 times the median salary of a full-time worker.

It is easy to go cross-eyed or brain-fried when confronted by a barrage of numbers like that. And yet, there was one particular number that shocked me so much at the time (in 1997) that it stuck in my conscience. I believe I read it in Anita Roddick's book, *Body and Soul*. She claimed that it would take one Haitian worker producing Disney clothes and dolls *166 years* to earn as much as Disney's then president, Michael Eisner, earned in *one day*. Reflecting on this, I wrote in my book *Beyond Reasonable Greed*: 'rather than spreading around the wealth for the common good, it seems to us that Adam Smith's invisible hand has a compulsive habit of feeding itself'.

Banking Greed

As horrific as these trends in executive greed are – and they certainly represent a responsibility train-wreck – I do not believe that the GFC can be adequately explained by 'bad apples' (as the media liked to characterise these now-disgraced captains of industry). In addition to those leaders who were driven by personal greed, the sub-prime crisis was also a story of institutional greed, aided and abetted by deregulation of the financial sector since the 1980s.

Aside from this general trend of deregulation, we can point to a number of poor U.S. policy decisions that were to have disastrous consequences. The first was Bill Clinton's campaign promise to increase home ownership in poor and minority communities – a noble cause, to be sure, but one which put pressure on the banks to make riskier loans: two million of them between 1993 and 1999. The folly of this policy, while obvious in retrospect, didn't pose any immediate concerns, as the housing market was strong and prices continued to rise.

Over the same period, Clinton was coming under increasing pressure by the banking lobby to repeal the Glass-Steagall Act of 1933, a piece of post-Wall Street crash legislation that prevented commercial banks from merging with investment banks. The law was specifically put in place to prevent another global financial crisis and ensuing depression. At first, Clinton resisted. But the banks were relentless. In 1998, one of them, Citicorp, decided to flaunt the law, announcing a $70 billion merger with Travelers Insurance. Clinton tried to block it but failed in the Senate, despite the fact that the merger was technically illegal.

A year later, Clinton bowed to rising pressure and repealed the Glass-Steagall Act. This single action proved to be the 'butterfly effect' that would bring the world financial system to its knees. With the stroke of a pen, and bullied by the greed of the banks, Clinton had given permission for speculative financial traders to start gambling with the hard-earned deposits of ordinary Americans. Soon, all manner of financial instruments exploded onto the market – from CDOs (collaterized debt obligations) and CLOs (collaterized loan obligations) to CMBSs (commercial mortgage-backed securities) and CDSs (credit default swaps).

For a year or two, it seemed like the party may have ended before it had begun. Saddled with $65 billion in unpayable debt, Enron spiralled to their death at the hands of the financial markets, with their share price falling from US$90 to just a few cents. In the months that followed, a spate of bankruptcies rocked the world, all of companies which had issued convertible bonds: Global Crossing, Qwest, NTL, Adelphia Communications and

WorldCom. The 9/11 tragedy and Dotcom crash happened around the same time, and some measure of caution returned to the markets, but not for long.

Alan Greenspan took an action that, like Clinton's repeal of Glass-Steagall, would cause another 'butterfly effect'. Between December 2000 and June 2003, he cut interest rates from 6 percent to 1 percent, and kept them there. Suddenly, not only was the housing market growing, but money was almost free. With the help of the newly invented financial voodoo instruments, the sub-prime party bonanza really got going.

Preposterous loans like the NINJA mortgage were invented – that stands for No Income, No Job, no Assets. It didn't matter that you were poor and had no collateral. Not only would you get a mortgage, the broker would pay you 10% more than you needed to buy the house. The initial interest rate (what the brokers called the 'teaser rate') would also be next to nothing, although it would increase five or ten fold in the years to come. The infallible logic behind this – if that isn't an inappropriate use of the term – was that house market prices would continue to rise steadily, and everyone would be a winner.

The result was that, according to the Mortgage Bankers' Association, the number of subprime loans offered to borrowers with below average credit increased nearly 15 times between 1998 and 2007, from 421,330 to 6.2 million. And the banks were in a feeding frenzy, leveraging themselves to the hilt, so that they could make obscene profits from the market boom. Historically, a leverage of 10 times EBITDA[1] (i.e. where the company has debts of 10 times its actual value) was considered very high. But by the time it hit the iceberg, Lehman Brothers was well on the way to being leveraged to 44 times its value, owing more than $700 billion. The face of banking greed was unmasked.

Financial Market Greed

Many GFC analysts would stop there, satisfied that the combination of executive greed and banking greed provide sufficient explanation for the Crisis of Responsibility. And while they certainly represent the most obvious signal failures that caused the mother-of-all meltdowns, I still do not believe that these two factors tell the whole story. To understand banking greed, we need to look at the nature of the broader financial markets – how they are designed, how they operate and the behaviours that they incentivise.

In order to understand what 'greed is good' really means – in terms of hard numbers – we must wrap our heads around the concept of financial derivatives. Larry McDonald (2009), a Lehman's insider who called the collapse 'a colossal failure of common sense', refers to derivatives as 'the Wall Street neutron'. They are essentially speculative bets on changes in various market indicators (like currencies and interest rates) and they have been growing exponentially since their introduction in 1972. By the turn of the century, these wizz-kid invented, esoteric financial instruments were just hitting their stride, growing at around 25% per year over the last decade. Today, according to some accounts, the derivatives market is worth over US$1,000 trillion (that's 15 zeros!).

Why this is so significant is that most of this 'trade' is not happening in the 'real economy'; it is a casino economy. Take trade in currencies, for example. In 1998, around US$1.5 trillion (that's 12 zeros) in currency was traded *daily* on the global markets, up 46% from 1994. But only 2.5% was linked to 'real economy' transactions such as trade, tourism, loans or genuine investment on stock markets. The other 97.5% (up from 20% in the 1970s) was pure speculation – a casino economy in which financial traders were making eye-popping truckloads of money, without actually contributing anything tangible to the products and services that give us quality of life.

One of the more modern varieties of derivatives is the credit default swap (CDS). Larry McDonald reflects that 'in the merry month of May 2006, Wall Street took hold of this gambling concept and decided to transform itself into something between a Las Vegas casino and an off-track betting parlour'. Early in 2006, there were $26 trillion of CDS bets outstanding in the market. By the beginning of 2008, it was $70 trillion, with just 17 banks

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[1] Earnings before Interest, Taxes, Depreciation, and Amortization.

carrying that risk. And there was another $15 to $18 trillion in other derivatives and fancy instruments (an alphabet soup of CDOs, RMBSs, CMBSs, CLOs and ABSs).

This was all well and good when it was just a high-stakes game for rich kids to play. But as we have seen, with the repeal of the Glass-Steagall Act and the introduction of the Financial Services Modernization Act in 1999, the greed-infused, short-term obesessed gambling habits of Wall Street traders can have (and have had) very real and devastating effects on very real economies and very real people. And even today, in the aftermath of the GFC, very few of these financial market agents have taken responsibility, or been made accountable, nor have the financial market rules been significantly changed.

As it happens, that great post-Depression economist, John Maynard Keynes, had foreseen this and warned: 'Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done'. And ill-done it has been, woefully ill-done. No wonder billionaire investor Warren Buffet first described derivatives as 'weeds priced as flowers', and later as 'financial weapons of mass destruction'. If Kenyes were here today, standing with us on financial 'ground zero ', gazing at the post-apocalyptic debris of our once gleaming citadels of commerce, he might quite justifiably shake his head and mutter, 'I told you so!'

Corporate Greed

Even financial market greed may not be ultimate cause. Could it be that unbridled greed is, by design, the unavoidable consequence of the corporation? We often forget that when corporations were originally introduced in America in the mid-1800s, it was with the explicit purpose of serving the public good (enshrined in a charter), with liable shareholders. But the nature of the corporation changed when the US Supreme Court ruled that a corporation should have the same rights as individuals, thus making it a legal person. The problem, according to critics, is that the corporation is a 'person' with no moral conscience and an exclusive focus on the benefits of shareholders. This results in a pattern of social costs imposed by business in exchange for private gains for its executives and owners.

In his controversial, yet hugely influential book and documentary, *The Corporation*, Canadian legal academic Joel Bakan, suggests that corporations are, by their legal constitution, pathological in nature: 'The corporation has a legally defined mandate to relentlessly pursue—without exception—its own self-interest regardless of the often harmful consequences it might cause to others. Lying, stealing and killing are not rare aberrations but the duty of the corporation when it serves the interests of its shareholders to do so'. This, according to Bakan, means that corporations have all the characteristics of a psychopath, as defined by the World Health Organisation.

Not everyone – even among those concerned about business responsibility – would go this far in their diagnosis. But there is certainly little doubt about the in-built greed of the modern corporation. David Korten, author of *When Corporations Rule the World*, is among the many critics that remind us of the power of modern business, in which more than half of the top 100 'economies' in the world are in fact multinational corporations. With such power comes responsibility, but left their own devices, many corporations are cost externalisation machines – meaning that they will naturally try to avoid paying for any negative human, community or environmental costs that they impose on society.

In an interview I did with Korten in 2008, he told me that the problem is even more fundamental than the corporations themselves: 'If I were to rewrite the book now, I would probably put the title *When Corporations Rule the World* with a slash through 'Corporations' and a little carrot pointing to 'Money'. It's actually *When Money Rules the World*. This has become so much more obvious, so much stronger and so much more disruptive as we've seen the rampant speculation in the financial markets. That very structure drives a predatory dynamic in the corporate system that you really can't do very much about at the level of the individual corporation. You can do a little tinkering around the edges, but those are pretty limited relative to the depth of the changes that we need to navigate'.

Capitalist Greed

So this begs the question: is capitalism itself fundamentally flawed? Will capitalism – with its short-term, cost-externalisation, shareholder-value focus – always tend towards greed, at the expense of people and the planet? Will the scenario of 'overshoot and collapse' that was computer modelled in the 1972 *Limits to Growth* report (and confirmed in revisions 20 and 30 years later) still come to pass? Has Karl Marx been vindicated in his critique (if not his solution) that by design, capitalism causes wealth and power to accumulate in fewer and fewer hands?

To answer these quintessential questions, we need to look at the facts. According to WWF, humanity's Ecological Footprint, driven by the spread of capitalism globally, has more than tripled since 1961. Since the late 1980s, we have been in overshoot – meaning that the world's Ecological Footprint has exceeded the Earth's biocapacity. Between 1970 and 2003, WWF's Living Planet Index, which tracks over 6,000 populations of 1,313 species, fell by 29%. By their estimates, we would need three planets if everyone on earth were to adopt the energy intensive, consumptive lifestyle of the capitalist Western world.

The UN Millennium Ecosystem Assessment, issued in 2005, reaches similar conclusions: 60% of world ecosystem services have been degraded; of 24 evaluated ecosystems, 15 are being damaged; water withdrawals have doubled over the past 40 years; over a quarter of all fish stocks are overharvested; since 1980, about 35 percent of mangroves have been lost; about 20% of corals were lost in just 20 years and 20% more have been degraded; and species extinction rates are now 100-1,000 times above the background rate. So, by all accounts, capitalism is failing spectacularly to control the environmental impacts of the economic activities that it is so successful at stimulating.

The social impacts of capitalism are more ambiguous. On the one hand, critics like Naomi Klein (author of *No Logo* and *Disaster Capitalism*) argue that 'Gucci capitalism' results in labour exploitation and a 'race to the bottom'. In other words, capital flows to wherever the social or environmental standards are lowest. Not only this, but capitalism is designed to create the instability that we have seen in the markets and those that suffer the most from this volatility are always the most vulnerable, namely the poor of the world.

On the other hand, largely thanks to its adoption of capitalism, China has enjoyed economic growth of more than 9% a year over the past 30 years and as a result, between 1981 and 2005, their poverty rate fell from 85% to 16%, or by over 600 million people. That represents real positive impacts on real people. But at what cost? Some estimate that environmental damage robs China of 5.8% of its GDP every year. What's more, the gaps between rich and poor in China are growing.

Perhaps the trillion-dollar question is not whether capitalism *per se* acts like a cancer gene of greed in society, but whether there are different types of capitalism, some of which are more benign than others? To date, the world has by and large been following the American model of shareholder-driven capitalism, and perhaps this is the version that is morally bankrupt and systemically flawed? Management guru, Charles Handy, seems to agree. In an interview I conducted with him in 2008, he confessed: 'I've always had my doubts about shareholder capitalism, because we keep talking about the shareholders as being owners of the business, but most of them haven't a clue what business they're in. They are basically punters with no particular interest in the horse that they're backing, as long as it wins'.

The Age of Responsibility

What then is the alternative version of capitalism? Can there be an economic system that is not fuelled by greed? The jury is still out on this, but at least we are starting to explore the idea. We hear Bill Gates talking about creative capitalism which combines the 'two great focuses of human nature - self-interest and caring for others'. Jonathon Porritt calls for 'capitalism as if the world matters' and Paul Hawkens, Amory Lovins and Hunter Lovins propose 'natural capitalism'.

Whichever version we ultimately go for, I am convinced it will have to be a more regulated capitalism. We sometimes forget that Adam Smith was a moral philosopher and always assumed that markets would take place within a rules-based system of norms and controls. Having witnessed the disaster of unregulated capitalism and deregulated financial markets, it is time for the pendulum to swing back to greater government involvement. History has taught us that, without a strong policy framework, we will not get responsible markets or sustainable products at the scale and with the urgency that we need them.

The Rise and Fall of CSR

One of the proposed antidotes to the Age of Greed is corporate social responsibility (CSR), which has been debated and practiced in one form or another for more than 4,000 years. For example, the ancient *Vedic* and *Sutra* texts of Hinduism and the *Jatakas* of Buddhism include ethical admonitions on usury (the charging of excessive interest) and Islam has long advocated *Zakat*, or a wealth tax[1].

The modern concept of CSR can be more clearly traced to the mid-to-late 1800s, with industrialists like John H. Patterson of National Cash Register seeding the industrial welfare movement and philanthropists like John D. Rockerfeller setting a charitable precedent that we see echoed more than a hundred years later with the likes of Bill Gates[2].

Despite these early variations, CSR only entered the popular lexicon in the 1950s with R. Bowen's landmark book, *Social Responsibilities of the Businessman*[3]. The concept was challenged and strengthened in the 1960s with the birth of the environmental movement, following Rachel Carson's critique of the chemicals industry in *Silent Spring*[4], and the consumer movement off the back of Ralph Nader's social activism, most famously over General Motors's safety record[5].

The 1970s saw the first widely accepted definition of CSR emerge – Archie Carroll's 4-part concept of economic, legal, ethical and philanthropic responsibilities, later depicted as a CSR pyramid[6] - as well as the first CSR code, the Sullivan Principles. The 1980s brought the application of quality management to occupational health and safety and the introduction of CSR codes like Responsible Care.

In the 1990s, CSR was institutionalised with standards like ISO 14001 and SA 8000, guidelines like the Global Reporting Initiative and corporate governance codes like Cadbury and King. The 21st century has been mostly more of the same, spawning a plethora of CSR guidelines, codes and standards (there are more than 100 listed in *The A to Z of Corporate Social Responsibility*), with industry sector and climate change variations on the theme.

Why is all this potted history of CSR important in a discussion about the future? Well, first, we must realise that CSR is a dynamic movement that has been evolving over decades, if not centuries. Second, and perhaps more importantly, we must acknowledge that, despite this seemingly impressive steady march of progress, CSR has failed.

CSR has undoubtedly had many positive impacts, for communities and the environment. Yet, its success or failure should be judged in the context of the total impacts of business on society and the planet. Viewed this way, as the evidence already cited shows, on virtually every measure of social, ecological and ethical performance we have available, the negative impacts of business have been an unmitigated disaster, which CSR has completely failed to avert or even substantially moderate.

The Failure of CSR

Why has CSR failed so spectacularly to address the very issues it claims to be most concerned about? In my view, this comes down to three factors – call it the Triple Curse of Modern CSR, if you like:

Curse 1: Incremental CSR

One of the great revolutions of the 1970s was total quality management, conceived by American statistician W. Edwards Deming and perfected by the Japanese before being exported around the world as ISO 9001. At the very core of Deming's TQM model and the ISO standard is continual improvement, a principle that has now become ubiquitous in all management system approaches to performance. It is no surprise, therefore, that the most popular environmental management standard, ISO 14001, is built on the same principle.

There is nothing wrong with continuous improvement *per se*. On the contrary, it has brought safety and reliability to the very products and services that we associate with modern quality of life. But when we use it as the primary approach to tackling our social, environmental and ethical challenges, it fails on two critical counts: speed and scale. The incremental approach to CSR, while replete with evidence of micro-scale, gradual improvements, has completely and utterly failed to make any impact on the massive sustainability crises that we face, many of which are getting worse at a pace that far outstrips any futile CSR-led attempts at amelioration.

Curse 2: Peripheral CSR

Ask any CSR manager what their greatest frustration is and they will tell you: lack of top management commitment. This is 'code-speak' for saying that CSR is, at best, a peripheral function in most companies. There may be a CSR manager, a CSR department even, a CSR report and a public commitment to any number of CSR codes and standards. But these do little to mask the underlying truth that shareholder-driven capitalism is rampant and its obsession with short-term financial measures of progress is contradictory in almost every way to the long-term, stakeholder approach needed for high-impact CSR.

The reason Enron collapsed, and indeed why our current financial crisis was allowed to spiral out of control, was not because of a few rogue executives or creative accounting practices, it was because of a culture of greed embedded in the DNA of the company and the financial markets. Whether you agree or not (and despite the emerging research on 'responsible competitiveness'), it is hard to find any substantive examples in which the financial markets consistently reward responsible behaviour.

Curse 3: Uneconomic CSR

Which brings us to Curse 3. If there was ever a monotonously repetitive, stuck record in CSR debates, it is the one about the so-called 'business case' for CSR. That is because CSR managers and consultants, and even the occasional saintly CEO, are desperate to find compelling evidence that 'doing good is good for business', i.e. CSR pays. The lack of corroborative research seems to be no impediment for these desperados endlessly incanting the motto of the business case, as if it were an entirely self-evident fact.

The rather more 'inconvenient truth' is that CSR sometimes pays, in specific circumstances, but more often does *not*. Of course there are low-hanging fruit – like eco-efficiencies around waste and energy – but these only go so far. Most of the hard-core CSR changes that are needed to reverse the misery of poverty and the sixth mass extinction of species currently underway require strategic change and massive investment. They may very well be lucrative in the long term, economically rational over a generation or two, but we have already established that the financial markets don't work like that; at least, not yet.

CSR 1.0: Burying the Past

What would be far more productive than all this wishing and pretending that CSR is good for everyone and will help to solve the world's problems is to simply see it for what it is: an outdated, outmoded artifact that was once useful, but the time for which has past. We need to let the 'old CSR' die gracefully and give it a dignified burial. By all means, let us give it the respect it deserves – a fitting eulogy about brave new frontiers of responsibility that it conquered in its heyday. But then, let us look for the next generation of CSR – the newborn that will carry the torch forward.[7]

If we succeed in admitting the failure of CSR and burying the past, we may find ourselves on the cusp of a revolution, in much the same way as the internet transitioned from Web

1.0 to Web 2.0. The emergence of social media networks, user-generated content and open source approaches are a fitting metaphor for the changes CSR will have to undergo if it is to redefine its contribution and make a serious impact on the social, environmental and ethical challenges the world faces.

For example, in the same way that Web 1.0 moved from a one-way, advertising-push approach to a more collaborative Google-Facebook mode, CSR 1.0 is starting to move beyond the outmoded approach of CSR as philanthropy or public relations (which has been widely criticised as 'greenwash') to a more interactive, stakeholder-driven model. Similarly, while Web 1.0 was dominated by standardised hardware and software, but now encourages co-creation and diversity, so too in CSR, we are beginning to realise the limitations of the generic CSR codes and standards that have proliferated in the past 10 years.

CSR 2.0: Embracing the Future

If this is where we have come from, where do we need to go to? Let us explore in more detail this revolution that will, if successful, change the way we talk about and practice CSR and, ultimately, the way we do business. There are five principles that make up the DNA of CSR 2.0: Creativity (C), Scalability (S), Responsiveness (R), Glocality (2) and Circularity (0).

Principle 1: Creativity (C)

In order to succeed in the CSR revolution, we will need innovation and creativity. We know from Thomas Kuhn's work on *The Structure of Scientific Revolutions* that step-change only happens when we can re-perceive our world, when we can find a genuinely new paradigm, or pattern of thinking. This process of 'creative destruction' is today a well accepted theory of societal change, first introduced by German sociologist Werner Sombart and elaborated and popularised by Austrian economist Joseph Schumpeter. We cannot, to a paraphrase Einstein, solve today's problems with yesterday's thinking.

Business is naturally creative and innovative. What is different about the Age of Responsibility is that business creativity needs to be directed to solving the world's social and environmental problems. Apple, for example, is highly creative, but their iPhone does little to tackle our most pressing societal needs. By contrast, Vodafone's M-PESA innovation by Safaricom in Kenya, which allows money to be transferred by text, has empowered a nation in which 80% of the population have no bank account and where more money flows into the country through international remittances than foreign aid. Or consider Freeplay's innovation, using battery-free wind-up technology for torches, radios and laptops in Africa, thereby giving millions of people access to products and services in areas that are off the electricity grid.

All of these are part of the exciting trend towards social enterprise or social business that is sweeping the globe, supported by the likes of American Swiss entrepreneur Stephen Schmidheiny, Ashoka's Bill Drayton, e-Bay's Jeff Skoll, the World Economic Forum's Klaus Schwabb, Grameen Bank's Muhammad Yunus and Volans Venture's John Elkington. It is not a panacea, but for some products and services, directing the creativity of business towards the most pressing needs of society is the most rapid, scalable way to usher in the Age of Responsibility.

Principle 2: Scalability (S)

The CSR literature is liberally sprinkled with charming case studies of truly responsible and sustainable projects and a few pioneering companies. The problem is that so few of them ever go to scale. It is almost as if, once the sound-bites and PR-plaudits have been achieved, no further action is required. They become shining pilot projects and best practice examples, tarnished only by the fact that they are endlessly repeated on the CSR conference circuits of the world, without any vision for how they might transform the core business of their progenitors.

The sustainability problems we face, be they climate change or poverty, are at such a massive scale, and are so urgent, that any CSR solutions that cannot match that scale and urgency are red herrings at best and evil diversions at worst. How long have we been tinkering away with ethical consumerism (organic, fairtrade and the like), with hardly any impact on the world's major corporations or supply chains? And yet, when Wal-Mart's former CEO, Lee Scott, had his post-Katrina Damascus experience and decided that *all* cotton will be organic and *all* fish MSC-certified, then we started seeing CSR 2.0-type scalability.

Scalability not limited to the retail sector. In financial services, there have always been charitable loans for the world's poor and destitute. But when Muhammad Yunus, in the aftermath of a devastating famine in Bangladesh, set up the Grameen Bank and it went from one $74 loan in 1974 to a $2.5 billion enterprise, spawning more than 3,000 similar microcredit institutions in 50 countries reaching over 133 million clients, that is a lesson in scalability. Or contrast Toyota's laudable but premium-priced hybrid Prius for the rich and eco-conscious with Tata's $2,500 Nano, a cheap and eco-friendly car for the masses. The one is an incremental solution with long term potential; the other is scalable solution with immediate impact.

Principle 3: Responsiveness (R)

Business has a long track-record of responsiveness to community needs – witness generations of philanthropy and heart-warming generosity following disasters like 9/11 or the Sichuan Earthquake. But this is responsiveness on their own terms, responsiveness when giving is easy and cheque-writing does nothing to upset their commercial applecart. The severity of the global problems we face demands that companies go much further. CSR 2.0 requires uncomfortable, transformative responsiveness, which questions whether the industry or the business model itself is part of the solution or part of the problem.

When it became clear that climate change posed a serious challenge to the sustainability of the fossil fuel industry, all the major oil companies formed the Global Climate Coalition, a lobby group explicitly designed to discredit and deny the science of climate change and undermine the main international policy response, the Kyoto Protocol. In typical CSR 1.0 style, these same companies were simultaneously making hollow claims about their CSR credentials. By contrast, the Prince of Wales's Corporate Leaders Group on Climate Change has, since 2005, been lobbying for *bolder* UK, EU and international legislation on climate change, accepting that carbon emission reductions of between 50-85% will be needed by 2050.

CSR 2.0 responsiveness also means greater transparency, not only through reporting mechanisms like the Global Reporting Initiative and Carbon Disclosure Project, but also by sharing critical intellectual resources. The Eco-Patent Commons, set up by WBCSD to make technology patents available, without royalty, to help reduce waste, pollution, global warming and energy demands, is one such step in the right direction. Another is the donor exchange platforms that have begun to proliferate, allowing individual and corporate donors to connect directly with beneficiaries via the web, thereby tapping 'the long tail of CSR'.[8]

Principle 4: Glocality (2)

The term *glocalization* comes from the Japanese word *dochakuka*, which simply means global localization. Originally referring to a way of adapting farming techniques to local conditions, *dochakuka* evolved into a marketing strategy when Japanese businessmen adopted it in the 1980s. It was subsequently introduced and popularised in the West in the 1990s by Manfred Lange, Roland Robertson, Keith Hampton, Barry Wellman and Zygmunt Bauman. In a CSR context, the idea of 'think global, act local' recognises that most CSR issues manifest as dilemmas, rather than easy choices. In a complex, interconnected CSR 2.0 world, companies (and their critics) will have to become far more sophisticated in understanding local contexts and finding the appropriate local solutions they demand, without forsaking universal principles.

For example, a few years ago, BHP Billiton was vexed by their relatively poor performance on the (then) Business in the Environment (BiE) Index, run by UK charity Business in the Community. Further analysis showed that the company had been marked down for their high energy use and relative energy inefficiency. Fair enough. Or was it? Most of BHP Billiton's operations were, at that time, based in southern Africa, home to some of the world's cheapest electricity. No wonder this was not a high priority. What was a priority, however, was controlling malaria in the community, where they had made a huge positive impact. But the BiE Index didn't have any rating questions on malaria, so this was ignored. Instead, it demonstrated a typical, Western-driven, one-size-fits-all CSR 1.0 approach.[9]

Carroll's CSR pyramid has already been mentioned. But in a sugar farming co-operative in Guatemala, they have their own CSR pyramid – economic responsibility is still the platform, but rather than legal, ethical and philanthropic dimensions, their pyramid includes responsibility to the family (of employees), the community and policy engagement. Clearly, both Carroll's pyramid and the Guatemala pyramid are helpful in their own appropriate context. Hence, CSR 2.0 replaces 'either/or' with 'both/and' thinking. *Both* SA 8000 *and* the Chinese national labour standard have their role to play. *Both* premium branded *and* cheap generic drugs have a place in the solution to global health issues. CSR 2.0 is a search for the Chinese concept of a harmonious society, which implies a dynamic yet productive tension of opposites – a *Tai Chi* of CSR, balancing *yin* and *yang*.

Principle 5: Circularity (0)

The reason CSR 1.0 has failed is not through lack of good intent, nor even through lack of effort. The old CSR has failed because our global economic system is based on a fundamentally flawed design. For all the miraculous energy unleashed by Adam Smith's 'invisible hand' of the free market, our modern capitalist system is faulty at its very core. Simply put, it is conceived as an abstract system without limits. As far back as the 1960s, pioneering economist, Kenneth Boulding, called this a 'cowboy economy', where endless frontiers imply no limits on resource consumption or waste disposal. By contrast, he argued, we need to design a 'spaceship economy', where there is no 'away'; everything is engineered to constantly recycle.

In the 1990s, in *The Ecology of Commerce*, Paul Hawken translated these ideas into three basic rules for sustainability: waste equals food; nature runs off current solar income; and nature depends on diversity. He also proposed replacing our product-sales economy with a service-lease model, famously using the example of Interface 'Evergreen' carpets that are leased and constantly replaced and recycled. William McDonough and Michael Braungart have extended this thinking in their *Cradle to Cradle* industrial model. Cradle to cradle is not only about closing the loop on production, but about designing for 'good', rather than the CSR 1.0 modus operandi of 'less bad'.

Hence, CSR 2.0 circularity would, according to cradle-to-cradle aspirations, create buildings that, like trees, produce more energy than they consume and purify their own waste water; or factories that produce drinking water as effluent; or products that decompose and become food and nutrients; or materials that can feed into industrial cycles as high quality raw materials for new products. Circularity needn't only apply to the environment. Business should be constantly feeding and replenishing its social and human capital, not only through education and training, but also by nourishing community and employee wellbeing. CSR 2.0 raises the importance of meaning in work and life to equal status alongside ecological integrity and financial viability.

Shapeshifting: From CSR 1.0 to CSR 2.0

Even revolutions involve a transition, so what might we expect to see as markers along the road to transformation? Paternalistic relationships between companies and the community based on philanthropy will give way to more equal partnerships. Defensive, minimalist responses to social and environmental issues are replaced with proactive strategies and investment in growing responsibility markets, such as clean technology. Reputation-conscious public-relations approaches to CSR are no longer credible and so companies are judged on actual social, environmental and ethical performance (are things getting better on the ground in absolute, cumulative terms?).

Although CSR specialists still have a role to play, each dimension of CSR 2.0 performance is embedded and integrated into the core operations of companies. Standardised approaches remain useful as guides to consensus, but CSR finds diversified expression and implementation at very local levels. CSR solutions, including responsible products and services, go from niche 'nice-to-haves' to mass-market 'must-haves'. And the whole concept of CSR loses its Western conceptual and operational dominance, giving way to a more culturally diverse and internationally applied concept.

How might these shifting principles manifest as CSR practices? CSR will no longer manifest as luxury products and services (as with current green and fairtrade options), but as affordable solutions for those who most need quality of life improvements. Investment in self-sustaining social enterprises will be favoured over cheque-book charity. CSR indexes, which rank the same large companies over and over (often revealing contradictions between indexes) will make way for CSR rating systems, which turn social, environmental, ethical and economic performance into corporate scores (A+, B-, etc., not dissimilar to credit ratings), which analysts and others can usefully employ to compare and integrate into their decision making.

Reliance on CSR departments will disappear or disperse, as performance across responsibility and sustainability dimensions are increasingly built into corporate performance appraisal and market incentive systems. Self-selecting ethical consumers will become irrelevant, as CSR 2.0 companies begin to choice-edit, i.e. cease offering implicitly 'less ethical' product ranges, thus allowing guilt-free shopping. Post-use liability for products will become obsolete, as the service-lease and take-back economy goes mainstream. Annual CSR reporting will be replaced by online, real-time CSR performance data flows. Feeding into these live communications will be Web 2.0 connected social networks, instead of periodic meetings of rather cumbersome stakeholder panels. And typical CSR 1.0 management systems standards like ISO 14001 will be less credible than new performance standards, such as those emerging in climate change that set absolute limits and thresholds.

CSR 2.0: The New DNA of Business

All of these visions of the future imply such a radical shift from the current model of CSR that they beg the question: do we need a new model of CSR? Certainly, Carroll's enduring CSR Pyramid, with its Western cultural assumptions, static design and wholesale omission of environmental issues, must be regarded as no longer fit for purpose. Even the emphasis on 'social' in corporate *social* responsibility implies a rather limited view of the agenda. So what might a new model look like?

The CSR 2.0 model proposes that we keep the acronym, but rebalance the scales, so to speak. Hence, CSR comes to stand for 'Corporate Sustainability and Responsibility'. This change acknowledges that 'sustainability' (with roots in the environmental movement) and 'responsibility' (with roots in the social activist movement) are really the two main games in town. A cursory look at companies' non-financial reports will rapidly confirm this – they are mostly either corporate sustainability or corporate responsibility reports.

However, CSR 2.0 also proposes a new interpretation on these terms. Like two intertwined strands of DNA, sustainability and responsibility can be thought of as different, yet complementary elements of CSR. Hence, sustainability can be conceived as the destination - the challenges, vision, strategy and goals, i.e. what we are aiming for – while responsibility is more about the journey – our solutions, responses, management and actions, i.e. how we get there.

The DNA of CSR 2.0 can be conceived as spiralling, interconnected, non-hierarchical levels, representing economic, human, social and environmental systems, each with a twinned sustainability/responsibility manifestation: economic sustainability and financial responsibility; human sustainability and labour responsibility; social sustainability and community responsibility; and environmental sustainability and moral responsibility.

Conclusion: The Purpose of Business

When all is said and done, CSR 2.0 comes down to one thing: clarification and reorientation of the purpose of business. It is a complete misnomer to believe that the purpose of business is to be profitable, or to serve shareholders. These are simply means to an end. Ultimately, the purpose of business is to serve society, through the provision of safe, high quality products and services that enhance our wellbeing, without eroding our ecological and community life-support systems. As David Packard, co-founder of Hewlett-Packard, wisely put it:

Why are we here? Many people assume, wrongly, that a company exists solely to make money. People get together and exist as a company so that they are able to accomplish something collectively that they could not accomplish separately - they make a contribution to society.

Making a positive contribution to society is the essence of CSR 2.0 – not just as a marginal afterthought, but as a way of doing business. This is not about bailing out the Titanic with a teaspoon - which is the current effect of CSR 1.0 - but turning the whole ship around. CSR 2.0 is about designing and adopting an inherently sustainable and responsible business model, supported by a reformed financial and economic system that makes creating a better world the easiest, most natural and rewarding thing to do.

CSR is dead! Long live CSR!

About the Author

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[5] Nader, R. (1965) *Unsafe At Any Speed: The Designed-In Dangers of the American Automobile*. New York: Grossman Publishers.

[6] Carroll, A.B. (1979) A Three-Dimensional Conceptual Model of Corporate Social Performance. *Academy of Management Review* 4: 497-505.

[7] At the launch of CSR International in March 2009, this is exactly what we did – we held a mock funeral with a coffin, out of which the new CSR baby was born. See www.csrinternational.org for a video of the ceremony.

[8] This is a reference to *The Long Tail*, by Chris Anderson, as it might apply to CSR. I have written about this elsewhere.

[9] The index has subsequently been reformed and now runs as a more integrated Corporate Responsibility Index. See www.bitc.org.uk.