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CSR: Adding Spirituality to Responsibility

by Prof. Dr. Alexander Rinnooy Kan

In recent years the principles of corporate social responsibility have reached an astonishing level of popularity. Less than ten years ago, interest in this topic was concentrated largely in northwest Europe. Worldwide, it was the Anglo-Saxon corporate model, with its focus on short-term shareholder interests, that was rapidly gaining ground. Many observers predicted that the process of globalisation would make short work of enterprises that failed to concentrate on their alleged core responsibilities, i.e. achieving a maximum return for shareholders and minimum costs for customers. And if society did expect more of enterprises than the unscrupulous pursuit of these twin objectives, it would have to force them by means of legislation. Modern enterprises that attempted to adhere to the lofty principles of people, planet profit would be fighting a losing battle.

Ten years have passed, and – contrary to all expectations – corporate social responsibility is now part of a modern company’s basic repertoire. In fact, the globalisation process has encouraged rather than lessened interest in this subject. That was already true well before the global economy was hit by the current financial and economic crisis. Now that that crisis has revealed, beyond a doubt, the weaknesses of Anglo-Saxon shareholder capitalism, we may expect corporate social responsibility, relating as it does to the corporate stakeholder model (and not the shareholder model) to represent at the very least a serious alternative to the Anglo-Saxon model. Many of us hope that the re-examination that should follow in the wake of this crisis will lead to a new model of capitalism that does finally combine people, planet and profit with what has by now come to be known as the fourth P, that of *pneuma* or spirituality. For the latter reason alone, I regard it as an exceptional honour to speak in one of the major Asian economies, Indonesia, whose cultural traditions should offer a particularly fertile soil for the fourth P. Asia could well take the lead in this respect, and inspire enterprises in Europe and America to engage in corporate social responsibility in new profound and meaningful ways.

Corporate social responsibility has long been a topic of discussion in the Netherlands, but the debate gathered pace after the Social and Economic Council which I am the current chairman, published an advisory report on the subject in 2000, drawn up under the supervision of my predecessor, Herman Wijffels.

The report points out that there were already traces in the Netherlands of “enlightened entrepreneurship” in the late nineteenth century. These entrepreneurs often acted on

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their enlightened notions by establishing social amenities for their employees, for example inexpensive housing, medical insurance and pensions. Such initiatives were not prescribed by law, and the entrepreneurs involved did not always have the noblest intentions: in addition to their sense of moral duty, they were also fearful of radicalisation and of the influence of trade unionism, then in its ascendancy. Even then, however, there was the germ of the idea that companies establishing such amenities would be appealing employers and have an easier time attracting and holding on to talented employees – a motive that sounds surprisingly modern and that I will return to later.

Almost one hundred years later, in 1976, the OECD drafted its first Guidelines for Multinational Enterprises. The Guidelines drew explicit attention to human rights and fundamental labour standards, most of which were later enshrined in the ILO conventions. Even back then, some large companies realised that they were expected to contribute beyond merely copying passively with major social change in the world in which they operated. In 1966, Pieter Kuijn, a member of Unilever's Board of Management, called on managers "to be among the main architects of tomorrow's economic and social order". He continued by saying that "this increase in social awareness and participation...may not have a great appeal to some businessmen, who would prefer to stay purely in the realm of production and trade, but it is a duty imperative for all managers who in the World of tomorrow want to be heard and respected as stewards of the growing wealth of nations". More than forty years later, his appeal has lost none of its relevance.

That same period saw the first indications of a widespread and fundamental concern about the future of our planet's natural environment. The tone was immediately set by the Club of Rome's sensational report in 1972. And although its sombre predictions have not all come true, there is no denying that the P for planet became an integral part of the corporate social responsibility debate from that time on.

The worldwide process of globalisation, which picked up speed in the eighties when Asia experienced explosive economic growth, has provided the advocates of corporate social responsibility with additional arguments. It is precisely this globalisation process that has revealed the declining power of national governments to intervene. As national borders lost their significance and a worldwide market emerged that was capable of exploiting cross-border information-sharing through the Internet, it became clear that national governments could exercise less and less control. As there was no worldwide government with comparable power and a comparable democratic mandate, major corporations were increasingly pulled into the power vacuum, thereby facing public expectations that they would assume at least some of the tasks of supranational governance. It was not a mandate they had asked for, but it was also not one that they

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could hope to fulfil by solely adhering to the shareholder model. That insight alone made corporate social responsibility an inevitable item on their agenda.

This approach illustrates, once again, the relationship between the two components of corporate social responsibility: on the one hand, we expect an enterprise to contribute to public prosperity in the wider sense of the three or four Ps; on the other, the enterprise must simultaneously foster a good relationship with its stakeholders in the earlier, broader sense of the word.

Whether they are large or small, multinational corporations or a medium-sized enterprises, companies are value-creating entities. They create value by producing goods and providing services that satisfy needs and therefore contribute to public prosperity. They are also a source of income for their owners, employees and investors. In the seventies however, we began to realise that the production and consumption of goods can also damage or destroy value. A broader concept of prosperity takes that into account by including and advocating sustainable development and growth. Here, the basic idea is that production and consumption by the earth's current inhabitants should not be at the expense of the following generation's prosperity and wellbeing. The triple objective – people, planet and profit – reflects that conviction. The fourth P emphasises the need to reflect on the special responsibility that we, as human beings, bear in our dealings with each other and with the small, fragile planet that has been entrusted to us, and whose mysteries we have only just begun to unravel.

The second component, the relationship with stakeholders, emphasises that every enterprise, whether large or small, multinational or medium-sized, must constantly consider the simultaneous interests of all its stakeholders. If we regard an enterprise as a partnership that promotes its stakeholders' interests, we do so realising that those interests do not always run parallel, and indeed may be entirely disparate at times. The enterprise has the obligation of weighing those various interests against each other subject to the conditions set by the need to generate a profit so as to ensure its own survival and to comply with national and international law. Employees and shareholders are special subsets of stakeholders, as they have a very direct interest in the outcome of this process, and not surprisingly the enterprise's relationship with them has been largely formalised as a result. To a limited extent, that is also true of its relationship with other vital stakeholders such as customers, suppliers and lenders. Modern enterprises also consider local and national public authorities as stakeholders, however, as well as non-governmental organisations. More specifically they regard themselves as part of a local community that has expectations of them in terms of the role they play and the contribution they make. Any enterprise that nurtures its relationship with all these parties will repeatedly and unavoidably come up against the four Ps as a standard for its conduct.

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Modern enterprises frequently interact with their social environment through markets. That is where they compete with one another and vie for the favour of investors, consumers and customers, and employees. Sometimes they act on their own, but often they band together in small or large coalitions and alliances. The main elements of that interaction are the price and quality of what they offer or want, but the background against which the interaction is played out is determined largely by the enterprise's reputation. An enterprise that ignores or violates the principles underlying its license to operate will soon find its reputation in tatters, and it can be sure that the bad news will quickly spread around the globe thanks to the Internet. That too explains the growing significance of corporate social responsibility as a guidepost for corporate conduct.

As a result of the above, corporate social responsibility is becoming a key ingredient in each of the markets in which an enterprise needs to operate. In the capital market, shareholders are increasingly requiring the enterprises in which they invest to practice corporate social responsibility. That is particularly the case for the large, worldwide pension funds, which, as institutional investors, demand that enterprises are aware of the three Ps and their implications. In the labour market, there is growing awareness, as I mentioned earlier, that enterprises that actively pursue corporate social responsibility are better able to position themselves as appealing employers, that enable employees do their jobs with pride and pleasure. In the sales markets, consumers are increasingly asking enterprises to demonstrate their awareness of the three Ps in all their activities. As a result, there has been a bewildering proliferation of quality marks and certificates that enterprises cannot afford to ignore, but that sometimes create more confusion than they provide information. Finally, in their own procurement markets, enterprises interact with suppliers that face the same challenge: to what extent do they take the three Ps seriously in their policy?

Now, the idea that enterprises can be held accountable for how they conduct themselves in their relationship with their suppliers is nothing new, but it does have far-reaching implications. Recently, the Social and Economic Council of the Netherlands completed a discussion of this subject with an agreement between the employers' associations and the trade unions. In that agreement, the employers' associations undertook to call on their members to make a conscious effort to promote the three or four Ps throughout their supply chains. They will do that by drawing on the principles adopted by the International Chamber of Commerce, which aim to encourage enterprises to systematically exert a positive influence on the policies of their entire supply chain. This agreement was concluded in the full awareness that this would be an exceptionally difficult task, and that small enterprises in particular would have only limited opportunity to live up to this commitment. At the same time, however, there are already plenty of encouraging examples demonstrating that much can be achieved, and that

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ultimately, suppliers too have a vested interest in the success of this approach. Because so many Asian enterprises are highly valued suppliers to large and small companies in Europe and the USA, we can expect that they too will be confronted by the consequences of this type of agreement at some point. I hope that this will be an extra incentive to introduce the principles of corporate social responsibility throughout the Asian business world, and in particular in Indonesia, where politicians have already shown a remarkable eagerness to attribute special significance to any such effort.

In the foregoing, I wanted to emphasise the current importance of corporate social responsibility as a guideline for modern enterprises, and the special role that companies in this part of the world can play in its growth and dissemination. It is precisely my admiration for the cultural traditions of Asia that leads me to hope that corporate social responsibility will be undertaken here not for opportunistic reasons, but out of conviction. There are certainly examples of enterprises in Europe and the USA that regard their observance of the principles of corporate social responsibility mainly as an annoying but unavoidable component of their public relations activities. Their attitude is seriously detrimental both to themselves and to the society in which they operate. An enterprise that is incapable of ensuring its own continuity cannot and will not survive. But an enterprise that is unaware of what the public expects of it, both in its own country and abroad, is missing an important opportunity to contribute to the future of society in a way that far surpasses its short-term commercial successes.

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