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1. Making a difference

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Making a difference

Since the 1970s, public and civil society dissatisfaction with the global clout and power of corporations has generated a growing wave of new institutional mechanisms that attempt, in different ways, to create more accountable, responsible, and transparent corporations. Created in a context in which global corporations seem to be growing ever larger and more powerful and nation-states weakening, these institutional mechanisms have become part of a much larger social movement. This movement is attempting to develop a set of constraints on the modern corporation that stands in stark contrast to the dominant economic logic of maximizing shareholder wealth and growing the size and economic and social power of multinational corporations.

As the next chapter will discuss in more detail, these new institutions include business associations and alliances focused on sustainability, responsibility, and accountability, consultancies that help companies behave as good corporate citizens, responsible investment entities, social research organizations, social and environmental standards, monitoring, and reporting initiatives, and initiatives focused on incorporating social issues into management education. Together, they constitute an emerging infrastructure aimed at corporate responsibility, accountability, and transparency. These new institutions are based on the work of a number of pioneering individuals which this book refers to as the **difference makers**.

This emerging accountability infrastructure works from within but at the margins of the existing system. It has had the effect of increasing the pressures on companies from their stakeholders, a group that includes but goes way beyond shareholders, and attempts to get decision-makers to incorporate social and environmental criteria in the decision-making, strategies, practices, and purposes of the modern corporation. As such, the infrastructure created by the difference makers goes well beyond traditional economic thinking, which argues that the purpose of the firm is solely the maximization of shareholder wealth. These new institutions represent leverage points for change that may ultimately alter the focus and purpose of the firm as a whole so that it better responds to and meets broad societal and environmental needs – and not just the demands and interests of its shareholders. Understanding both the need for change – and the ways to effect those changes – underpins the vision that has inspired the difference makers, even if, as we will see in some cases, that vision itself evolved over time.

While no one would claim that stakeholder, social, and environmental criteria today claim as much dominance as economic wealth maximization for shareholders in most managers' thinking, there has been remarkable progress in advancing an alternative agenda and in creating this responsibility infrastructure, particularly since the late 1980s and the 1990s. So many new institutions have emerged, in fact, that we might call this move toward greater corporate responsibility a social movement.² This book tells the story of some of the key players and the institutional infrastructures they have built in the emergence of that social movement.

■ The difference makers

All of the people discussed in this book are leaders, but they are not leaders in the traditional sense. Their motivation has not been to make lots of money (though some have done reasonably well by global standards) or to gain prestige and power (though some have attained that status as well). They do not head up huge corporations, political institutions, or even non-governmental organizations (NGOs). Their individual roles have been to hope to do good in the world by focusing on a progressive view of the public good and by building new institutions of accountability, responsibility, and transparency for corporations and other institutions. They have been able to see or sense that a problem exists in the macrosystem that supports the world as we know it, and move to establish new institutions that create leverage for long-term change – institutions that create a demand for greater responsibility and accountability from corporations and large institutions. In that sense, the difference makers operate in a domain of what some scholars call institutional design, while they are simultaneously attempting to mobilize a social movement of responsibility assurance for large and powerful institutions.³

Modest by nature, most of these individuals would not claim kudos for their leadership or vision, yet they have developed new organizations and new ways of seeing the world that have had a definite and profound impact on the way that business is conducted today. They have, in short, made a difference in the world. Acting as social change agents, they have operated largely from inside the system, rather than as external activists and demonstrators, and along the way they have tapped into other existing networks, created new ones, and found ways of working with or dealing with conflicts in existing entities and networks.⁴ These difference makers have effected change by understanding the current system and then creating new organizations and entities at its edges that have grown to constitute an emerging global responsibility assurance infrastructure.⁵ They too are activists, but activists working thoughtfully and incrementally within the system.

By understanding and appreciating how businesses operate and what their imperatives are, they have had the foresight to set up institutions that create new pressures for accountability, responsibility, and transparency – and perhaps ultimately for system change. For, as Peter Senge points out in *The Fifth Discipline*, Archimedes said, “Give me a lever long enough and I can change the world.” Large-scale systems change when appropriate levers can be found. This book is the story of some of the individuals who have found such levers, and of the institutions that they have created to effect positive change in the world.

There are several driving questions behind this book. How does this type of long-term, inside-out social change happen? What is the role of individuals in creating a social movement like this one? Do these individuals arrive on the scene with fully developed visions of the changes they hope to inspire, or do these visions evolve over time? What, indeed, are the visions behind the changes that have been developed? Are there unifying driving forces in the backgrounds of those individuals who have led these initiatives that sets them apart, or are they disparate human beings who happened upon their leadership opportunities and somehow took advantage of them? I will explore these questions and many other nuances of the leadership exhibited by the difference makers in ensuing chapters, but first I will explore the need for change and look at the wealth of new corporate accountability and responsibility institutions that have sprung up since the 1980s, many of them considerably more recently.

In their own words

It is not often that we have the opportunity to hear from the founders and early pioneers of a social movement about how it grew and evolved, and how the institutions that form the core of that social movement were created and developed over time. But that is exactly what this book attempts to do: to tell the stories of these social and institutional entrepreneurs using their own points of view and, where feasible, their own words, supplemented by archival and web-based information about the

organizations they founded or developed. But, before moving to the stories of individual difference makers, we need to understand the larger context in which their changes took place.

■ A short history of accountability, responsibility, transparency, and the corporation

The sense of unease about corporate power and the potential abuse of that power by the privileged individuals who control it is hardly new, though it has grown precipitously during the current wave of globalization.⁶

Concern about corporate responsibility was deeply embedded in the very charters that companies were originally granted in the United States, reflecting early distrust of the amassing of power and wealth into the hands of the few. Early charters required that incorporation papers be granted only as long as companies were benefiting society or fulfilling some sort of public purpose.⁷ One can look back even further to the governmental powers of the Dutch East India Company granted by its charter, which allowed the company to monopolize trade with the East Indies, maintain armed forces, establish colonies, make war, peace, and treaties, and even coin money.⁸ Deep concerns about profit mongering were raised by the tulip mania that gripped Holland in 1636–37 and destroyed many investors, and by the South Sea Bubble of 1720, which ruined many British investors through unbridled speculation and general fraud.⁹

Demands for greater corporate accountability and responsibility can be traced back as far as the muckrakers of the early 20th century. For example, Ida Tarbell's muckraking story about Standard Oil, published in 1904, and Upton Sinclair's novel about the meat-packing industry, *The Jungle* (first published in serial form in 1905), created somewhat of a sensation. Similarly, the publication of Rachel Carson's *Silent Spring* in 1962 focused new attention on the environment and the potentially harmful role of chemical companies. The then fledgling environmental movement galvanized public concern, which eventually resulted in the establishment of the Environmental Protection Agency in the United States in 1970. Ralph Nader's 1965 publication *Unsafe at Any Speed* created a wholly new wave of consumer activism that has resulted in automobile safety legislation, occupational safety and health legislation, environmental legislation, and freedom of information legislation. Jeremy Rifkin's 1977 critique of the budding biotechnology industry *Who Should Play God?* focused public attention on the ethical, moral, and social issues associated with DNA research.

Coming closer to our times, much of the developed world seems to have lived by a political slogan of the 1990s since the early 1980s — “It’s the economy, stupid”: the

economy and only the economy. Broader societal interests were largely shunted aside in favor of profits and growth for large corporations and those who run them. This emphasis prompted Robert Reich, the then US president Bill Clinton's secretary of labor, to ask the question: "Do you want to live in an economy or a society?" Still, the mantra of corporations has been to maximize shareholder wealth since the early 1980s when the Reagan–Thatcher revolution shaped a new rhetoric around corporations and the fiduciary duty of executives and boards, and focused them single-mindedly on shareholders to the exclusion of other stakeholders. Nearly three-quarters of US states have enacted stakeholder legislation since about 1980 in efforts to protect workers, communities, and customers from the ravages of unbridled capitalism, but shareholder primacy still largely reigns in financial and some other circles. Simultaneously, globalization has accelerated. The World Trade Organization has fostered global free trade with the elimination of many so-called trade barriers that might protect local economies as a prerequisite for participation in the global economy.¹⁰

Despite the fact that there is actually no *legal* obligation for corporations to maximize shareholder wealth written into US law, many people believe that this obligation exists, confusing fiduciary duty to run the company well for the benefit of shareholders with a need to maximize shareholder wealth.¹¹ Fiduciary duties to shareholders and attention to corporate profits are also enshrined in global trade agreements fostered by the Bretton Woods organizations – the World Trade Organization, the World Bank, and the International Monetary Fund, which favor developed nations and their multinational corporations above other interests.¹²

The forces of globalization have further emphasized the creation of wealth, particularly for multinational corporations and those who lead them. Multinational corporations have steadily gained in size and power in the last part of the 20th and first part of the 21st centuries and today are among the world's most dominant and powerful institutions, in some cases surpassing the clout of governments. Although one can question the logic of assessing power by revenues, one study by the US Institute of Policy Studies in 2000 suggests that by that assessment 51 of the world's largest revenue-generating entities (e.g., through income or taxes) are corporations rather than countries.¹³

Globalization stands accused of many crimes, such as the erosion of democracy, the destruction of native industries in developing nations and the creation of massive debts. In addition, critics charge that current global practices generate negative social impacts ranging from loss of domestic jobs in developed nations as they are outsourced to sweatshops in low-wage developing countries, to ecological havoc as natural resources are overused, forests are destroyed, and agribusiness moves quickly to manmade fertilizers, genetically modified crops, and pesticides that destroy the health of the soil.

The forces of globalization have reshaped the social contract between workers and employers and left many communities in developed countries wondering how

they will cope with reduced employment bases and fewer headquarters companies, which have tended to provide significant local community support, especially in the United States. At the same time, developing nations are coping with the global race to the bottom¹⁴ for ever-lower wages, working conditions and environmental protection. National sovereignty is eroded and excessive debt incurred. Meanwhile, the lack of trust in large corporations has grown precipitously since the scandals of the early years of the 21st century in companies such as Enron, which suggest that corruption, fraud, and other forms of corporate and general institutional malfeasance are more common than anyone might have wished to believe.

The stage is set for a worldwide drama of rich against poor and developed against developing nations.

■ Growing global inequity

Although there have always been poor people in the world, the current round of globalization has created vast chasms of inequity in the world's distribution of wealth. These inequities are further compounded by the revolution in global communications technologies, which shows the world's poor how their counterparts in the richer nations live their lives. A 2006 study by the World Institute for Development Economics Research (WIDER) of the United Nations University placed these inequities in stark relief on a global level, finding that the richest 2% of the world's population owned more than half of global household wealth and the richest 10% accounted for 85% of the world's total.¹⁵ The WIDER study further showed that North America with 6% of global population has 34% of the world's wealth. North America, Europe, and high-income Asia-Pacific nations control 90% of the world's wealth. Other results show similar concentrations of wealth in developed nations, for instance, the 24 Organization for Economic Cooperation and Development (OECD) countries, with about 15% of the world's population, control nearly 64% of the world's wealth and almost 54% of the world's income (measured as gross domestic product).

The same study also focused on inequities within different nations, with equally dramatic findings. One disquieting set of figures indicates that the top 1% of the US population shared nearly 33% of the world's wealth (nearly 35% when the Forbes 400 richest families are added in). The top 10% in the United States control 69.8% of that nation's wealth, while in China, the top 10% control about 41.4%. Finally, the study estimated that the an individual needed an annual income of only about \$2,200 to belong to the top half of the world's wealth distribution, while the price tag for entry into the top 1% (consisting of some million people) was over \$500,000 per person, with the inequities expected to have increased since the original data were collected in 2000.¹⁶

Given these numbers, it is small wonder that anticorporate activists criticize the growing gap between rich and poor in the United States, and between the Northern and Southern countries. Meanwhile, compensation for chief executive officers (CEOs) soars well above anything comparable to worker wages (one recent estimate pegged CEO compensation in 2004 at 431 times that of the average worker in the United States, down from the all-time high in 2001 of 525–1 but still astronomical). While activists decry the lack of decent jobs for the many millions who need work in developing nations, big businesses continue to push for greater productivity and automation, further reducing job availability and creating excesses and imbalances between supply and demand. Simultaneously, labor and human rights abuses, sweatshops, child labor, abusive managers, and generally poor working conditions are still rampant in many global companies' supply chains.

Under such conditions, the demands for corporate accountability, responsibility, and transparency and the corporate abuses of power that have triggered these demands have been fertile ground for the emergence of a social movement for change led by the difference makers.

■ How the book is organized

Largely through the lens of the ideas, insights, and words of the difference makers themselves, *The Difference Makers* demonstrates how people from a wide variety of backgrounds and interests converged on a similar set of ideas aimed at making the world a better place by creating pressures in the existing system that countermand a shareholder-only philosophy and emphasize business's impacts on stakeholders, society, and nature. The book also focuses on the infrastructure-building process and the realities of working with scarce resources, the need for a long-term perspective on accomplishing one's goals when social and system change is involved, and the capacity to find critical leverage points that effect that change.

The Difference Makers first provides an overview of the global context in which the pioneers we examine perceived a need to change the way things work with respect to business in society: that is, the need for "Making a difference" (Chapter 1). Set in the context of increasing globalization and accompanying concern about the impacts of globalization, and beginning as many social movements do with a few individuals and fewer resources, the difference makers initiated – from inside the system – changes that could be leveraged for long-term societal benefit. In the course of establishing these changes, over a period of about 30 years, they (and, of course, others) have built a substantive infrastructure that provides new leverage points to pressure businesses to behave in ways more compatible with society's needs, as we will see in "Building a different future: an emerging corporate respon-

sibility infrastructure” (Chapter 2). These first two chapters provide a general overview of the context for the work of the difference makers and Chapter 2 illustrates quite dramatically the extent of the changes that have taken place and the infrastructure that has already been built.

The next six chapters tell the stories of some of the pioneering individuals who have been central to the initiation, growth, and development of this infrastructure. Their stories, told as much as possible in their own words, demonstrate not only the entrepreneurial initiatives that difference makers have taken, but also the motivations and hopes behind the establishment of different institutions. Chapter 3, “Early inklings: social pioneering for responsible investing,” focuses on the early days of the now burgeoning infrastructure, which really got started through the lens of social and environmental investing. The pioneering work of **Alice Tepper Marlin**, founder of the Council on Economic Priorities, and later Social Accountability International (SAI), **Joan Bavaria**, founder of Ceres, and Franklin Research and Development (now Trillium), and later the Social Investment Forum, and **Tim Smith**, first executive director of the Interfaith Center on Corporate Responsibility, and at the time of writing at Walden Asset Management and president of the Social Investment Forum, provided core elements of the institutional framework on which the responsible investment movement has been built. Another pioneer, Amy Domini, also played a crucial role as cofounder of KLD Research & Analytics and Domini Social Funds.

Accountability is the theme of Chapter 4, “Emerging accountability structures,” as the difference makers shift from a direct focus on socially responsible investing toward creating the beginnings of a new accountability infrastructure. **Steve Lydenberg**, one of the founders of KLD Research & Analytics, and later the Institute for Responsible Investment, now at Domini Social Funds, gained his entry into this arena working with Alice Tepper Marlin at the Council on Economic Priorities. Amy Domini, already discussed in Chapter 3, and **Peter Kinder**, CEO of KLD Research & Analytics, together created the Domini Social 400 Index to track against more traditional indices such as the Dow Jones Industrial Average. This chapter weaves together the stories of these three social entrepreneurs as they built KLD and branched out into other related ventures. The chapter then circles back to Alice Tepper Marlin, who in the 1990s founded SAI when it became clear that accountability standards were needed for companies with long global supply chains. The chapter then focuses on the work of **Simon Zadek**, founder of the UK’s AccountAbility, the Institute for Social and Ethical Accountability, an organization that sets standards and provides assessment tools for a broad array of corporate activities. Finally, Chapter 4 looks at the work of **Jim Post**, professor of management and public policy at Boston University, who did early research on the impact of infant formula in developing nations and worked with the Nestlé Audit Commission to help develop a breakthrough auditing and accountability approach for the company.

Chapter 5 focuses on “Emerging responsibility standards” through the eyes of several difference makers involved in important early initiatives aimed at setting new and more aspirational performance standards for companies: Joan Bavaria, and her seminal work with Ceres, who ultimately hired **Bob Massie** as executive director. Massie later went on to work with **Allen White** to cofound the Global Reporting Initiative. Another of the difference makers, **Bob Dunn** worked within Levi Strauss to develop and implement one of the first, if not *the* first, company codes of conduct to deal with the global supply chain issues that have attracted so much activist pressure. The chapter also focuses on **Steven Young**, the executive director of the Caux Round Table, a group that has promulgated a global set of principles that are based on the ethical ideals of human dignity and the Japanese principle of *kyosei* or living together. Perhaps one of the most important initiatives to emerge around corporate responsibility and corporate citizenship is the UN Global Compact, which at the time of writing claims nearly 5,000 corporate signatories. Developed in a speech given by then UN Secretary-General Kofi Annan in 1999, the Global Compact was the brainchild of difference maker **John Ruggie**, now a professor at the Harvard Kennedy School of Government and director of the Mossavar-Rahmani Center for Business and Government there, as well as special assistant to the UN secretary-general on human rights, and **Georg Kell**, who has been executive head of the Global Compact since its inception.

Transparency is the key theme of Chapter 6, “Transparency and common reporting.” The chapter emphasizes the work of the United Kingdom’s **John Elkington**, founder of SustainAbility, one of the earliest consulting firms in the corporate responsibility arena, and one that has been unafraid to deal openly with some of the more serious issues facing companies. The chapter next moves to the work of **Allen White**, vice president at Boston’s Tellus Institute, and cofounder with Bob Massie of the Global Reporting Initiative, an effort to provide a common reporting framework for companies so that transparency along environmental, social, and governance (ESG) dimensions becomes feasible and comparable across companies. White also later founded (with Marjorie Kelly) a new effort aimed at corporate redesign called Corporation 20/20.

As the field of related initiatives began to develop, networking among the like-minded individuals who were establishing these new institutions became important, so Chapter 7, “Networking,” focuses on this topic. First discussed is **Laury Hammel**, who was the original founder of New England Businesses for Social Responsibility, and later Business for Social Responsibility (BSR). Hammel, who is CEO of Longfellow Clubs, a local group of health and recreation facilities, went on to found the Spirituality in Business Conference, which has been held annually for nearly ten years, and the Business Alliance for Local Living Economies. **Bob Dunn** later took over as Executive Director of BSR and moved the association towards an emphasis on global corporations. Another networker of note is **David Grayson**, a director of the UK’s Business in the Community, who has worked extensively with

the Prince's Youth Business Trust, the International Business Leaders Forum, and the Small Business Consortium. **Brad Googins**, executive director of the Boston College Center for Corporate Citizenship, has evolved the Center from an emphasis on the functional area of corporate community relations to the broader arena of corporate citizenship in his tenure, after having founded the Center for Work and Family earlier in his career. The final difference maker in this chapter is **Steve Waddell**, co-lead steward of Global Action Network Net (GAN-Net), who is focused on understanding how a new approach to global governance can emerge from the relationships that are now beginning to emerge among institutions in different sectors — government, business, and non-governmental organizations.

Chapter 8 covers “Engagement and dialogue: changing the fundamentals,” focusing on the ways in which some of the difference makers are now explicitly trying to change the system. The chapter focuses on entrepreneurs such as **David Logan**, who founded The Corporate Citizenship Company to help companies better contend with the new societal expectations that are being placed on them, and **Malcolm McIntosh**, who was the first hired director of the Corporate Citizenship Unit at the University of Warwick and at the time of writing is professor and director of the Applied Research Centre in Human Security at Coventry University, the first transdisciplinary center of its kind in the UK, having founded the *Journal of Corporate Citizenship* along the way. **Jane Nelson** is senior fellow and director of the Corporate Social Responsibility Initiative at the Kennedy School of Government, Harvard University, but has also worked extensively with the International Business Leaders Forum (IBLF) and the United Nations on issues of global peace and business, emerging economies, and poverty and business, and is a leading spokesperson on these issues. **Judy Samuelson** is founder of the Aspen Institute's Business and Society Program, which has as its goal integrating ecological and societal issues into management education programs to better prepare tomorrow's leaders. The final part of this chapter looks to the future, focusing on Allen White's vision for Corporation 20/20, an effort noted above, to generate interest in redesigning the function and purposes of the corporation to incorporate environmental and social considerations.

Chapter 9, “The vision thing,” attempts to synthesize the visions that have been behind the work of the difference makers over the years. It focuses first on the obstacles to change, before moving on to a more positive vision going forward, developing a sensibility that all of the difference makers, though very different in their approaches and in the institutions they have founded, seem to share. The goal, for all of them, is a better world for all of us.