

Why do we need Local Living Economies?

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### **The Next Step for CSR: Economic Democracy**

I've been waxing nostalgic lately over ethics scandals. In thinking about this 15th anniversary issue of *Business Ethics*, I've been thumbing through issues back to the summer of 1987, reading about the scandals that seem always to come in waves. There was the early wave of government procurement fraud, then Medicare billing fraud, then insurance sales frauds rippling out from Prudential's scandals. After reading about Prudential in the book *Serpent on the Rock*, I would have voted it Most Fascinating Scandal were it not for the gold-standard scandals of the 1980s, when Ivan Boesky and Michael Milken were hauled away in handcuffs for junk bond fraud, insider trading, and stock parking. That era holds a special place in my heart as my First Ethics Scandal. I remember the urgency I felt as it unfolded, just before the first issue of *Business Ethics* came out. I was certain such a major ethics crisis wouldn't be seen again.

Well. Here we are 15 years later, in the midst of ethics' perfect storm, with turbulence patterns converging from Enron, Arthur Andersen, Global Crossing, Tyco, Dynegy, Adelphia, WorldCom, and the rest.

It's not hard to trace the route from today back to the 1980s. The two eras are (un)ethical bookends to the greatest bull market in history. The management excesses that seemed so shocking back then -- hostile takeovers, massive layoffs, and exorbitant CEO pay -- became ordinary stuff in the 1990s. It was fuel for a hungry market, and as that market became more ravenous it demanded greater sacrifices. Thus minimally acceptable excesses gave way to outrageously fraudulent excesses, until the whole thing blew up in a kind of July 4 extravaganza -- with the explosions of Kenneth Lay and Andrew Fastow, the flame out of Bernard Ebbers, the detonation of Dennis Kozlowski, and the little mauve starburst of Martha Stewart.

The debris from the pyrotechnics has been drifting to earth day after day for months now, leaving the business press hot to talk about business ethics. Here at *Business Ethics* we've been getting as many journalists' calls in a month as we used to get in a year. So there seems to be a role for CSR folks, though not the role we had in mind when we began.

What we all wanted to do back then was change things. Looking back over the years, I'm struck by how little change of real substance has taken root. Codes of conduct have sprouted like weeds. Ethics officers at major corporations have grown from a handful to hundreds. Business for Social Responsibility has become a multi-million-dollar operation. Social investing assets have swelled into the trillions. Business schools have added endowed chairs and required courses in ethics. Awards and best-of lists have grown in profusion.

Through it all -- as ethical decision-making was taught to MBAs, good companies were sought out for stock portfolios, or descriptions were compiled of best practices -- the underlying assumption was that managers had genuine freedom to be socially responsible. We believed CSR was about separating the good guys from the bad guys,

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and that good guys could be spotted by their exemplary policies and programs and sustainability reports. But the lessons of the perfect storm tell a different story.

As professor Sandra Waddock of Boston College Carroll School of Management noted in an unpublished paper, *'Fluff is Not Enough,'* Enron rang all the bells of CSR. It won a spot for three years on the list of the 100 Best Companies to Work for in America. In 2000 it received six environmental awards. It issued a triple bottom line report. It had great policies on climate change, human rights, and (yes indeed) anti-corruption. Its CEO gave speeches at ethics conferences and put together a statement of values emphasizing 'communication, respect, and integrity.' The company's stock was in many social investing mutual funds when it went down.

Enron fooled us. But that's not the real lesson here. **The lesson is that all the things CSR has been measuring and fighting for and applauding may be colossally beside the point.** Because they fail to tell us what's really going on inside companies. What's going on is a single thing: unremitting pressure to get the numbers, by any means possible.

This is happening even at the 'best' firms. I've had candid conversations with managers at top-tier firms among our 100 Best Corporate Citizens, and what I hear is disheartening. One executive with his firm 25 years told me recently, 'I'm inside the most enlightened company, and I'm telling you, it is no more.' Another legendary CSR firm, once known for its employee-friendly practices and no-layoff policy, has in recent years been laying off tens upon tens of thousands, and sucking money from an 'over-funded' pension plan to feed its bottom line.

Those are the good guys. Elsewhere firms stoop to buying 'janitor insurance' so they can profit when employees die, or move incorporation to Bermuda to evade taxes. No steps seem too brazen or shameless to take, when they boost the numbers enough.

If we want to know why the corporate social responsibility movement has accomplished so little of substance, here's the reason: the pressure to get the numbers overrides everything else. It overrides not because God given, organic 'market' forces are at work, but because the system is designed that way. It is designed to serve certain people and not others.

Because of course, in getting 'the numbers,' companies are not compiling bloodless digits at the bottom of an income statement. Corporate profits lead to share price increases which represent dollars in the pockets of real-life human beings, primarily two groups of human beings: executives and wealthy investors. Chief executives get most of the blame, and certainly their pay has gone from outrageous to usurious. But they're not the only ones pocketing unconscionable wealth these days. In just the waning years of the bull market, from 1997 to 2000, the wealth of the Forbes 400 went up by \$1.44 billion each. That's an increase of \$1.9 million each day, for more than a thousand days on end.

We're told that everybody's retirement portfolios shared in the gains. But since 1983, two out of three American households saw no increase in retirement wealth from pensions. Among the 5 percent wealthiest, pension wealth went up 160 percent.

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Somebody's profiting from the overwhelming drive to get the numbers, and that somebody is not 'everybody.' It's the financial elite.

They prosper not because they're more productive or virtuous than the rest of us, but because they wield power. CEOs select their own board members and craft their own pay packages, rigging the game to make themselves wealthy. Yet they keep their jobs only if they make shareholders wealthy -- and they get fired when they don't. In the last couple of decades when we dreamed we were working a CSR revolution, the real revolution was the shareholder revolt happening in corporate boardrooms.

Back in the days of Ivan Boesky, hostile takeover artists awakened slumbering boards and forced them to better maximize gains for shareholders. A new tool for doing so was firing CEOs, which boards did at two dozen major firms between 1991 and 1993, including General Motors, IBM, American Express, and Kodak. Another new tool for enforcing shareholder primacy was massive stock option packages, the same options packages that led directly to the ethical scandals of our day.

It was the laser focus on stock price gain that encouraged executives to drive their beasts so hard they collapsed. CEOs were the visible villains, but there were whips wielded to keep them driving toward maximum share price: whips of firing, stock options, and hostile takeovers. These are among the tools of corporate power. And they are tools available only to the financial elite. They are among the tools that make corporations and CEOs do what they do.

It's time we in CSR began studying these mechanisms, talking about system design, understanding why corporations behave so single-mindedly. And that means focusing on power. Because power is what it's all about, not good intentions or voluntary initiatives or toothless codes of conduct. Power.

If the financial elite wields power, the CSR movement wields talk. We put managers through ethics training, help them craft voluntary codes, applaud their environmental stewardship, or launch dialogues through shareholder resolutions -- assuming that well-meaning managers can overcome the system-wide pressure to get the numbers. But they can't. To use an extreme analogy, it's like talking ethics to an S.S. officer in Weimar Germany, while ignoring the system in which he must function.

If CSR has been riveted on things colossally beside the point, it's because we haven't focused enough on system design -- particularly on how the system lends power to the financial elite. We haven't fully addressed this issue of power. We haven't adequately studied how it's currently used, or fully imagined how to craft new structures of power -- structures where power is wielded not by the few but by the many. Structures that can turn stakeholder management from rhetoric into reality.

**If we wish to stop being beside the point -- if we wish to accomplish something in the next 15 years that we failed to accomplish in the last 15 -- we would do well to focus on democratizing structures of power. That means imagining, and then creating, economic democracy.**

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Democracy is about two things. First, it is about purpose. In the political realm, it's about an overriding concern for the common good. In the economic realm, it's about having the common good trump the narrow self-interest of the financial elite. It's about broadening corporate purpose from serving shareholders to serving stakeholders, and releasing executives from the destructive mandate to maximize shareholder gain at any cost. Second, democracy is about structures that bring this purpose alive. It's not about separating good corporations from bad, but about shaping the system forces that act on all corporations. It's about consciously crafting new democratic system structures -- structures of voice, structures of decision making, structures of conflict resolution, structures of accountability.

Eventually this will mean changes in law. But legal changes must be of a different sort than we've attempted thus far. Laws controlling corporations now amount to a patchwork of regulations about working conditions, pollution, or consumer well-being -- focusing on outcomes rather than underlying mechanisms. Thus we've been like homeowners chopping down nuisance trees which continually spring back, because we have failed to eradicate the roots. As Abram Chayes remarked in *The Corporation in Modern Society*, it was the judgment of America's constitutional convention 'that limitations of structure rather than limitations of substance would best secure our liberties.' If the founding generation's work has proved 'effective, durable, adaptable,' economic reforms have proved less so. It is quite possible, Chayes wrote, 'that the difference in approach contributed to the difference in the quality of the result.'

Taking on the challenge of economic democracy is a tall order, but there are tall leaders in the CSR movement today: leaders at the peak of personal power, with time yet in their professional lives for another major challenge. I'm thinking, for example, of the first generation of socially responsible entrepreneurs, the founding fathers and mothers of socially responsible mutual funds, the authors of books, the heads of nonprofits, the creators of stakeholder theory. I'm thinking of all the people who have defined CSR and built it into the industry it is today. When this generation passes, their like may not be seen again.

So the people who can lead the way are among us. The need for economic democracy is self-evident. And the historical moment for change is opening, as the Watergate of Wall Street unfolds. What we're witnessing today is not another scandal du jour: we are seeing the weakness of the system design itself, laid bare for all to see -- if we can help people to understand what they're seeing. We are experiencing a unique convergence of forces, not only the forces of scandal, but the forces of change. We can use this moment to take corporate social responsibility to the next level: the level of economic democracy. We can become a new founding generation, completing the design in the economic realm that our forefathers began in the political realm. Instead of chasing one form of corporate wrongdoing at a time, we can put in place enduring structures of justice, effective structures of checks and balances. For it is only in this way that we can truly safeguard the common good -- not only for today, but for generation after generation to come.

*Business Ethics* is laying plans to convert itself into a nonprofit to be called the *Economic Democracy Project* and is seeking allies. Contact Marjorie Kelly at [MarjorieHK@aol.com](mailto:MarjorieHK@aol.com); phone 612/879-0695.