

# GUEST ESSAYS

## CIVIL SOCIETY & THE PRIVATE SECTOR

### THE PLACE OF BUSINESS IN OUR EMERGING GLOBAL SOCIETY

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#### THE HISTORICAL CONTEXT

With the fall of the Berlin Wall in 1989 and the subsequent collapse of the communist system around the world, a new era of a common global social system began to emerge. The cold war had divided the world into those societies that profoundly rejected free enterprise and the 'capitalist system', such as Russia and China, and those that embraced it, such as the USA. In between there were lots of countries that had a 'socialist' alternative, which allowed the existence of a private sector but controlled it tightly, such as Sweden and the UK. These countries had taken the 'commanding heights of the economy' into public ownership. Such was the historical hostility to the private sector in very many countries around the world, such as Russia and China, that a maximum effort was made, often backed by force, to eliminate it.

A central objective of communism was to run a society without any form of private business activity. Capitalism was economic and social corruption made manifest. Today, North Korea is the only society left that tries to operate solely on the basis of a government-controlled command economy, and it is in deep trouble, with totalitarianism, famine, social inequality and economic stagnation being endemic. Other countries that have a communist system, such as Cuba and Laos, are slowly backing away from it, while China, nominally a communist country, has created a vast private enterprise system to meet its economic development needs.

The widespread approach to society in the post-Second World War years was that the state should dominate the economy and indeed a great deal of social organisation beyond it. In communist societies not only was the for-profit sector eliminated, but so was the voluntary or not-for-profit sector – what today we understand as civil society. Civil society was identified with benevolent charity and voluntary provision, whereas communist and socialist thinking wanted to replace this ad hoc form of care with entitlements for those in need, and in many

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ways they did so; for example, education, healthcare and welfare were widely provided. Consequently, these societies did not need a voluntary sector as the state made all necessary provision, or so it was argued.

It was Prime Minister Margaret Thatcher in the UK and President Ronald Reagan in the USA that led the change to this way of thinking. Mrs Thatcher began de-nationalising industries such as BP, British Steel and British Telecom, curtailing union power and cutting corporate taxes. In the USA, President Reagan acted to strengthen the private sector through tax cuts and other measures, but also raised the level of tax-deductible corporate profits that could be given to charitable organisation to 10 per cent. The primary idea of these leaders was to strengthen the role of both the corporate and voluntary sectors in society and above all reduce the role of the state. That agenda became a global movement and it created the context for the emergence of a global social system of three organised sectors, being the basis for the large majority of countries in the world today.

### OUR GLOBAL SOCIAL SYSTEM

As a result of these political and economic changes, the countries of the world have moved to a much more common social system based on three formal sectors, comprised of a governmental sector, a private for-profit sector and a voluntary non-profit sector, all operating within the context of a broad-based informal sector. The latter is of particular importance in developing countries. Figure 1 below illustrates this system in general terms.

Briefly defined, the governmental sector contains national, regional, local and many other institutions, including state-owned enterprises. The not-for-profit sector, today often described as civil society, consists of a wide range of charities, associations, religious bodies, trades unions and mutual aid societies. The for-profit sector includes all forms of organised business, from family shops to global multinationals. The informal sector is everywhere in society, including subsistence farming, families and friends helping each other and a multitude of small cash transactions not formally recorded or taxed. It is the mass of the population, the voters and consumers of the marketplace interacting with each other, and with the three formal sectors. In developing countries the informal sector accounts for the largest element of employment by far. For example, in Asia in the first decade of the present century, the International Labour Organization (ILO) assesses that informal employment constituted about 78 per cent of total employment.

Our global society today



**Figure 1. Formal and informal sectors of society**

The relative size of these circles will vary from society to society. For example in the USA, government accounts for around 40 per cent of GDP and 12 per cent of employment, but in Sweden it is 53 per cent of GDP and 30 per cent of employment. Interestingly in China, 100 per cent of employees worked for the government in 1978 when the reform process began; today it is only 33 per cent. In the modern world, each sector, including the for-profit sector, plays a vital and distinct role, along with democracy, the rule of law and a free media, in providing the basis of a functioning society. In societies that lack democracy and media freedom, it is often civil society organisations (CSOs) that give expression to people's concerns and wants, pressuring both government and private firms for change.

While government and civil society directly seek to meet people's needs, the for-profit sector is widely seen as serving only profit; it is in the name, after all. But for-profit businesses only survive by serving their business customers and individual consumers. They tend to serve many other needs and wants, such as food, clothes, transport, entertainment and travel. In the global north, the for-profit sector will be criticised for providing goods such as tobacco and alcohol in response to consumer demand, but when we look around the world, the largest cigarette company in the world is owned by the Chinese government. The largest alcohol business is owned by the Russian government, while in a global south country such as Ghana, about 80 per cent of all alcohol consumed is created in the informal sector. There are even alcohol producers and sellers in the non-profit sector.

While the three formal sectors have different goals, cultures and indeed types of language, they are not as distinct as people like to think. Governments own and operate major companies while CSOs are very often involved in trading and commercial activity. Private companies, through their business policies and community engagement, also seek to promote the public good directly by providing goods and services, as well as by creating jobs and paying taxes. However, the profit motive remains widely mistrusted, not least because economic theory tends to say that the main purpose of business is to 'maximise' profits. While short-term profit maximisation is clearly a feature of private enterprise, in reality the large majority of firms are in fact long-term profit 'optimisers'. They take the long view of business life, with a regard to the interests of a wide group of stakeholders, including employees, consumers, suppliers and communities, as well as shareholders, seeking a 'fair' return on their investment, rather than a maximum one. Companies such as Bosch, Danone, IBM, Tata and Unilever did not get to be the long-lived and successful businesses they are by focusing purely on profit maximisation.

Private companies are often successful because they are tightly focused on their business mission, but the large majority of them know they have wider responsibilities beyond the financial return they can generate. Relations with stakeholders and the environment are today well understood, as is the sense that companies, as 'corporate citizens', have a role to play in shaping the wider society at home and abroad. Around the world, as governments have drawn back, both private firms and CSOs have developed to address issues and fill gaps in thinking and provision that governments do not cover, and for the foreseeable future will not address. Consequently we have a major challenge to develop new ways of engaging the four sectors of society, but particularly the three formal sectors, to work together for the general good.

Before going on to examine how business can be engaged in the wider development of society, it has to be said that many CSOs are ambivalent at best about such engagement. Campaigning organisations in particular may be opposed to the activities of oil companies, spend their time speaking out about child labour in the supply chain of food and garment companies, and be concerned about how corporates use global sourcing opportunities to cut jobs in global north countries. Then there are the big overarching issues such as tax avoidance, growing economic inequality and the environmental threat caused by rampant consumerism. Companies, as the great wealth creators, are absolutely at the centre of these problems. Further, multinational companies are truly global institutions with a size, in terms of value added created, direct employees and supplier employees combined, that overshadow the GDP and populations of many small countries. The size, creativity and power of private companies is frightening to many, but that is precisely why they have to be engaged in finding solutions to local, national and global problems; another reason why they should be engaged is because many who work in them are some of the smartest people on the planet.

## **THE SCOPE OF CORPORATE RESPONSIBILITY TODAY**

The emergent global system of a society based on three organised and one informal sector is not new. The truth is it is very much the US model. Leaving aside the New Deal years of the 1930s, the USA is one of the few countries in the world where the central government has never had a socialist agenda and has always accepted that the free market and private forms should be the primary means of production and exchange. The USA has always had a vigorous non-profit, independent self-help sector and a relatively small state, and so has practised for many years the art of getting them to collaborate, not always with success but often with many admirable examples. There is a strong tradition of personal and corporate philanthropy in the USA that stretches back to early industrialists such as Andrew Carnegie and John D Rockefeller, and is carried on today by successful businessmen like such as Warren Buffet, Bill Gates and Ted Turner. It was to this tradition that Mrs Thatcher and President Reagan were appealing when they created new economic opportunities for business but urged them to become more involved in society. This type of philanthropy is not bad and has its place in the total range of corporate engagement, but by itself, it is a completely inadequate response to the scale and complexity of the challenges that the modern world faces.

The scope of modern corporate responsibility, and consequently engagement with society, embraces the economic, social and environmental impact of a business along its complete value chain, from primary suppliers such as farmers, to small scale retailers and ultimately to consumers. Companies today are first and foremost accountable for the total impact of their business at every point where it interfaces with society, both at home and abroad. They need to manage a 'triple bottom line' of economic, social and environmental impact, as well as their financial performance.

A food company, for example, needs to know what is happening in these terms, all along its value chain: how raw materials such as tea and coffee are produced, what prices are paid to farmers, what pesticides are used, how their packaging is made and what the labour conditions are of those who work in the packaging factories. They also need to help small retailers with their refrigeration problems and help customers recycle cans and

other packaging. This means accepting direct responsibility for ethical performance along the total value chain. A similar analysis can be developed for any type of business from automobiles and pharmaceuticals to mobile phones and banks. Today, it is possible to map the scope of corporate responsibility in the modern world in order to identify and address the issues that animate so many CSOs concerned with issues of global trade, economic inequality, climate change or human rights. These issues can be discussed endlessly in the abstract, but in reality need to be focused down to the behaviour of the individual agents of the market: the companies.

CSOs, and indeed governments, need to be able to engage directly with individual companies and sometimes whole industries, because many issues are industry issues rather than brand issues, in order to understand issues and promote solutions. However this engagement is often constrained because CSOs find it difficult to understand why a for-profit organisation might want to behave responsibly, and for their part companies might see anything other than a focus on conducting its business as a distraction.

Companies are often passive in the face of social and environmental issues that do not have an immediate, bottom line impact on their business. Also, they may not want to take on more responsibilities than they already have. In addition, there is a widespread belief that these issues are more the responsibility of governments and inter-governmental bodies, and that trade associations, rather than individual businesses, are there to deal with shaping the corporate response. Once a law is passed, most companies are pleased to have a level playing field and abide by it. However many issues, such as slavery, are clearly covered by laws that are not kept, and for many other great issues, such as carbon use and executive pay, have no clear legal framework. Consequently, companies need to have the internal capacity to generate their own values-based response to the problems that they and the wider society face.

## WHY DO COMPANIES ENGAGE WITH SOCIAL ISSUES?

A key question for CSOs is that of why a company would want to address an issue and 'do the right thing'. There are a number of possible reasons, but first it must be said that individual companies, like individual people, have distinct characters. A lot depends on what sort of industry they are in, such as oil, or fast-moving consumer goods, whether they are family companies or publically held, whether they are local, national or international in scope, and whether they are highly devolved or centralised in their management. All these factors and more affect their culture and how they approach key issues and relations with the other sectors. Above all, a key question is that of what sort of values a company has. Many have set down clear statements of values, and a good one to look at as a guide is the Johnson

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& Johnson 'Credo'. It sets out on one page the values the company seeks to live by around the world. There are clear commitments to all of the company's stakeholder groups, including shareholders, who are entitled to a 'fair' return, but not a maximum one. These are statements of ethical standards that inform the company's business decisions and give substance to its relationship with wider society.

Clarity about core values is a key guide for any company wanting to have a coherent approach to doing business around the world. Core values can provide employees with guidance on decision-making, set boundaries to behaviour and inform responses to actual and emerging problems. As a public company, Johnson & Johnson has codified its values, while many family companies rely on the owning family or founder to address ethical issues. Either way, these companies tend to be early adopters of progressive stances on ethical, social, economic and environmental issues because their values lean them towards engagement. Other companies respond because issues can impact on their reputation in the market place and their bottom line. Some CSOs are very adept at using campaigns to embarrass companies into recognising responsibility for issues and doing something about them. This 'stick and occasional carrot' approach however has its limits, because the aim is often to get something done about a single issue, and that may result in a commitment to act on an issue, but only enough to make a problem in the press go away without changing the culture of the company.

While companies will come to the process of engagement for different reasons and have different priorities in respect of issues, they do not operate in isolation to the social, economic and environmental context that surrounds them. Corporate values, whether they are explicitly stated or not, are tied back to a wider discourse in society about what constitute the common good and appropriate behaviour, both for individual and corporate action. While in reality the large majority of corporations tend to be risk averse in social, economic and environmental issues, their connection with employees, customers, consumers, communities and shareholders makes them sensitive to the great debates and issues of our day, be they local, national or global. Companies, as institutions, have a role in engaging with these debates, not least because they often have considerable knowledge about issues and they can also do a great deal to empower employees, consumers and investors to express their views and act on their personal commitments.

Because corporate values are directly connected to values in the wider society, the emergence of the 17 Sustainable Development Goals (SDGs) is potentially very significant. Unlike the original eight Millennium Development Goals, the SDGs give a broad-based framework of ideas for priorities for personal, governmental, civil society and corporate responsibility in the modern world. Companies like to have goals and benchmarks for performance, and while they are not completely comprehensive, the SDGs provide them for critical issues. They have created an agenda that gives priorities for global engagement and action.

There are things companies can do around this agenda, and things they can encourage other stakeholders to take responsibility for doing. There are things they will need and want to do with others, and in this connection CSOs are of particular importance, but in addition there are things that

others, particularly governments, must do because they are well beyond the competence of individual companies. The SDGs require that each of the organised sectors play a role in achieving the outcomes they set out, and this approach is broadly true for most of the big problems the world faces, including climate change and the recovery of society from devastating conflicts; once a conflict is over, the key thing is to rebuild an economy and create jobs.

## LEARNING TO WORK TOGETHER

Our modern global social system has only been developing for about 25 years, and in real terms it is very new. In large parts of the world both the private sector and civil society are developing together. They are often growing from the bottom up, from the entrepreneurship and creativity of citizens setting up small businesses and CSOs to meet society's wants and needs. Even in China a civil society sector exists, even if it doesn't yet have a clear legal status. It is there because people need it and want it. The private sector in China exists for similar reasons; even if large parts of it have been created from the top down by the state, it has played a major role in lifting millions out of poverty. Others say it has also massively contributed to growing inequality in China, and this is true. I am not arguing that what we have is perfect, but to borrow the words of Winston Churchill, the three formal sectors working individually and together is "the least worst system we have got." We need to focus on making it work as well as we can.

That particularly means not just talking about the role of the private sector in society, as many now do, but having the skills to make it a reality, and these are in short supply. Companies need to be able to reach out and respond to civil society and government; civil society and government need to better understand the for-profit sector and build the links that allow it to play an appropriate role in addressing society's problems. We need many more people who are comfortable working in all three sectors and can bring them together into creative relationships. A successful modern society will have all three sectors, and they will vary in size depending on the culture and politics of a society, but they each need to be there and have a role. The key to success in these societies will be how well the different sectors work together, and how well they interface with the informal sector.

This will require a new breed of social entrepreneurs to make the interfaces between the sectors creative and effective. They need to exist in each sector, and the corporate sector needs to be gearing up to play its wider role in society at home and abroad. Rather than company corporate social responsibility departments being dead, as some suggest, they are only just beginning to find their feet, like their partners in government and CSOs. Around the world we are all only just now beginning to learn how to work together.