Curtis C. Verschoor, CMA, Editor

Good Corporate Citizenship Is a Fundamental Business Practice

One of the most extensive studies of the perspectives of U.S. business leaders on corporate citizenship and the role of private business in society has been completed. A joint effort of The Center for Corporate Citizenship at Boston College and the U.S. Chamber of

Commerce's Center for Corporate Citizenship, the research report is titled *The State of Corporate Citizenship in the U.S.: Business Perspectives in 2005*. The work was produced in cooperation with the Hitachi Foundation and updates a similar effort from 2003.

The survey instrument was sent to approximately 24,000 members of the U.S. Chamber and the Boston College Center, and it generated 1,189 responses from companies of various sizes and industries. The research design oversampled large businesses in order to provide sufficient responses for separate analysis. The inclusion of members of the Boston College Center in the survey population also skews the results toward larger firms. As the goal of the Center is to "help business leverage its social, economic, and human assets to ensure both its success and a more just and sustainable world,"

> "Leadership has less to do with any single individual...than it does with the culture, norms, and values of the institution itself."
>
> *Ivan Seidenberg, chairman and CEO, Verizon Communications, Inc.*

companies having an interest in responsible business are likely to be overrepresented. Yet the findings are still remarkable in terms of the strength of the convictions of respondents. Focus groups provided

additional insights into the motivations, challenges, and priorities of businesses across the country.

For purposes of the study, the authors define corporate citizenship as the commitment that a corporation makes to accomplish the following goals:

1. Minimize risks by working to decrease the negative consequences of corporate activities on all stakeholder groups.

2. Maximize benefits by contributing to societal and economic well-being.

3. Be accountable and responsive to stakeholders, building understanding of the progress and setbacks that result from efforts to operate ethically.

4. Institutionalize and integrate core values into operations.

The findings of the 2005 study of the state of corporate citizenship include:

◆ 92% of respondents believe that many companies do a great deal more for their communities than is talked about or known.

◆ While 81% believe that corporate citizenship needs to be a priority for companies today, 80% agree it should be completely voluntary and

not enforced through additional laws and regulations.

◆ 69% believe the public has a right to expect good corporate citizenship.

◆ 64% believe that corporate citizenship makes a tangible contribution to the bottom line.

Among large corporations, the portion of all companies having the above beliefs is even larger, ranging from 84% to 98%.

The involvement of private companies in socially related issues includes environmental protection, support of education, and economic development in poor communities. Large companies are likely to have a more expansive definition of their role in society and believe that human capital issues are most urgent. Large companies focus in particular on the role of business in supporting the health and safety, development, loyalty, diversity, and civic engagement of their employees. Ninety-eight percent of executives from large companies say their company's performance on social issues is important to their employees.

There was significant agreement by a majority of respondents as to how a number of corporate actions were important to the specific role of business in society. It's interesting, yet not unexpected, to note that "operating with ethical business practices" was far and away the action deemed most "critical" by respondents (62%). The following actions were believed to be either "critical" or "very important" by more than half the respondents:

◆ Operating with ethical business practices (93%),

◆ Ensuring employee health and safety (85%),

◆ Managing and reporting compa-

ny finances accurately (84%),

◆ Maximizing long-term profits for owners/shareowners (73%),

◆ Providing jobs (66%),

◆ Providing employee benefits (63%),

◆ Protecting consumers (63%),

◆ Improving conditions in your community (55%), and

◆ Protecting the environment (52%).

There was less agreement on the most important drivers of good corporate citizenship:

◆ It fits our company traditions and values (73%).

◆ It improves our reputation/image (56%).

◆ It is part of our business strategy (44%).

◆ It helps to recruit and retain employees (30%).

The concluding commentary from *The State of Corporate Citizenship in the U.S.* is that businesses realize they have an important role as stewards for shareowners and society alike. The question isn't *whether* corporate citizenship fits into the day-to-day operations of a company but *how*.

Additional insight into the impact of business on society is provided by a global survey conducted by consultants McKinsey & Company and published in the online *McKinsey Quarterly*. The 4,000+ survey respondents included more than a quarter CEOs or other C-level executives. Overwhelmingly, the study reported a belief that the role of corporations in society goes far beyond simply meeting obligations to shareowners. Only one in six agrees with the Milton Friedman premise that the sole focus of a corporation should be on higher returns to shareholders.

Study respondents believe that the

broader concerns of corporations should include providing good jobs, making philanthropic contributions, and going beyond legal requirements to minimize pollution and other negative effects. But only 8% of executives think that large corporations champion social or environmental causes out of "genuine concern." Almost 90% agree that corporations are motivated by public relations, profitability, or some combination.

Senior executives view their expanding position in society as a risk rather than an opportunity. Issues they expect to have a negative effect in future years include: providing pension, healthcare, and other retirement benefits; political influences; opposition to foreign investment and freer trade; pay inequality between senior executives and other employees; privacy and data security; and environmental issues, including climate change. Issues providing an opportunity include demand for more ethically produced products, demand for healthier or safer products, human rights standards, job loss and offshoring, and workplace conditions and safety.

In spite of the fact that executives view their leadership position in society as a burden, readers of this column will recall several previous discussions of how good citizenship is very closely aligned with superior financial performance. Good management provides proper rewards for all stakeholders. ■

Curtis C. Verschoor is the Ledger & Quill Research Professor, School of Accountancy and MIS, DePaul University, Chicago, and Research Scholar in the Center for Business Ethics at Bentley College, Waltham, Mass. His e-mail address is cverscho@condor.depaul.edu.