

Business Ethics & Production Contracts: The Need for Social Responsibility

The Future of Contracts in Agriculture

Kansas City, Missouri September 4, 2003

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Business Ethics = Good Corporate Citizenship = Social Responsibility

- How a company integrates core values into its policies, practices and decision-making throughout all levels of the company
- Compliance with legal standards
- Adherence to internal rules and regulations
- **Responsible behavior towards other stakeholders**

Multiple Stakeholders

Stakeholders are those who have a stake in, or are impacted by, a corporation's activities.

Corporate Social Responsibility Debate

- Traditional View

The major responsibility of business in American society is to produce goods and services and to sell them for a profit

Economist Milton Friedman

“the social responsibility of business is to increase its profits”

Traditional View of Corporate



Social Responsibility:

Milton Friedman

- Managers who assume “social responsibility” are in effect “taxing” stockholders
- Social responsibility is government’s job
- Social responsibility is a choice made by individuals
- Only people can have social responsibilities

Milton Friedman

- Corporate social responsibility = socialism
- Corporate social responsibility “subverts” a free market system
- Corporations are only responsible to stockholders & must maximize profits
- Managers are “fiduciaries” of stockholders

Non-traditional View of Corporate Social Responsibility: Anti-Milton Friedman

Business must do more than make a profit.

Business must also-

1. Refrain from harming society

And

2. Contribute actively and directly to
Public well-being

Christopher Stone

Professor of Law, U. S. C.

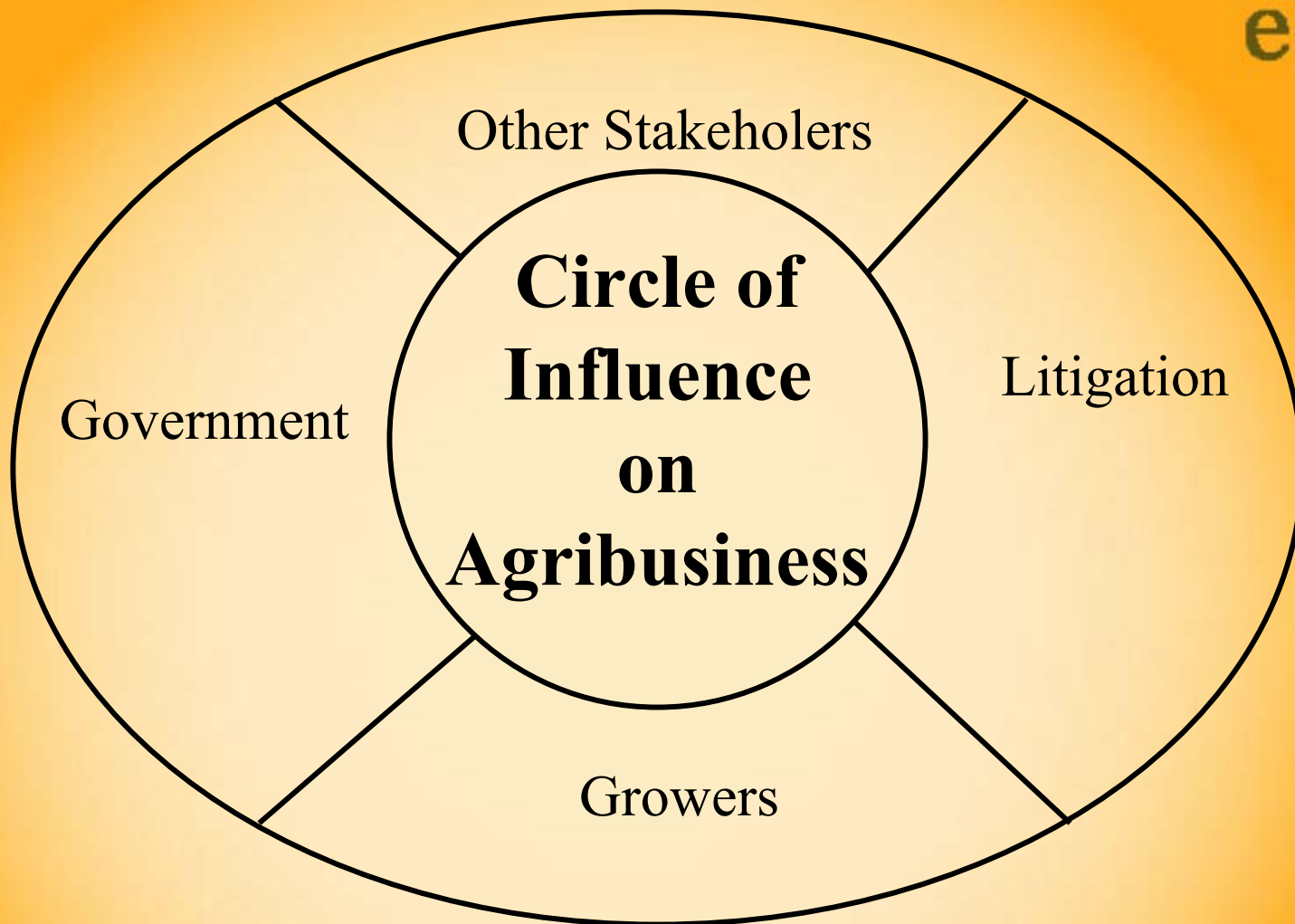
- No explicit promise or contract exists between managers and stockholders to maximize profits
- Even if it did, such a contract should not supercede all other obligations
- Superceding obligations exist as to
 - Employees
 - Consumers
 - Communities
 - Future generations

Corporate Social Responsibility

- Requires a “multiple bottom line” approach
 - Treatment of all stakeholders
 - Primary stakeholders
 - Employees
 - Customers
 - Suppliers
 - Investors
 - Key secondary stakeholders
 - Communities
 - Social activists
 - Triple bottom line
 - Profitability
 - Societal concerns

Production Contracts & Potential Areas of Social Responsibility Evaluation

- Independent contractor Status
- Contractual Fairness
- Contract Termination Provisions
- Dispute Resolution Procedures
- Technical Assistance
- Environmental Compliance
- Food Safety



Other Stakeholders: Agribusiness' Investors, Employees, Customers, & Suppliers; Business SR Evaluators

Growers

Limited Impact

- Unorganized
- Easily Replaced
- Financial Restrictions

Government (State & Federal)

Moderate to Strong Impact

- Response unpredictable
- Subject to lobbyists & financial influence
- Legislative process is time consuming and complex
- Compromises often end in unsatisfactory results or unintended consequences
- Legislation subject to political changes

Litigation

Weak to Strong Impact

- Costly
- Unpredictable Results
- State Laws Vary
- Limited Federal Laws

Social Responsibility Audits

- Evaluate Corporations on Social Criteria as well as Financial Criteria
- Accountability Standards Developed by
 - Institute for Social & Ethical Accountability (SEA)
 - Global Reporting Initiative (GRI)
 - Coalition for Environmentally Responsive Economics (CERES)
 - London Institute of Social & Ethical Accountability
 - Organization for Economic Cooperation & Development (OECD)

Sullivan Principles

- Developed by the late civil rights leader Rev. Leon H. Sullivan
- Introduced by Sullivan and the United Nations in November 1999
- Global Sullivan signatories agree to:
 - Support economic social and political justice
 - Support human rights and equal opportunity
 - Promote greater tolerance
 - Improve the quality of life for communities, workers, and children
 - Treat all people with dignity and respect

U.S. Business Sullivan Signatories and/or U.N. Global Compact

- Sodexo
- Pfizer
- Hewlett-Packard
- Cisco systems
- DuPont

European Signatories

- Novartis
- BP
- Deutsche Bank
- Daimler Chrysler

Investors

- Over \$1.2 trillion invested in equities in U.S. are socially screened
- Screen-out companies harming society
- Screen-in companies “doing good” for society

- Values-Based Investing
 - Investor's values
 - Company's values
- Examples of Screening Organizations
 - Trillium (investment house)
 - Calvert (investment house)
 - Interfaith Center of Corporate Responsibility (ICCR)
 - Investor Responsibility Research Center (IRRC)

Individual Investors

- Large, socially concerned investors
- Stakeholder Activists (“Nuns at the Door”)
 - Purchase limited number of corporate shares
 - Submit resolutions on corporate governance and corporate practices
 - Attempt to speak at stockholder meetings
 - Sometimes stage protests
- Smaller investors also important
- Almost 70% of investors take good corporate citizenship into account (Harris Interactive 2001)

Institutional Investors

- Focus on Corporate Governance
- Increasingly Focus on Recognized Global Practices
 - Accountability (companies must assume responsibility for the impacts of their practices, policies and processes)
 - Transparency (in making decision)
 - Equity (in allocation of resources)
 - Voting Fairness
 - Adoption and implementation of ethics codes
 - Long-term vision

Examples of Major Institutional Investors That Use SRA

- California Public Employees' Retirement System (CalPERS)
- Teachers Insurance & Annuity Association/College Retirement Equities Fund (TIAA-CREF)
- Council of Institutional Investors

Visionary Companies

- Visionary Companies:
 - Based on strong core values and purpose
 - Dominant driving force *is not* “Maximizing Shareholder Wealth”
- Improved Financial Performance:
 - Achieved growth in shareholder value
15x>than general market between 1926-1990

Broker/Dealers

- Expansion of “Suitability Doctrine”
- Sarbanes-Oxley Ethics Requirements
- NYSE Ethics Requirements

Employees, Customers & Suppliers

- Also requiring greater corporate social responsibility
- Employees vote with their “feet”
- Almost 80% of consumers take good corporate citizenship into account when making purchases
- Corporate purchasers increasingly audit their suppliers for ethics and social responsibility
- Corporate suppliers increasingly do the same as to companies to whom they sell products

Other Corporate Social Responsibility Evaluators

- Fombrun (attaches a dollar amount to the value of a corporation's reputation in relation to its stock price)
- New Economics Foundation
- National Association of Corporate Directors
- Business Roundtable
- Smith O' Brian (pioneered social responsibility auditing in the U.S.)
- Media (e.g. Fortune Magazine)

Business Ethics publication

100 Best Corporate Citizens

Database provided by social research firm: Kinder, Lydenberg, Domini & Co. (KLD) (Boston, MA Company)

KLD data statistically analyzed by Boston College Professors Sandra Waddock & Samuel Graves

Social categories used:

Return to Shareholders

Environment

Community

Diversity

Customers

Employees

Why Additional Stakeholders Are Influential

- Not Limited by Jurisdictional Boundaries
- Economic Power
- Media Savvy & Image Awareness
- Subject to Influence of Their Own Stakeholders
- Often Ideologically Driven

Corporate Responsibility Is Not An Oxymoron

like “bittersweet” or “pretty ugly”

Andrew Lock (Herman Miller)

“Societal and market forces will increasingly require companies to behave more responsibly, or risk failure, and we think that is a good thing.”

“The measure of a successful company is no longer simply what is found at the bottom line of the annual report. A truly successful company achieves financial success while operating in a socially responsible manner.”

Michel Landel
President & CEO
Sodexo North American
Operations