CHAPTER 5

MANAGING CORPORATE RESPONSIBILITY AND SUSTAINABILITY

... those companies that devote themselves to maximizing shareholder value as their primary purpose will ultimately fail to do so in the long run. The best path to long term growth in shareholder value comes from having a well-articulated mission that employees are willing to commit to, a consistently practiced set of values, and a clear strategy that is adaptable to changing business conditions.¹

WILLIAM W. GEORGE (b. 1942)
Former Chairman and CEO of Medtronic

William W. George was CEO of Medtronic between 1992 and 2001, and later Chair of this high-tech medical company. A company which produces electronic devices to alleviate pain, among others, was indeed a mission-driven company and values-centered organization and one with an adaptable business strategy. It showed a considerable and sustained growth, at least during George’s tenure as CEO. It reported 64 consecutive quarters of increasing revenues and earnings. The introductory words of this chapter belong to his keynote address on receiving the Distinguished Executive of the Year Award at the Academy of Management’s annual conference in 2001. After his retirement, George taught at IMD, Switzerland, at Yale School of Management and at Harvard Business School, and wrote several books. He explained that he chose Medtronic, after years of professional life, because he found there all he wanted: values, passion and the opportunity to help people suffering from chronic disease.²

Many business enterprises, like Medtronic, make good products, while still making profits and maintaining an increasing share price over very long periods of time. Alleviating pain is clearly a service to people,
but other business products also provide a service to people in some way. *Service and profits* are closely related. But what comes first? For many decades the mainstream idea about the purpose of business has been that the supreme goal of the firm is the maximization of shareholder value. Other goals of business are not denied, but they should be subordinated to the maximization of shareholder value. Today, this idea is being seriously questioned by many who have proposed alternative views of the purpose of the firm in society.

The view of the purpose of firm in society is a crucial aspect of the ethos of management (see pp. 8–11), which conditions the ultimate orientation of business management and how the responsibility of business in society is understood. It is also related to how business can contribute to sustainability. In this chapter, we will discuss the purpose of the firm in society, and how to manage corporate responsibility and sustainability. As an introduction we present a short view on how ideas about corporate social responsibility and sustainability have been developed over time.

**CORPORATE RESPONSIBILITY AND SUSTAINABILITY: AN HISTORICAL OVERVIEW**

From the time of the *Industrial Revolution* (or perhaps even earlier) the prevailing opinion was that business responsibility was exclusively economic in nature, and without any social dimension. Nevertheless, there have been entrepreneurs and managers that have shown a laudable sense of responsibility especially toward their employees. They believed that business entails moral and social responsibility. It is also worth remembering that such currently well-known corporations as HP, IBM and Johnson & Johnson were built on strong ethical values.

The separation between ownership and managerial *control* from the early decades of the 20th century also raised questions as to the social responsibilities of managers and of companies. As corporate executives became ever more powerful, the idea that *power requires responsibility* became more widespread.

Another fact which favored the voluntary acceptance of social responsibility of business was increasing governmental regulation and the response to this of business. After the Stock Market Crash of 1929 Roosevelt’s New Deal brought greater governmental intervention in the US economy and led to the regulation of key areas of business. In Europe, too, there was increased government intervention in the economy, and this became more patent after World War II. Business strongly felt it was desirable to *avoid new regulations*, and realized that