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THE Civil CORPORATION

Revised Edition with New Introductory Essay

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INTRODUCTION

Beyond the Mainstream

The Civil Corporation is firmly grounded in the future. It envisages the implications of today's practices being tomorrow's history. Its empirical focus is the practice of corporate responsibility, but its deeper concern is in what this contemporary phenomenon might presage for the business of business. It carries, in short, the DNA of far more sweeping societal changes that will alter both the very nature of business and its place in emerging governance arrangements.

At stake is the very heartland of how we organize our affairs, the relationship between the markets through which we create material wealth, and the politics through which we mediate diverse and often divergent interests. Nobel Prize-winning economist Milton Friedman felt at ease encouraging businesses to 'be responsible' by making as much money as possible because he envisaged economies disciplined by governments that were more or less accountable to the people. Friedman built on Adam Smith's comparatively advantage-seeking businesses, who were similarly conceived of as being subject to the rules and norms established through a liberally debated political realm, described eloquently in his *Theory of Moral Sentiments*.[1] The *Financial Times'* Associate Editor and Chief Economics Commentator, Martin Wolf, more recently pinpointed the nub of this classical view in arguing that 'markets are not accountability mechanisms, they exist within a broader institutional landscape that establishes the basis on which market actors should and can be held to account.'[2]

The Civil Corporation asserts that this classical separation of roles is no longer a tenable lens with which to understand the changing world around us. It argues that our traditional view of business as legalized poacher responsible to financial capital, and of the state as paternalistic gamekeeper accountable to the people, not only fails to describe what *is*, but is way off the mark in mapping what is likely to be in the future. Moreover, although activists, business leaders and politicians alike might wish otherwise, the classic differences and associated roles of these players no longer reflect how we would re-organize the rules of the game given some reasonable debate and choice in the matter.

The corporate responsibility movement is where new arrangements governing the relationship between market players and politics in its broadest sense are being invented, tested and institutionalized. *The Civil Corporation* is suggestive of this deeper, changing landscape. In so doing, it pushes the stakes beyond the more limited agenda of seeking to make business more responsible within some modified rules of the existing game. It provides a 'beta version' of the organization of business in a very changed society. Such organizations will have more autonomy by virtue of their scale, transnationality and evolving legitimacy to be at the table where major public policies are debated and decided upon, and their involvement in the roles and responsibilities of collaborative governance.[3] Yet, simultaneously, they will have less scope for independent action, by virtue of this very fact of their embeddedness in mutual 'accountability compacts' that provide pathways to secure the gains of private enterprise in return for being party to delivering much-needed public goods.[4] *The Civil Corporation*, and later work, suggests that these extended accountabilities will arise not through a collective epiphany, but through the result of a sequence of traditional business responses that will add up to far more than the sum of their parts.[5]

Such developments have profound implications for our understanding of business, and its practice and impact. Extending accountabilities of business place it and the state increasingly on a par with each other in key respects. We see a convergence in their legitimacies, despite their very different historical foundations – one in security, mediation and political representation, and the other through their production of material needs and returns to finance capital. Such a convergence is accelerated by several factors, including: the declining legitimacy of traditional electoral routes to the politics of representation; the emerging political empowerment of citizens through their roles in markets, notably as owners of capital; and the growing prevalence and visibility of complex partnerships involving public and private actors tasked to deliver public, and indeed private, goods.

Such a vista, in practice, may unlock extraordinary potential and provide the foundations for overcoming today's dead-end stalemates on major issues such as climate change, water scarcity, underlying poverty and civil unrest. Or else it may turn out to be a virulent dystopia, a symptom of the problem with little or nothing to offer for solving the dilemmas of our time. Corporatization of public policy is what many activists see as the problem, certainly not the solution. From this view, a creeping legitimization of businesses' role in highly sensitive areas of public policy from education through to energy security is equally seen as far from helpful. And growing involvement in business activities by the governments of newly emerging economic and political powerhouses, notably in China and Russia, is feared for its broader geopolitical consequences.

To view the corporate responsibility movement as a key (if not *the* key) to tilting us towards the brighter end of this menu may seem unreasonable to many. After all, however enthusiastic one might be about current trends in corporate responsibility, the effectiveness of many of its prototypical components, smuggled into reality under the guise of an agenda for incremental improvement, remain unproven. It is unclear at best, for example, whether multi-stakeholder initiatives can effectively unlock public policy stalemates by providing resource and direction to overcome business or national-level first-mover disadvantages and free-riders intent on avoiding or undercutting standards. Moreover, although societal expectations have in many respects served progressive interests over the last decade, this is certainly not a historical given. Social and environmental pressures could just as easily, if not more easily, invert the impact of this driver, encouraging xenophobia and the exercise of available power to secure resources and security. Most of all, can we envisage the forces that have driven corporate responsibility thus far to power such an amplification of its scope and impact as to be significant in the broader landscape of our global affairs in this coming century?

Yet that is exactly what is argued in *The Civil Corporation*: that corporate responsibility is a critical arena where both tomorrow's business models and practices, and the next generation of broader accountability innovations, will be invented, tested and contested. Failure not just to rein in business's misdemeanours, but to re-empower it with a broader set of rights and responsibilities, will leave old political systems in place, degenerating liberalism at best, or at worst a new era of authoritarian states acting in the dual cause of security and economic development. Success, on the other hand, will rewrite the rules of economy and business and with it the nature of citizens' participation and the place of the state.

The Civil Corporation is clear about which outcome seems preferable, but argues strongly that where we end up depends on us. Historical tendencies, like genetic dispositions, provide the backdrop to ensuing events. It all depends, in short, on what we do with what we've got. It offers, without apology, a blend of observation, prediction and advocacy. Its 'sceptical optimism' does not allow for unfounded speculation, senseless idealization or dead-end cynicism. It provides a cocktail of real events, tenuous conclusions and predictions, and an overlay of a normative sensibility towards preferred directions. It is, at its heart, a grounded imagination about the world we can and should create, one out of many and by no means the favourite in the race.

This opening essay explores some of *The Civil Corporation's* propositions five years on since the first edition of the book was published. It is not an assessment as such. We are not far enough down the road to really know the fate of the experiments and innovations it describes. But much has happened in the intervening period, a lot of which does validate the book's main thrust. In fact, there is little in the book that is not as relevant today as when originally penned, if not more so. Also there is new research to draw on, including some undertaken by myself with friends, colleagues and collaborators, which has drilled further into some issues and perspectives only lightly sketched in the book.

FROM AVANT-GARDE TO OLD GUARD

Five years have passed since publishing *The Civil Corporation*, and more or less a decade since it first became a work in progress. The world evolves, but paradoxically. Much has changed, while everything has also remained dramatically the same.

The Civil Corporation was first published in early 2001. It was a product of the 1990s, reflecting the zeitgeist of a post-communist, post-Thatcher/Reagan era. Most of all, this meant a stoic acceptance of the need to innovate for the public good from within a globalization process driven by a cocktail of heady vision, and narrow vested political and economic interests. It was a period of being awed at the pace of globalization, the penetration of the practice of privatization, the cult of commerce and the associated messages from business and political leaders alike that business was, almost by definition, good. There seemed few structural limits to the corporate community's emergent power to define its own world and us within it. A global civil society was inventing itself as history's counterpoint to those forces that governments seemed unable or unwilling any longer to manage for the public good. An emerging cacophony of civil voices demanded that business must be *made to be* good if it was to secure the legitimacy of its heightened economic and political muscle.

The world of 'business in society', or 'corporate responsibility', has matured beyond most expectations. Hundreds of thousands of businesses have embraced, to a greater or lesser degree, the need to better measure and manage their social and environmental footprints. Innovative experiments of the 1990s have become lore and legend, catalysing an explosion of initiatives addressing many of the very Cinderella issues previously deemed taboo by mainstream business. The Body Shop produced the world's first serious, externally audited sustainability report ('The Values Report') in early 1996, when the Global Reporting Initiative was barely a thought, let alone the main game in sustainability reporting standards. Shell, BP and Rio (then British Petroleum and Rio Tinto) broke new ground in 1997 in adopting human rights policies at a flamboyant event at Chatham House. Today, witness the emerging consensus that the UN should lend its name to a (voluntary) international agreement on how business should handle human rights issues as they arise in relation to their products and process. Social auditing has passed from being a campaigning weapon to becoming a billion dollar business, complete with assurance standards produced not only by innovators such as AccountAbility[6] and Social Accountability International (SA8000), but by the heartland of professional conservatism, the International Auditing and Assurance Standards Board.

There has been amazing progress. No business sector has remained untouched, and some have been deeply impacted, by corporate responsibility perspectives, actions and outcomes. Drug pricing for pharmaceuticals; social and environmental criteria for investors; digital exclusion for information and communications companies; chemicals and genetically modified organisms for the agricultural sector; slave labour for chocolate producers; obesity for food companies; and carbon emissions for the cement (and every other) industry. The list is endless, and growing literally every day, in its breadth of issues and coverage of the business community. The drivers for these changes, fundamentally, remain the same, but they too have evolved in strength and impact. Consumers, perhaps most of all, have grown enormously in their sophistication and orientation. A decade ago, it was common wisdom that 'ethical consumers' were a strictly niche phenomenon lodged somewhere between income classifications B and C2 (the rich – A, that is – remaining in the main aloof from such matters, and lower income groups – D and E – not having the discretionary purchasing power to move beyond financial value for money).

These characterizations remain important signals, but have meanwhile become unhelpful caricatures of consumer behaviour on the ground. *What Assures Consumers?*, prepared by AccountAbility and the UK-based National Consumer Council, has been one of a steady stream of reports highlighting the steady extension of the ethical consumer movement beyond its historical niche.[7] And this extension has also very much been geographical. Today, institutional intermediaries through which corporate responsibility emerged during the 1990s, such as Business for Social Responsibility, the Global Compact, SustainAbility and the World Business Council for Sustainable Development, are almost as active from Shanghai to Calcutta as they were in the early days from California to Berlin.

All in all, if the aim for those in the vanguard over the last decade was to embed social and environmental issues into codified practices for the mainstream business community, they should be quite satisfied that this task has been well advanced.

CHALLENGING SUCCESS

Transiting from the avant-garde to the old guard means the scaling up and mainstreaming of practice. But this does not in itself mean, or guarantee, success. Understanding progress in this more normative sense requires a more probing enquiry as to what has really been achieved and what were the aims in the first place. There is, however, no widely accepted framework for analysing success. In fact, few advocates of corporate responsibility have set out a concrete vision of success, preferring rather to specify shorter-term achievable targets like 'greater transparency' or 'code adoption'. To call for a 'more responsible role for business in society' is all well and good, but hardly provides either sparkling vision or ideology, or a basis for applying SMART (**S**pecific**, M**easurable**, A**ctionable**, R**elevant and **T**imely) metrics to assess progress.

The previous section does suggest that some real successes have been achieved. Real workers' lives have improved; access to life-saving drugs has increased for people and nations who could not pay the commercial going rate; investments in dams and roads are made in ways more sensitive to community interests and the environment; and those that trade, buy and wear diamonds have less blood on their hands than ever before. These examples illustrate substantial developments that have impacted positively on millions of people's lives, and which cannot be shrugged off through caveat, objection or cynicism.

But just as these developments are real enough, expectations have in other respects been dashed. Since publishing the first edition of *The Civil Corporation*, iconic First Generation corporate responsibility leaders have fallen under the hammer, most symbolically Ben & Jerry's to Unilever and The Body Shop to its erstwhile, less-than-ethics-conscious rival, L'Oréal. The movement of such independently spirited businesses to becoming owned, classic brands was not merely a matter of profit-taking by smart founder–entrepreneurs. Sadly, moreover, these were not cases of masterfully planned, mainstreaming of the sustainability agenda 'through the back door' of the corporate community. Both were ultimately instances of poorly managed businesses unable to cope with maturing markets and, arguably, and most significantly, signs of the limits of ethical markets in the face of rapacious, attention-deficit consumerism.

Second Generation business leaders have also stumbled. Ford Motor Corporation, while seeking to position itself as the auto industry's inspired eco-castle of sustainability, in practice got stuck making outdated, oversized, gas-guzzling cars. The company's precipitous loss of market share and lack of effective leadership in bringing carbon-light vehicles to market sadly demonstrated the consequences of a noble vision (in this case that of William Ford Jr.) being out of touch with ground-level performance. BP's acquisition strategy during the 1990s took it from being a second-class oil company to a first-class energy company. The Beyond Petroleum vision was, and perhaps still is, core to its long-term strategy, and provided inspiration and leverage for a community of activists seeking to mainstream public debate and action around both climate change and corruption. But BP found itself struggling with the far tougher execution challenge of integrating its acquisitions and delivering more efficient processes and ever-expanding financial returns.[8]

And we looked to Europe, notably the UK, to maintain its historical leadership role in internalizing social and environmental costs into business practices. After all, the UK government provided the world with its first 'Minister for Corporate Social Responsibility' and, at the time of publication of *The Civil Corporation*, was poised to break new ground in embedding social and environmental disclosure requirements into its revised Company Law. But the new-found political voice of corporate responsibility was subsequently downgraded to a junior minister, effectively moonlighting the field as an extra-curricular activity. UK Company Law became a battleground, largely strewn with the dead and wounded of the corporate responsibility movement, as the traditional rump of the British business community successfully impressed their displeasure about the proposed enhanced accountability on a nervous New Labour government. And to crown a less-than-satisfactory journey from its newly elected heights of 1997, the UK government, having championed the Organisation for Economic Co-operation and Development (OECD) Convention on Foreign Corrupt Practices and the ensuing fight against corruption, foreclosed on its own police force's investigation into alleged murky dealings between BAE Systems and its US$20 billion client, the Saudi government.

The state of working conditions in the global supply chains of the apparel and textiles, footwear and sports good sectors is in many ways the litmus test of progress. This issue in this sector was more than any other the heartland of corporate responsibility during its take-off stage in the 1990s. The anti-Nike campaign was the jewel of the anti-globalization movement, outranking the longer-lasting but somehow deflated baby milk campaign targeted at Nestlé. And progress was made: numerous multi-stakeholder initiatives, such as the Ethical Trading Initiative, the Fair Labor Association and Social Accountability International, followed hot on the heels of aggressive campaigning and delivered widespread adoption by European and North American premium brands of codes based on core International Labour Organization (ILO) conventions. Even Wal-Mart, the proverbial 'elephant in the bedroom' of this and other sectors, eventually embraced the principles of responsibility for working conditions in its vast global supply chains.

Progress has been made, but the disappointments have been all too visible and deeply troubling. An early casualty was the Global Alliance for Workers and Communities, closed down in 2004 after its main sponsors, the International Youth Foundation, Nike, Gap and the World Bank, accepted that the initiative had failed to gain traction among the business, activist or development communities.[9] Far more disturbing was the effective collapse in 2006 of the much-vaunted Atlanta Agreement to secure 'child-free' stitching of leather footballs in Sialkot, Pakistan. This turn of events was startling to many, if only because of the high-profile engagement of many international organizations, notably the ILO and Save the Children's Fund, as well as the international labour movement, in both brokering and implementing the deal. Perhaps exactly because multi-stakeholder standards initiatives were first developed around labour issues in the apparel and textiles sector, these initiatives have been the first to come under close scrutiny regarding their performance. And the jury is at best still out. The Ethical Trading Initiative (ETI), for example, a much-used case in *The Civil Corporation* because of my early insider knowledge as the founding Chair, has been the subject of a polite, very critical evaluation undertaken by the prestigious Institute of Development Studies.[10] Campaigners War on Want have attacked the ETI as 'part of the problem', arguing that businesses are using their memberships of the initiative to protect them against criticism and so avoid implementing much-needed changes in the ways in which their business practices impact on workers lives.

Success over the last decade must at least in part be measured against the interests of business. Business engagement in the corporate responsibility agenda was, and remains, for most companies, a matter of risk management. I return to this issue below. During the 1990s, this translated into the far more comfortable, if somewhat disingenuous, language of 'trust'. Business wanted to be trusted, employing enthusiastic people to make products and deliver services to willing customers without unnecessary and costly interference by governments or others who might see fit, and be able, to upset the business of business. Trust was the business solution to a world where effective compliance and sustainable arms-length market relationships were costly to secure.

Set against this benchmark, there is little evidence that corporate responsibility has succeeded. Business is *still* not trusted, despite a decade of appealing to peoples' better nature, according to GlobeScan and other pollsters. People remain outraged by business profits, chief executives' remuneration, and the extraordinarily large bonuses paid to the youthful fund managers who we foolishly rely on for the stewardship of our life savings. And at least some of this outrage seems validated by the evidence that many business models are dependent for their success on irresponsible behaviour. Corruption is unquestionably the practical and symbolic crux of the problem of irresponsibility. Not only is it illegal, but it also plays a pernicious role in degrading the integrity and effectiveness of our public servants and institutions, as well as private commercial enterprises. Transparency International's Bribe Payers Index covers perceptions of business from 30 countries. The 2006 results show a considerable propensity for multinationals of all nationalities to bribe when operating outside of their home countries, with even those perceived as least corrupt (Switzerland, for example) scoring considerably below the maximum potential, and the worst offenders – Russia, India and China – scoring on average well below half the total possible score.

But then, no one ever said that the realignment of business's responsibilities in society was going to be easy. Old ways are deeply embedded in the fabric of markets and the psychology of those who create and lead them. The state of the investment community epitomizes the entrenchment of such old ways. The evidence indicates that business leaders systematically abandon prospective financial returns in favour of winning immediate beauty contests whose judges are financial analysts and fund managers focused more on their Christmas bonus than the interests of the owners of the capital that they are stewarding.[11] To be frank, the prospects for enabling businesses to pursue long-term strategies for value creation, let alone of us taking a sustainable development pathway, are pretty dim unless we can change these investors' short-termism.

The imperative of an agenda for realignment towards responsibility, accountability and sustainable development is not, it must be stressed, just for business. Even those focused exclusively on corporate accountability see the growing need to reform the basis on which the business of government is undertaken. This is obvious when it comes to corruption – in Nigeria alone an estimated US$400 billion in oil revenues since the 1960s has been stolen by politicians and civil servants. But much-needed reforms need to go further than halting these practices. Much of government is no longer fit for the purpose of either delivering public services and infrastructure, or stewarding on the public's behalf their delivery by business. The success of Al Gore's *An Inconvenient Truth* is probably as much due to its implicit indictment of our political leaders as it is due to its eloquent restatement of the resulting impending climate change catastrophe.[12] Anger over Halliburton's profiting from post-invasion activities in Iraq have given way to despair and fury over the far broader implications of failure of US- and UK-backed policies towards the region and the underlying issues. More mundanely, if also more pervasively, the troubled history of public–private partnerships as an often-failed means of enhancing the 'public good' has arguably been rooted more in the inadequacies of public institutions than in the to-be-expected will and ability of their businesses to take commercial advantage of weak and incompetent partners.[13]

The Civil Corporation's underlying frame of reference is summed up in its very first sentence: 'the role of business in society is the 21st century's most important and contentious public policy issue'. Events over the past decade challenge this all-embracing assertion. In one sense it remains almost by definition true, since the role of business in the process of wealth creation makes its behaviour so pivotal in determining many social and environmental outcomes. But whether business, even 'big' business, will be the locus, let alone the driver, of change in the coming decades is less certain given the emerging, broader political landscape.

Opinion polls repeatedly highlight deteriorating confidence in politics, and indeed the practice of politics. One survey of political attitudes in Latin America in 2006, published by Latinobarómetro, reported that barely more than one half of respondents across Latin America (58 per cent) agreed that 'democracy was the best system of government'. This figure fell to 46 per cent for the continent's largest nation, Brazil, which is just emerging from a national presidential contest where the successful candidate, Luiz Inácio Lula da Silva, has made much of his efforts to encourage responsible business practices. But the survey provides worse news still. Affirmative scores as high as 35 per cent, in the case of Guatemala, were registered in answering the question 'are there circumstances when an authoritarian government can be preferable to a democratic one?'.

The 21st century provides the historical stage where China, India and an energy-rich, resurgent Russia will take an increasingly critical role in shaping the global marketplace for ideas and profits. Indignation over the social and environmental shortfalls of Western extractive companies will, and probably should, pale into insignificance in the face of 'race-to-the-bottom' 'conditionless' loans, and business ventures by China into Africa and Latin America in pursuit of natural resources. Hard-won progress grounded in new initiatives like the Equator Principles and the Extractive Industries Transparency Initiative are under threat by the growing importance of Chinese and other investors across Africa and Latin America who are shunning these initiatives in favour of competitive (and highly successful) tactics that offer finance, expertise and markets free of social and environmental conditions.

Multinationals that have, through force of circumstances, taken leadership roles in driving forward responsible business practices find themselves challenged by new or resurgent actors. This is most obvious in, but not confined to, the energy sector. Shell, with their mould-breaking experiences in the 1990s linked to their disposal of the Brent Spa oil platform and their much-disputed track record in the Niger Delta, is now the victim of Russia's nationalistic energy policies, stripped of their controlling interest in the massive Sakhalin gas pipeline project because of alleged environmental failures. Today's global energy majors are dwarfed by the scale of emerging national energy players that, in an age of globalization, are extending their global economic and political reach well beyond their national boundaries.

And of course there is climate change, which is important both because of the associated potential down-side risks and because of its 'paradigmatic' place in the sustainability agenda. Climate change, by most accounts, will impact quite simply on everything, affecting every product, process, business model, political system and individual's life, and often profoundly so. It is the most disturbing case of a 'public good' that, despite Mr Stern's seductive reminder of a potential US$500 billion market, remains under-delivered because of the perceived first-mover disadvantages to any country or region really seeking to curb its emissions. Climate change presents us with a classic collective action problem, where self-evident 'market failure' is reinforced rather than overcome in equal measure by the politics of development (why should emerging nations curb themselves at their point of take-off, especially when developed economies refused to first take serious leadership?) and short-termism in electoral democracies (why should democratically elected governments damage their electoral prospects in exchange for uncertain and widely shared gains long into the future?).

THE SECOND GENERATION: STRATEGY

Civil corporations embrace a broader accountability for their actions and, in so doing, contribute to addressing societal needs and challenges in ways that could also deliver economic value and success. But existing win–win scenarios are unlikely to cover all market failures, the full spectrum of opportunities that, once realized, will deliver under-provided, and much-needed, public goods. That is, how far can we expect changing business models and performance, responding to market dynamics, to underpin the solutions to our pressing social and environmental problems? And since such circumstances and opportunities are created rather than discovered, what actions need to be taken, not only by business but by non-market players, to catalyse further, and systemically more significant, scenarios for civil corporations to prosper?

The Civil Corporation describes (in Chapter 6) three generations of corporate responsibility: compliance and risk management *(First Generation*), strategy and innovation (*Second Generation*), and transforming markets (*Third Generation*). This taxonomy, while (or perhaps because) it's so simple, has proved to be both durable and useful. At the time of writing, there was little to see on the empirical – as opposed to the rhetorical - landscape beyond the First Generation. But the intervening period has seen interesting and important developments, both in practice and theory.

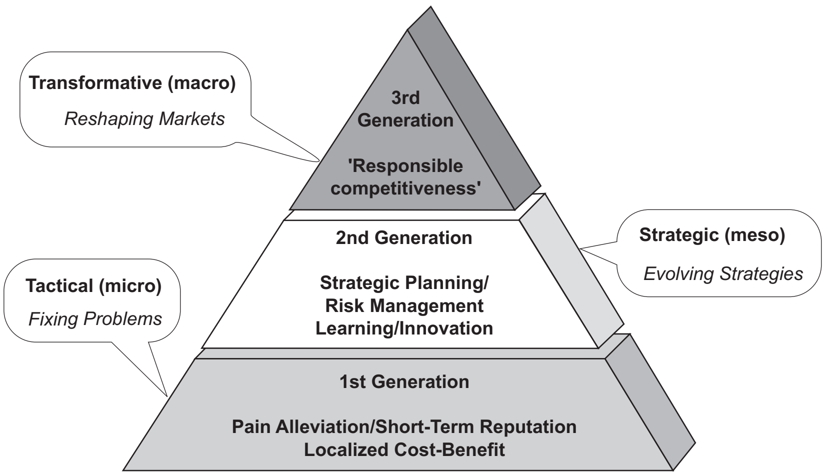

Figure 0.1 *Generations of Corporate Responsibility*

At a practical level, there are now simply far more cases of the Second Generation in practice. The level of sugar and salt content in food is no longer just a matter of taste, just as the energy rating of domestic household goods or a car's fuel consumption has become far more than a 'nice-to-have'. Drug pricing has become a global moral debate, just as workers' conditions have become key issues in the market for everything from coffee to T-shirts to wine to bananas. And there are a new, more mainstream and, therefore, influential set of 'leadership converts' along these pathways to economic success. GE's Chief Executive, Jeff Immelt, for example, has made much of the company's hard-headed Ecoimagination strategy, arguing that:

> There is an alignment between the world's most pressing needs and the areas of our most aggressive investment. As the world's need for cleaner, efficient

> forms of energy grows, we are creating new technology and building new capacity to meet those needs. As sources of clean water become scarce, our filtration and desalination technologies expand supplies.[14]

Witness also the trendsetting Richard Branson in his commitment at one of the Clinton Global Initiative New York spectacles to invest an estimated US$3 billion of Virgin's profits into technology ventures to combat, and profit from, climate change. Such leaders have understood that their markets are undergoing fundamental change because of far-reaching systemic shifts, notably – but by no means exclusively – linked to climate change and energy security. A decade ago, raising the topics of obesity, climate change or 'the fortune at the bottom of the pyramid' would have drawn a blank face from all but the most prescient of fortune-tellers. Today, no self-respecting boardroom buzz is without one or all of them.

The Second Generation of corporate responsibility is about how to turn issues into new products and processes, underpinned by focused strategies for exploiting emerging markets, or creating new markets. At times this involves hardcore technological innovation. But more often than not the need is for 'soft innovation' to appreciate the implications of societal changes for tomorrow's markets. But stepwise change of this kind requires that a business can undergo broader, systemic innovation in how it thinks and, crucially, in how it learns. Today's cosmopolitan consumers and high-value employees are networked globally. They increasingly assess their purchasing habits and employment choices on the basis of information channelled to them through an array of non-traditional communication pathways, from relatively stable sources such as environmental and human rights groups and their faith communities, through to increasingly anarchic blog-using vigilante groups bent on revealing the latest corporate and political scandals. In this context, classical approaches to gathering market intelligence simply fail. A conservative Christian is as likely to agree with Al Gore's position on climate change as a committed Muslim is likely to favour Iran's nuclear ambitions while wearing Nike shoes, listening through an iPod and drinking Red Bull. And these choice-conscious individuals are by no means confined to the shores of Europe and North America. In India, comparable concerns are closer to home and often expressed at scale, as Monsanto discovered to its cost amid the wreckage of its strategy to advance the sales of its genetically modified seeds across Asia, and as Coca-Cola has experienced in the form of mass riots linked to the drawing off of water by one of its Indian bottling plants.

Learning differently rather than just learning about different things is at the heart of *The Civil Corporation's* very definition as being 'civil':

> Judging and ultimately guiding corporate performance requires an examination of whether a business is *doing what it can do* given its range of external options and internal competencies. Internally, this concerns the formal, explicit policies and processes, organizational cultures and values,

and patterns of leadership. Externally, this is a question of the multitude of business drivers, from direct, short-term market pressures through to longer-term strategic challenges and opportunities.

A business's contribution to sustainable development therefore needs to be understood in terms of its viable options and what it makes of them. Internal and external factors together create a spectrum of possibilities at any point in time that defines a corporation's practical scope for making decisions between viable choices. Whether and how a corporation acts within its degrees of freedom must be the test of responsibility, and indeed the basis on which management decisions are framed. These are the fundamentals of the *civil corporation*.

'Logging' possible issues is only the starting point in working out which ones will count in tomorrow's markets. Labour standards in global textiles and apparel supply chains are undoubtedly important to workers, and may be an in-your-face reputational issue to today's premium brand businesses. But it is another matter to accurately predict whether they might be a truly material factor to tomorrow's business success and, if so, in what ways. Al Gore is surely illuminating stark and convincing evidence that climate change will profoundly impact our lives. But does that mean that Rick Murray, Swiss Re's Chief Claims Strategist, is right in asserting with an advanced, turn-of-the-Millennium business mindset, that 'we do not want customers that do not understand the impact of climate change on their business'?[15] Or are some issues important to some, but nevertheless immaterial to traditional business performance?

Many companies are learning the tough lesson that reputational problems are often the thin edge of the wedge for a business suffering the consequences of deeper strategic malaise. Wal-Mart's campaign-resistant strategy was based on the company's long-held view that, in effect, legal compliance was tolerable, but going the extra mile beyond the law was failing their shareholders and undermining their business model. Anti-Wal-Mart campaigns were founded on moral, not business, principles, and have carried no torch whatsoever for business imperatives or shareholder interests. But the studied view of growing numbers of the company's investors is that the company's strategy of depressing labour costs to maintain price leadership in the face of productivity rates consistently lower than those of its rivals is not durable.

Google's decision to accept censorship as an entry ticket to China's lucrative market has so far done little more than disappoint their many supporters, who had taken the company's 'do no evil' motto as more than a slogan. Yet Google may live to regret its China decision insofar as its underlying business model will require global communities to entrust the company with their most intimate details. The New York-based campaign group Human Rights Watch, for example, has asserted that many web firms have become complicit in politically repressive activities. Calling the policies of Yahoo!, Google and Microsoft 'arbitrary, opaque and unaccountable', they have challenged these companies' future business models in arguing that 'it was ironic that companies whose existence depends on freedom of information and expression have taken on the role of censor, even in cases where the Chinese government makes no specific demands for them to do so.'[16]

The magic is to be able to work out which of the many issues are (or could be made to be) material to a business's strategy and underlying performance. The concept of 'materiality' in financial auditing and reporting should carry considerable weight in this regard. It concerns:

> The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.[17]

This should mean that if Rick Murray from Swiss Re is quite right, a business's approach to climate change would be material and need to be 'accounted for' in financial terms, attested to by the auditor. Of course, the translation from business acumen to accounting rarely happens in practice. The notion of materiality has become degraded in the face of the very short-term interests of investors described above, reducing what is important to stuff that hits the heavily discounted analysis of the bottom line within a quarter or two.

The second half of *The Civil Corporation* places considerable weight on the role of new measures of responsibility. On 23 March 2005, the BP Texas City refinery experienced a catastrophic process accident. It was one of the most serious US workplace disasters of the past two decades, resulting in 15 deaths and more than 170 injuries. In the aftermath of the accident, BP followed the recommendation of the US Chemical Safety and Hazard Investigation Board and formed an independent panel, chaired by James Baker, to conduct a thorough review of the company's corporate safety culture, safety management systems and corporate safety oversight at its US refineries. The resulting report, published on 15 January 2007, was damning of many aspects of BP's operations. Notable were its conclusions on the topic of measurement:

> BP primarily used injury rates to measure process safety performance at its US refineries before the Texas City accident. Although BP was not alone in this practice, BP's reliance on injury rates significantly hindered its perception of process risk. BP tracked some metrics relevant to process safety at its US refineries. Apparently, however, BP did not understand or accept what this data indicated about the risk of a major accident or the overall performance of its process safety management systems. As a result, BP's corporate safety management system for its US refineries does not effectively measure and monitor process safety performance.[18]

BP arguably failed to listen, learn or respond to people on the ground who understood the problems and risks. It is therefore not a 'soft' thing to emphasize, as does all of AccountAbility's standards and metrics work, in particular, the ways in which appropriate metrics are selected and the importance of involving stakeholders in that process. Stakeholders, it is argued, have both knowledge relevant to the decision about what counts and implicit rights to be involved given their stake in the outcome. What counts in such a process is framed by three criteria: business policies and imperatives; stakeholder concerns; and societal norms. This three-level framework for determining what is material and so should be reported on has weathered reasonably well, but it is nevertheless under-specified. It helps, certainly, but fails to provide sufficient guidance to either the business or its stakeholders in prioritizing directions, actions and the associated metrics.

There has been much progress in the development of such metrics since 2001. Most visible has been the continued blossoming of standards initiatives. A lingua franca is beginning to converge around a small number of standards, notably the Global Reporting Initiative's so-called G3 Sustainability Reporting Guidelines and AccountAbility's AA1000 Assurance Standard. Both, individually and together, provide clearer guidance on the selection, use and validation of metrics. Both build on the commitment to stakeholder involvement in selecting metrics, for the G3 in particular, through the inclusive manner in which the proposed metrics included in the standard have been chosen and developed. Both advocate stakeholder engagement as a means of improving the quality of metrics and their productive application.

But beyond these specific, branded performance metrics and frameworks has emerged a body of work that has gone further in redefining materiality and the basis on which material issues could, and arguably should, be determined.[19] At the heart of this work is an attempt to re-establish 'materiality' as the critical organizing principle for identifying, measuring, managing and also, of course, reporting on and judging how smart a business is in understanding and moving to take advantage of its shifting context. New approaches to materiality therefore provide the core of an emerging management accounting framework for building civil corporations. This work is contentious in that it has arguably tipped the balance in selecting issues, and so metrics, towards those that are more likely to lie at the heart of the business's future value-creation process. That is, stakeholder concerns may well be important, but might through this route be deemed immaterial to the business. This route might therefore have a restraining effect on stakeholders' voices in the materiality determination process and reduce the representation of their concerns in the final reckoning of what is really taken into account. At the same time, it encourages companies to focus on those non-financial aspects of their footprint that they are most likely to impact through changes in their underlying business model.

But all this is just the start for Second Generation companies. The really hard job comes once a business has identified what is likely to be material. Then they have to work out how to respond more effectively. It

Figure 0.2 *Determining What Counts*

Source: Forstater et al (2006)

is an extraordinary fact that, despite having at their disposal some of the best brains on the planet and more resources than any other community on Earth, businesses monotonously repeat past errors, both their own and those of their peers and competitors. There is a consistent pattern of denial by businesses that any newly emerging issue is their fault, their concern or their responsibility. McDonald's, Nestlé, and Cargill are just three cases among many – but, after all, three of the world's great food companies by *almost* any measure – that have ably demonstrated this pattern. Furthermore, knowing how to respond is hard enough in itself, but also not enough for success. Coca-Cola, facing riots in India and legal challenges elsewhere, has concluded that it has to take leadership on the issue of water, just as BP has on the topics of climate change and corruption, or like Nike and Gap eventually have over labour standards. Such leadership certainly has to leverage the company's existing competencies – such as its global communications reach, distribution infrastructure and financial strength. But Coca-Cola will clearly have to complement these strengths with other, currently weak or absent, competencies, building alliances with non-traditional partners, perhaps including competitors, and certainly including erstwhile foes. Ian Davis, McKinsey's Managing Director, was not merely musing when he placed an article in *The Economist* arguing that 'corporate social responsibility', in his view a distracting misnomer, is where some of the new strategic drivers are being brewed inside and outside of the business community. His core message was, 'this is important, this is hard, and you will need the likes of us', a perfectly legitimate market signal from the world's most important outsourced collection of strategic competencies.[20]

Businesses are not built for (even successful) issue management, and are rarely rewarded for it. Their performance is based, and ultimately judged, on their ability to interpret societal needs into products and services that they make accessible to those who want them. Moreover, the most important contribution of business to social and environmental challenges will be in *what they do* in achieving success rather than *what they avoid doing*. To achieve this, businesses will need to align strategies and performance management to emerging social and environmental constraints and opportunities. That is, it is in the Second Generation that we begin to see the civil corporation come into its own, reinventing itself and its basis of engagement with others to meet the needs of existing markets, and create new ones.

THE THIRD GENERATION: RESPONSIBLE COMPETITIVENESS

'When I speak about civil society', Kofi Annan, until recently UN Secretary General, observed, 'I don't mean only non-governmental organizations, though they are a very important part of it. I also mean universities, foundations, labour unions and – yes – *private corporations*'.[21]

Civil society is a complex mosaic of purposive collective endeavours in pursuit of diverse, and at times conflicting, perceived 'public goods'. *The Civil Corporation*, like Mr Annan, proposed the unthinkable: that commercial enterprises could be 'civil' in this sense. For many, including some of my closest friends and allies, this placed the text beyond the pale, at best confirming me as well meaning but misguided. For others, this was a pointless, 'theoretical' debate. Even some of the strongest advocates for transforming business preferred business to stick to making money subject to appropriate constraints, rather than seeking to reinvent (or perhaps reconstitute) their reasons for being.

Much of contemporary corporate responsibility has been framed by the so-called 'business case'. At its most straightforward, this is about the pragmatic need to convince businesses that it is in their narrow institutional interest to improve their social and environmental performance, even (or at times especially) where relevant legislation was absent or unenforced. This 'business case' dimension to the thinking behind, and practice of, corporate responsibility has been the single most important mainstreaming driver. It has allowed for unholy alliances across a spectrum of players, from the advocates of a Friedmanite 'do it for the money' approach to business, to those with a more radical change agenda.

Much of the 'business case' debate, however, although understandable, has been misguided. The view that there is a stable relationship between, say, adhering to human rights and profitability is, to be frank, foolish. A study by Booz Allen Hamilton, *Smart Spenders: The Global Innovation 1000,* suggests there isn't even a statistically stable relationship between R&D

spending and profitability.[22] Most would agree that the much-vaunted positive impact of good corporate governance on business success is seriously over-rated, or else poorly specified and understood. There are many factors that mediate the relationships between context, drivers, enablers and performance. Put simply, some businesses will work out how to make money from, say, improved environmental performance, while others will go bust in trying.

The definitive conclusion that there is no business case *per se* edges both the analyst and practitioner towards a more meaningful framework for understanding the conditions under which doing good can be good for business, and how this can be best understood in terms of the assertion of 'civility'. This theme has preoccupied me subsequent to the publication of *The Civil Corporation*, largely because it seemed to be the pivotal challenge implicit in the Third Generation of corporate responsibility. The results of this work to date were initially published in a *Harvard Business Review* article in December 2004, 'Paths to corporate responsibility', and subsequently in a Harvard Working Paper entitled 'The logic of collaborative governance: Corporate responsibility, accountability and the social contract' and a co-authored AccountAbility publication, *Responsible Competitiveness: Reshaping Global Markets Through Responsible Business Practices*.[23]

In particular, these papers attempted to be more helpful in operationalizing the notion of the 'civil' by linking it not so much to *purpose* as to the theoretically well-grounded distinction between *intensive* and *extensive* accountability, exploring how these can evolve over time. Businesses are traditionally understood to be 'intensively' accountable: focused principally on one group of stakeholders, the owners of capital or their representatives. Civil society organizations, on the other hand, like public institutions, are conventionally seen to be more 'extensively' accountable, that is to a wider range of stakeholders. Businesses classically rationalize their embrace of a wider responsibility through the 'business case' narrative that in effect says 'financial returns are increased by being more responsible to wider society and the environment'. Over time, we observe in many instances a business's response to a maturing issue evolving from one of denial or compliance, through to more sophisticated responses involving not only product and process innovation but often collective initiatives involving both competitors and non-market actors. That is, their intensive accountability mandate to shareholders is enacted through a more extensive accountability. In this way, a business's *de jure* intensive accountability becomes increasingly to resemble, in practice or *de facto* terms, extensive accountability. The AccountAbility report in particular provides an ad hoc body of evidence that this Third Generation is to be observed in practice, not only conceptualized in theory. More recently this has been further supplemented by a regional report covering the competitiveness of three European sectors: finance; information and communication technology; and pharmaceuticals.[24]

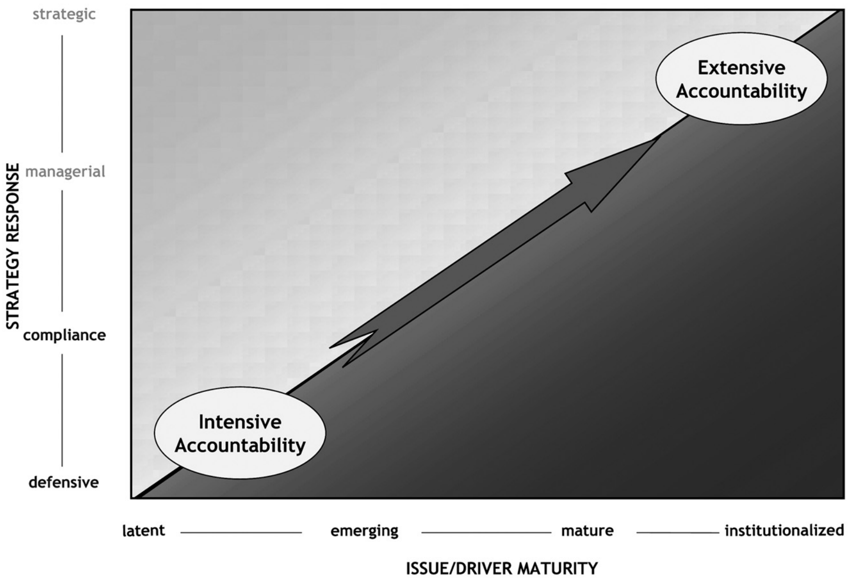

Figure 0.3 *Pathways to Extensive Accountability*

Source: Zadek (2004, 2007)

Viewing the 'civil' through this more developed accountability lens connects directly back to *The Civil Corporation*'s attempt to set out the broader political ramifications of this vibrant renegotiation process of the role of business in society. The thrust of this argument was best summarized (Chapter 1) as follows:

> ...corporate citizenship *can* become a significant route for overcoming global poverty, inequality and environmental insecurity. This requires that it evolves to a point where business becomes active in promoting and institutionalizing new governance frameworks that effectively secure civil market behaviour, globally. Leading civil corporations will therefore be those that go beyond getting their own house in order, and actively engage in promoting governance frameworks that enable the wider business community to address, effectively and without contradiction, the aspirations underpinning sustainable development.

This perspective first surfaced in an earlier piece, *Ethical Trade Futures*, published by the New Economics Foundation in 2000.[25] This slim pamphlet was the result of three years' work with leading labour activists exploring some of the longer-term, often unintended, ramifications of their campaigning around working conditions in global supply chains, particularly in the related textiles and apparel and footwear sectors.

Among the many fascinating insights gained during this work, the one that stood out was the conclusion that activists were increasingly finding themselves in the paradoxical position of encouraging corporations to lobby governments, often democratically elected, to be more progressive in their handling of social and environmental issues.

The Civil Corporation imagined such developments but had, frankly, little data to use to illustrate, let alone demonstrate, its point. But times have changed. In May 2005, for example, the Chief Executives of 13 major corporations wrote to then-UK Prime Minister Tony Blair professing concern over the government's handling of climate change. Unusually, the Corporate Leaders Group on Climate Change – made up of ABN Amro, AWG, BAA, BP, Cisco Systems, F&C Asset Management, HSBC, John Lewis Partnership, Johnson Matthey, Scottish Power, Shell, Standard Chartered Bank and Sun Microsystems – were not asking for less regulation, and indeed their position might imply more rules governing the ways in which climate change impacted markets and the business community. Even more unusual was that they had broken away from the position of the UK's main business association, the Confederation of British Industries, which, supported by the government's own Department of Trade and Industry and the Prime Minister himself, was arguing for the government to let the market respond freely to climate change.

Similar developments can be seen across many issues, sectors and geographies. At the time of writing *The Civil Corporation*, factory-level, code and audit-focused collaborative initiatives like the Ethical Trading Initiative (ETI) and the Fair Labor Association (FLA) were a new phenomenon. Today, we see the next generation of collaborative initiatives emerging, focused more on public policy and governance. The MFA Forum, for example, was formed in late 2004 by a coalition of businesses, civil society and labour organizations, and public institutions, along with many of the First Generation initiatives like the ETI and FLA. The MFA Forum, hosted and convened by AccountAbility, was created to address the threat to workers and economies of specific developing countries posed by the ending of the Multi Fibre Arrangements (MFA). Important in this context was that the Forum was established to build country-level, not company-level, initiatives, involving governments, international public institutions and business associations, as well as individual private businesses. Furthermore, its members' focus was on macro-conditions that impacted factory-level outcomes, rather than the specifics of worker conditions in particular factories. Crucially, this meant a particular focus on how best to promote the competitiveness of apparel and textiles sectors facing intensified competition in a post-MFA world, notably from China. Thus, more or less for the first time, we see civil society organizations joining with business in an appreciation of, and direct effort to impact, competitiveness conditions. So, for example, many of the apparel companies and activists involved in the MFA Forum have joined together in lobbying the US government (successfully, as it turned out) to extend the Africa Growth and Opportunity Act and thereby secure, at least in the short to medium term, the industry in countries like Lesotho that are highly dependent on their textiles and apparel exports to the US markets for sustained employment and economic growth.

This Third Generation, then, is about reshaping markets such that they systematically reward responsible business practices and penalize the converse. Market leaders are important in edging us into these markets, but considerably more is needed for this generation of developments to mature. Alliances involving businesses and civil society organizations are key in evolving non-statutory standards that can engage a second tier of companies. But we also see here the statutory role of the state becoming once again significant in this stage. In some areas, market dynamics consistently reward first movers, and collaborative rule-setting can bring along the rest. In other instances, first-mover disadvantages are more significant, and collaboration outside of the rule of law cannot tame a fragmented or aggressive market. Here we see businesses advocating firmer statutory action as an integral element of their competitive strategy.

THE FOURTH GENERATION

The Civil Corporation provides a window onto a phenomenon that appears incrementalist but, on second glance, turns out to involve risky venturing in the redesign of our basic institutions and how they are governed. Looked

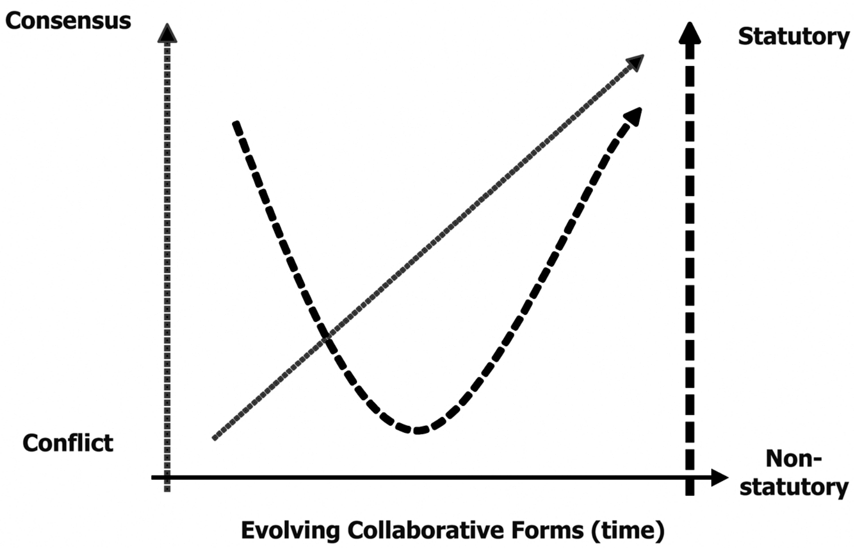

Figure 0.4 *Collaborative Governance: Shifting Roles*

at through the first lens, it describes ways to conclude a comfortable accommodation by business of a set of more or less universal values that encourage greater equity and sound environmental management. From this end of the telescope, the project is grounded on a bed of rights cooked up by a liberally minded, global elite. It is what most people mean and see when they talk about corporate responsibility, even among the most radical activists. But through the second, more speculative lens, the project looks a lot scarier. Here we see a largely unplanned and generally chaotic dismantling of distinct public and private spheres, and the distinction between them. Predicted through this end of the telescope is their reconfiguration into a new generation of institutions that blend their traditionally separated legitimacies, accountabilities and actions.

This is far from the liberal dream for the majority who, in the main, long for strong, autonomous governments, democratically elected by knowledgeable, thoughtful and engaged citizens – in fact, in their minds, people much like themselves. But it is equally a far cry from the business imagination, which on the one hand demands less regulation and seeks to weaken the state, but on the other hand ultimately depends entirely on governments able and willing to set rules, enforce property rights and mostly allow for a level playing field. And the spectre of an unbundling of traditional, well-defined roles and responsibilities is little less than a nightmare for most civil society organizations. It is perhaps a bitter irony that most are deeply conservative in being unwilling to consider radical institutional innovations. As one Brazilian civil society leader exclaimed in a discussion about the role of business in society, 'I do not want to see business take on a truly wider role in society; I would rather that it remains focused on profit-making, and that governments do their job in regulating them'.[26]

NGOs are also conservative in thinking about their own evolving role in society. In February 2002, I participated in a meeting on civil society and the UN at the Pocantico Conference Center of the Rockefeller Brothers Fund in Tarrytown, New York. The workshop, organized as part of the Secretary-General's Panel of Eminent Persons on UN–Civil Society Relationships, also known as the Cardoso Panel, was designed to explore the governance implications of multi-stakeholder partnerships for global governance.[27] During the meeting I presented a paper proposing several scenarios built around the key proposition that civil society organizations could evolve their roles with the UN into positions of structural power, with well-defined decision-making rights and responsibilities. The feedback from the assembled civil society leaders was clear and to the point. As one participant explained, 'Our role is to lobby, to influence, to shape thinking. These roles would be compromised by your proposals for us to have a place at the decision-making table.' In proposing that civil society organizations should have greater power, this and others participants agreed, I clearly did not fully appreciate the importance of protecting the historic their role.

The Civil Corporation's imagined future is, however, one of stronger governance, quite different to a libertarianism more often associated with the political empowerment of business. Envisioned is a collaborative approach to governance involving blended institutions engaged in business and matters of public concern underpinned by powerful new accountability mechanisms and processes. Equally, this is no argument for a more corporatist, paternalistic governance. Rather, it argues the case for democratic renewal based on revised terms of reference for, and access to, decision-making across all major institutions, notably the state and business. 'Stakeholder engagement', after all, is a vibrant experimental zone for new models of citizens' participation beyond, and in some instances instead of, traditional electoral pathways.

The jury, of course, remains out until the future becomes part of our history. It is in the nature of predictions involving such dramatically different options that we cannot know in advance which will prevail. Historians may well cast their eyes over this period and reflect on the corporate responsibility movement as a momentary, romantic, but ultimately dead-end hangover from a very troubling 20th century. After all, this would not be the first social movement that had its fiery moment, only to find itself absorbed by a conservative mainstream, or else overrun by history's subsequent twists and turns.

Alternatively, historians may look back on this period and conclude that the endless tactical back-and-forth campaigning and business responses during this period delivered a Fourth Generation of corporate responsibility, beyond tactics and risk management (First Generation), beyond new business strategies (Second Generation), and even beyond the collaborative approaches underpinning responsible competitiveness (Third Generation). This Fourth Generation would go beyond a reshaping of the role of business in society to inventing a new politics. This scenario would involve a very different relationship between markets and public governance. Today's experience of public–private or multi-stakeholder partnerships would have evolved into new and more stable institutions involved in both the creation of material wealth and the stewardship of the public interest. These institutions would form the heartland of our reinvention of global governance, and so also national and local governance, as ad hoc, issue-based compacts mature and create longer-term connectivity with each other.

Above all, this Fourth Generation would have to involve dramatic innovations in accountability, new means for civilizing power. Today's experiments in corporate responsibility would contribute to the foundations of these innovations, stretching or extending classical accountabilities and reconfiguring traditional institutional specializations through the learnings built on current experiences in public–private or multi-stakeholder partnerships. The essential DNA of this new accountability would, however, depend on the evolution of the heartland of today's experiments in stakeholder engagement, which would need to provide new pathways for citizens to participate in decisions that impact their lives.

Paradigms – the foundations and boundaries of how we think things work – change when repeated attempts to interpret our experience and base our decision-making on conventional wisdoms no longer deliver the goods. Thomas Kuhn, in his ground-breaking 1962 book *The Structure of Scientific Revolutions*, argued that science is not a steady, cumulative acquisition of knowledge, but a series of peaceful interludes punctuated by intellectually violent revolutions.[28] As the evidence grows that one way of looking at the world is inaccurate and unhelpful, new thinking emerges. That the world is not flat and does not sit in the middle of the universe, or that humans evolved from apes, are but two of the thought-shattering realizations that have, for many, if not most of us, changed our understanding of ourselves and our relationship with everything around us.

Revolutions in thinking are a strange breed of social upheaval. They are always disruptive, but often establish new people, thinking and practices alongside remnants, often deeply embedded, of the very systems that they seek to overthrow. Kuhnian scientific revolutions are just like this, typically allowing for new ways of thinking to co-exist (often for a long time) alongside very conventional wisdoms, before the tension between the two eventually overturns elements of the latter. The architects and proponents of the endangered conventional wisdoms, defending their turf, and often their fame and fortunes, generally first try to suppress and then co-opt the new thinking into their world view, seeking to create the appearance, for as long as possible, that all is well in the ways in which they see the world. Until recently, the threat of climate change has been dismissed by most politicians and business people as exaggerated or simply non-existent. Climatic data were explained away as deliberately distorted, melting ice caps considered natural variation. Then, almost mystically, the conventional wisdom shifts and climate change triggered by human activities becomes the new truth, often eloquently articulated by the very same people and institutions who had hitherto held back the tides of change.

The Civil Corporation describes, and indeed exists on, the cusp of a Kuhnian revolution in our understanding of the practice of business and governance. Business leaders are at pains to say that 'we do corporate responsibility because it is good for business, for our financial bottom line'. Indeed, one might say that they are legally obliged to do just that, given today's understanding of the fiduciary duties of managers of publicly listed companies. Yet in the same breath, increasingly, such leaders argue that their businesses are key actors in society in addressing such pervasive challenges as global poverty and climate change. Here, the lens is reversed, and business becomes a vehicle to other, broader ends than profit-seeking. These two lenses may, and do, seem perfectly rational and consistent to someone rooted in today's business (and indeed broader) paradigm of how we see the world around us. We feel secure when evoking the so-called 'business case' for acting responsibly, particularly when we work for business and need to actually deliver to the bottom line.

But step back for a moment and imagine being from some other place in space or time – a time traveller if you like from some (perhaps not too distant) future moment. What sense would you make from a studied reading of our way of seeing, and so describing, the contemporary phenomenon of business? Would not the juxtaposition of the two competing paradigms about business in society seem unnecessarily and perversely convoluted? Surely as a self-respecting, presumably well-trained, time traveller you would ask, no doubt politely, 'why are you so hell-bent on insisting that businesses' purposes must to be so narrow, when it is so clear that they are central in addressing far wider challenges?'.

Actually, the time traveller's state of bemusement is much closer to our own daily experience than most of us would admit. A modest level of schizophrenia comes with living in a world as connected, complex and confusing as ours. After a hard day's work, most of us return to the heart of our families and reflect on the too-often ugly acts that have taken place in the name of business and personal economic success. In our more private moments, as our neighbours and relations are made redundant after years of dedicated service, and nameless hedge funds trade the shares of hard-built businesses for momentary gain, we wonder if business really has to be done this way. But it's tough to be sane in a pretty crazy world. Let's be frank: most of us reflect on such matters in the privacy of our living rooms, among families and friends, and then return the next day to the fray, more or less refreshed, if not enlightened.

A successful transition to a Fourth Generation of corporate responsibility would involve a move from the cusp to the heart of a paradigm shift in the place of business in society. The *de facto* extension of business accountabilities advanced in the Second and Third Generations would be acknowledged and legitimized through a *de jure* shift in the accountability of business. This means, ultimately, a shift in the purpose of business. Such a shift would be expressed through changes in the laws governing their fiduciary responsibilities, the compass used to focus decision-making by those vested with the authority to govern. By extension, it would imply a dramatic change in who was at the table in making such decisions, in terms of both interests and competencies. Such changes, in fact, would simply consolidate the new practices of production, wealth creation and governance that had evolved from within today's world. They would recognize and support the transition enabled by the emergence of civil corporations towards the ultimate aim of a more civil society.