The Crisis and Emancipation of the Modern Corporate Executive: How the Bhagavad Gita reinforces Edward Freeman's Stakeholder Theory

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Abstract

Business leaders are looking towards corporate social responsibility as a critical means to satisfying their stakeholders, while facilitating their firm's long-term sustainability. As part of this holistic trend, more managers are looking towards the Bhagavad-Gita for lessons on leadership and character development in place of the classic Sun Tzu's Art of War. Companies that currently lack strong CSR initiatives must follow suit in developing socially responsible products and projects due to the tremendous value that such actions can unlock for stakeholders. The Gita requests leaders to be the *sattvic* frame of reference for ethics and morality that the corporate world has lacked for many years. Important implications of CSR are the cooperation of corporations and NGOs with like-minded social objectives, and the creation of new firms and careers dedicated towards the research and development of socially responsible projects. With the greening effect sweeping across the United States, CSR will be a crucial moving force in the corporate world, and business executives must acknowledge that social value can be an amplifying force for corporate value.

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I. Introduction

It is the year 506 B.C. and Sun Tzu's armies are descending upon the ancient Chinese city of Ying to claim victory over the warring Chu Empire. Near the same time, during the climactic Kurukshetra War in ancient India, Prince Arjuna of the Pandava clan is faced with a dilemma on the battlefield and turns to his revered mentor and godly incarnation Krishna for advice. The enemies that Arjuna faces on the battlefield are similar to the foes that Sun Tzu encounters. For Arjuna, they are his own friends and family members who happen to be part of the rival Kaurava clan. For Sun Tzu, they are his fellow compatriots who have grown up in the rebellious southern state of Chu.

Faced with parallel situations, Sun Tzu and Arjuna approach their battles with contrasting ideologies. Sun Tzu devises clever tactics to conquer the enemy at all costs and institutes "iron discipline" in order to train his troops.[2] Arjuna feels that enlightened leaders should be compassionate and fair. He hopes to concentrate more on the purity of his thoughts and actions, rather than on solely achieving victory.

Today, it is the year 2007, and many corporate boardrooms are experiencing a transformation. Managerial styles have evolved from the era twenty years ago when Gordon Gekko argued that avarice was the only way to survive in business, in the movie *Wall Street*. Nowadays, more executives are adopting a more corporate social responsibility-minded approach when generating profits instead of the ruthless, bottom-line model. They are realizing that a firm can only persist in the long-run if it satisfies needs of all stakeholders, and not solely the shareholders.

In the modern-day corporate battleground, the "generals of the private sector" are faced with a similar dilemma as Prince Arjuna; there are many other factors involved in a corporation's wellbeing than solely the end goal of "victory" by achieving profits. Some business leaders who once adopted their management style from Sun Tzu's *The Art of War*, and subsequently, Gerald Michaelson's *The Art of War for Managers*, are now turning towards the ancient Indian text *Bhagavad Gita* for strategic advice. The text that leaders such as Mahatma Gandhi and scholars such as Ralph Waldo Emerson considered to be a practical guide to living a prosperous life is now transforming the way business is conducted globally.[3]

For Arjuna, the "corporation" consisted of not only his own Pandava

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2 Foo Check Teck and Peter Hugh Grinyer, Sun Tzu on Management: The Art of War in Contemporary Business Strategy. (Singapore: Butterworth-Heinemann Asia, 1994) 63.

3 Stephen Mitchell, Bhagavad Gita (New York: Harmony Books, 2000) 13.

clan, but all of his loved ones, including those who would not be on the glorious end of battle. He could have adopted the same approach as Sun Tzu, with victory at all costs as his sole ambition, but instead wished to take all factors of his "corporation" into account when achieving his end aspiration. From today's business managerial perspective, this dilemma surfaces when executives must decide whether the objectives of the corporation should include all stakeholders in the firm, or just its shareholders, who have traditionally been the primary focus.[4]

This transition from Sun Tzu's *Art of War*, which relates to the late Milton Friedman's Shareholder Theory, to the *Bhagavad Gita*, which is associated with Edward Freeman's Stakeholder Theory of the Modern Corporation, is evidence that more business leaders are adopting a holistic approach to business – one that takes into consideration all the factors that may influence a company's outcome. This trend must continue, however, even for firms that do not see the stakeholder approach as a priority to conducting business. "The best way to describe it is inclusive capitalism," says C.K. Prahalad, a professor at the University of Michigan's Ross School of Business. "It's the idea that corporations can simultaneously create value and social justice."[5] The success that these firms have had over the past few years with their examples of corporate social responsibility (CSR) and a more universal stakeholder approach should be evidence that more firms should include CSR as part of their operations because it would reap tremendous rewards for them. Furthermore, companies must take a proactive, offensive-minded approach in implementing CSR instead of hiding behind community actions as a defensive mechanism.

With the many scandals that have sullied the corporate world in the past decade, today's modern corporate executive faces a crisis. The ideology of the relentless pursuit of the bottom line that has propelled the business world for so long has been tainted by many forms of unethical behavior.[6] More business leaders should follow the footsteps of those who have already crossed over, and should look towards the *Bhagavad Gita*'s lessons as spiritual and mental guides for leadership. The greening effect that is taking

4 Pujan Roka, Bhagavad Gita on Effective Leadership (New York: iUniverse, Inc., 2006) 27.

5 Chidanand Rajghatta, "Corporate America Swears by the Gita," *Times of India*, 25 Oct. 2006, 4 Dec. 2007. <http://timesofindia.indiatimes.com/articleshow/132248.cms>.

6 Madan Prasad Singh, The Ethical Philosophy of the Gita: A Comparative and Critical Study of the Interpretations of Tilak and Ramanuja (Calcutta: Punthi-Pustak Publishers, 1996) 14.

hold on many firms today is not a fad; it is a testament to the fact that many corporate executives acknowledge that long-term sustainability for a firm depends on socially responsible action today. Analogous to the philosophy of Arjuna, this mindset will lead to a sense of personal emancipation for the manager and satisfaction of all stakeholders in the organization.

II. Comparisons between Bhagavad Gita and Freeman's Stakeholder Theory

> Work for the common good without selfish interests; the rewards of selfless work will take you to a supreme state.
>
> Krishna, *The Bhagavad Gita*

Today's global companies are taking a more holistic approach to the notion of "green" than solely meeting the bottom line. Business leaders are faced with the challenge of how to achieve a competitive advantage while promoting the prosperity and wellness of their stakeholders. Corporate Social Responsibility (CSR) is the idea that organizations are responsible for considering the interests of not just shareholders, but also of customers, employees, communities, fellow businesses and the local environment that is affected by business practices. Organizations must consider the social and environmental ramifications of their business activities. By integrating CSR into core business processes and stakeholder management, companies can achieve their ultimate goal of creating both corporate and social value.

Central to both Edward Freeman's *Stakeholder Theory of the Modern Corporation* and the *Bhagavad Gita* is the theme that managers bear a synergetic relationship to stakeholders, who are all groups who have a stake in or claim on the leader's decision making and the fruits of the corporation. Freeman argues that this relationship is based on a fiduciary duty while Krishna asserts that this is relationship is based on *karma yoga*. A leader who practices karma yoga thinks less of personal advantage and more of the fulfillment of the common good. As Krishna advises in chapter 2 of the *Gita*, "the righteous one who accepts and shares the rewards of his actions is freed from sins, while he who works for self-interests incurs sin."[7]

Taken from a managerial perspective, an executive should be concerned with the best interests of the entire corporation, and not solely on pursuing profits. Opponents of this theory point out a major flaw in the Stakeholder Theory about conflicting interests. After all, a company cannot

7 Pujan Roka, Bhagavad Gita on Effective Leadership (New York: iUniverse, Inc., 2006) 27.

surely please *everyone* involved with its operations: what should a firm do if stakeholder interests conflict? There have been many studies proposed regarding analysis of the Stakeholder Theory and Conflict Management. Stakeholder analysis is the answer to critics. This analysis has been developed by experts in fields of study ranging from business management to international relations, policy development, ecology, and natural resource management. It is used to differentiate and study an organization's stakeholders on the basis of their attributes and the criteria of the analyst during the assessment of a specific situation to a range of tools for the identification and description of stakeholders of a firm on the basis of their attributes, interrelationships, and interests related to a given issue or resource.

When interests in a firm collide, as they often do, managers need to implement stakeholder analysis within their organization to resolve these conflicts. This analysis answers the following questions: the relative power and interest of each stakeholder, the importance and influence they have on the firm's operations, the multiple "hats" they wear and the networks and coalitions to which they belong.[8] Ricardo Ramirez of the University of Guelph in Ontario, Canada, divides stakeholders in an organization into four major categories: those with claims to legal protection, those with political clout, those with power to block negotiated agreements, and those with moral claims to public sympathy. The stakeholder analysis described by Ramirez considers nine major propositions that are organized under a conceptual framework. A manager must proceed through the framework step-by-step to resolve conflicts between stakeholders.

One of the propositions that managers must address in their analysis is the notion that three stakeholder attributes merit the most attention in conflict resolution: a stakeholders' power, urgency and legitimacy. This proposition follows that stakeholders with two or more attributes are likely to be noticed and participate in the firm's decision-making first, while those without them will be on the fringes of the decision-making process. The analysis proceeds to describe this and other propositions in intricate detail.

Certain dilemmas arise when Ramirez's analysis is taken to its logical extremes. For example, if the company's most powerful and legitimate stakeholder wants the firm to employ tactics that could be harmful to the firm or to society, such as the destruction of the environment, inhumane employee treatment or even human slavery, what should a corporate executive do? In Ramirez's model the needs and concerns

8 Ricardo Ramirez, "Stakeholder Analysis and Conflict Management," International Development Research Center, 2006, 4 Dec. 2007 <http://www.idrc.ca/en/ev-27971-201-1-DO_TOPIC.html>.

of stakeholders that match two attributes, should be addressed first, but that does not necessarily indicate that they will always have to be met by corporate executives. For example, if a stakeholder wants to implement an idea that would cause harm to the firm's image, such as one of the three extreme examples provided above, a manager has the right under Ramirez's model to modify or even negate the stakeholder's claims if he feels that they are not rational. According to Ramirez, it is important to acknowledge that, "these attributes are variable over time, are socially constructed rather than objectively real, and the resulting influence may or may not be willfully or consciously exercised."[9] Hence, a manager has the flexibility to be rational in his decision-making and implementation of a stakeholder's needs and desires.

According to the typology of the model, if stakeholders possess two attributes, they are grouped under the heading Expectant stakeholders. Among these, those having power and legitimacy are called Dominant while those that have legitimacy and urgency are deemed Dependent. The most poignant description in the model is that of stakeholders that possess power and urgency; these are called Dangerous stakeholders. Ramirez recognizes that stakeholders who possess only power and urgency may want the firm to engage in activities that are hazardous to the firm's wellbeing and image, and are thus considered "dangerous" to the firm. After all, they have tremendous influence in the firm, and salience in the minds of managers. However, according to Freeman's original stakeholder model, stakes change depending on the strategic issue under consideration. It is unlikely that a manager would abide by a "dangerous" stakeholder with dangerous implications, because this would not be advantageous to the strategic planning being implemented at the time.

By putting this useful and successful tool to practice in the workplace, managers can decide the best paths to take when stakeholders' interest collide. The analysis is structured, but flexible enough for managers to use their own personal judgment and acumen during turbulent times for a firm. Nowhere in the stakeholder analysis does it claim that shareholders take priority above all other stakeholders in a firm, as a shareholder theorist such as Friedman would articulate. Instead, the model views the shareholder as being equally weighted to all other stakeholders in the firms, and if a shareholder falls into a category that takes priority over another at the time, then his or her needs should be tended to first. One caveat to this

9 Ricardo Ramirez, "Stakeholder Analysis and Conflict Management," International Development Research Center, 2006. 4 Dec. 2007 <http://www.idrc.ca/en/ev-27971-201-1-DO_TOPIC.html>.

rule is that since shareholders play such an important role in the decision-making processes and management of the firm, they will often take priority, but the key point is not *all* the time. Stakeholder analysis presents many opportunities for managers to tend to the needs of other stakeholders before shareholders.

Ed Freeman claims that when comparing the stakeholder and shareholder models, one should not view them as completely contradictory theories.[10] Instead, Freeman states that the stakeholder approach can be implemented to produce an end result as profitable as or even more profitable than the shareholder approach. For Krishna, this objective is the highest level of consciousness and self-awareness that transcends the physical world and physical senses. In the context of management and business, this "supreme state" refers to a higher level of leadership consciousness and firm value. Thus, if firms have the capability to "balance the interests of the firm," as companies such as P&G claim to do in their mission statement, they could utilize acts of CSR to further the interests of the firm while still benefiting their communities.

Krishna would view the theory through a holistic approach, seeing it as a way to bring out the best in each individual who is important to the wellbeing of the overall organization.[11] Analogous to the "Feminist Standpoint Theory" in Freeman's Stakeholder Approach, Krishna claims that actions must be taken with high priority in social awareness and relationship management, because these are the factors that drive profits within a firm.[12] This view returns to Krishna's central message that if managers concentrate on their actions and all those that influence their actions, positive effects will inevitably ensue.

For example, Proctor & Gamble's mission statement states announces: "We will provide branded products and services of superior quality and value that improve the lives of the world's consumers. As a result, consumers will reward us with leadership sales, profit, and value creation, allowing our people, our shareholders, and the communities

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10 Anant K. Sundaram and Andrew C. Inkpen, "Stakeholder Theory and the 'The Corporate Objective Revisited': A Reply." <u>Organization Science</u> 15.3 (May-June 2004), p. 370.

11 Ramesh N. Patel, <u>Philosophy of the Gita</u> (New York: Peter Lang Publishing, 1991) 158.

12 R. Edward Freeman, *Strategic Management: A Stakeholder Approach* (Boston: Pitman Publishing, Inc., 1984) 209.

in which we live and work to prosper."[13] P&G believes in satisfying all individuals valuable to the firm, not just their shareholders. As a result, consumers reward them with sales, profit, and value creation that allow the communities in which its employees live and work to prosper.[14] Thus, P&G's primary focus is social responsibility both within the firm and in its local and global communities: P&G contributes to the economic and social well-being of their employees, shareholders and the local communities in which they operate. On a larger scope, the company is involved in regional, national and international development. Achieving a desirable rate of return for its shareholders is one end goal for companies such as P&G in order to fund its social mission.[15]

The late London Business School professor Sumantra Ghoshal believed that the corporate scandals of a few years ago in the U.S. were offshoots of the shareholder theory of capitalism that were being proposed by economists and emphasized at business schools. He believed that corporations are not solely profit-generating robots reacting to market forces; "they are managed by and for humans, and have a symbiotic relationship with the world around them."[16] Similarly, social responsibility does not have to be the "cloak" that Friedman once described, but instead, could be the key to greater value generation for all firms, especially those who have been weighed down by their prominent shareholder focus. The quest, says Prahalad, is to "develop a capitalism that puts the individual at the center of the universe,"[17] thus positioning suppliers, employees, customers, and other stakeholders of the firm first so that they can benefit shareholders.

III. Contrast between Sun Tzu's *The Art of War* and Krishna's *Bhagavad Gita*

> All warfare is based on deception. Hold out baits to the enemy. Feign disorder and crush him.
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> Sun Tzu, *The Art of War*

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13 Proctor & Gamble, "Corporate Philanthropy," 2007. 4 Dec. 2007. <http://www.pg.com/company/our_commitment/community.jhtml>.

14 Ibid.

15 Anant K. Sundaram and Andrew C Inkpen, "Stakeholder Theory and the 'The Corporate Objective Revisited': A Reply." Organization Science 15.3 (May-June 2004), p. 371.

16 Pete Engardio, "Karma Capitalism." BusinessWeek 30 Oct. 2006: 91.

17 Ibid., 84.

> Be fearless and pure; never waver in your determination or your dedication to the spiritual life. Cultivate vigor, patience, will, purity; avoid malice and pride. Then, you will achieve your destiny.
>
> Krishna, *The Bhagavad Gita*

While the *Bhagavad Gita* and *Art of War* both address a leader's decision-making and resolve during a time of great tribulation, their original purposes differ immensely. The *Art of War* was written to be a manual for strategy in battle while the *Gita* was composed to present war as just one of the manifestations of struggle that individuals have to overcome in their daily lives. Even the titles of the texts themselves reveal the differences in their intent. The *Bhagavad Gita* literally means "Song of the Blessed One," alluding to the teachings of Krishna, who is a sage that has reached a higher level of enlightenment.[18] *The Art of War* refers to the beauty and craft of decision-making and organization in the circumstance of war.

In the times of Sun Tzu, warfare was prevalent and consisted of burning cities, reading signs of favorable and unfavorable weather patterns, interpreting the disturbance of birds as the enemy advanced, and motivating troops to fight with resolve and valor. If generals strayed from their strategy and their end focus, they failed. At times, even deception was needed to achieve victory. For Friedman, the business environment was as ruthless and unyielding. In his opinion, any firm whose motives strayed from increasing shareholder's profits had no reason to exist.

In the *Gita*, whether or not Arjuna should fight is a secondary question. The real question that he faces and that managers should acknowledge from the text is: how should individuals live their daily lives.[19] For Krishna, battle was more a spiritual quest than a physical display of brute strength and domination. When Arjuna consults his guide on the battlefield, Krishna emphasizes that he should not look towards the opposing army as his friends and family, because he will then get attached to his relationships with these individuals instead of his duties. It is what Gandhi called "renunciation of the fruits of action"[20] that propels Arjuna to shed his weaknesses and accomplish his tasks with emphasis placed on the purity of his actions over the end result. Similarly, for Freeman, it is this desire to focus on the

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18 Ramesh N. Patel, Philosophy of the Gita (New York: Peter Lang Publishing, 1991) 10.

19 Madan Prasad Singh, The Ethical Philosophy of the Gita: A Comparative and Critical Study of the Interpretations of Tilak and Ramanuja (Calcutta: Punthi-Pustak Publishers, 1996) 12.

20 Stephen Mitchell, Bhagavad Gita (New York: Harmony Books, 2000) 20.

intermediate steps of a goal that prompted him to form his six principles of the Doctrine of Fair Contracts. Freeman hopes to redefine the purpose of the firm with these principles, by revealing that an emphasis on stakeholders brings new dimensions of decision-making and leadership that a purely stockholder-centric approach lacks[21].

The gravitation towards *The Art of War* as the managerial leadership text of choice in the past seems logical. After all, for years, people have regarded Sun Tzu's *Art of War* as a manual of intricate strategy with tactics for victory that can easily be implemented in the workplace. The *Gita*, on the other hand, has been seen as purely a religious text. Only today are more leaders admiring the *Gita* as an ancient text of spiritual wellbeing and guidance. "To me, most aspects of Hindu philosophy such as the *Gita*, the *Vedas* or the *Upanishads* are nothing but scriptures of knowledge and lessons of leadership," says Dipak Jain, dean of Northwestern University's Kellogg School of Management.[22]

"*The Art of War* brings leadership that is unidimensional and completely focused on victory. To me victory with a huge social cost is not a victory," says Jain. "You have to ask yourself is life just about winning, or winning subject to constraints?"[23]

The key perception today is that executives are seeing the corporate world less as a physical battlefield that justifies sly tactics and deception, and more as an internal challenge of leadership ability, accountability and organizational values. The basic idea proposed by Sun Tzu remains the same: "he whose ranks are united in purpose will be victorious."[24] Furthermore, today's CEO is more a cooperating value-generator than a money-mongering warrior, and his "troops" entail all stakeholders, not just those who are attached to wealth generation. The holistic approach used by some managers today is "paying dividends" in many forms, and if more corporate executives conducted business operations in this manner, more firms would experience the long-term value generation associated with CSR.

IV. Shift from Shareholder to Stakeholder Focus

> By pursuing his own interest [an individual] frequently promotes that of the society more effectually than when he really intends to

21 H. Jeff Smith, "The Shareholders vs. Stakeholders Debate," MIT Sloan Management Review 44.4 (Summer 2003): 87.

22 Dipak Jain, Telephone interview, 19 Nov. 2006.

23 Ibid.

24 Sun Tzu, The Art of War (New York: Delacorte Press, 1983) 62.

promote it. I have never known much good done by those who affected to trade for the public good.

Adam Smith, The Wealth of Nations (1776)

In recent years, business ethics and the stakeholder theory has become a popular area of study in academic literature and implementation in the corporate setting. According to Wharton professor Thomas Donaldson, "The focus on corporate stakeholders has become the symbol of the modern effort to redefine the corporation."[25]

An important element of the shift to the stakeholder approach has been the effort to promoting corporate social responsibility both inside and outside of the workplace.[26] In articulating his orthodox view of free market capitalism with the 1970 article "The Social Responsibility of Business is to Increase its Profits," economist Milton Friedman balked at capitalists who claimed that business is not concerned "merely" with profit but also with promoting desirable "social ends."[27] Even today, noted economists such as Arthur Laffer, known as the "father of supply-side economics," claim that "there is no positive correlation between CSR and business profitability" based on an analysis of 28 companies that were among *Business Ethics* magazine's "Top 100 Corporate Citizens" every year from 2000-2004.[28]

However, proponents of CSR including Proctor & Gamble CEO Alan Lafley and Dipak Jain, dean of the Kellogg School of Management, strongly disagree. Lafley would argue that Friedman's view could not apply to modern-day firms and today's free market capital system because there are numerous external factors that play a role in a firm's decision-making today that did not exist when Friedman devised his argument decades ago. For example, firms no longer utilize CSR as a "cloak" for short-sightedness but rather as a strategic tool to enhance their image, and in doing so, their profits. Corporate social responsibility reflects a shift in society's priorities: civil society has increasingly turned to the private sector to address critical needs including disease prevention, provision of potable water supplies and

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25 Robert Phillips, Stakeholder Theory and Organizational Ethics (San Francisco: Berrett-Koehler Publishers, 2003) end flap.

26 H. Jeff Smith, "The Shareholders vs. Stakeholders Debate," MIT Sloan Management Review 44.4 (Summer 2003): 86.

27 Milton Friedman, "The Social Responsibility of Business is to Increase its Profits." New York Times Magazine. 13 Sept. 1970: Vol. 33, No. 30, p. 122.

28 Free Enterprise Education Institute, "New Study Indicates Corporate Social Responsibility Not So Profitable," 2004-2005, 11 Nov. 2006 <http://www.csrwatch.com/Sub/Resources/csr_profitability.htm>.

educational opportunities.

This shift has also reflected claims on large corporations. In Lafley's opinion, Friedman's view can be viewed as a modern-day interpretation of Sun Tzu's exploitation of an enemy's weaknesses in order to further one's own quest towards a supreme goal. In today's society, this mentality towards running a firm will not suffice. Lafley would propose that his company's rapid global growth can be attributed to its firm stakeholder model, and this is evidence that caring about more than just shareholders means good business overall, even for businesses who do not use CSR just to attract and retain customers and employees.

Jain cites the *Bhagavad Gita* as the text that has often guided his actions in satisfying all stakeholders of his organization, the Kellogg School of Management, including the students, faculty, alumni and media. "Shareholders are primarily focused on outcome," says Jain. "The *Bhagavad Gita* teaches us that you don't control the outcome of your actions, you only control the efforts. Thus, if you focus on your efforts, you have to focus on all stakeholders and not just the shareholders."[29]

For both Lafley and Jain, profits are the means to value generation, and not the end in itself. This sense of "enlightened capitalism" has been one of the main reasons that managers have transitioned from *The Art of War* to the *Bhagavad Gita*. Times have changed since it was considered wise for companies to pursue only their own economic self-interests, and managers now feel the need to balance relationships within the firm. It is no surprise that the management guides linked to both the shareholder and stakeholder approach have shifted as well.

V. Responses to Critics of the Stakeholder Theory and Corporate Social Responsibility

Critics of corporate social responsibility such as David Vogel, professor at the University of California at Berkeley, claim that CSR only makes "business sense" for firms in niche markets, or those that have a "need" to pursue CSR to repair their reputations that have been sullied in some way or prevent it from becoming a competitive disadvantage. For instance, Vogel would claim that based on empirical evidence, it does not make sense for Proctor & Gamble, the world's largest consumer-products company, which does not cater to a niche market and has not had any significant internal crisis or media blitz in the past few years, to invest heavily in CSR projects. However, this is simply not the case. Vogel's view that CSR provides advantages in terms of public relations and image

29 Dipak Jain, Telephone interview, 19 Nov. 2006.

enhancement falls short because there are other significant reasons why firms should pursue CSR. These reasons include opportunities for firms to tap into untouched international markets, prospects for the firm to stay on top of cutting-edge technology and open avenues for product development, and the pursuit of long-term value generation and sustainability for the firm. Each of these objectives has been a direct offshoot of CSR activities for major firms, such as P&G which will be described later in the section. None of these ideas have been incorporated into Vogel's limited definition of the benefits of the CSR, and thus his model is incomplete.[30]

In response to critics like Vogel who argue that CSR has its shortcomings, Steven D. Lydenberg, chief investment officer of Domini Social Investments, a prominent socially responsible investing firm based in Providence, RI proposes that CSR should be a core element of corporate management. In his recent book entitled *Corporations and the Public Interest: Guiding the Invisible Hand*, Lydenberg proposes many strategies that executives should employ to integrate CSR into the fabric of a company. For Lydenberg, "CSR is 'a major secular development, driven by a long-term reevaluation of the role of corporations in society."[31] Lydenberg's main argument is that corporate social responsibility is an excellent and viable method of creating long-term wealth for companies such as P&G.

Lyndenberg cites that a significant development on the horizon, is guidance from the International Organization for Standardization (ISO) for implementing CSR programs. This standard will be called the ISO 26000 standard for social responsibility, and is expected to come out in 2008. This standard will contain guidelines, not requirements, and therefore will be used to be a certification criterion like the ISO 9000 standard for quality. It will continue to add value to firms who have already been employing CSR, and will reinforce the decision to implement CSR for those who have been thinking about making the appropriate decisions, but have not made the move yet. Lydenberg believes that companies that are concerned with sustainability issues will adopt the standard and ask their suppliers and vendors to follow suit.[32]

For public companies such as P&G, the complete and wide-ranging disclosure of social and environmental performance "has already passed

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30 Edward Teach, "Two views of virtue: the corporate social responsibility movement is picking up steam. Should you worry about it?" <u>CFO: Magazine for Senior Financial Executives</u>, Dec. 2005, 10 Nov. 2006 <http://findarticles.com/p/articles/mi_m3870/is_17_21/ai_n15999730>.

31 Ibid.

32 Ibid.

the tipping point," according to Lydenberg.[33] So far, P&G and more than 700 other firms have published sustainability reports using part or all of the Global Reporting Initiative's guidelines for reporting, in which companies disclose a "triple bottom line" of economic, social, and environmental performance. Lydenberg cites that such disclosure helps educate consumers and investors, who in turn help steer companies to the public interest. By making their CSR activities known publicly, these companies boost their public image, an extra step towards gaining a foothold on competitors and tapping into further markets.

This idea is prevalent in P&G's ventures in CSR. Corporate social responsibility does not have to reap rewards solely for firms that utilize it as part of their identity, or for firms that do not want it to become a source of competitive disadvantage, as Vogel states. There are many firms that have the capability, time and capital to invest in CSR, and thus should make an effort at some level. According to P&G spokesperson Terry Loftus, the company states that their efforts overseas are a clear link to their approach to understanding diversity, which in turn is a "fundamental business strategy."[34]

Vogel's claim that the "international impact of CSR on brands has been negligible" is simply not valid today.[35] For example, P&G offers over 300 brands in more than 80 countries worldwide, and its success "depends entirely on our ability to understand these diverse consumers' needs,"[36] according to a company spokesperson. A main reason why the company has donated a significant amount of financial support and supplies to help disadvantaged youth in Vietnam, combat childhood malnutrition in India, and provide earthquake relief in Turkey, is to gain the insight and customer base needed to continue growing worldwide. P&G continues to invest in CSR year after year even though they already have such a reputable international image. CSR "makes sense" by such a brand name firm not only because it is at risk of being targeted by activists, as Vogel claims, but due to the fact that

33 Edward Teach, "Two views of virtue: the corporate social responsibility movement is picking up steam. Should you worry about it?" CFO: Magazine for Senior Financial Executives, Dec. 2005, 10 Nov. 2006 <http://findarticles.com/p/articles/mi_m3870/is_17_21/ai_n15999730>.

34 Eric Fernald, "100 Best Corporate Citizens for 2004." Business Ethics 3 May 2004, 14 Nov. 2006 <http://www.business-ethics.com/100best.htm>.

35 Edward Teach, "Two views of virtue: the corporate social responsibility movement is picking up steam. Should you worry about it?" CFO: Magazine for Senior Financial Executives, Dec. 2005, 10 Nov. 2006 <http://findarticles.com/p/articles/mi_m3870/is_17_21/ai_n15999730>.

36 Eric Fernald, "100 Best Corporate Citizens for 2004." Business Ethics 3 May 2004 <http://www.business-ethics.com/100best.htm>.

every year such actions increases the company's scope and awareness of the international community, allowing it to tap into markets worldwide.

Lyndenberg states that when companies recognize the need for CSR, they realize the immense potential of "long-term wealth" generation. "Corporations create long-term wealth," he writes in *Corporations and the Public Interest*, "when, in addition to generating productivity gains, they preserve natural resources for future generations, create value in their relationships with their stakeholders, and do not externalize costs onto society."[37] This notion of long-term wealth leads to future sustainability along with profits in the short-term, a point that is missing in the arguments of Vogel and other critics who claim that CSR is only profitable for select companies.

In the article, "Two views of virtue" published in the December 2005 issue of CFO magazine, Vogel himself claims that he will only change his argument about CSR when "articles about companies in the mainstream business press regularly or even occasionally mention some aspect of CSR in terms of...understanding a company's past or future performance."[38] This issue is directly addressed by Lyndenberg's proposal of long-term value creation, which supports addressing stakeholder needs in order to evaluate future value generation in comparison to past wealth, expansion and other value-generating opportunities for the firm. Vogel believes CSR will always remain "marginal and secondary," to firms, but this is simply not the case in today's corporate world. Without question, CSR is becoming part of the global corporate culture; today, more than 2,000 U.S. companies publish annual corporate social responsibility reports along with their financial statements compared to a few hundred just two years ago.[39]

An article published in The Economist magazine claims that "it would be a challenge to find a recent annual report of any big international company that justifies the firm's existence merely in terms of profit, rather than 'service to the community'."[40] According to the article, "The good company" deputy editor Clive Crook claims that signs of the "victory of CSR advocates" can be seen in the speeches of top executives and the diligent reporting of CSR efforts in their published accounts. In addition, corporate

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37 Edward Teach, "Two views of virtue: the corporate social responsibility movement is picking up steam. Should you worry about it?" CFO: Magazine for Senior Financial Executives, Dec. 2005, 10 Nov. 2006 <http://findarticles.com/p/articles/mi_m3870/is_17_21/ai_n15999730>.

38 Ibid.

39 Ibid.

40 Clive Crook, "The good company," The Economist 20 Jan 2005: 3-4.

social responsibility is now an industry in its own right, and a flourishing profession as well. Consultancies have sprung up to advise companies on how to do CSR, and how to let it be known that they are doing it. In a survey of the 1,500 delegates, which included mostly business leaders, attending the World Economic Forum in Davos, Switzerland in 2004, fewer than one in five respondents stated that profitability was the most important measure of corporate success. While a little under five percent of the constituency named CSR as the single most important criterion, it should be noted that an additional 24% said that the reputation and integrity of the brand, to which good corporate citizenship is a critical element, mattered the most to them.[41]

Critics of this model also assert that there many other cost-effective ways for firms to create "long-term wealth" than to just employ CSR. Also, a critic may ask how it is possible for all firms to be able to abide by a "triple bottom line" when many are merely trying to maintain the single bottom line of profit generation for its shareholders. Other critics perceive corporate social responsibility as incurring unnecessary costs and being a waste of time for companies whose image does not rely upon it.

The answer to these arguments lies in the fact that there are many levels to corporate social responsibility that managers often fail to realize. Comparable to Krishna's ideology, corporate social responsibility could start at the individual level, ensuring that relations between managers and employees are open and good-natured. In addition, CSR is one means that is highly effective and can be cost-efficient for all firms if they employ it to address the unique needs of their individual firm, as P&G has done, according to Lyndenberg.

Taking small steps to incorporating CSR in the workplace is the key for the modern corporate executive. In 1999, the animal rights organization In Defense of Animals launched a vicious campaign against P&G to stop the company's techniques of animal abuse due to product testing that occurred each year. They labeled their global campaign "P&G Kills" and stated that the company refused to switch to more humane and reliable alternatives due to extra costs involved.[42] This campaign and boycott against P&G hurt the firm's image tremendously. P&G decided to take action and invest in more humane measures, but they did not stop there. Today, they are known worldwide as a global leader in providing animal alternatives and were

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41 "The future of corporate social responsibility," The Economist. January 22, 2004.

42 In Defense of Animals, "In Defense of Animals Condemns P&G's Hypocrisy on Animals Tests," PandGKills.com. 19 Nov. 2002. 4 Dec. 2007 <http://www.pandgkills.com/alerts/memo.html>.

recognized by the Humane Society of the United States for their efforts to find alternative methods to test their products.

P&G could have restricted its CSR initiatives to modifying its animal testing practices, as Vogel would have recommended to repair its image, but P&G continued to take larger leaps to enhance its community and to be on the cutting edge of environmentally sound technology. P&G took an aggressive offensive-minded approach, rather than just settling with the "primarily defensive" display of corporate virtue as Vogel advocates. P&G's risky investment to be on the forefront of animal rights issues has enabled the company to tap into a large market of ecologically-cognizant consumers that was previously accommodated by smaller brands.

In 2002, Vancouver-based Standberg Consulting conducted a study entitled "The Future of Corporate Social Responsibility," in which it created a CSR continuum open to all firms, not just those in limited and narrow positions. The consulting group intended to pinpoint any firm on the continuum, based on the scope, or lack thereof, of their CSR agenda. The firm identified five levels of CSR: CSR Lite, CSR Compliant, CSR Strategic, CSR Integrated and Deep CSR. CSR Lite includes firms that are primarily concerned with responsiveness to complaints, not CSR, and thus their business model will not be changed. This category also includes firms that have been forced into compliance with CSR objectives, but do not show any commitment to social or environmental progress.[43]

The consulting firm stated that all companies need to make the leap to at least CSR Compliant, in which firms keep abreast of emerging standards of CSR and ensure they are compliant with those standards. The next level is analogous to Vogel's viewpoint on CSR. CSR Strategic includes firms that develop business strategies within one or two aspects of CSR around which they can develop a competitive advantage and have a significant impact. The last two levels of CSR include firms that are the most committed to incorporating CSR within their business plans. While it is may not be in the best interest of *every* firm to operate at the last two levels of CSR, more firms should make the leap from the CSR Lite category for the benefit of the firm and society as a whole. All firms do not have to be heroic by pursuing societal and environmental improvements with alacrity, but as P&G has shown, a gradual focus on CSR efforts can make a tremendous difference for a firm.[44]

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43 Strandberg Consulting, "The Future of Corporate Social Responsibility" Sept. 2002. 11 Nov. 2006 <http://www.cbsr.ca/files/ReportsandPapers/Future_of_CSR.pdf>.

44 Ibid.

VI. *Bhagavad Gita* on Leadership Character: Sattvic vs. Rajasic

> A sattvic person performs actions with a firm belief in his or her responsibilities and without attachments to results.
>
> Krishna, *The Bhagavad Gita*

Throughout the *Bhagavad Gita*, Krishna and Arjuna discuss the virtues and vices of human character. Today, these same personal qualities can be seen driving decision-making in the workplace. In chapter 7 of the *Gita*, Krishna describes two main types of human character: sattvic and rajasic.[45] Sattvic leaders are driven by the harmony between the self and the surroundings and are repelled from provoking confrontation or disparity. In addition, they do not hesitate to accept suffering if such hardships cause peace and harmony for the people in their organizations.[46]

Applying Krishna's philosophy, Proctor & Gamble announced in 2005 that it will launch its Children's Safe Drinking Water initiative in order to help distribute its low-cost PUR Purifier of Water technology to developing countries around the world. P&G aims to transform contaminated water sources to meet World Health Organization standards for safe drinking water. P&G has already invested millions to provide safe and clean drinking water to children in Africa and around the world, because such sustainability is instrumental to the company's values and policies. Executives at P&G know that such decisions do not directly affect potential consumers of their products; nevertheless, they continue to maintain their humanitarian focus because corporate social responsibility has been part of their business identity for years.[47] It is this commitment to their community that has helped P&G's brand shine for decades.

"Sattvic leadership radiates calmness, purity, and righteousness. It embodies happiness and knowledge," says Krishna.[48] Leadership character should thus incorporate integrity and a focus on people and competency. The central leadership message of the *Gita* directs people to become satvic leaders who put the interest, needs and wants of others ahead of themselves. When leaders act with purely selfish motives, they tend to emit negative energy to those within their firm. This negative energy can have

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45 Julius J. Lipner, The Bhavagadgītā for our Times (New Delhi: Oxford University Press, 1997) 72.

46 Eknath Easwaran, The Bhagavad Gita (New York: Vintage Books, 1985) 40.

47 Proctor & Gamble, "Corporate Philanthropy." 2007. <http://www.pg.com/company/our_commitment/community.jhtml>.

48 Pujan Roka, Bhagavad Gita on Effective Leadership (New York: iUniverse, Inc., 2006) 116.

grave ramifications in the workplace. Krishna calls this type of leadership character rajasic. Rajasic leaders "create chaos and darkness in their organizations"[49] by their egotistical desires.

"If you look at the world of business today, the biggest challenge we face is on the front of leadership," says Jain.[50] This theme is clearly relevant for company executives who are more inclined to put company profits and the shareholders' interests over the overall value of the corporation. Financial incentives for business leaders are often based on aggressive financial goals that focus less on customers and employees than on the bottom line of profit generation. Unfortunately, company value is often equated with purely shareholder's profits and according to the teachings of the *Gita*, this should not be the case.

VII. Future Implications of CSR

CSR has become a subject of great importance when companies assess their strategic plans. Many of the world's leading corporations are already integrating socially responsible solutions into their business models, while making great strides towards social and environmental responsibility. Companies are finding that "corporate value and social virtue not only are mutually exclusive but can be mutually reinforcing."[51] While many companies acknowledge that the benefits of CSR are great today, those that are not currently engaging in CSR should realize that the future implications and amplified effects of CSR are significant.

With the dramatic shift in corporate attitudes toward CSR that has occurred in the past decade, more companies will utilize CSR as an offensive rather than defensive tactic employed to protect oneself from negative publicity. Many companies today engage in CSR, "because they believe that being socially responsible is good for their business -- whether it's through building their brand reputation, mitigating risk or improving employee retention and productivity, just to name a few benefits," says James Viray, director of the State Department's Office of International Labor and Corporate Social Responsibility. Other companies engage in CSR, he added,

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49 Pujan Roka, Bhagavad Gita on Effective Leadership (New York: iUniverse, Inc., 2006) 115.

50 Dipak Jain, Telephone interview, 19 Nov. 2006.

51 Mark A. Cohen, "Does Corporate Social Responsibility Make Sense?" Vanderbilt Owen Graduate School of Management OWENintelligence. 15 Feb. 2007. 2 Dec. 2007 <http://www.owen.vanderbilt.edu/vanderbilt/About/faculty-research/featured-research/does-corporate-social-responsibility-make-sense.cfm>.

"because they just believe that it's the right thing to do," while "others may do it for a combination of those reasons."[52] Companies will progressively turn to CSR as employees, customers and government bodies continue to demand for businesses to maintain and be more open about their business practices.

Companies with similar green goals in mind may collaborate to create positive branding for all parties involved. A recent collaboration between Greenpeace and Coca-Cola demonstrates that organizations with similar goals in mind for a project involving CSR, can collaborate to extend the scope of their actions. To alleviate the egregious impact that Coca-Cola's over nine million coolers and vending machines had on the global climate, both organizations worked together to create a more sustainable energy technology. Due to the overwhelming success of this project, Coca-Cola became more open to cobranding efforts and joint advertising campaigns.[53] Likewise, CSR has opened the door for many full-service sustainability consulting firms like DOMANI, which helps to "engage multinational clients with stakeholders and NGOs for mutual benefit."[54] Firms like DOMANI understand that engaging in common green projects is a common denominator for companies to work together and utilize synergies to boost stakeholder value. They have helped firms achieve "new bottom line value through precise, market driven sustainability strategies."[55]

Along with the advent of new firms focused on helping companies engage in constructive CSR activities, the potential for job creation in the field of CSR has surged, as larger companies are beginning to add CSR departments or include CSR functions within particular divisions including communications, investor relations, finance and operations. CSR can be seen as an emerging profession due to the complexity of roles and responsibilities of a CSR practitioner. For companies in the emerging stage of establishing a CSR agenda, managers with experiences in socially responsible projects will be essential. Once considered a budgetary burden for many companies, CSR

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52 Eric Green, "Corporate Social Responsibility Seen as Smart Business Move." USInfo.State.Gov International Information Programs. 7 Aug. 2007. 4 Dec. 2007. <http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2007&m=August&x=20070807113837 1XEneerG0.5274622>.

53 Peter Asmus, "Corporate Social Responsibility: Designing a Sustainable Future." New York Times Special Advertising Section 2007.

54 Amy Westervelt, "CSR: Leadership for Sustainability in a Networked World." Business for Social Responsibility 2007.

55 DOMANI Sustainability Consulting, "Home Page." 2007, 4 Dec. 2007 <http://www.domani.com/>

now holds tremendous long-term potential for value creation.

Companies may decide to adopt the "bottom of the pyramid" strategy, based on the notion that low-income markets present excellent opportunities for investment by global corporations. This idea suggests that developing nations represent 4 billion people who live on less than $2 a day, on average. DuPont is a prime example of a company that has been able to generate value by participating in developing nation markets. In 2003, it launched its "BOP" pilot programs in Latin America. DuPont researchers screened ideas to meet the triple bottom line – each idea, "must make a positive contribution to society, be good for the environment, and be an attractive business opportunity."[56] DuPont brings together government officials and NGOs to help in product development to alleviate starvation. Such projects have included hybrid corn seeds that are more robust than conventional seeds, and an affordable product that fuses soy protein and chicken. The company hopes to expand its successful model to other developing regions of the world, and has demonstrated that, "it is possible to integrate sustainability into one's business model as a driver of value creation."[57]

Engagement in CSR must not be commonplace and generic, but needs to have a unique angle to have a profound impact. In a June 2007 panel at Georgetown University entitled, "Principles, Profits, and Politics: The Rise of Corporate Social Responsibility," former U.S. Senator Jim Talent stated that most corporations are already actively engaged in creating value beyond profit generation, but just need to communicate more clearly the specific ways that they are creating value for particular groups of stakeholders. Findings from a national survey by Fleishman-Hillard and the National Consumers League were released at the panel, showing that that a majority of Americans believe that the most important thing a company can do to be viewed as socially responsible is to "treat their employees well."[58] Hence, CSR does not have to entail huge donations of money or the establishment of multi-millionaire dollar centers of learning, to leave a lasting impression on its stakeholders and the public.

Business executives must assess the potential affects of CSR on overall value creation for their firm. Current and future drivers of corporate

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56 Peter Asmus, "Corporate Social Responsibility: Designing a Sustainable Future." New York Times Special Advertising Section 2007.

57 Ibid.

58 Jim Talent, "Beyond the Bottom Line: Redefining Corporate Social Responsibility," 10 June 2007, 2 Dec. 2007 <http://www.huffingtonpost.com/sen-jim-talent/beyond-the-bottom-line-r_b_51449.html>.

social responsibility include: ethical consumerism, globalization and market forces, social awareness and government regulations. In his response to *The Economist* Survey of CSR published on January 22, 2005, Jeremy Moon, director of the Nottingham University Business School's International Centre for Corporate Social Responsibility states that, "the proper business of business includes investment in the social conditions for its own success and in its legitimacy. This is a complement rather than an alternative to other vehicles for business success."[59]

VIII. CSR and Public Policy

Governments are beginning to view CSR as a cost-effective and efficient means to enhance sustainable development strategies. Social responsibility is now being seen as an integral component of national competitiveness strategies. During the 2003 e-conference "Public Policy for Corporate Social Responsibility," hosted by the World Bank Institute Series on Corporate Responsibility, Accountability and Sustainable Competitiveness, scholars from around the world shared ideas on ways the public and private sectors can work in conjunction to promote CSR activities. Participants agreed that the public sector must work to create a business environment that promotes CSR, as well as implement the appropriate regulatory structures.[60]

Government involvement in CSR must be transparent and pervasive. Governments around the world must clarify their expectations of business with regard to CSR, and develop ways to measure their responses to these expectations. The public sector may decide to include tax exemptions for companies that build social capital within their communities. Governments may also decide to encourage CSR within small and medium-sized enterprises, which lack the impetus to participate in such activities on their own.

While CSR will continue to be attractive at the national level due to its beneficial effects on a nation's economic competitiveness, there will need to be a great emphasis on defining CSR at a local level. Since CSR is viewed differently around the world depending on cultural and historical conditions, approaches to CSR by different countries, "would depend on the orientation

59 Jeremy Moon, "CSR and the Good Company: A Response to *The Economist* Survey of CSR 22nd January 2005," 4 Dec. 2007 <www.nottingham.ac.uk/business/ICCSR/pdf/ResponsetoEconomist.pdf>.

60 Djordjija Petkoski and Nigel Twose, "Public Policy for Corporate Social Responsibility," WBI Series on Corporate Responsibility, Accountability, and Sustainable Competitiveness (7-25 July 2003): 8.

of the government and on the level of business influence on policy."[61] More research and consideration needs to be placed on research on country-level agendas that affect the role of business in society and the redefinition of the sectors of public and private policies. Responsible business activity will inevitably create a favorable environment for conducting business and promoting social development both locally and nationally.

IX. Conclusion

In the text of the *Bhagavad Gita* lies the "crisis and emancipation"[62] of the modern corporate executive. Like Prince Arjuna, today's business leader has to overcome both an internal and external dilemma: whether to ceaselessly pursue the bottom line for the sole benefit of shareholders or whether to broaden the scope of the firm by balancing the relationships of all stakeholders who are impacted by the firm. The challenge for today's business executive is to place individuals before profits, so that employees and customers can inevitably benefit shareholders. The *Gita* requests leaders to accept this challenge and be the sattvic frame of reference for ethics and morality that the corporate world has lacked for many years.

As the world moves forward to combat international issues during our global green revolution, companies are expected to be good corporate citizens in their communities not only by governments and shareholders, but by their customers and communities. For firms planning ahead, building partnerships and cultivating a culture of social entrepreneurship "both within the company and around the brand," will inevitably have a positive impact on stakeholders.[63] Creating a sustainable future will involve making conscious choices about business strategies, and a sustainable future is one in which a company's social and ecological consequence will be of critical importance in the boardroom. In order for company executives to succeed in their CSR ventures, they must understand how the intersection of business and society is evolving, and must shape these changes in ways that deliver business value that is viable for the firm and for society.

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61 Djordjija Petkoski and Nigel Twose, "Public Policy for Corporate Social Responsibility," WBI Series on Corporate Responsibility, Accountability, and Sustainable Competitiveness (7-25 July 2003): 7.

62 Stephen Mitchell, Bhagavad Gita (New York: Harmony Books, 2000) 219.

63 Amy Westervelt, "CSR: Leadership for Sustainability in a Networked World." Business for Social Responsibility 2007.

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