

THE SOCIAL ROLE OF THE CORPORATION

A SPEECH BY

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To be or not to be... socially responsible. That is the question, ladies and gentlemen, that is

the corporate question of our day.

Our social problems seem insoluble...deteriorating water and air, lack of decent housing, job discrimination, meaningless work. Economic problems; our lives are dominated by economics. And economics is dominated by the corporation, growing ever-bigger and more powerful. Will that power be brought to bear on our social problems? This is what I hear people asking, ordinary people, more and more of them. And the corporate answer may decide the fate of free enterprise in the Eighties.

You know, at college I was taught that this system of ours--- this free enterprise system---was governed by political economy. My experience in the cabinet has changed my view. It wasn't political economy that called for a Department of the Environment, or a Department of Consumer & Corporate Affairs, or Health and Welfare. More and more we live by political philosophy. Ideas govern our lives as much as fact.

Ideas, of course, are born of fact, they incorporate fact, they sum up fact. But facts are immediately apparent, easy to pass on and quick to change. Ideas are harder to grasp, they take a long time to win a consensus, and having done so they're equally slow to change. So ideas often lag behind the facts that they should embody, and I wonder if this is not one reason why our problems resist all effort.

Consider this matter of corporate responsibility. Several industrial statesmen have said that business must serve society if it wants to maintain a society to serve. But I think we can safely assume that this is not a majority view. Arguments on this topic have been increasingly frequent of late in the major American financial magazines, and you don't have a debate where you have a consensus. Canadian thinking, unfortunately, is more obscure. Our publications don't reflect it. The Financial Post hasn't yet done a roundup on social responsibility. Financial Times hasn't covered it in its Survey of Business Opinion. And I don't think the last 12 issues of Canadian Business even mention it---which scarcely suggests a ferment of corporate thought. I am thrown back, as we so often are, on a recent American survey, a poll of the heads of the 500 largest American corporations. A minority thought that profits should be shaded for social concerns. The majority thought that their first responsibility was to shareholders' profits. And behind this is an idea that goes back to Andrew Carnegie--- the conventional wisdom of economic freedom. Most corporate leaders on this continent still seem to hold the idea that corporate freedom to pursue self-interest will ensure the public interest.

But what about the public? What does the public think? Five years ago, according to a Louis Harris poll, 55 per cent of the public viewed the corporation with, quote, "a great deal" unquote, of respect. By late 1973 this figure was down to 27 per cent, and three times as many people had quote, "hardly any" unquote, respect.

Let me hasten to say that I think a similar poll on government or unions, or universities would reveal a like degree of disillusionment. But to focus on the corporation, the result of this public feeling is that citizens' groups are mushrooming, challenging corporate power. We have consumer groups indicting unsafe products and product obsolescence, misleading advertising and deceptive packaging. We have unions, reinforced by veterans of the late university wars, demanding that management "enrich" dull repetitive jobs. We have groups attacking the concept of property rights... others calling for redistribution of wealth...women's groups campaigning to end job discrimination. More groups ...better informed... and louder than ever before. The media amplifies their complaints and we hear them in Ottawa --- oh yes, believe me, we hear them.

Now why should they blame the corporation for all our social problems? In part, perhaps, in reaction to the corporate idea. But also, I think, the corporation is a victim of its achievements. It has made our western society the most affluent ever known, and the healthiest, the most leisured and the most educated. Our rising standard of living has been plain for all to see and people credit the corporation for it. So now, as they see the side effects---poisons and smells, ugliness and noise--- they blame it. The corporation has billed itself as the leader in getting things done. It has earned and promoted the image of Supercorp. So a lot of people think that if corporation heads would forget their stock options and wake up to these problems, they could solve them. The image and fear of Supercorp lies behind the public idea that chasing after profit means running away from responsibility.

Well, is the corporation to blame for the side effects of such things as cars, flush toilets and detergents?

Before cars, the streets were packed with piles of horse manure. People welcomed cars for more than speed and comfort. Before flush toilets, the scent of the outhouse perfumed our streets when the wind was right. People welcomed toilets as a breakthrough in public health. We welcomed detergents--- a new weapon in the age-old war against dirt. If the corporations are guilty, so are we all. Corporations have no corner on omniscience.

What the corporation has been guilty of is success. It has simply been more efficient than any other institution. Its assembly line met our needs while its advertising created wants, an insatiable taste for comfort, luxury and goods. It's been so successful we've given up the family farm, the family business, the small town, so that we could centralize production. We've given up self-sufficiency, pride in craft and belief in roots because they slowed the growth of the GNP. We've given up old-fashioned virtues like thrift and modesty and self-discipline because they were a drag on the market economy. We traded an ideal of sacrifice for an ideal of acquisition. We gave up the church for the gospel of productivity. But is this the fault of business for doing its job so well? Or is it the fault of governments, and unions, and universities, for failing to provide counterfailing values?

Okay, what about Supercorp? Is the public idea on track there? If the corporate leaders just cared enough could they put all our problems behind us?

Well, I don't pretend to know how much social concern corporate leaders have. But I do know they're better informed and better educated than most people. I know they're aware of our social problems, that more and more companies are reporting programs of conservation, pollution control, and community welfare. Of course, critics claim this is so much PR--- and maybe some of it is. You probably saw the cartoon showing company directors around a board table, and the president is saying: "Then it's agreed---one million for research in recycling, and two million to publicize it." But what's so amusing, really? Just the exaggeration. Our system depends on public confidence... you have to appear right as well as do right. Some political parties and governments learned this the hard way.

No, I don't believe we face a crisis of conscience. The explanation, I think, lies in the oranges and apples comparison: the nature of social problems compared with the nature of the corporation. As we all know, power in a large organization is decentralized. We have management by objective. We have the product manager concept. Top management makes decisions, but middle management carries them out. And the corporation manager has one central incentive. He wants to get ahead. He wants recognition and approval. And he knows he'll get them from results. If the president comes out with some broad social objectives, how is this fellow going to react?

First of all, he may think that the president doesn't mean what he says. But even granting his boss' sincerity, his first concern is his quota, his monthly quota of sales or production. He works to a plan... a defined target ... a set deadline. Anything extraneous gets lip service or token effort.

The corporation shapes its incentives for short-term measurable results. It earmarks resources by profits. It allocates capital to make more. All the way down the line its accounting system is geared to the dollar, not to long-term, intangible, social benefits.

The curse of unquantifiability haunts the field of social action, and a few good guys can't change things by themselves. No matter how moral a corporate leader, the system is amoral. It measures only in dollars, and dollars have no ethics. That's not something to apologize for, that's just something to face. The corporate idea that pursuing self-interest ensures the public interest is half-right. But also, like the public's opposing idea, it's half-wrong.

I think it's time we brought these ideas in line with the facts. The corporation gets results when its main dynamic is tapped. Its main dynamic is self-interest. It's wrong, I think, to gloss this over. We can't get rid of self-interest, it's here to stay. The trick is to use it.

I think that corporations could serve both society and themselves by experimenting with problems in their own field. I'm thinking of the big Swiss drug firm of Hoffman la Roche, which operates a program for drug abuse. Or Southern Pacific Railroad, which manages a 500,000 -acre forest so well that the Sierra Club holds it up as a shining example. I'm sure that creative entrepreneurship in solving big problems on a small scale could not only make money but give us models for nation-wide use.

I think that anticipating social need and converting it to dividends is going to become important, possibly urgent. And I wonder---speaking privately, and not for my cabinet colleagues---if governments couldn't make use of this corporate dynamic. Governments are good at surveying, planning, deciding and coordinating, but corporations are often better at getting things done. For example, the Sanitation Department of New York City picks up garbage at a cost of \$50 a ton. The private companies who also pick up garbage in New York pay taxes, make a profit, and charge \$18. Why couldn't governments farm out corporate contracts on social problems? The successful bidder would have to put its best brains on the problem, the way it does now on military contracts. In fact, corporations like IBM and General Electric and RCA are already designing and running American schools under contract. I'd bet an industrial complex that can put a man on the moon could devise a better unemployment insurance plan.

I don't say that self-interest is, or should be, our sole dynamic. Nor that the corporation is the institution. We're more than a big-business society. We're a society of big institutions, each with its own role... interdependent and counterbalancing.

Government's role is to protect, to coordinate and regulate. And where protection is called for---where the environment, for example, is threatened---I think we need a government strong enough to set limits and standards. It isn't fair to expect a private corporation to make public policy. Nor is it fair to expect a few companies to lead in cleaning up---it leaves them at a competitive disadvantage. We can't have pollution havens. We need across-the-board action.

At the same time, I'm sure that no one would wish to be guided strictly by law. True, there are businessmen who do what they want and rationalize it by saying, "If I'm doing wrong, the government will tell me." But I think that's a very short-term view of freedom. In a free-enterprise society the law sets minimum standards of conduct, sometimes no standards at all. Democracy assumes that most people will act responsibly. It assumes, for example, that I won't drive dangerously, not because the law forbids it, but because I have a conscience. If I fail to act responsibly, sooner or later I'm compelled to, and then I've lost my freedom of choice. Freedom depends on voluntary compliance... conscience ... ethics. Democracy rests on a base of mutual values.

Organizations, of course, have no conscience. Organizations are functional machines. Only people have compassion, concern and commitment to human values. The aim of an organization is to perpetuate itself. And unless human conscience intervenes, this end justifies any means.

Some realization of this, I think, lies behind the public's current cynicism, its low opinion of government, unions and business. I believe that it's up to all of us who head large organizations to bring organizational values up to the level of personal values.

I wonder if indeed we have any choice. We embrace the free-enterprise system---or rather, we let it embrace us--- because the production of goods coincides with our desire for them. But now people see they're in danger of losing things they once took for granted, like fresh air and water, and peace and quiet. They see that some goods are being made at a cost they didn't count on. Their values are shifting, and as a lawyer, there's one thing I've learned: today's values become tomorrow's laws.

To know what tomorrow will bring, most countries have to construct a model. We're luckier in Canada. We have our own crystal ball. We can look south across the border and see the future---beckoning or threatening.

Right now we can see some shifts in U.S. law that offer cause for thought. We see state governments, pressured by citizen's groups, suing major polluters for huge sums. We see the U.S. government, pressured by women's groups, investigating thousands of companies for bias against women.

We see caveat emptor going out and product liability coming in. Being rushed in, you might say, by something called class action, whereby one consumer sues on behalf of a whole class of consumers. For instance, U.S. banks are required to quote interest charges by the year. One bank was quoting by the month, which calls for a \$100 penalty. One of its credit card holders sued---and not just for himself, not just for one hundred dollars---but on behalf of the bank's 131,000 card holders, for a total of 13 million dollars.

Today, more than a thousand class actions are pending against U.S. companies...actions on behalf of all shareholders on the New York Exchange, all buyers of General Motors' products, all residents of Chicago. One case was settled for 17 million dollars. It hasn't hit Canada yet because of ^a1910 ruling of the English Court of King's Bench, but this case is said to be shaky, so no doubt we'll see it tested. Whatever happens south of us almost always happens here.

One thing is certain. When public demand is ignored, the public turns to the government for action. We take power away from the corporation and give it to the state. We lose a little more freedom by default. We trade off democracy for authoritarianism...we trade responsibility for accountability.

The East Europeans have been all the way down this road. Not only is their quality of life no better than ours, they are coming back to profits as a measure of performance while, ironically, we drift in the opposite direction.

We can see this drift in what James Reston calls "The crisis of democracy." Almost every free country in Europe is governed by shaky coalitions, or like Italy, simply not governed at all. Japan is politically unstable, and the only real Middle Eastern democracy is fighting for survival with a coalition split on how to survive. In the States, people are wondering if they'll lose their President this week, and in Canada---well,

you know how things are here. The people are withholding their mandate. There's no clearcut trend toward left or right. The free people of the world don't seem to know which way they should go.

But there's one thing we can be sure of. The people will decide. Sooner or later, they'll go one way or the other. They'll move toward freedom or away from it. In the meantime, we drift.

In my view, we can't afford to go on drifting. We have to take action now to build the society we want in the Fifties---and I would like to see it a free society. That means solving our social problems without government regulation. It means using the corporate dynamic...learning to make self-interest work for us by harnessing personal conscience to public welfare. We have to restore public confidence in our free institutions, and as heads of these institutions it's up to us.

I believe we can do it. I believe that the democratic mix and the corporate dynamic, together, can whittle our problems down to size---provided we scrap ideas that no longer square with reality...provided we realize that social responsibility is freedom.