

# **Leadership and People**

**115.725**

**Massey University**

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**Submission Date: 9<sup>th</sup> May 2012**

## **ABSTRACT**

Capitalism's dismissal of externality issues and corporate social responsibility due to a short termism view places its long term survivability at risk. We examine what society has attempted to do, along with reasons why these attempts fail. By examining theories relating to individual's values, awareness of values, and the theory of planned behaviour, the concept of a regulatory enforced International Standard Rating has been designed. The concept utilises free market forces to ensure organisations to act in a socially and environmentally way. Due to only positive leakage, implementation of this concept can be implemented by countries individually without the need for a global consensus.

## ESSAY

The foundation of capitalism is private ownership of organisations, that produce or provide goods and services that are sold for profit. They operate in free markets where the sole determining factor of price, and therefore profits, is market forces. In its pursuit of profit, capitalism has shown deficiencies in the form of short termism; consuming scarce resources, damaging the natural environment and seemingly showing disregard for societal values. Described as negative externalities, free markets are unable to correct the situation as buyers and sellers consider only their own needs, ignoring side effects of their activities (Gans, King, & Mankiw, 2009).

In this essay we explore the attempts that society has made to minimise the negative effects of capitalism, followed by the reasons for the apparent failure of these attempts. Next, we examine the core values of individuals and in the context of corporate social responsibly (CSR) how they apply to theoretical concepts. We will then apply those concepts to value awareness, followed by an analysis of the effects of knowledge on those values in determining intended behaviour. This is followed by an exploration into the theory of planned behaviour, determining the influencing factors affecting the relationship between intended and actual behaviour. We conclude with the 'ISR Concept', activating an individual's espoused values into actual behaviour with the MIX 'hack' submission, an innovative idea to ensure the long term survival of capitalism into the 21<sup>st</sup> century.

Society has attempted in multiple ways to protect its common resources and values. Governments have introduced regulations in attempts to correct a variety of social and environmental issues, for example, enacting anti-discrimination laws and regulating hazardous waste disposal (Griffith & Tegnah, 2010; Rae, 2003). In response to the Kyoto protocol, pigovian carbon taxes have been introduced in an attempt to internalise the externalities.

However both regulation and pigovian taxes are subject to negative leakage, where organisations relocate to countries without restrictions in order to avoid the costs of compliance. Mathiesen and Moestad (2004) modelling of the steel industry predicting leakage to be as high as 26%. In the case of international externalities such as carbon emissions, industrial migration results in lower net reductions of greenhouse gases, and for social or localised environmental issues, the economic and/or social wellbeing of others is reduced (Meltzer & Sierra, 2011). These negative leakages make governments reluctant to impose command-and-control policies for fear of losing market share.

Society is increasingly demanding that organisations operate in a responsible way, and unless the situation changes capitalism will die by its own sword. However as American economist Milton Friedman (1970) stated, "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits". Mainstream investors focus solely on risk-return; Sandberg (2011) contends that institutional investors, responsible for 84% of UK shareholdings, have a fiduciary duty incompatible with socially responsible investments. Although many consumers verbally express support for CSR policies, in practice the majority do not actually support them, their espoused values conflict with their enacted values (Kollmuss & Agyeman, 2002). This striking variation between what people say versus what they actually do demands questions to be answered. Do citizens really care? What do they really want? If they want CSR, why don't they act? And finally, what can society do?

Do citizens really care? The extent to which a person cares about the negative externalities of capitalism on not only themselves but other individuals, in terms of strength and intensity, depends on their personal moral values, beliefs, and importantly as Schwartz (2007) points out, the size of their moral universe. Schwartz found the prevailing culture of those with universalism values, societies characterised by egalitarianism, democratic political systems and individual

freedom, extend their values to strangers, whilst those with a narrow moral universe may not extend their values outside their own racial, ethnic, religious or other groups. In our desire for CSR, an individual's values can be related to the three lower levels of Maslow's theory of needs; physiological needs of food, air, water and shelter suggests that people value clean air and water, along with chemical free food; safety needs of secure and stable environments suggests people value good economic management and secure employment; Belongingness needs of love, affection and interaction suggests that people value the wellbeing of other individuals (McShane, Olekalns, & Travaglione, 2011). This would suggest that people do care, at a minimum within their own cultural groups, while the large majority of the developed world cares about the whole of society.

If people do care, what do they want? Evidence would suggest that although we have values relating to environmental and societal wellbeing, most individuals have blind or hidden spots in their 'johari window', not aware of potential negative effects of the lack of CSR, let alone what they want to do about it (Kollmuss & Agyeman, 2002). The non-immediacy of ecological issues, where the effects of the threats are not tangible until they are felt or seen, creates an emotional detachment (Preuss, 1991 as cited in Kollmuss & Agyeman, 2002). The major effects of climate change could be years away, exactly where is that ozone hole, and are we really going to have another global financial crisis? Temporal discrepancy occurs where people tend to lower the importance of an issue as time progresses, for example, only two years after the Chernobyl disaster which caused fear of nuclear contamination throughout Europe, Switzerland's ten year moratorium on construction of new nuclear reactors was only narrowly endorsed (Kollmuss & Agyeman, 2002). Perhaps the most important factor in assisting individuals to determine exactly what they want is knowledge.

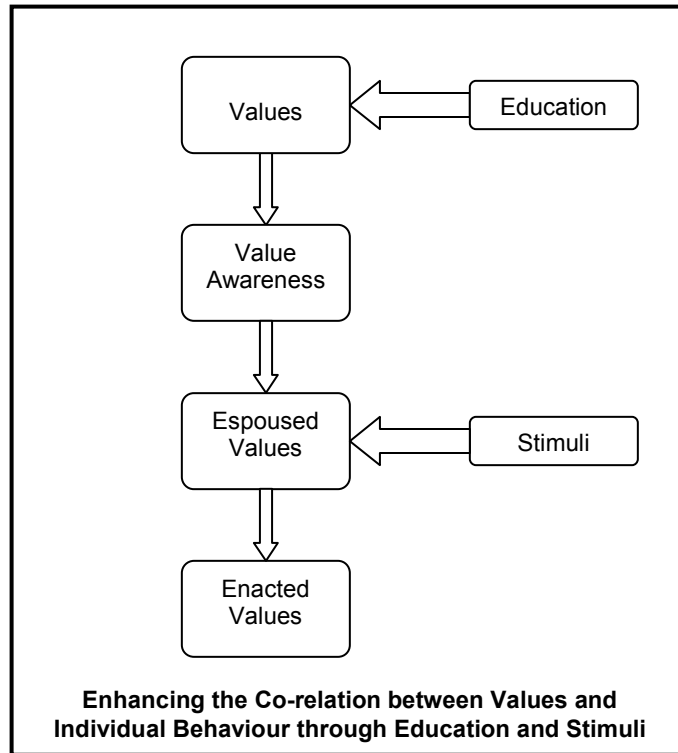
Early theories on the effects of knowledge on pro-environmental behaviour such as those proposed by Ramsey and Rickson (1976, as cited in Hungerford & Volk,

1990) were based on simple linear models, which implied knowledge changes attitude, and attitude changes behaviour. Knowledge enhances an individual's awareness of the issues in our environment, studies involving Texas high school students showed a 22% increase in pro-environmental attitude after an environmental science course (Bradley, Waliczek, & Zajicek, 1999). European countries now have sustainable development as part of their curricula to provide every student education on values to gain social and environmental awareness, and to acquire the skills required for sustainability (Rioux, 2011). Education increases self-efficacy by providing the knowledge and skills, which in turn can increase a person's readiness to act. Montada et al. (2007, as cited in Patchen, 2010) reported on a study of students that higher levels of self efficacy resulted in higher reported engagement in pro-environmental actions. Matada et al. contends self-efficacy as the highest predictor of positive behaviour.

However as Pruneau (2006) points out, knowledge alone is not enough. Knowledge is important, increasing individual awareness, giving additional skills and ability, enhancing self-efficacy, and increasing emotional attachment which leads to changed attitudes, but attitude only forms intended behaviour (Kollmuss & Agyeman, 2002; Rioux, 2011). Research on health behaviour found between 26% and 57% of individuals in the study failed to use condoms, undertake cancer screening or perform exercise, despite their intention to do so (Icek Ajzen, Czasch, & Flood, 2009). Education enhances attitude, but education alone does not guarantee actual behaviour (Icek Ajzen, et al., 2009; I Ajzen & Fishbein, 1980; Verplanken & Holland, 2002)

Why don't citizens act? Numerous studies involving the theory of planned behaviour (TPB) have been undertaken to attempt to predict an individual's behaviour in given situations (Bamberg & Schmidt, 2001; Kollmuss & Agyeman, 2002; Yunhi & Heesup, 2010). The central component of TPB is behavioural intention, and the first predictor of intention is attitude. Our previous discussion shows that individual, and therefore societal attitudes on social and

environmental issues can be enhanced through education creating an intention to act. TPB incorporates expectancy theory, which explains how the strength and intensity of motivation that leads an individual to perform actual behaviour consistent with their intentions is driven by whether the perceived effort will achieve a result, and if that end result is even worth the effort (Yunhi & Heesup, 2010). Increased effort and cost creates barriers to enacting intended behaviour. Although people may be aware of environmental issues such as recycling, they are reluctant to exert additional effort to travel the distance to a recycling station, or to pay more to travel on an aircraft (Kollmuss & Agyeman, 2002). When seeking employment, potential employees need to exert time and effort to find information on whether an organisation acts in a socially responsible way. Consumers have very little way of knowing whether a product they are purchasing is produced by an organisation that practices CSR. A variety of organisations have initiated programs to inform consumers of socially desirable practices through product labelling. The Heart Foundation in New Zealand has “pick the tick” scheme promoting healthy eating and the Freetrade coffee program enhances the wellbeing of third world producers. Many of these ‘green’ and socially desirable programs come under criticism in the media for being confusing, costly and having ulterior motives (“Heart Foundation's healthy tick campaign deserves big cross,” 2006). Increasing the ease of how individuals can enact their desired behaviour by reducing the amount of effort required, and in doing so increase the relationship between intended actual socially desirable behaviour.



We have explored the enacted behaviour of individuals, however the concept of changing an organisations behaviour in a capitalistic economy cannot be compared using these theories. The only motivation of an organisation operating under capitalism is purely economic, pursuing the need for profit through market share. In order to change worldwide organisational behaviour into one of being socially responsible, it is proposed to use the information of an individual's values, value awareness and actual behaviour along with the very principles that capitalism is based on; the free market, market share and the drive to make a profit.

We continue with an overview of the ISR concept, outlining the principles behind the submission to the MIX which should be read in conjunction with this essay. The concept of the new form of capitalism is that the change will be driven by consumers, utilising market forces that will drive organisations to operate in a socially responsible way. The principle will be to assist consumers in reducing the effort required to purchase a product or service from a socially responsible



organisation by the development of an International Standard Rating (ISR) with a simple numeric representation between 0 and 100 displayed within a circle. Encouraging consumers to be more aware of their values by incorporating education policies of sustainability and citizenship similar to that in the European Union will assist in creating the behavioural intention. Regulatory publication of an organisations rating on all packaging of products, advertising or other visible exposure will provide additional stimulus to consumers, as well as putting social pressure on organisations to conform. Compliance would be compulsory for organisations with more than ten employees and a yet to be determined turnover amount. Regulatory compliance for publication of the rating whenever a product, brand or organisation name is displayed would provide points of difference and give higher rated organisations a competitive advantage.

Consumer value awareness in relation to social responsibility and sustainable development will be addressed. The visible ISR rating will provide a stimulus reminding the consumer of their own values and intentions. The effect of the ISR rating will extend beyond only consumers into employees' of organisations affecting staff retention and morale which management will need to address. Leaders of organisations will gain advantages relating to shareholders and remuneration. Governments will be free to maintain existing trade agreements, establish new ones and maintain any sovereign policies they wish. Negative leakage will become a positive leakage, expanding the 'social good' into non participating countries.

Organisations will be forced to change, not just external pressures from consumers to maintain market share and profit, but internal pressures to retain employees. The new 'green' investors will have visible ratings of organisations provide additional financial benefits in the form of capital. The visibility of the rating will affect the reputation of organisations with all stakeholders. Those with higher ratings will benefit, while those with lower ratings will suffer. Product lines may be dropped and complete sectors will be re-organised as organisations drop

low rated products. By creating a new ISR rated marketplace, free market forces will operate to pull even the most reluctant participants into compliance, with the alternative being closure

In conclusion, we can state that capitalism does indeed have issues. Society has attempted to correct socially undesirable externalities, however without a united global effort the future is extremely uncertain. By examining the core values of individuals and theoretical concepts backed by research relating to values and beliefs, which convert into attitudes forming the intention to act, we are able to determine that society does indeed want corporations to act in a socially responsible way to ensure long term sustainable growth. Examining the theory of planned behaviour, the concept of a publicly visible International Standard Rating of CSR for organisations has been developed to stimulate individuals intended behaviour to become actions. Combined these actions will turn the free markets back onto the organisations themselves, forcing them to act. Although more detailed research and conceptual plans would be required, this concept has the potential to draw the worlds organisations into acting in a socially responsible way fit for the long term.

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