Incentives to Encourage Companies to Become Socially Responsible

THE FINANCIAL CRISIS OF 2008, ACCOMPANIED WITH DEREGULATION AND THE CORRUPTION AND ABUSES THAT TRIGGERED FORCED BUSINESSES AND SOCIETY TO RETHINK THEIR BUSINESS MODELS

MERCEDES VARONA

INCENTIVES TO ENCOURAGE COMPANIES TO BECOME SOCIALLY RESPONSIBLE

The 2008 financial recession unveiled the vulnerability and the interrelation of the Western economies. In the last century, businesses' profits were believed to be the answer to the economy's unlimited expansion. Nevertheless, the financial crisis of 2008, accompanied with deregulation and the corruption and abuses that triggered it, dismissed that belief and forced businesses and society to rethink their business models. Today, inequality continues growing, and new challenges are on the rise, such as the constant inflow of migrants fleeing poverty, persecutions and wars. Additionally, the environment is strained by the impact of uncontrolled waste. The loss of values and wisdom, which are embedded in the positive traditions, customs and religion, leads to the shake-up of the social structures and benchmarks, affecting their most vulnerable citizens. Therefore, businesses have been forced to introduce changes in their models, by gradually incorporating the concept of corporate social responsibility. This trend has been gaining ground and the support of well-known figures from the business and academic world.

Michael Porter, renowned business strategy professor at Harvard University, entertains the idea that businesses, NGOs and government agencies should work together to solve the problems that societies are facing today worldwide. He points out that neither NGOs nor governments have been able to solve those problems. In addition, businesses are the only entities that create resources when selling products or services at a profit. Therefore, joining forces may be the only viable way. Porter is not alone. Larry Fink, the president of Blackrock, the largest investment firm managing $6 trillion assets, wrote an unconventional letter in 2018 to some of the major American corporations. He urged them to avoid the temptation of seeking short-term profits, which has negative consequences on society.

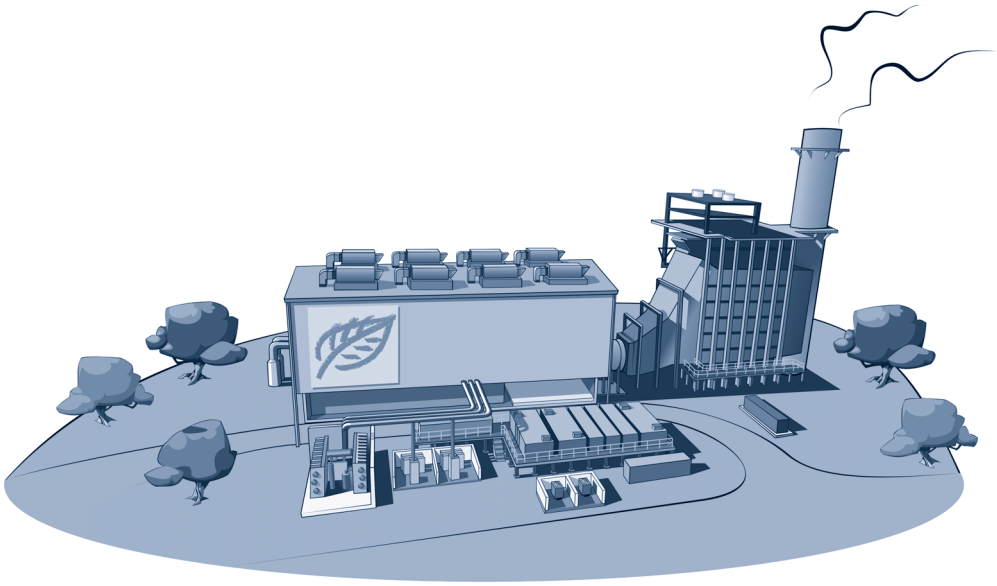
Therefore, the problems that Western societies encounter in this century will not vanish by themselves. Said problems also affect businesses, which are compelled to join forces to solve them. Incentives will be outlined in this paper to encourage companies to be more socially responsible.

Companies merely in pursuit of immediate profits might produce products harmful for humans or for the planet

THE CURRENT BUSINESS PROBLEMS

Businesses are made possible thanks to many different people working hand-in-hand. These include customers, employees, entrepreneurs, suppliers, creditors, investors, the community and society. Meanwhile the environment provides the required resources. This is why companies should take all of the above into consideration when making decisions. The risks of ignoring them are quite common, and their consequences are rather devastating, and have already been widely documented. Obviously, when the only objective of a business is to maximize its profit, employees tend to follow suit, especially the CEOs, who will put their personal interests ahead of their companies', leading to damaging consequences for the business. Moreover, employees might be treated as a mere cost, diminishing creativity and innovation and affecting the bottom line. In addition, companies merely in pursuit of immediate profits might produce products harmful for humans or for the planet, which might result

in higher short-term profits, but in the long run, everyone will lose. Finally, companies might not respect people's rights when seeking the highest profit, yet these abuses are spreading quickly through social media and are harshly punished by customers and by the society.



PROPOSAL

The purpose of this paper is to find ways to encourage companies to become more socially responsible. Well-known scholars remind us that incentives, virtues and controls are required ingredients to make sound decisions. A certification issued by a local entity with national and international impact, and supported by local administrations could do just that.

There are several certifications for business that have had an overall positive impact on companies. A complete socially responsible certification might be difficult to develop, but it is a challenge that is worth undertaking. Some social standards have emerged in recent years, such as the ISO 26000 Social Responsibility, which are non-mandatory International Standards, providing guidance to businesses and organizations, and helping them function in a socially responsible manner. The Global Reporting Initiative, the Sustainability Accounting Standards Board, and BLab are other international initiatives to name a few. At the same time, the 2018 enacted Spanish law "Ley 11/2018, de 28 de diciembre" takes on some of the issues included in this paper, but leaves out some important ones.

In addition to this new certification promoting positive work environments and business social responsibility, it would also create local jobs, such as the ones required to oversee said certification. Additional local jobs would also be created in higher education institutions to meet the workers' new educational requirements. Therefore, this new certification would be issued locally with the objectives of: boosting and improving the local economy; meeting the local needs better; creating jobs in the area; and making its implementation more feasible, flexible, easier and quicker. Moreover, it could be linked and supported by local legislation, such as the enacted Valencian law, "ley 18/2018 de 13 de Julio".

The following standards could be the benchmarks to grant companies the Socially Responsible Certification. Each individual standard composing the Socially Responsible Certification could be independently certified when met by the companies.

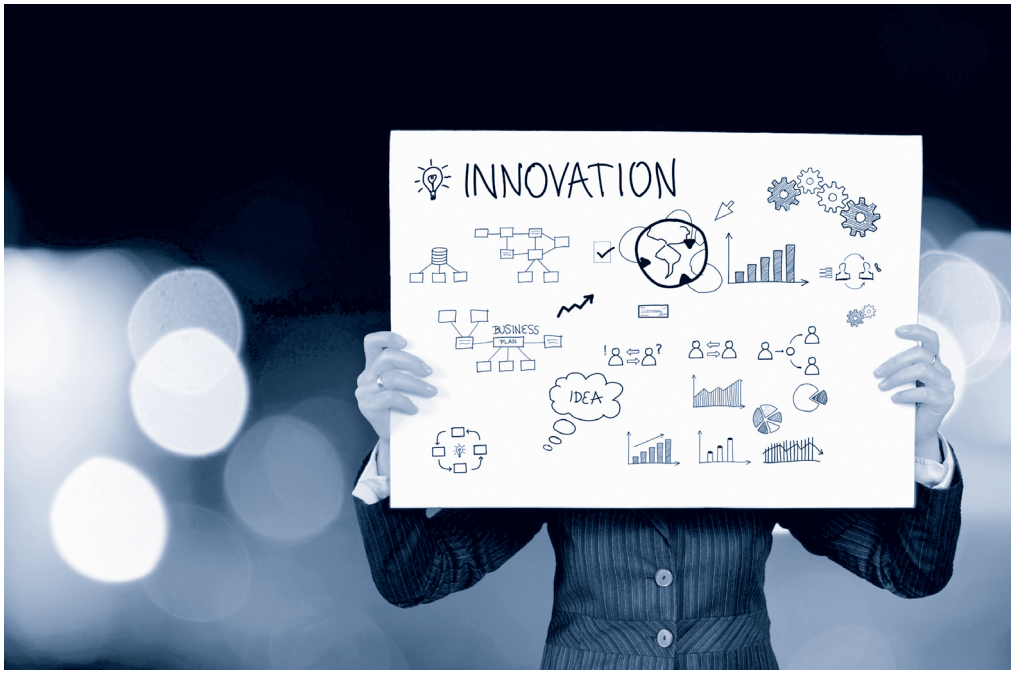
1. Employees standard

A. Virtues, the company's culture standard

"It can be argued that the presence of what are in a slightly old-fashioned terminology called virtues in fact plays a significant role in the operation of the economic system" (Arrow, 1972). Virtues (Prudence, Courage, Temperance, Transcendence) are benchmarks to act properly, in addition to having positive effects on everyone. They are present in our daily lives, as they are in the economy and in businesses For instance, customers expect companies to produce quality products and services. In addition, they expect good manners, respect, fairness, patience, problem resolution, commitment, self-control, excellence, gratitude, etc. Thus, customers expect companies to possess virtues. Since behavior is contagious, rewarding and encouraging ethical behavior in a company will spread quickly throughout the organization. This in turn will create positive, supportive, engaged and safe work environments, which help innovation and creativity flourish, as well as boosting customer satisfaction. However, the opposite is also true. The educational institutions should also promote virtues among their students to enhance their well-being, as well as to prepare them to contribute to the labor market and to society.

Nevertheless, news of unethical behavior in the business world is constantly leaking. Major financial and economic scandals make headlines far too often. Thus, virtues should be nourished, encouraged, monitored and embed-

The purpose of this paper is to find ways to encourage companies to become more socially responsible



ded into the company's culture. Businesses should be committed to promoting virtues amongst all their employees, spilling over to the rest of their stakeholders.

In addition, Ariely and his team at Duke University conducted several experiments to measure honesty among college students. The volunteers were given money for each correct answer in the different tests they took. Ariely's findings showed that most people are a little bit dishonest sometimes. However, there are two measures that can be put in place to reduce dishonesty, which should be implemented in every organization (in business, in politics, in schools, etc.):

- Hiring people with values or virtues and promoting them throughout the organization.
- Controls: Obviously, an organization without controls will succumb. Therefore, adequate controls should be put in place in every organization. Ariely's findings coincide with those of Richard Thaler (the 2017 Nobel Prize recipient in Economics), who maintains that people tend to seek immediate benefits, jeopardizing their future because they may lack the necessary self-control, and because of personal biases. Therefore, they need a "nudge"; they need help, and they need controls. • Nordhaus, who shared the 2018 Nobel Prize in Economics with Paul Romer, adds that businesses need incentives to be environmentally-friendly.

Employees are the key core of businesses Therefore, their education becomes extremely important

b. Employees' education standard

Employees are the key core of businesses since they are responsible for operating them. Therefore, their education becomes extremely important. Competent employees can make a company succeed. On the other hand, incompetent workers may take the company to its grave. Paul Romer states that the economic growth of a country depends upon the ideas that its people bring and on its population size. Ideas are produced by educating the population in innovation and creativity. Unfortunately, in Spain the educational attainment of its population is very low. Only 58.3% of adults have a high school diploma or similar certification. Nevertheless, Spanish higher education attainment aligns with the OECD's (36.9% of the 25 to 64 year-old segment, and 44.5% of the 25 to 34 year-old segment have a 4 year-degree or higher) (National Center for Education Statistics, 2017, table. 603.10. and 603.20). However, among self-employed businessmen, only 25.3% in 2015 had a higher education, versus 35.1% of the total population during the same year (Fundación BBVA, 2016). All of this endangers Spain's long-term growth, and its strength to overcome another great recession like the one in 2008. The low rate of high school diplomas is a major concern. In addition, Spanish productivity is $47.4 (GDP per hour worked), in contrast to $52.8, in the U.K., $62.5 in the Netherlands, $61.5 in France or $64.8 in the U.S.A (OCD.Stat). Productivity depends on technology and motivation, but also on education, and technology also depends on education.

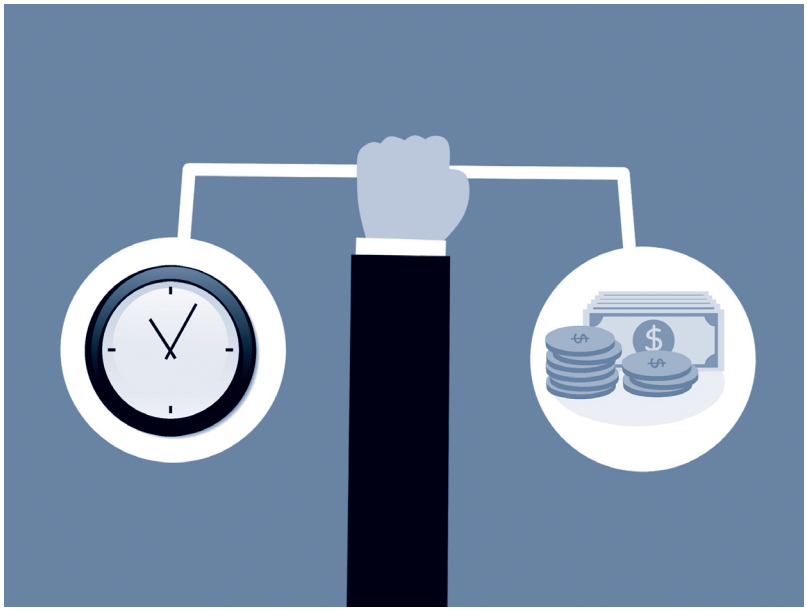
According to Brynjolfsson of MIT, 50% of the current jobs could very well be eliminated, or change drastically, in the next 10 years. Additionally, 54% of all employees will require retraining or need to update their skills. Occupations that required a college degree or higher will continue incrementing, while those that require a secondary education or less will decline. Furthermore, businesses today are being organized into small self-managed teams, close to their products and customers (Deloitte, 2018). Thus, workers

need to be highly qualified more than ever. Companies would also benefit from having better-educated employees since those additional skills will help the company grow, as would the employees and the society in whole. In summary, there are immediate and pressing actions that companies and administrations should undertake. Employers should be encouraged to support their employees' continuing education, since individuals will need to acquire new skills to be prepared for a rapidly changing labor market. This is why governments, schools, colleges and companies should work together to design and finance accredited quality courses and degrees to accommodate this demand. A company, whose employees are in official courses, have successfully obtained a high school equivalent diploma or a higher education degree, would receive a compliance certificate for the education section of the Social Certification.

c. Motivation standard

Jobs should fulfill most of humans' needs. People work to earn a living, but also to meet other needs. For instance, employees may want to help their customers; they may want to cooperate with their colleagues; they may seek to excel; they may want to improve the world around them, etc. Companies should fulfill, promote, and nurture their employees' positive and transcendent goals, motivations, needs and aspirations, trying to get the best out of everyone. Experts suggest giving employees a higher mission -a purpose- and showing them how they can make a contribution in the company and in society, in order to overcome employee disengagement. This is why more companies are encouraging their staff to volunteer during working hours. At any rate, workers' accomplishments should be recognized and rewarded by their superiors to boost their motivation and to empower them.

Jobs should fulfill most of humans' needs. People work to earn a living, but also to meet other needs



d. Salaries standard

Employees should feel they are valued at their workplace, by receiving a fair paycheck. Companies that have large CEO-to-employee pay gaps are probably not a very good place of employment. When CEOs earn so much more than their subordinates, the most likely take-away message is that neither the latter nor their work is that important, but rather the executives are the only ones that make a difference in the company. In addition, the abuse of power is very likely to emerge when status and wage differences are large. This creates an unhealthy work environment.

Likewise, when executives' bonuses are linked to profits, they might be tempted to "manipulate" numbers to earn a higher salary. They could reduce costs, by laying-off key workers, or by reducing the quality of the raw materials and of the finished products and services, etc.; or they could artificially inflate the company's income by short-term revenue boosts due to illegal practices, etc. An example of the latter would be Wells Fargo's culture, which encouraged employees to create fake new accounts. To make matters worse, if in the 1950s American CEOs made on average 20 times the salary of a typical worker; in 2017 the gap widened to 361 times more (Mishel and Schieder, 2018)

Said gap in Spanish companies is also very large (De la Fuente Sanz, 2019). It affects their employees' productivity and prevents lower salaries from rising, since top executives' wages of all public companies rose 2.95% from 2016 to 2017, while labor costs (wages, 401K and social security taxes) per employee rose 0.81%, widening the gap. Inequality endangers a country's stability, growth, and well-being; it endangers its future. Not only do the astronomical salaries that some CEOs and Board of Directors receive harm the companies they manage, they do not provide those CEOs and Board of Directors with additional emotional well-being. Indeed, Kahneman and Deaton's study in 2010 determined that any income beyond $75,000 did not improve one's emotional well-being. Therefore, a better distribution of wages would benefit everyone.

Nevertheless, executives along with the board of directors set their own wages. Therefore, a

more objective and reasonable way to determine salaries for top managers should be laid out, such as capping the CEO-to-workers salary ratio, as well as that of the board members. A cap on executives' and board of directors' salaries would provide a more egalitarian and motivated work place, along with a well-connected and well-coordinated company. Drucker set that ratio at 20 to 1 in 1988. More recent scholars use a different measurement, such as Stout, who set this ratio at 100 times the U.S. minimum wage. Fernández Lorenzo proposed a ratio of 8:1, and for exceptional circumstances, 20:1. This standard would vary from country to country and from company to company.

2. Working environments standard

Most of last century, the boundaries between personal and professional lives were more clearly defined. Professional environments were mainly mandated by objective and rational decisions. The Theory of Rational Economics was widely accepted. This theory believes that individuals, when presented with 2 options, choose the option that provides them with the highest benefit. Therefore, their feelings, emotions, etc. are not relevant in the decision-making process. On the other hand, behavioral economics popularized by Thaler, the 2017 Nobel Prize recipient in Economics, refutes these accepted economic theories and alerts that humans may not choose the best option. Emotions, state of mind, family, friends, media, the way options are presented, etc. can affect people's choices and behaviors. Additionally, the notion that humans are holistic beings is widely accepted and has made its way into the business world. Companies understand that employees' personal and family lives and their well-being affect their performance. Therefore, some employers are incorporating these findings to help their employees excel, from flexible hours, working from home, or recreational spaces at work, to day care services, etc. All of them are tools aimed at increasing employees' well-being, as well as their productivity, creativity, innovation and commitment to the company.

Besides businesses promoting continuing education among their employees and better understanding their employees, a safe and professional environment is also a requirement in order for companies to succeed



Besides businesses promoting continuing education among their employees and better understanding their employees, a safe and professional environment is also a requirement in order for companies to succeed. This is management's responsibility, which should create a positive and safe culture and workplace based on learning, caring, support, contribution, innovation and improvement. On the other hand, the cost of a toxic environment is high. Sutton put a price tag of $160,000 a year per toxic employee. This huge burden is due to the fact that, in a toxic work environment, employees quit their jobs and the ones that remain end up having more health problems (depression, anxiety, drug use, etc.); their concentration, commitment, engagement, performance and productivity diminish, and innovation and creativity vanish. Bullying is also associated to suicidal thoughts (Nielsen, Nielsen, Notelaers, and Einarsen, 2017). Furthermore, 27% of the American workers have suffered bullying in the workplace. Namie labels those victims as "ideal conscientious employees", having strong work ethics and being more committed to their jobs. Meanwhile, the perpetrators lack emotional intelligence and morals, and their bullying might cover up an incompetent management style. Moreover, Christensen points out that people who are abusive and demeaning most likely lack self-esteem. They have the need to put people down in order to feel important and self-worthy. Sutton adds that difficult people have most likely grown up in a hostile family environment, or have some type of psychological disabilities.

Goleman reminds us that, when there is rivalry, fear, anger, resentment, etc. within a team, it

will not perform well. In addition, stress or negative language might shrink the human brain, affecting its executive tasks and memory. At any rate, toxic work environments affect everyone.

Managers should promote teamwork as well as positive, pleasant, creative and innovative work environments. Periodic employee surveys and annual personal interviews would be a good way to measure employee work satisfaction. At any rate, efficient filtering systems in the recruiting process should be put in place, to shun away from toxic leaders and toxic employees. Hiring people with virtues is the first step in that direction. Furthermore, safety measures at work should also be one of management's top priorities, without cutting corners.

On the other hand, Pascual-Leone, Goleman, Castellanos, amongst others, assert that human brains love positive language; they work faster, improving attention, concentration and creativity. When people are happy or in a good mood their brain works very well. They are more optimistic, they make better decisions, and they are more creative and empathetic. Additionally, optimism, happiness and gratitude improve health and performance. Likewise they connect people; laughter is the shortest distance between two people.

However, a Gallup survey found that only one third of the American workforce was engaged in their jobs with an estimated loss of productivity of more than $450 billion a year. According to Pfeffer's findings, 61% of U.S. employees claimed that the stress at their workplace made them ill, with an annual price tag for employers of more than $300 billion, resulting in 120,000 deaths per year. A toxic environment takes a toll on families and friends as well. Therefore, a good work environment is not only beneficial for the employees and their families, but also for a company's bottom line and for the entire society.

On the other hand, Capelli upholds that internal promotions encourage employees to be engaged in the company. It signals to them that the company values their work; it relies on them and supports them. Moreover, companies will receive a return on their investment in their employees' training, expertise, commitment, etc. Nevertheless, internal hiring is on the decline. In the 1970s, 90% of corporate vacancies in the U.S.A. were filled internally. Currently, this figure is approximately 30%, with an average hiring cost of $4,129 per vacancy. Studies show that outside hires need 3 years to perform as well as internally promoted employees, and the latter takes 7 years to earn as much as outside hires for the same position. Therefore, internal promotions are positive for companies as well as for employees, since most employees want to succeed at work. They are a win-win policy.

Transparency is another important best practice. Opacity is not a good attribute for a company to be successful. Tasks should be clearly allocated to each employee in order to diminish conflict. Everyone would know what each other's responsibilities, objectives and contributions are.

Flexible working conditions are also part of a company's best practices. Companies should try to accommodate their employees' varied needs whenever possible. In addition, they would assist workers in balancing family life with the job requirements.

Transparency is another important best practice. Opacity is not a good attribute for a company to be successful

3. Employee ownership standard

Campbell, Case, and Fotsch, (2018) stress the benefits of employee ownership. It increases employees' salaries, their standard of living, and their economic mobility. In addition, those companies owned partially or totally by their employees are 25% more likely to remain in business, and their employees are 4 times less likely to be laid-off. Additionally, their workers' productivity will increase 4% to 5%, and their job growth is 25% higher than other companies. Furthermore, their employees' salaries increased from 5% to 12%, and those workers have 2.5% more 401K accounts than employees without company ownership.

Companies would need to train their employees to learn the business, so they can become better suited as owners. Workers not only will be more engaged, but employee ownership is the fastest and most efficient way to reduce inequality (Kruse, 2016). When low wages rise, they do so at a much slower pace than higher wages.

4. Leadership standard

Christensen defines management as "the most noble of professions if it is practiced well. No other occupation offers as many ways to help others learn and grow, take responsibility and be recognized for achievement, and contribute to the success of a team". However, this is not always the case. People are promoted or hired for managerial positions, not for their good management skills but for other reasons, such as their tenure in the company, working in similar positions in other companies, their charisma, etc. Future man-



agers should acquire the required skills to manage people. It is not an easy task and requires specific education, knowledge, training, support and the right company culture. Furthermore, leaders are the most influential in an organization; they are role models for their subordinates. Therefore, they should be aware that what they do affects the companies' performance. Generally speaking, behavior and emotions are very contagious (Pascual-Leone, Kelener). When employees donate money to charity, their colleagues are more likely to follow suit. In the same way, when one is generous with a stranger, that stranger will be 19% more generous with other strangers. And the latter are 7% more likely to follow suit. In addition, happiness has a positive domino effect as well (Keltner, 2016). On the other hand, negative behavior also creates a chain reaction. Leaders set the mood of their teams, which in turn influences their outcome.

However, Lipman states "*People leave managers, not companies*". Yet, turnover is costly for companies, as illustrated in the next section, and leaders are a big part of the blame. According to Gallup's survey, 51% of the employees that quit their jobs did not receive feedback from their supervisors about their job, or about their future in the company, in the 3 months prior their departure.

Brooks and Fritzon's findings about toxic working environments are more troublesome. They estimated that 4 to 20% of the CEOs are psychopaths, in comparison to 1% of the general population in the United States. Those percentages are very high and can be comparable to inmates' ratios, which amount to 20%. Ronson corroborates those figures, but lowers the CEOs' psychopaths' percentage to just 4%. Other studies set that percentage at 3%. At any rate, there is a large concentration of psychopaths amongst the companies' CEOs, due to the fact that -according to Ronson– the current economic model rewards lack of empathy, manipulative behavior, remorseless, etc. However, since ideas are what makes companies and countries thrive, those executives that create a toxic environment not only jeopardize their businesses, but

Not only will the community improve if companies look after all their stakeholders, but businesses themselves and their employees will improve too

the growth of the entire society, draining it of innovation and creativity, and endangering its future. Therefore, toxic workplaces may be accurately described by Terkel's timeless remarks: "...work is, by its very nature, about violence -to the spirit - as well as to the body. It is about ulcers, as well as accidents... about daily humiliations. To survive the day is triumph enough for the walking wounded among the great many of us".

Many businesses have sought immediate profits and managers have been rewarded with bonuses based on them. Those businesses may encourage their managers to boost the company's bottom line at any cost, as stated previously. This has created many problems for the entire society. Therefore, not only will the community improve if companies look after all their stakeholders, but businesses themselves and their employees will improve too. Nelson, K.; Layous, K.; Cole, S. and Lyubomirsky, S. (2016) research study about the pursuit of personal happiness goes even further, contradicting the current belief that treating oneself brings happiness. In fact it is just the opposite; treating others is what makes people happy. In addition, Namie provides simple advice to prevent supervisors from being abusive with their subordinates; the organization should also treat their management more fairly.

Leading is linked to coaching, by helping their employees grow and succeed. Thus, Keltner summaries how leaders should empower their employees, by:

- Praising them for a job well done.
- Giving them encouraging comments and giving them direct eye contact.
- Providing them with responsi-

bilities, resources and opportunities.
- Asking them for their opinions and listening to someone with less power (a subordinate, a child...).
- Showing gratitude.

As Keltner reminds us, power is a gift that is constantly changing hands. Power is given by the community. Nevertheless, once people obtain power, they are tempted to keep it and abuse their position. In this instance, they might think "they deserve a bigger slice of the pie"; they might appropriate their subordinates' accomplishments; they might be more likely to be uncivil and disrespectful; their empathy might decline; they might mistreat their subordinates; they might think that they are above the law, etc. Abuse of power and powerlessness are inter-twined. The powerless are more likely to be abused. In fact, the negative and long-lasting effects of powerlessness on people's economy, brain, health, success, life, accomplishments, happiness, children, etc. are very worrisome. They should be prevented, beginning in schools and in families, but continuing in the workplace.

Managers should take official and accredited leadership courses to prepare them for managing their subordinates, in addition to their required education and background needed for their current positions. In order for the companies to obtain a leadership standard, leaders should also promote virtues amongst themselves, their peers and their employees.

5. Turnover standard

The cost of turnover for a company is estimated to range from 30% to 200% of an employee's salary, depending upon the type of vacancy to be filled (Conerly, 2018 and Alvernia, University, 2016). Deloitte estimates that the turnover cost of an employee that earns $5,000 a month amounts to $74,132. This includes hiring costs, training costs, the drop in productivity, an increase in errors, and if the turnover is high, lack of motivation. On top of that, when employees are laid-off, severance pay should also be taken into consideration. In parallel, outsourcing permanent positions has the same negative effect in the workforce as low retention rates do.

Companies that have large turnover, or that outsource key jobs, are most likely not a good place to work

Due to the rigid Spanish labor legislation, companies incur high penalties when they need to terminate employment. New hires would receive 33 days per each year of service in the company in the event they were laid-off, or 20 days if the termination were due to economic or other applicable reasons. On the other hand, temporary workers' severance pay is 12 days per year. Therefore, in the face of uncertainty, too many Spanish companies hire temporary workers to fulfill permanent entry-level positions to avoid such high payoffs.

Thus, high severance payments harm those employees that were meant to be protected; they harm the companies, which are subject to turnover costs; and these payments harm employees and society, since the latter needs to support the laid-off workers that become unemployed and who do not generate wealth. In light of these adverse consequences, it is highly recommended that the current Spanish labor laws be modified in order to reduce the severance payments for permanent positions, to match that of temporary workers. Companies that have large turnover, or that outsource key jobs, are most likely not a good place to work. These companies may promote toxic environments. High turnover is costly for both the companies, as well as for the taxpayers, their families, and their friends. Therefore, those rates should be kept low.

6. Customers and products standard

The purpose of any business is to produce quality products and services that create value for their customers. In addition, the products and services they offer should be useful and should not be harmful in any way. Companies should also aim to have a contingency plan for an environmentally friendly disposal of their products at the end of their products' lifecycle in order to obtain this standard. The widespread legalization of cannabis in the U.S.A. is a good example of a harmful product. Thirty-three states have passed laws legalizing marijuana usage in some form. Ten states have legalized it for recreational use and the remaining thirteen for medical reasons. The increases in tax revenue and job creation were the arguments used by cannabis advocates (Colorado Department of Revenue, 2019). Nevertheless, the enormous personal, family and social costs derived from marijuana use were omitted (National Institute on Drug Abuse 2017). Numerous research studies have determined that the cost of marijuana consumption is much higher than the revenues derived from it. In addition, those costs and the negative effects are extremely high during adolescence. Marijuana prevents the brain from forming correctly, since this organ is developing until around age 25. Cannabis

Investors are important players in the economy. Businesses need financing to operate

reduces the neuropsychological capacities and increases cognitive problems, loss of memory, and reduces ones I.Q. by 8 points, even leading to mental incapacitation (Meier, et al., 2012).

Additionally, marijuana increases violence, suicidal tendencies, addiction and so forth, and many of these disorders are permanent. Smoking marijuana increases the risk of having throat and head cancer, extending it to the children who are second-hand smokers. Colorado was one of the first states that legalized recreational marijuana, and the effects can be seen in the increase of traffic accidents and the hospital emergency treatments related to cannabis. What is more, this pattern has been duplicated in other states. That is why the cost of substance abuse in the U.S. is estimated at more than $740 billion a year (National Institute on Drug Abuse 2017). The cost of substance abuse is very large for the entire society

Another example of harmful products is tobacco. Tobacco firms spent $17 million in the state of Montana (U.S.A.) to defeat a bill that expanded Medicaid in that state. Medicaid is the public health insurance program for low-income people in the U.S.A. Tobacco companies were lobbying to defeat said bill because one of their largest market segments is the low-income population. Indeed, this social group is more likely to smoke, particularly those who do not have health insurance. Furthermore, Federal law requires Medicaid to offer their beneficiaries access to medical assistance in order to quit smoking. In addition, this bill would be financed with a tax increase on cigarettes, which in turn would decrease their sales. Therefore, the tobacco industry would lose sales if this bill p assed, yet low-income people would be healthier, which in turn would reduce the state's healthcare and social costs. This bill eventually passed.

Total cost of smoking in the U.S. rises to more than $300 billion a year, including direct and second-hand smoking. In addition, smokers also come with a large price tag for businesses. Stepping outside to smoke a cigarette during working hours costs companies around 4,000€ a year per employee.

At the same time, when an illegal product or service becomes legal, its consumption increases. As an example, in 2002 the percentage of adults using marijuana in the U.S.A. was 4.1%. In 2013 it had doubled to 9.5%, and in 2018 it reached 14.6%. The opposite is also true: the decrease of cigarette sales in Spain coincided with the law that banned smoking in public places.

7. Investors standard

Investors are important players in the economy. Businesses need financing to operate, and investing in ownership of a business is a sound way to provide the funds that companies need to run their businesses. Nevertheless, when investors are seeking to maximize profits exclusively, they might actually jeopardize the company's well-being, as well as the rest of the stakeholders'. Subsequently, they could even become an obstacle for the growth of the economy, leading to the rise of inequality. Some analysts blame private equity and hedge funds for the draining of the companies they acquire. These investors load those companies up with debt, by purchasing them through a leveraged buyout, and continue forcing the companies to borrow more funds to distribute special dividends to the investors. In turn, private equities become wealthier, while mismanaging companies they have acquired by not investing in new technologies, laying-off workers and finally filing for bankruptcy. This is a paradox in itself. Companies need investors to run their business and those investors turn around and deplete their wealth, thus leaving businesses unable to survive. Cuenca warns about the danger of letting investors run the business, alleging they are not business savvy, coinciding with Kahneman, 2002 Nobel Prize recipient.

Roosevelt Institute's scholar, Palladino, claims that: "shareholders' gains come at the expense of employees and the economy at large". She states that over $1 trillion was used in 2018 by U.S. corporations to buy back their own stock on the open market. President Reagan relaxed stock buyback laws in the 1980s. This practice has increased from then on, from 4% of company profits in the 1980s, to 50% currently. When companies purchase their own equity, the number of outstanding shares diminishes. Thus, earning per share increases which would most likely result in a rise in share value. Another incentive favoring stock buybacks is that dividends might be taxed at higher rates than capital gains. Furthermore, some of the money corporations used on the stock buybacks came from President Trump's 2017 tax reform, and therefore was subsidized by the U.S. taxpayers. Therefore, the funds used on stock buybacks could have been put to much better use. One option could have been to increase the part-timers' salaries and benefits that Wal-Mart – the largest U.S. retail store



- pays to many of their employees. It could also have been used for research on an environmentally friendly disposal of discarded cell phones, or on the effects cell phones have on kids, etc., rather than Apple purchasing their own equity. Therefore, instead of shareholders' investments spreading wealth, wealth remains in the hands of just a few.
Investors should be on board with the company's social business plan. They should support the company's long-term sustainability and foster a positive social and economic impact, while eluding quick short-term profit plans.

8. Environment standard

The economic development of the last 100 years has left its footprint on nature. The environment endures the damaging effects of mankind, which endangers the survival of every species, including humans. A research study has determined that 8.3 billion tons of plastic has been produced to date, which could cover an entire country compared to the size of Argentina. Recycling plastic represents 9% of the total plastic production; 12% has been incinerated, and 79% is abandoned in landfills or in the natural environment. If the production of plastic is not reduced, 12 billion tons will pollute the Earth by the year 2050. In addition, most of this plastic is not biodegradable. Plastic disintegrates into very small particles that end up into the air we breathe, into the water we drink, and into the food we eat. This will certainly pose a health hazard for humans and for any and all living beings. Likewise, 42% of the plastic produced is for packaging, which means that it has a very ephemeral life. Construction is the second market for plastic production, amounting to 20% of the total amount. Further, around 8 million tons of plastic were dumped into the oceans in 2010. Just five countries together, China, Indonesia, the Philippines, Vietnam and Sri Lanka, accounted for 50% of the plastic pollution dumped in the oceans. On top of that, China, the leading consumer of used plastic, has stopped importing this waste, leading to a notable increase of plastic in the landfills. As an example, the U.S.A. used to export one third of their total used plastic to China. Climate change and pollution are also worrisome. An environmentally friendly alternative to plastic, along with pollution and climate change reduction, are urgently needed.

9. Suppliers standard

Suppliers should comply with the same social standards as any other company. In addition, companies should not try to choke their suppliers in order to get lower prices, as some companies with high leverage might do, such as General Motors did in 1992. Their purchasing guru López de Arriotúa, known as "Super López", forced GM suppliers to cut their prices, in order to reach GM's profit goals. López saved his company $4 billion in the short-term with that aggressive strategy, but at a high cost. Indeed, GM's good suppliers eventually took their business elsewhere, and the ones that remained lowered the quality of their goods to meet Super López' demands. In turn, the quality of GM products declined as well.

10. Society and the community impact

Individuals and companies acquire wealth by trading goods and services. Microsoft, Amazon, Inditex, Apple, Facebook, Google, etc. are very successful companies because millions of ordinary people purchase and use their products. Indeed, ordinary people typically are the ones who make the owners of successful companies wealthy. Furthermore, those companies may benefit from the taxpayers' money by means of subsidies and grants. Mazzucato points out that the internet, the GPS, touchscreen displays, Apple's SIRI, Google's algorithms and 75% of new molecular entities used by pharmaceuticals, to mention a few, were projects financed with U.S. taxpayers' money. Subsequently, she argues that companies have a debt to society and should look out for society's wellbeing.

Climate change and pollution are also worrisome. An environmentally friendly alternative to plastic, along with pollution and climate change reduction, are urgently needed

On the other hand, not everyone has the same talents, nor the same opportunities or circumstances. Nevertheless, society should try to ensure everybody's wellness, regardless of their personal situation. This is a task that involves everyone: administrations, communities, businesses, schools, NGOs, etc. In addition, communities should support their local businesses. In return, businesses should support the community where they operate. An example of the success of this alliance is the first photograph of a black hole. That image was only possible thanks to the collaboration of scientists from 20 countries that used 8 telescopes located around the globe.

11. Governmental regulations framework

As stated herein, multiple voices are trying to persuade companies to become socially responsible. Mazzucato advocates a change in the economic model and move towards one that seeks the common good. She argues that the U.S. government financed several major technological advances. Thus, the administrations should have a more active role in the business world, by acquiring companies' equity in exchange for public grants and subsidies. This would raise the administrations' revenues. Nevertheless, those revenues would increase as long as public officials and politicians refrain from managing the companies and from any business decision-making.

In any event, innovation often requires public funds to succeed. Spain invests 1.2% of its GDP in R&D, compared to the OECD countries' average of 2.37%. Therefore, the Spanish government should drastically increase their investments in R&D and encourage the private sector to follow suit

Nordhaus also agrees that companies look for immediate profits and may damage the environment in the process, what he refers to as "the market failure", when markets cannot regulate themselves. Therefore they need governments to oversee them and to set controls and incentives, such as the carbon emission tax to protect the environment as previously mentioned, siding with Thaler and with Ariely's postulates. Governments, on the other hand, are made up of people that also need supervision, controls, education, incentives, virtues and help.

Wrong economic decisions -or indecision- made by governments usually trigger most of the downfalls of the economy. In the current scenario there are some red flags that may weaken the economy, businesses and workers. The first one that comes to mind is the U.S. trade war against China and against other countries. This has raised serious concerns and is projected to subsequently lower the U.S. economic output. Another red flag is the 2017 U.S. tax reform, which raised the U.S. deficit and had virtually zero effect on the overall economy. Indeed, this reform mostly benefited higher income people and businesses, including the President of the U.S.A. and his companies.

Other pressing issues are: the watering down of some controls and regulations, which were enacted during the last recession to prevent a repeat; the increase of public spending and the lack of political stability in Spain; the Brexit; and Catalonia's conflicts, just to mention a few. All of these are man-made conflicts, aimed at benefitting only a handful of individuals, taking a serious toll on ordinary people's lives. Therefore, controls, and adequate incentives should be put into place to guarantee egalitarian growth. Indeed, the financial system should be highly regulated, since is backed by taxpayer's money. The economy should have a checks and balances system. Additionally, virtues within organizations should be encouraged, and governing bodies must make sound political decisions. Finally, administrations should also be subject to controls.

When businesses only seek an immediate profit, not only do they harm the communities where they operate but they also jeopardize their very own survival

CONCLUSION

Businesses are an essential part of any society. Likewise, they cannot operate without a supportive community. Therefore, their destinies are intertwined. When businesses only seek an immediate profit, not only do they harm the communities where they operate -and rest of their stakeholders- but they also jeopardize their very own survival. Subsequently, public administrations, companies, schools, colleges and communities should join forces to encourage businesses to be socially responsible and to look after all their stakeholders. A certification issued by a local entity could be a good incentive for companies to become more socially responsible. The more that entities join this initiative, the more that will follow suit. Consumers would also be better informed to make purchasing decisions and could choose the more socially responsible companies. This certification would be the result of a partnership between the administrations, the schools and colleges, communities, and the businesses themselves •