

The Limits of “Corporate Social Responsibility”
By Andrew W. Markley
Professor of Business
Grove City College

INTRODUCTION

Certainly the role of companies in modern society is an important topic of discussion in many countries around the world. Businesses, of course, are often very visible players in society, selling products or services which are household names, providing employment for many people, and perhaps having a headquarters building which is a proud landmark of its city or town. The role that businesses play in society, however, has come into particular focus in recent years due to several factors, including the process of economic globalization. Businesses of all sizes are more and more internationally connected through trade, investment and other commercial relationships, and hence, often have an active presence in more than one country. Larger companies are, in fact, often household names in a number of countries—in the automobile sector Toyota, Ford and Volkswagen are just as well known in many countries as in each of their “home” countries.

What role should companies play in modern society? The debate is ongoing, with corporations in particular and businesses in general often viewed as focused too much on short-term economic interests and failing to live up to their “social responsibilities.” In fact, especially in the years since the early 1990s, the call for what is termed “corporate social responsibility” (CSR)¹ has gained significant momentum in many countries. Businesses are said to have a responsibility not only to generate economic returns for shareholders, but also to the natural environment as well as “stakeholders,” including customers, employees, suppliers, creditors, and the communities impacted by the company. We hear reference to the company’s “triple bottom line” to measure performance for shareholders, environment and stakeholders.

Everyone is talking about CSR: government officials in many countries around the world, intergovernmental organizations such as the United Nations and the European Union, non-governmental organizations (NGOs) which work to better the condition of

the poor or which work toward various environmental or social causes, and of course companies, business leaders and business associations. Articles, books and seminars have spread the call for CSR, and a cadre of consultants and experts has developed around the issue. Many larger companies now publish a CSR report alongside the company annual report, employ a CSR executive to advise the business at the highest level and prominently display the company's CSR credentials on the company website.² Business schools have woven CSR into their academic programs. Over the past 15 years, CSR has become an important theme.³

This article begins with a discussion of the principal reasons why the role of companies in society has become such a prominent issue in many countries today. The discussion then explores the definition of CSR—as will be seen, exactly what constitutes a “socially responsible” corporation is by no means clear. Two very different conceptions of CSR can be found in the debate, especially in the US and many European countries. As we will see, both of these conceptions of CSR are problematic. CSR may appear to be an uncontroversial extension of the company's role in society—after all, few businesses would want to be known as “socially irresponsible.” However, CSR is, in fact, a destructive doctrine in either of its manifestations. CSR not only ignores the ways in which business already plays a responsible role in society but also threatens to undermine good company governance, redefine the fundamental nature of the company, increase government regulation and place government powers in the hands of business.

RENEWED ATTENTION TO THE ROLE OF BUSINESS IN SOCIETY

The role that business should play in society is not a new issue, but has received increased attention since the early 1990s due to several important factors, including the trend toward reducing government interference in the economy (allowing a greater role for markets and companies), globalization in the economic sphere (including the role of the multinational corporations), the continued prominence of social and environmental issues and recent corporate scandals. Each of these factors has served to raise awareness of the social and cultural impact of companies, and to focus attention on the issue of CSR.

A More Prominent Role for Markets and Businesses

By the 1990s a number of countries around the world were taking steps to reduce government economic controls. As government reduced interference in economic matters, market forces in general and businesses in particular took a greater role in the economy, and therefore, in society. In all regions of the world, economic liberalization has been the dominant trend of the years since at least 1990, giving companies a more prominent role in society.

In a number of countries this reduction in state control over the economy took the form of a shift in economic systems, rejecting the centrally-planned economy (often imposed by a communist regime) in favor of some type of a more market-oriented economy. This is certainly true of many central and eastern European countries in the 1990s, including the Czech Republic and Poland as well as Lithuania, Latvia, and Estonia. During this time, China also continued its transition away from central planning, a shift which had begun with decisions of the Chinese Communist Party in the late 1970s. With the adoption of more market-oriented economic policies, private companies could now be created and many state-owned companies could be returned to the private sector. Whether newly created companies or privatized companies, these private businesses would now play the major role in the economy which the centrally planned economy had denied to them.

In other countries, especially the industrialized countries (where the market could already be called the primary mechanism of the economic system), by the 1990s the market also took on a greater role as many of these countries were engaging in economic reforms to reduce government regulation, privatize some government-owned companies and open some formerly restricted markets to competition. In the United Kingdom, Prime Minister Margaret Thatcher ushered in an era of government deregulation and privatization, with the UK government privatizing companies in the heavy industry, banking and transportation sectors. In Germany, the privatization plans went further in some respects as it was during these years that the German government even privatized the postal service. By the 1990s, the US had also experienced significant moves toward economic deregulation, including in the transportation sector.

The turn toward market-based economic systems and policies has placed producers (and consumers) more at the center of economic decision making and has led to greater discussion of the responsibility – especially on the part of companies – toward the societies in which they operate.

Globalization and the Perception of the Multinational Corporation

The role of business in society has also become a more prominent issue because of the process of economic globalization in general and the perception of the power of multinational corporations in particular. In the years since the end of World War II, international economic activity has significantly increased. During this period, dramatic increases have taken place in trade in goods and services, in flows of foreign direct investment and portfolio investment and in the movement of workers across borders.

Since 1990, we have seen especially noteworthy developments in the world economy, including significant increases in the movement of investment capital across borders, the emergence of China as a major economy, the expansion of the World Trade Organization (WTO) and the growth of regional areas of economic integration. The WTO, which long was devoted principally to dealing with trade in manufactured goods, broadened its focus in the 1990s to include issues related to trade in services, agriculture and textiles as well as standards for copyright, trademark and patent protection. And, on a more regional level, economic integration has increased as a result of a number of regional arrangements, such as the North American Free Trade Agreement (NAFTA) and the European Union (EU). For example, while the EU can trace its origins back to the Treaty of Rome which was signed in 1957, since 1990 the European Union has both worked to complete its “common market” and also expanded its membership from 12 to 27 countries. In addition, 15 of the EU members are now using the euro. The process of globalization has accelerated in recent years and has focused attention on the role that companies play in society.

The perception of the power of multinational corporations (MNCs) has also focused attention on the role of companies in society. As noted earlier, many larger MNCs are household names in many countries around the world, and not only sell but have operations of various kinds spread over many countries. Of course, the majority of

MNCs are actually small and medium-sized companies—remember that the most widely-used definition of MNC is a company that has productive activities in more than one country. The perception that the larger MNCs wield substantial power, and the corresponding belief that the power of governments is shrinking, however, raises concerns about the impact of these companies on society. On this point, it is interesting to compare the size of companies and countries by comparing the “value created” by one of the largest MNCs versus the “value created”—the Gross Domestic Product—of a particular country. On this basis, we find that while the largest companies cannot reach the level of value-added produced by the economies of the top 40 countries of the world, they can reach levels comparable to the GDP of countries such as, for example, Algeria (Exxon is close), Hungary (Ford is close), or Romania (DaimlerChrysler is close).⁴

What about the overall question of company power versus the power of national governments? In answering that question, even for these economies where company value-added is close to country GDP, companies are undoubtedly weaker. Countries can compel companies and citizens to act by means of tax, regulatory law and ultimately force. Companies lack any of these powers. In fact, corporate monopoly power is something which most countries attack vigorously, but there is nothing to check the monopoly power of the government.

Furthermore, even the largest MNCs face significant challenge from existing competitors as well as new entrants into the market. General Motors has long been one of the biggest MNCs, but its future is now in some doubt. Daimler’s attempt to build a global company with Chrysler has ended in failure. IBM has sold its personal computer business to the Chinese company Lenovo. The powers of MNCs are much overrated, and it is dangerous to presume the weakness of national governments.⁵

Economic globalization, and the perception of the MNC, has increased the focus on a number of issues relating to society. What does increasing economic integration mean for communities, workers and the environment? These issues are being discussed both in developed and in developing countries, and concern about these issues has focused attention in recent years on the role of companies in society.

Prominent Social and Environmental Issues

In recent years a number of important social and environmental issues have also served to focus attention on the company's role in society. When it comes to the environment, in the last several years no issue has been more important in this regard than global warming. Efforts to counter global warming have become one of the most prominent features in company CSR reports as expectations have grown that companies will "do their part" to combat the potentially catastrophic impacts of global warming. Indeed, concern over global warming may be the single biggest driver of CSR today.

Beyond global warming, demands for company action have been greater than ever before when it comes to significant social problems in developing countries such as extreme poverty, the AIDS epidemic, and lack of educational opportunities for children. While governments, non-governmental organizations and international organizations have long been the main players in dealing with these problems, the scale and persistence of these problems has focused attention on the role that companies might play in addressing these issues.

Of course, especially in the industrialized countries, we can trace significant action on social and environmental issues at least to the 1960s and 1970s. In the United States, for example, these decades saw the passage of major federal statutes on air and water pollution, hazardous waste disposal, worker health and safety, consumer protection, and discrimination in employment, including discrimination based on sex, race, religion, national origin, age and disability.⁶ However, even with these significant regulatory limitations in place, environmental issues such as global warming and social issues such as extreme poverty are leading to more calls for business to take on greater responsibility in society.

Corporate Scandals

Furthermore, recent well-publicized corporate scandals involving some very large companies have highlighted the issue of business conduct in society. In the US, the scandals that have engulfed companies such as Enron and WorldCom have raised the questions of corporate governance. Will managers run the business for the best interests of the company or themselves? And more fundamentally, can managers be trusted? In Europe, the Italian company Parmalat has contributed to the same mistrust of companies

and those who manage them. The illegal actions of top managers at companies such as these have received wide coverage in the media. Governments have responded with new legislation, such as passage of the Sarbanes-Oxley Act in the US, and have successfully prosecuted many of the top company officials involved in the scandals for their actions. While these cases are in no way typical of the manner in which companies are run, these highly-publicized scandals continue to raise in the minds of many the question of whether business can be trusted to operate in a legal manner.⁷

Many factors have led to the concept of CSR becoming an important theme when it comes to the role of businesses in society. However, what exactly is CSR? As we will see, two different conceptions of what it means for a company to have a “social responsibility” can be found. The discussion now turns to consider the definition of CSR.

WHAT IS CSR?

As noted above, the discussion of CSR often begins with the general assertion that businesses have not only a responsibility to generate economic returns for shareholders, but also a responsibility to the natural environment, as well as a social responsibility to other “stakeholders” including customers, employees, suppliers, creditors, and the community. This is often referred to as the “triple bottom line” – the company’s returns for shareholders, the environment and stakeholders. There is significant debate over what these “responsibilities” and “returns” really mean, however, and how they are to be achieved. It is one thing to assert that the responsibility exists. It is quite another to specify the level of that commitment. One of the crucial questions surrounding CSR is the degree of responsibility which it imposes on the company when it comes to stakeholder interests and the environment.

We can say, however, that most would agree that any characterization of responsible business begins with obeying the law and acting in accordance with general ethical principles.⁸ Of course, in many jurisdictions laws and regulations impose many obligations on companies not only with respect to shareholders, but also for environmental protection as well as laws protecting consumers and employees. And so, a company should normally follow the law in those jurisdictions where it operates in order to meet its social responsibility. In addition to the law, it is also generally accepted that

the social responsibility of business also extends to acting in accordance with general ethical principles. General principles of fairness, justice and honesty can be found in all traditions around the world, and businesses should be expected to operate in accordance with these principles.

For many, however, corporate social responsibility means something more than obeying the law and observing general ethical principles. Exactly what it means in addition to law and ethics gets us to the heart of the debate over CSR. In defining the particular nature of CSR, two very different definitions or conceptions of CSR have emerged from the current CSR debate in the US and in Europe: one that can be termed “strategic CSR,” and the other “radical CSR.”

Strategic CSR

The first of these understandings of CSR – “strategic CSR” – links the “responsibility” of business toward the environment and stakeholders (beyond the legal and ethical minimums) to the company’s economic well-being. In other words, in this version of CSR, companies should be interested in environmental or stakeholder issues whenever those programs would simultaneously benefit the company. In this way this view sees CSR as a complement to the main business objective of the corporation. In this view the company should look not only at its final products and services, but also at the way it creates its product or service as well as the general way it engages in business. Then, in each area the company should ask if it can make changes or engage in activities that will be better for the company and produce better environmental or social results. It may be a new or redesigned product or service that is more environmentally friendly, or it may mean taking up a cause or contributing aid with respect to a particular environmental or social issue on the community, national or international level. It may be pursued by the company alone or in partnership. In fact, it is becoming more and more common to find partnerships between a company and a non-governmental organization (NGO) which is active on the environmental or social cause.

Again, however, the “strategic” conception of CSR means doing more than legally or ethically required but in the discretion of the company and for reasons that will ultimately benefit the corporation and its owners—the shareholders. Kotler and Lee

specifically refer to the discretionary nature of this version of CSR in their definition of CSR: “Corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources.”⁹

In what ways can a business potentially benefit by engaging in social or environmental initiatives? Discussions here usually refer to a number of possible benefits, including one or more of the following:

- Reducing costs (manufacturing, packaging, transportation);
- Attracting and retaining better employees;
- Avoiding legal violations;
- Improving relations with government;
- Building a better image for consumers (strengthening brand positioning and increasing sales);
- Avoiding boycotts and protests organized by NGOs;
- Developing a market for a new (environmentally-friendly) product or service.¹⁰

In one or more of these ways, a company could both do well for stakeholders or the environment, and also for shareholders.

This conception of CSR can be found in the literature and programs of a number of companies and organizations. One good example is found in an initiative recently adopted by Business Roundtable, an association of chief executive officers of leading US-based companies. It has launched a program known as “Society, the Environment, and the Economy” (S.E.E.). Business Roundtable describes the purpose of the S.E.E. program as follows: “to urge companies to adopt business strategies and projects that are good for the environment and society – and good for their bottom line.”¹¹ In this view, economic returns and social as well as environmental programs can go hand in hand.

A number of company initiatives illustrate this type of CSR. For example, between 1991 and 2004, British Telecom Group implemented fleet management software and allowed employees to work from home to achieve energy savings of over \$200 million.¹² BT reduced energy consumption (and thereby emissions of greenhouse gases), while at the same time reducing energy costs, and perhaps contributed to a better company image for employees, customers and investors.

Philip Kotler and Nancy Lee highlight the example of *Parade* magazine taking up the issue of childhood hunger in the US by launching a campaign called “The Great American Bake Sale” to raise awareness on this issue. *Parade* joined with the NGO Share Our Strength to carry out the campaign during the first part of 2003.¹³

Another good example can be found in GE’s “Ecomagination” branding strategy, which encompasses products ranging from wind turbines to fluorescent light bulbs which consume less electricity than incandescent bulbs to GE’s GEnx jet aircraft engines, which consume less jet fuel than its predecessors. In 2006, revenues from GE’s “green” products reached \$12 billion.¹⁴

Radical CSR

“Radical CSR,” on the other hand, has a different view regarding the company’s “responsibility” toward society. In this second view, the very purpose of business is redefined so that, in addition to the traditional business purpose of maximizing the long-term interest of the shareholders (in the context of abiding by laws and ethical principles), businesses also have obligations to promote environmental sustainability and stakeholder interests (most often defined to include employees, customers, shareholders, suppliers, creditors and the communities where the company operates). And so the fundamental *raison d’etre* of the company is changed: The company and its management exist to serve all stakeholders and the environment as well as shareholders. Radical CSR would go much further than strategic CSR in placing environmental and social responsibilities at the core of the corporation’s purposes. David Henderson notes that there may be some who view CSR as discretionary. Henderson emphasizes the radical nature of CSR, however, and asserts that “but for many of the true supporters of CSR, within the business world and elsewhere, it offers a *new blueprint for business aims and conduct*.”¹⁵

Another example serves to highlight the radical nature of this concept. In his article entitled “Civil Society and Civil Economy,” Stephen Davis argues that as a result of the end of the Cold War, the era of deregulation and privatization, and globalization, “the fundamentals of commerce have changed dramatically in recent years.”¹⁶ As a result he asserts that a new stage of capitalism is beginning which he terms “the civil economy.” The introduction to his article summarizes his thinking:

‘Civil economy’ requires institutions similar to those that are involved in creating a strong civil society. In this new formulation, institutional owners, accountable to their millions of investors, push corporations toward sustainable prosperity through socially responsible management.¹⁷

Davis calls for a brand new paradigm – what he terms “a fresh central organizing principle” – for markets in the 21st century.

Characterizations of CSR in line with this second view of CSR are not hard to find.¹⁸ The US-based organization Interfaith Center on Corporate Responsibility seems to back this version of CSR when it asserts that a corporation should “ensure that economic benefits are financially and socially equitable for all associates of the company.”¹⁹ According to the California-based organization AsYouSow, “Corporate Social Responsibility (CSR) refers to operating a business in a manner that accounts for the social and environmental impact created by the business.” The organization asserts that, among other things, CSR policies include “adoption of operating policies that exceed compliance with social and environmental laws.” The group concludes that “companies are now challenged by stakeholders including customers, employees, investors and activists to develop a blueprint for how they will sustain economic prosperity while taking care of their employees and the environment.”²⁰

Even some leaders of major companies have seemingly endorsed this conception of CSR. Bjorn Stigson is President of the World Business Council for Sustainable Development, an organization which brings together almost 200 international companies based in over 30 countries. In the book *Walking the Talk: The Business Case for Sustainable Development*, Stigson states that the object of companies is to “run their companies in the best interests of human society and the natural environment, now and in the future.”²¹

THE LIMITS OF CSR

And so, over the past 15 years, CSR has become a more and more familiar term, although, as discussed above, it can be defined in different ways. And, we see more and more companies issuing reports and engaging in programs under the banner of CSR. The assertion of corporate social responsibility may seem fairly uncontroversial--who could object to businesses being “socially responsible?” Isn’t everyone supposed to be

“responsible?” There is, in fact, cause to be wary of “strategic” CSR, however, and a number of reasons to reject “radical” CSR. Let us now turn to discuss the major problems with CSR.

The Problems of Strategic CSR

The allure of strategic CSR can be very strong. After all, a company presumably knows its business best, and this view of CSR allows the company to use, at the discretion of the company, its knowledge and creativity to address particular social and environmental issues while also benefiting the company. If a company closely studies its business – its production processes, its product offerings, its source of supply of a critical input – with environmental and social needs in mind, the company may find that actions can be taken which would both benefit the company and have a positive environmental impact or contribute to the improvement of one or more “stakeholders.” Nevertheless, strategic CSR raises several important concerns.

First, one of the main questions about this view of CSR is whether companies will be able to maintain the balance called for between benefits to the company and benefits to the environment or stakeholders. Some of the supposed benefits such as building a better image or attracting better employees are very difficult to measure. Will these factors be used to justify environmental or social programs that really do not provide adequate benefits to the company? In the CSR debate, sometimes discussions of these general types of benefits seem to take on such importance that *any* program or contribution could be justified if only the company devotes enough time to studying it and approaches it with creativity. Many social and environmental programs, however, are very expensive, and it is doubtful that technological “know how,” business acumen, global reach and human resources goes as far as some CSR advocates think in allowing companies to address social and environmental issues in a way that simultaneously yields benefits for the company. Perhaps Jonathan Charkham best characterizes the concern here: “When CSR is promoted, one should bear in mind that giving away other people’s money is easy!”²²

Second, to what degree can even strategic CSR programs be called discretionary? As noted above, Kotler and Lee explicitly include *discretion* in their definition of CSR.

After setting forth this definition, however, they immediately state that a commitment to CSR “must be demonstrated” and that a CSR plan “will be fulfilled through the adoption of new business practices and/or contributions. . . .”²³ If CSR must be demonstrated as a result of the expectation that companies will, in fact, be socially responsible, it would seem that discretion only comes in what type of CSR program the company initiates.

Another important question is raised concerning the “discretionary” nature of strategic CSR. The more that companies talk about their commitment to programs to benefit the environment and stakeholder, are companies, in fact, conditioning society to believe that companies are equally responsible to the “triple bottom line” of radical CSR? That is, the company may have strategic CSR in mind (with either proven or at least arguable benefits to the company for its CSR initiatives), but this is hardly communicated to society. Are companies, therefore, reinforcing the message of radical CSR even as they carefully define their programs as strategic CSR?

A final note about the “discretionary” nature of strategic CSR is in order. As notions of CSR have spread, so too have various codes of conduct to define, in either positive or negative commands, what companies have the “responsibility” to do or not to do. These codes have become more and more influential in recent years – often promulgated by industry associations or international organizations. For example, the United Nations has its “Global Compact” principles. Again, however, the question of discretion arises. The danger is that the proliferation of codes of conduct will result in mandatory CSR and reinforce the idea that the “triple bottom line” is actually the true goal of all business.

Businesses Make Valuable Contributions to Society

Another problem with CSR is that discussions regarding CSR almost always fail to recognize the many inherently “socially responsible” aspects of business and the markets in which they operate. Many CSR proponents start from the premise that there is nothing socially responsible about business itself. It is only with CSR that businesses become socially responsible. For example, a recent Public Broadcasting Service (PBS) essay highlighted the decision by Macy’s to carry a new line of handwoven baskets made by women in Rwanda. The narrator offers us the following introduction:

The image of big business has really been taking it on the chin lately: one picture after another, it seems, of corporate executives in suits, ties, and handcuffs. Too bad. There's another side of the business world.

Of course, the other “side of the business world” is the decision of Macy’s to carry the new basket line.²⁴ It was as if nothing else Macy’s (and of course business in general) was doing was in any way responsible—it is either crime or CSR. Of course, in this case we can put the distinction down to good journalistic device, capturing the attention of the listener. But perhaps it is also more characteristic of how CSR is, in fact, normally presented.

Discussions of CSR ought to begin with the recognition that companies play a very important social role. For example, as John Meadowcroft notes in his recent book *The Ethics of the Market*, most companies depend on relationships developed both inside and outside the company. Outside the company, the business develops relationships often of long duration, including ties with suppliers and customers. Inside the company, the business depends on networks of relationships between employees for the successful coordination and operation of the business.²⁵ Meadowcroft makes the important point that the market is characterized as “a vast web of cooperative and mutually beneficial relationships between employers and employees, colleagues and clients, suppliers and contractors, producers and consumers.”²⁶ Meadowcroft notes that such relationships “will very often be akin to a partnership based upon mutual dependency, cooperation and trust, where short-term gain will often be sacrificed for the benefits of long-term collaboration.”²⁷ In this way, businesses certainly play an important role in promoting social networks.

Obviously, businesses also play an important role in society in supplying products and services to society and providing employment. As Jonathan Charkham summarizes in the introduction to his important work on corporations, “They provide employment and are, therefore, an important element in social cohesion. They produce taxes, and therefore, the sinews of civilization—law and order, defence, and welfare of many kinds. Above all, they produce the goods and services people want or need.”²⁸ Many companies also provide important social benefits such as pension plans for their employees. Again, the positive impacts of business should not be overlooked in the broader debate about CSR.

Moreover, because businesses and the markets within which they operate value efficiency and creativity, society reaps several significant benefits. Businesses encourage creativity in many areas, including management, marketing, and product development, which results in better organizations as well as products and services. Efficiency and productivity gains can also mean greater levels of compensation and more holiday time for employees, which, in turn, enable employees to pursue family, recreational and social activities. In his recent book, Robert Fogel notes that in many countries “today ordinary people have time to enjoy those amenities of life that only the rich could afford in abundance a century ago. These amenities broaden the mind, enrich the soul, and relieve the monotony of much earnwork. . . . Today people are increasingly concerned with the meaning of their lives.”²⁹ In each of these important ways discussed in this section, businesses themselves can be seen as a very socially responsible activity, and discussions of CSR should not diminish these important aspects of business in society.

Existing Legal and Ethical Principles Establish Duties for Business in Society

Another problem in the CSR debate is that CSR proponents tend to downplay the importance of the existing legal obligations which control company conduct as well as the observance of important ethical principles by companies. The CSR mindset sometimes seems to start with the assumption that companies have no obligations to the environment or employees, so CSR will provide them. But many legal and ethical standards are already in place.

Indeed, businesses readily accept that a legal and ethical framework is crucial for the existence of a well-functioning market system. Companies in modern market economies are already subject to regulation in many areas. Comprehensive laws regulate how businesses operate with respect to issues including environment, employment, labor unions, consumer protection, competition (antitrust) and bribery. Not only do these laws threaten punishment of the company with fines and other “civil” penalties for violations, but in jurisdictions like the US prosecutors have the power to bring criminal charges under these laws and press for prison sentences for the company employees and managers involved in the violation. In these ways, companies have significant existing obligations to be socially responsible.³⁰

Not only does current law place substantial limitations on business, but legal and regulatory obligations are expanding internationally, not contracting. For example, on a regional basis EU obligations, occupying over 16,000 pages of the *Acquis Communautaire*, are now spreading to all 27 EU members. Indeed, some portions of the body of EU regulations now extend to other parts of the world, as companies located elsewhere comply with its regulations in order to export products to the EU, and as non-EU governments looking to regulate on the same issue adopt the EU regulatory approach for their country.³¹

Important ethical principles also form the basis for long-term business activity. As John Mueller has written, “Virtue is, on balance and all other things being equal, essentially smart business under capitalism: nice guys, in fact, tend to finish first.”³² Acting according to basic ethical principles of honesty, justice and fairness contributes to the development of sound relationships with employees, customers, suppliers and others with whom the company must have good relationships in order to prosper over the long term.

And ethical codes are now more and more a matter of legal requirement. In the US, the 2002 Sarbanes-Oxley Act imposes an ethics code requirement on publicly-traded companies. Also in the US, the Federal Sentencing Guidelines provide an opportunity for companies to receive more lenient treatment for criminal violations if the company had a code of ethics that addressed the issue and the company could demonstrate that the code of ethics was generally enforced by the company.

Markets and companies depend on responsible behavior in society—without compliance with the law and without following important ethical rules, markets would not function well – or perhaps at all.

CSR Will Lead to More Government Control

Another reason to reject the radical view of CSR is that it will ultimately lead to more government regulation. A good example of the likely outcome of the principles of CSR is provided in a recent book on CSR by David Vogel entitled *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*.³³ Vogel begins by using the term “virtue” to describe voluntary CSR initiatives undertaken by companies, business

associations or private bodies to further environmental or social ends. But later in his book Vogel comes to the conclusion that voluntary action is not effective. Vogel notes that CSR often imposes costs that would raise the price of products and services, and consumers often won't want to pay these higher prices if there is also the choice of buying a lower-priced product from a company which did not undertake "voluntary" CSR. And so, by the end of his book, Vogel argues that "virtue" must be replaced by government regulation: "Consequently, *the definition of corporate social responsibility needs to be redefined to include the responsibilities of business to strengthen civil society and the capacity of governments to require that all firms act more responsibly.*"³⁴ So the end result of CSR is not voluntary compliance but a new layer of government regulation. Companies will be forced to be virtuous.³⁵

Not only will CSR ultimately lead to more regulation, but to more onerous and intrusive regulation than ever before in markets like the US. Indeed, the types of CSR programs which companies are being urged to adopt reveal the inherently radical nature of CSR. For example, Vogel urges Starbucks to support an international agreement on coffee prices.³⁶ Companies are to become the chief proponents of government regulation which otherwise would not have much of a chance of legislative enactment at either the state or federal level. In this specific example, moreover, agreements to "fix" prices are rarely successful tools of development and possibly violate US antitrust law. Yet by proposing them as CSR initiatives, suddenly they are a serious part of the public policy discussion.

CSR Undermines Good Company Governance

CSR is problematic because it undermines the responsibility of company managers to company owners. CSR redefines the very purpose of business so that, in addition to the traditional business purpose of maximizing the long-term interest of the shareholders (in the context of abiding by laws and ethical principles), businesses also have obligations to the environment and to stakeholder interests. Because CSR says that managers are accountable to all of these, however, managers, in fact, will be accountable to none, and could justify just about any decision on the basis that it benefits at least one aspect of the "triple" bottom line. According to Jonathan Charkham, "There is a real

danger with CSR of competing, contradictory, and incompatible objectives.”³⁷ So the traditional problem of making sure managers are serving the interests of the company (and its owners) – and not themselves – is made worse.

Furthermore, CSR does not indicate how a “fair” allocation of resources can be achieved among the so-called “triple bottom line.” Employees typically would be very happy if the company increased the wages paid to employees. But shareholders would like more consistent dividend payments, and perhaps the community would like more money spent on pollution control equipment whereas suppliers want faster payment for goods sold to the corporation. Which group is to get priority if each group has an equal claim to be served by the company?³⁸

Finally, conflicts will arise even within one group—such as employees. A number of factors can cause employees to have very different interests—for example, whether the employee is full time or part time, salaried or an hourly wage earner, or young or very experienced. Part time workers may not receive a pension, and therefore, may be much more interested in increases in hourly wages than increases in company pension payments. Younger workers may be much more interested in benefits such as time off for the birth of a child than older workers. How are conflicts to be resolved where one group of employees has very different interests than other groups of employees? CSR does not offer a clear answer.

CSR Diminishes the Crucial Focus on Good Public Governance

While CSR places the focus on business in addressing environmental and social issues, the fact is that in many developing countries the bigger issue is effective public governance. Local, regional and national governments must ensure accountability—especially through transparent decision making. Public governance must be improved by fighting corruption, and in particular, bribery of government officials. Finally, conditions for the “rule of law” must be improved. It is only with improvements in public governance that major environmental and social problems can be effectively addressed. So the focus of CSR deflects attention to the crucial issue of ineffective public governance. The proper response is rather to make sure that governments themselves are acting effectively on those issues of importance in society.

With better public governance, business activity itself will prove the best way to speed development in many countries. The World Bank's 2005 *World Development Report 2005*, for example, focuses on the necessity to extend the activity of companies in open markets as the best way to speed the development of those countries which most need it. The *Report 2005* asserts also that "private firms—from farmers and microentrepreneurs to local manufacturing companies and multinational enterprises—are at the heart of the development process. Driven by the quest for profits, they invest in new ideas and new facilities that strengthen the foundation of economic growth and prosperity."³⁹ The World Bank is not alone in this regard. Rabbi Jonathan Sacks has noted that "the free market is the best means we have yet discovered for alleviating poverty . . ." and for "creating a human environment of independence, dignity and creativity."⁴⁰ The contributions of business, without the addition of CSR baggage, are already apparent.

Why "Corporate" Social Responsibility?

CSR proponents obviously focus on the role of business in society. Corporations, and more generally businesses of all types, are certainly one of the important organizations in society. But, of course, there are many other actors in society beyond businesses. Perhaps first we would think of individuals and local, regional and national governments. Then we would think of the many branches of "civil society": family; religious organizations; political parties; non-governmental organizations (NGOs), including aid and many "cause"-oriented groups; clubs and associations of many kinds, including sports and interest groups; media; labor unions; community and neighborhood organizations; and schools. Why does CSR focus on just businesses in raising the question of social responsibility? If social responsibility exists, why should it be limited to the role of business in society? What about individuals for example? Should we have a "social responsibility board" to monitor the actions of individuals to ensure that each person is contributing in a balanced way to the environment and social issues in addition to the hours they devote to earning compensation in one form or another? Should that board have the power to levy a "CSR tax" on those who do not demonstrate a sufficient

personal contribution and to make sure that everyone is contributing a fair share toward environmental and community needs?

It is true, especially for larger businesses, that they may employ many citizens, possess technical and management expertise, possess significant financial resources and have global “reach.” But is this a sufficient basis to set them apart from other actors in society on this issue? If we took the individuals who make up any urban area in the US, we could certainly find great technical and management expertise, significant financial resources and global reach,⁴¹ but do we impose upon them a “social responsibility” test? Businesses are certainly not the only, and not the dominant, actor which shapes society and culture.

Should businesses – especially those organized as a “corporation” or some other entity created only under law – be subject to “social responsibility” since they are only created by use of law established by society? Should obtaining a corporate or other business “charter” be made subject to the condition that the business provide “social” benefits? First, remember that businesses do provide many social benefits. Why at this point in history we should expect any additional “social responsibility” from businesses is not clear. Second, any additional forced “virtue” in terms of environmental or other social spending is in reality nothing more than a tax on doing business. The consequences of taxing business activity are well known—those societies which place too much of a burden on business and discourage the entrepreneurial business spirit experience lower economic growth and lower standards of living. Finally, imagine (for US purposes, on a state-by-state basis since corporation law is state law – for other countries, it may be on a national basis under a single “company law”) a government “corporate social responsibility board” which would have to approve new and existing business plans to ensure CSR. Anyone who thinks this could easily and effectively work might want to spend some time studying the consequences of Soviet and Chinese central planning in the second half of the 20th Century.

Do We Want Businesses to Assume the Powers of Government?

CSR should also be rejected since it leads to the inappropriate assumption of government powers by businesses. We should not look to businesses to take the lead to

establish schools, provide environmental protection and organize medical care. Can corporations identify the most pressing social and environmental needs? And can they address these needs for the good of all of society rather than just one location or group of people? Do we want unelected corporations delivering basic services normally provided by government? Of course, governments may have some incentive not to object to business involvement in CSR programs insofar as company-funded programs may address public issues without the government having to raise taxes.⁴² Surely broader action on the part of governments and civil society organizations knowledgeable about these issues are in a better position to address public needs than businesses.

It is also important to note that increasing involvement by corporations in the general needs and affairs of society will certainly result in more calls for governments to regulate company affairs.⁴³ If a company voluntarily undertakes environmental or social programs, which are typical functions of government, society will begin to view the corporation as a type of government entity, subject to society's control. The likely result of CSR will actually be further government control.

CSR Violates Fundamental Rights of Owners of the Company

A final reason to reject CSR is that it undermines the fundamental rights of the owners of the company. First, private property, which is crucial to economic prosperity as well as to political liberty, is accorded a high degree of protection. As Elaine Sternberg asserts, just because some limits to the ownership of private property exist (for example, the outlawing of slavery), all limits on property are not acceptable. Second, John Meadowcroft also makes the important point that imposing CSR on individuals who happen to be shareholders in a company "constitutes an infringement of their right to pursue their own ends."⁴⁴ Radical CSR, therefore, also implicates some fundamental rights of owners of companies.

CONCLUSION

The role of companies in modern society is an important issue in many countries around the world. The issue has received increased attention in recent years due to several factors, including the process of economic globalization, government

deregulation of economic activity, corporate scandals and the fact that in many countries social and environmental issues have been prominent for many years. The debate over the social responsibility of business in the US and in Europe is still developing and important differences exist in how “corporate social responsibility” is defined.

Discussions of a company’s social responsibility can serve to remind companies of the importance of complying with legal and ethical standards as well as ensuring that the firm is fully incorporating stakeholder and environmental interests in ways that truly benefit the company. The concept of CSR, however, threatens to evolve in a much more radical manner and to create significant problems for the future.

¹ The debate about the role of business in society is often focused on “corporations,” and especially large multinational corporations (MNCs). The debate, however, is really much wider and encompasses all businesses, whether incorporated or not, whether large, medium or small in size, and whether local, regional, national or international in scope. Although the large MNCs are often used to provide examples of the impact of business on society, it is impossible to limit the discussion to MNCs in particular or corporations in general. Rather, it is fundamentally an issue for all businesses. The terms “business” and “company,” therefore, will more often be used in this article.

² The Starbucks 2006 Annual CSR Report is a good example.
<http://www.starbucks.com/aboutus/csrannualreport.asp> [June 15, 2007]

³ A Google search for the term “corporate social responsibility” returned 2,020,000 items.

⁴ “Who is on Top?,” *Financial Times*, February 6, 2002, p. 13.

⁵ For a more complete discussion of these issues, see Martin Wolf, *Why Globalization Works* (New Haven: Yale University Press, 2004), pp. 220-48; Jagdish Bhagwati, *In Defense of Globalization* (Oxford: Oxford University Press, 2004), pp. 162-95; and John Micklethwait and Adrian Wooldridge, *The Company: A Short History of a Revolutionary Idea* (New York: Random House, Inc., 2003), pp. 175-79.

Another interesting comparison focuses on the power of the US state of Pennsylvania. Pennsylvania’s Gross State Product would place it among the top 20 countries of the world, with larger “value added” than any single MNC. But how many times do you hear complaints about the influence or power of Pennsylvania in the world?

⁶ In the US, federal legislation includes the Clean Air Act, Clean Water Act, National Environmental Policy Act, Civil Rights Act of 1964, Age Discrimination in Employment Act, and Consumer Product Safety Act. What is more, each of the 50 states typically has also enacted laws on these same topics.

⁷ Other portrayals of business in the media can be misleading. As a recent commentator pointed out, “The Apprentice may be great entertainment but it is in no way typical of the reality of business.” Todd Stitzer, “Business Must Loudly Proclaim What it Stands for,” *Financial Times* (online edition), June 1, 2006.

⁸ Where “rule of law” conditions prevail, observing the law will almost always be the socially responsible course of action. Of course, there may be situations, such as when laws are contradictory, where it is impossible to comply with all requirements of the law.

⁹ Philip Kotler and Nancy Lee, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause* (Hoboken, New Jersey: John Wiley & Sons, 2005), pp. 3. Kotler and Lee go on to define “community well-being” to include “human conditions as well as environmental issues.” *Ibid.*

¹⁰ Another list has been developed by Philip Kotler and Nancy Lee. *Ibid.*, pp. 10-11.

¹¹ Business Roundtable Press Release, “CEOs from Every Sector of the Economy to Adopt Business Strategies and Projects That Benefits Society, Environment and Economy,” September 21, 2005. <http://www.businessroundtable.org/newsroom> [November 15, 2005]

¹² “Money Motivates the Shift to Green,” *Financial Times*, August 25, 2007, p. 7.

¹³ Kotler and Lee, *Corporate Social Responsibility*, p. 63.

¹⁴ Fiona Harvey, “GE Looks Out for a Cleaner Profit,” *Financial Times*, July 1, 2005, p. 8. Fiona Harvey, “Money Motivates the Shift to Green,” *Financial Times*, August 25, 2007, p. 7. Francesco Guerrera, “GE ‘Green’ Sales Soar to \$12bn,” *Financial Times*, May 24, 2007, p. 15.

¹⁵ David Henderson, *The Role of Business in the Modern World: Progress, Pressures and Prospects for the Market Economy* (Great Britain: The Institute of Economic Affairs, 2004), p. 27; emphasis added.

¹⁶ Stephen Davis, “Civil Society and Civil Economy: The Next Decade of Corporate Governance,” Center for International Private Enterprise Economic Reform Feature Service. <http://www.cipe.org>.

¹⁷ *Ibid.*

¹⁸ Perhaps a good indication of popular perception of CSR is provided by a check of Wikipedia’s definition. Wikipedia’s definition suggests the “radical CSR” concept: “Corporate Social Responsibility (CSR) is a concept that organizations, especially (but not only) corporations, have an obligation to consider the interests of customers, employees, shareholders, communities, and ecological considerations in all aspects of their operations. This obligation is seen to extend beyond their statutory obligation to

comply with legislation.” http://en.wikipedia.org/wiki/Corporate_social_responsibility [June 28, 2007]

¹⁹ Interfaith Center on Corporate Responsibility, “Corporate Governance Goals and Objectives.” <http://www.iccr.org/issues/corpgov/goalsobjectives.php>. [October 25, 2005]

²⁰ AsYouSow, “Corporate Social Responsibility.” <http://www.asyousow.org/csr/csrp.shtml> [July 14, 2007]

²¹ See Stigson’s Forward to Charles O. Holliday, Stephan Schmidheiny and Philip Watts, *Walking the Talk: The Business Case for Sustainable Development* (Sheffield: Greenleaf, 2002).

²² Jonathan P. Charkham, *Keeping Better Company: Corporate Governance Ten Years On* (Oxford: Oxford University Press, 2005), p. 386.

²³ Kotler and Lee, *Corporate Social Responsibility*, p. 3. Indeed, the dust jacket states: “In today’s world, it is no longer just acceptable that a corporation does well by doing good. It is expected.”

²⁴ Clarence Page, “Some Companies Look to Combine Business with Social Conscience,” The Online NewsHour. http://www.pbs.org/newshour/bb/entertainment/july-dec06/trade_12-27.html [February 12, 2007]

²⁵ John Meadowcroft, *The Ethics of the Market* (New York: Palgrave MacMillan, 2005), pp. 141-42.

²⁶ *Ibid.*, p. 142.

²⁷ *Ibid.*

²⁸ Charkham, *Keeping Better Company*, p. 1.

²⁹ Robert Fogel, *The Escape from Hunger and Premature Death, 1700-2100* (Cambridge: Cambridge University Press, 2004), p. 74.

³⁰ Of course, governments also have a socially responsible role to play, by ensuring that the law is clearly written, does not contradict other legal requirements, is evenly enforced, and is not overly burdensome. If any of these conditions is not met, the “social responsibility” of business is effectively made impossible by the social irresponsibility of government.

³¹ Tobias Buck, “Standard Bearer,” *Financial Times* (online edition), July 10, 2007.

³² John Mueller, *Capitalism, Democracy, and Ralph's Pretty Good Grocery* (Princeton: Princeton University Press, 1999), p. 17.

³³ David Vogel, *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility* (Washington, D.C.: The Brookings Institution, 2005).

³⁴ *Ibid.*, p. 172; italics in original, underlining added for emphasis.

³⁵ A similar shift occurs elsewhere. In a recent article, Stephen Davis begins by characterizing the need as one for “surgical adjustment of regulation and law.” A few paragraphs later, however, government is called upon to use “tested measures” such as “tough regulation.” Stephen Davis, “Society and Civil Economy: The Next Decade of Corporate Governance,” *Center for International Private Enterprise Economic Reform Feature Service*. <http://www.cipe.org>.

³⁶ David Vogel, *The Market for Virtue*, p. 173.

³⁷ Charkham, *Keeping Better Company*, p. 21.

³⁸ And, in some countries, the vague and contradictory nature of CSR could be appropriated by other interests. For example, in Russia one popular interpretation of the “social responsibility” of business is to act to support the government’s priorities for the country. So the centralization of authority undertaken by the Putin administration is furthered by its ability to make use of the CSR “in the Russian context.”

³⁹ The World Bank, *World Development Report 2005: A Better Investment Climate for Everyone* (Washington, D.C.: The World Bank and Oxford University Press, 2005), p. 1.

⁴⁰ Deidre McCloskey, *The Bourgeois Virtues: Ethics for an Age of Commerce* (Chicago: The University of Chicago Press, 2006), p. 30, quoting Jonathan Sacks, *The Dignity of Difference: How to Avoid the Clash of Civilizations* (London: Continuum, 2002), pp. 22 & 14.

⁴¹ Modern technology has enabled even individuals to communicate and travel easily across borders and to develop close links with others around the world.

⁴² Sternberg, *Corporate Governance: Accountability in the Marketplace*, 2nd edition (London: The Institute of Economic Affairs, 2004), p. 149. See also Elaine Sternberg, *Just Business: Business Ethics in Action*, 2nd Edition (Oxford: Oxford University Press, 2000).

⁴³ See Sternberg, *Corporate Governance*, pp. 156-57.

⁴⁴ Meadowcroft, *The Ethics of the Market*, p. 19.