EDITORIAL: CORPORATE SOCIAL RESPONSIBILITY

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Introduction

One of the more irritating suggestions that people make in the debate about ‘corporate social responsibility’ is that ‘businesses should put something back into society’. Entered into Google as a string, the phrase produces 21.7 million hits, with small variations producing many millions more.

I sometimes wonder, when I go to the local newspaper shop and purchase a newspaper for £1, whether I should say to the vendor before I leave – ‘Having sold me a newspaper, I hope that you will now put something back into society’. Getting up at 5 am, taking risks with very little capital to fall back on and providing communities with newspapers at a reasonable price is not enough it would appear.

When people use that line of argument, perhaps they are not talking about the corner shop, they are talking about Tesco or Starbucks or PC World. But the argument is the same. Why, if Tesco profits from selling a newspaper, is it time for them to ‘put something back into society’, whereas if the corner shop sells a newspaper people appreciate that they are providing a good service at a reasonable price?

The raison d’être of a business is to put something into society by being a business. The provision of cheap and plentiful food in good condition; the development and supply of computers with ever-greater functionality; the provision of a cup of cappuccino that does not involve the buyer having to go through the expensive and laborious process of buying the machinery and making the coffee himself are all activities that put something into society. Why is it that businesses are caricatured as ‘taking out of society’ when they behave as businesses but ‘putting something into society’ when they spend money on community projects and the like?

More generally in the debate on corporate social responsibility, there should be no reason for businesses to make a special effort to be ‘social’. Business, by its nature, is a social activity. Businesses are free associations of persons put together for a common objective. That common objective, furthermore, can only be achieved by interacting with others in the community – mainly by providing goods and services that people wish to buy.

Should businesses be responsible? Of course they should. All individuals and all organisations should behave in a civil and responsible manner. However, this does not require businesses to have specific objectives that might, indeed, undermine their whole purpose. In fact, proponents of corporate social responsibility (CSR) – that is, proponents of businesses having specific programmes and objectives that explicitly promote aims other than maximising owner value – seem to want businesses to undertake tasks for which they are not suited but towards which other corporations and associations are, in fact, specifically oriented.

As Elaine Sternberg points out in the first main article in this collection, proponents of corporate social responsibility tend to confuse the terms ‘corporation’ and ‘business’. Not all businesses are corporations and not all corporations are businesses. The objective of Tesco, which is both a business and a corporation, should be to maximise the value of its owners’ assets by delivering cheap, good quality food – and other household goods – in an environment in which people enjoy shopping. There are other corporations, whose objective is not to maximise owner value but to achieve well-specified and important social objectives: universities, private schools, sports clubs and so on. Tesco’s owners may well wish to donate some of their money to help such corporations in their work; Tesco may well feel that it helps it market its products, recruit labour and so on if it is involved in community projects. But, whilst Tesco’s owners are perfectly entitled to pursue such additional interests in furtherance of their basic business objective, they should not be criticised if they do not do so. Tesco is a corporation formed with one objective – an objective which if successfully fulfilled is of huge value to the community –
there are other corporations that are formed with other objectives. Why should business corporations be expected to take on their roles too?

**Corporate social responsibility – undermining free association and private property**

Elaine Sternberg logically and incisively demolishes the case for conventional CSR. She argues that it is unethical, undermines business and undermines human rights. These are strong claims, but they are true. If a group of people are not able to get together, pool capital and appoint people to manage that capital, whilst acting under the rule of law, the rights to free association and to private property are undermined. When a CSR agenda is followed, management is vested with power to use business assets in a way that may be contrary to the wishes of the owners of those assets.

Accepting Elaine Sternberg’s propositions does not mean that businesses should act in a moral vacuum – far from it. Owners, she believes, should act ethically, but this is not the same as pandering to the whims of those who would wish businesses to pursue ‘social’ objectives. Furthermore, people may establish corporations that are designed to go about business in specific ways – they are, and should be, entitled to do that. Businesses should also respond to consumer demands for products to be produced in particular ways that might (rightly or wrongly) be regarded by consumers as more ‘socially responsible’ than other methods of production. Thus, in Elaine Sternberg’s world, there is plenty of room for Fair Trade (to be discussed later), the Co-operative movement and so on. These things are part and parcel of the business world in the form of what she describes as ‘conscientious stakeholding’. She concludes as follows:

> 'Understood as conscientious stakeholding, social responsibility is also fully compatible with corporate governance. Unlike conventional CSR, conscientious stakeholding does not undermine either the accountability or the organisational objectives that are central to corporate governance. Conscientious managers and directors express their own views in their private capacities; they do not hijack others’ property in support of questionable “socially responsible” ends.'

In the second article, David Henderson criticises the CSR movement as part of a wider movement that tries to undermine the market economy. Like Elaine Sternberg, David Henderson is also careful to make the distinction between the CSR movement and the importance of businesses behaving responsibly. As he puts it: ‘I believe that companies and those directing them should act responsibly, and that they should be seen to do so’ (author’s own emphasis). Henderson criticises CSR as comprising:

> '[B]oth a set of beliefs and a programme of action. Its message is that businesses today should redefine their role, their objectives and their corporate mission. They should embrace the notion of “corporate citizenship”, and run their affairs, in conjunction with an array of different “stakeholders”, so as to pursue a common goal which all stakeholders share – namely, the goal of “sustainable development”. They should practise “multistakeholder engagement”.'

As he suggests, CSR is seen by its proponents as a prescription for all businesses. He finds that its tentacles have extended deeply and points out that we even have a minister responsible for promoting CSR and that there are at least 40 UK government initiatives that do just that.

David Henderson does not believe that the process of globalisation has changed the argument about CSR in a significant way. The major contribution of businesses to welfare is their pursuit of profit-motivated activities to deliver goods and services in an environment of competition. Requiring businesses to take on other objectives merely undermines their ability to undertake their proper functions. Furthermore, CSR is often supported by big business because the regulations that flow from it impede new competitors more than they impede incumbents in a market.

**Corporate social responsibility and the law**

Whilst it is clear that there is a general ‘CSR bandwagon’ and that people aboard this bandwagon have demanded – often successfully – more regulation of corporate activities, CSR has not generally been part of mainstream company law in the UK. Stephen Copp examines this in the context of the Companies Act 2006. This is an unclear piece of legislation which does not directly put new demands on company directors in terms of potentially broader responsibilities to society, but does seem to impose on directors potentially conflicting objectives. Under the new legislation, directors will still have a duty to promote the success of the company but will also have to have regard to a number of other factors such as the interests of the company’s employees; the impact of the company on the community and the environment; and so on. If these factors do not conflict with the main duty then there is no point in including them in the legislation. If they do conflict, then there is no way for directors to work out how the different factors should be weighted. It is difficult to avoid the conclusion that many in government wanted to include an explicit CSR agenda within the Companies Act by changing the duties of directors, but that this was prudently regarded as such a potential catastrophe that a meaningless Act was passed instead. It would seem that directors can now use the Act to justify any conduct whether or not it is primarily in the interests of the company. There could be decades of legal confusion and a field day for pressure groups to try to use the law to pressurise directors to follow what should be strictly subsidiary aims.

**Fair Trade**

In this collection there are two articles on Fair Trade. The first, by Sushil Mohan, sees fair trade as part of CSR programmes. The author does not define what he means by CSR as it is subsidiary to the main focus of his discussion, but in the context of the other papers in this section, it is worth exploring this further. If, by CSR, Mohan means that business enterprises should pursue objectives other than that of maximising owner value, then Sternberg and Henderson would certainly criticise this. Both Sternberg and Henderson would argue that it is not the job of the business corporation to specifically promote particular types of development in
their supplier communities unless doing so actually helps fulfil the objectives of the corporation: there are other types of organisation that should have such objectives. However, Sushil Mohan is really referring to a situation where businesses respond to customer demand and operational needs to demonstrate that their products fulfil certain criteria in terms of the benefits that are brought to primary producers. This is closer to ‘conscientious stakeholding’ in Elaine Sternberg’s language.

Mohan argues that the mainstreaming of both CSR and of Fair Trade could lead to difficulties for Fair Trade. Corporations demonstrate to customers in a huge range of ways that they are pursuing responsible behaviour. One of those mechanisms is through Fair Trade goods being sold in mainstream retail outlets and being used by mainstream producers. Fair Trade could suffer if people become cynical of CSR or if other mechanisms of signalling to consumers become dominant.

Not all economic analysis has been favourable to Fair Trade – including within this journal. Alistair Smith takes these criticisms head on: and there will be a response in a later issue of the journal from one of the authors he criticises. He argues that buying Fair Trade products genuinely helps the process of economic development both in terms of the business conditions it develops and in terms of the financial architecture that it helps to create in under-developed economies. Smith also takes the view that Fair Trade is part and parcel of the market economy, genuinely reflecting consumers’ decisions. He finds that criticisms of Fair Trade tend to be based upon assertions. Smith acknowledges, however, that both sides of the debate are prone to generalisations and extrapolating from particular cases or hypotheses. Indeed, it is notable that the word ‘Fairtrade’ is used as if non-labelled products are not traded in a ‘fair’ way. As my own diocesan website puts it: ‘If it doesn’t say Fairtrade, it isn’t Fairtrade! Fairtrade status is only granted by the trade body, The Fairtrade Foundation’. Sushil Mohan certainly casts further doubt on this exclusive claim to the term, though Alistair Smith is more sympathetic.

**Conclusion**

A radical CSR agenda is a dangerous attack on property rights and institutional variety within a free society. Any organisation should be able to set itself up to pursue any legal purposes. Some of those bodies will be businesses, some charities, others education institutions and so on. It is unreasonable and inefficient to require those bodies that set themselves up to pursue business purposes to pursue other objectives too. Businesses are necessarily social. They enhance welfare in society. Ironically, a large business probably does more to promote welfare in economically under-developed communities than any organisation that is set up especially for that purpose. Businesses should, of course, behave ethically, in accordance with what Elaine Sternberg calls ‘ordinary decency’. And consumers and suppliers with which businesses have relationships will have their own subjective preferences for how products are procured and how businesses should behave. It is certainly appropriate that businesses should respond to such consumer preferences but, in doing so, they would simply be using their assets to maximise value for their owners.

Sometimes we can best determine whether a term has much meaning by examining whether its opposite has any meaning. Many interventionist transport economists call for an ‘integrated transport system’ as if market economists want ‘disintegrated transport systems’. Calls for ‘integrated transport systems’ can best be regarded as ‘motherhood and apple pie’. They are meaningless. Similarly, I am not aware of having met any free-market liberal who calls for ‘corporate social irresponsibility’ or, for that matter, ‘unfair trade’. It is important to incisively define our terms. Our five authors do that and make an important contribution to the debate about the future of the market economy.