



international centre for
corporate social responsibility

CSR AND THE GOOD COMPANY A RESPONSE TO THE ECONOMIST SURVEY OF CSR 22ND JANUARY 2005

The attention of *The Economist* to Corporate Social Responsibility (CSR) (22 January 2005) is very welcome, as is the view that some of CSR's practices 'advance the interests of the shareholders and the wider world'. *The Economist's* description of CSR as a prominent contemporary management concern - as well having variable motivations and impacts - is well-illustrated by the lively correspondence the survey attracted (5 February 2005).

The Economist's major criticism of CSR is captured in the phrase that CSR is based on a 'faulty analysis of the capitalist system'; the dangers of muddled-headed thinking; and a concern that 'businessmen (sic)' have a clear understanding of the CSR mindset and its defects'. CSR's departure point is that markets (the condition for capitalism) necessarily operate in social contexts in which businesses seek a social license to trade and in which societies have a reasonable interest in business's social impacts. Indeed, the social license may be accorded on the basis of re-assurance about these business externalities being socially acceptable and accountable. Thus CSR can be described as corporate activity to address the social pre-requisites of business success and the social externalities of business operations. It therefore combines market and social motivations.

Even Milton Friedman (with whom *The Economist* appears to share some thinking and who is often caricatured as the great enemy of CSR) recognised the long run interest of a corporation investing in community amenities (*New York Times Magazine* 1970). His only objection was that such investment should be described as self-interest not CSR seems to miss the point that self- and other-regarding motivations may be crucially bound up as demonstrated by the social capital literature popularised by Francis Fukuyama (*Trust*) and now established in economics and management literatures. *The Economist* also recognised this in its commentary on the growth of UK CSR in the early 1980s: 'a healthy high street depends on healthy back streets' (20.2.1982), which, for *The Economist*, justified business investment in the social infrastructure.

Thus, contra *The Economist*, CSR does not reject Adam Smith's view that the selfish pursuit of profit can serve a social purpose. Indeed, it recognises the obverse, that the pursuit of social purposes can serve a selfish end, even so far as to enhance long-term shareholder by CSR. There is evidence that shareholders recognise this both from ethical and risk perspectives.

I do not contest the observation that the expenditure of resources ('other people's' money) on CSR may sometimes lead to outcomes that disadvantage the shareholders and the society. But this is true for investment in other business activities, be it executive remuneration, corporate governance, human resource management or marketing. What CSR seeks to do is to introduce better ways of

identifying and managing these investments precisely to better serve shareholders and society. To that extent, it might be regarded as a welcome development from the more traditional model of sporadic philanthropy, whose incentives are not engagement with company success but with the pet artistic or charitable interests of the company leadership or the hope of a gong.

Nor is *The Economist's* preference for leaving social and economic policy to government at odds with a CSR perspective. Government is certainly a necessary but not a sufficient condition for social flourishing. However, as *The Economist* is often quick to point out, public policies can fall-short in respect of adaptability, innovation and responsiveness to diverse and complex social needs. These are ways in which CSR can complement, rather than substitute, for government. Secondly, governments themselves articulate this need (e.g. David Miliband and education policy, Michael Heseltine and urban decay).

Thirdly, given globalisation's governance deficits, there are social and business interests in the establishment of norms of appropriate business practices across borders generally, and in entering countries with low governance capacities and accountability mechanisms, in particular. Hence, many CSR innovations are about global business practices and reflect either business leadership (e.g. Global Reporting Initiative, International Business Leaders' Forum) or business involvement (e.g. UN Global Compact, Ethical Trade Initiative).

Thus, the proper business of business includes investment in the social conditions for its own success and in its legitimacy, or its social license to trade. This is a complement rather than an alternative to other vehicles for business success. Like other forms of business investment this requires the development of expertise and systems of management, responsiveness and accountability. This explains the profusion of 'CSR officers, CSR consultants, CSR departments, and CSR initiatives' which *The Economist* laments. None of these guarantee unalloyed firm performance. The muddle-headedness that *The Economist* identifies in part reflects a period of innovation and experimentation in which new ideas and management techniques are offered, contextualised, tried and tested. This is surely a preferable mode of business learning than approaches based either on pure compliance or on exclusive attention to the next quarter's financial numbers.

Jeremy Moon
Professor and Director of the International Centre for Corporate Social Responsibility.
Nottingham University Business School

The International Centre for Corporate Social Responsibility aims to 'lead teaching and research in CSR'. The Centre carries out international, multi-disciplinary and multi-actor research. The Centre also provides an MA in CSR, and MBA in CSR and a PhD in CSR.

For further information visit our website:

www.nottingham.ac.uk/business/iccsr or email: iccsr@nottingham.ac.uk