

The Anti-CSR Argument

The corporate scandals that helped burst the internet bubble in the early years of this century also heralded a marked backlash in public opinion against the giant corporation and superstar CEOs. *Accountability* and *transparency* have become buzz words as the media smells corporate blood. In seeking to document and comment on this trend, many observers have perceived a move towards society ascribing the modern corporation with moral expectations:

Today's leading companies are expected not only to create wealth and produce superior goods but also to conduct themselves as moral actors—accepting responsibility for their misdeeds, being responsive to the needs of others, and managing their own values and commitments. Contrary to theorists who for centuries have declared the corporation to be amoral, society today has endowed the corporation with a moral personality.¹

A traditional economic argument counters that this growing swell of 'moral advocacy' is at worst a figment of the collective imagination, and at best a distraction to the efficient operation of the market.

Figment of the imagination

How, for example, can a CSR surge explain the continued dominance of Wal-Mart, the world's largest company with \$245 billion in revenues in 2002? Wal-Mart has achieved its famous "Everyday low prices" through ruthless cost-cutting and by dictating the terms on which it operates to employees, suppliers, communities, the environment and any other stakeholder with an interest. It is providing its key stakeholders, its customers, with what they show they want. Its economic dominance is unquestionable:

It is three times the size of the No.2 retailer, France's Carrefour. Every week, 138 million shoppers visit Wal-Mart's 4,750 stores; [in 2002], 82% of American households made at least one purchase at Wal-Mart.²

Distraction of market efficiencies

As a legal entity and collection of individuals, a corporation is not capable of having the 'conscience'³ that many observers ascribe to it. However, even if it was capable of having a conscience, the first and foremost duty of the corporate management team is to maximize value for the company's owners, its shareholders, by maximizing profits.

CSR, by itself, adds little or no value for owners, and often involves significant costs that either shareholders or customers are forced to bear. Social concerns beyond the parameters of the market are best left to regulatory agencies or non-profit organizations driven by different goals and expectations. In the absence of regulation, or non-profit activity, market forces are sufficient

¹ Lynn Sharp Paine, 'Value Shift: Why Companies Must Merge Social and Financial Imperatives to Achieve Superior Performance,' *McGraw-Hill*, 2003.

² Anthony Bianco & Wendy Zellner, 'Is Wal-Mart Too Powerful?' *BusinessWeek*, October 6, 2003, pp100-110.

³ Note: For the counter to this argument see Kenneth E. Goodpaster & John B. Matthews, Jr., 'Can a Corporation Have a Conscience?' originally published in *Harvard Business Review*, Jan.-Feb. 1982; re-printed in 'Harvard Business Review on Corporate Responsibility,' *Harvard Business School Press*, 2003, pp131-155.

to police which actions are and are not acceptable to the wider society. The theory of demand and supply dictates that any company failing to meet the needs of its consumers and other stakeholders on any level (whether price, product quality, or level of corporate responsibility) will soon go out of business. Conversely, if consumers, for example, are truly willing to impose their values on corporations their purchasing patterns will reflect this and companies will quickly adjust in response.

Demand and supply in equilibrium maximizes the efficient allocation of available resources. The ability to maximize profits provides the maximum incentive for companies to increase product quality and innovation, while keeping prices at the minimum necessary to satisfy consumer demand. It has also driven the United States to the dominant economic position it currently enjoys. Such an economic view is perhaps best personified by Milton Friedman who provided some of the best sound bites (partly, one suspects, designed to antagonize social activists), while ensuring the main thrust of his argument was driven home:

Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible.⁴

A company's main obligation is to remain in business and maximize profits. A company maximizes its contribution to society by working to remain competitive and viable over the long term. By remaining in business a company fulfills its ultimate responsibilities—allowing its employees to keep their jobs, its suppliers to keep a customer, its customers to continue buying the products they demand, and its investors' money to remain protected.

Any company that shifts its attention and focus away from 'making money' towards wanting to 'contribute to society' will quickly be punished and society as a whole will be worse off. Today's highly competitive and cost-conscious economy is one in which Wal-Mart's success reinforces this basic economic principle as never before.

⁴ Milton Friedman, *Capitalism and Freedom*, Chicago: University of Chicago Press, 1962.