PHILOSOPHY OF CSR by Geoffrey Klempner

The CSR bandwagon is rolling. Why should you get on board?

First of all, what is CSR?

CSR, or corporate social responsibility is not a term of the philosopher's art. You won't find it in any text book of ethics or political philosophy. It is one of those slippery terms, heavily infected with spin and PR, which have gained currency largely outside academic debate.

Because of these negative associations, some companies now avoid its use. Shell, to take a notable example, talk simply of 'corporate responsibility'. I prefer to retain the term because it expresses three key ideas: the idea of ethical responsibility, the idea that corporations as well as individuals can be held responsible, and the idea of obligations towards society at large.

The term 'corporate social responsibility' was originally coined in the 1930s by Harvard professors A.A. Berle and C.G. Means. Although this historical fact is a clue to its meaning, the term has undergone a number of shifts in usage since then.

The Wall Street Crash of 1929 revealed the appalling extent of corporate *irresponsibility*. Millions of lives were wrecked. For some, those who looked to Russia as the land of freedom and opportunity (little did they know), the merciless face of capitalism was finally revealed in its true form. Recoiling from the socialist alternative, others asked how capitalism could be fixed.

However, Berle and Means were also reflecting on changes that had already taken place, namely the shift towards increasing public ownership of corporations, fundamentally changing the notion of 'private property'.

It has been argued by more conservative economists like Milton Friedman that business benefits society by creating wealth, and that is its sole purpose. The underlying assumption behind this claim is that if everyone pursues their self-interest, things will balance out and society will all reap the rewards. This is the economic theory of the 'invisible hand' which goes back to Adam Smith's *Wealth of Nations*.

The problem with the invisible hand theory is that there are too many real life examples where the unrestricted pursuit of profit has clashed with the interests of consumers, workers, the environment, and society at large.

That is why Western governments today exert considerable restraints on business through legislation in order to achieve socially acceptable ends. Restrictions on the number of working hours, health and safety regulations, environment controls are all examples of the beneficial consequences -- or annoying restrictions, depending on your point of view -- of government regulation.

However, there are limits to what government control and legislation can achieve. Governments -- the UK government for example -- are now urging companies to do a lot more than the law requires. Here are the words of British Chancellor of the

Exchequer Gordon Brown from a recent UK government document on CSR:

> **'Today, corporate social responsibility goes far beyond the old philanthropy of the past -- donating money to good causes at the end of the financial year -- and is instead an all year round responsibility that companies accept for the environment around them, for the best working practices, for their engagement in their local communities and for their recognition that brand names depend not only on quality, price and uniqueness but on how, cumulatively, they interact with companies' workforce, community and environment. Now we need to move towards a challenging measure of corporate responsibility, where we judge results not just by the input but by its outcomes: the difference we make to the world in which we live, and the contribution we make to poverty reduction.'**

That is quite a shopping list. To say that companies have a responsibility to contribute to poverty reduction is a huge claim in itself. In these terms, why should companies be interested in CSR?

Gordon Brown would like us to believe that pursuing CSR is in a company's own self-interest. CSR adds value to your 'brand name'. The argument is that customers are now sufficiently well-informed to choose products not only because of their inherent usefulness or value but also on the basis of their judgement of a company's commitment to pursuing socially worthwhile ends.

Is that true, or merely propaganda? Hard-headed business people are not so easily persuaded.

What may be more persuasive are the increasingly vocal special interest groups and NGOs whose widely publicized campaigns are making a real impact on consumer perceptions, as well as influencing government policy.

Corporations complain that these interest groups are in many cases simply ignorant of what is economically feasible. Having gained their initial objectives they are never satisfied but merely increase their demands. There is some justice in these complaints. Certainly the case can be made that NGOs themselves ought to behave more responsibly.

Nevertheless, in the face of this mounting pressure, companies are now ready to do a cost-benefit analysis which takes into account a CSR component. A new profession of CSR auditors are on hand to measure and judge CSR performance, while company PR departments make the most of the positive findings.

The problem is that the public and the special interest groups are largely sceptical of these moves. In 2004, the British Institute of Directors debated the motion, 'This house believes that Corporate Social Responsibly is a PR fig-leaf.' The motion was carried -- evidence that cynicism about CSR is deeply rooted.

This cynicism, I believe, will ultimately prove to be unfounded.

There is ample evidence that things are now moving in the right direction. The role of the business philosopher is not to find clever arguments for CSR that no-one has ever thought of before, but simply to describe a vision which everyone can agree --

companies, special interest groups, the wider public -- is the common goal they ultimately wish to achieve.

The first step in this ongoing process is to philosophically re-evaluate what we mean by 'self-interest'.

A company's primary aim is to maximize shareholder value. This is the essence of capitalist economics. But what do we really mean by 'value'?

In the narrow sense, 'value' is the value of shares and dividends, the amount of money which is added to your initial investment. However, it is becoming apparent that investors increasingly care about where their money is going and what it is being used for.

The sharpening of focus on CSR issues, the introduction of methods of accountability, will in time make it harder to put a positive PR spin on indifferent or negative results. In the future, responsible investors increasingly will be looking for social benefits as well as financial rewards.

The fact is, we are all ultimately in the same boat.

Take, for example, concern about the environment. If you are polluting the environment, then you can hardly complain if you find that your tap water is poisoned and the air unbreathable. If you're shoving your pollution into someone else's back yard, don't be surprised if someone else is shoving their pollution into yours.

As individuals, we care about the quality of our lives. We also, by and large, want to do the 'right thing'. This simple fact is totally at odds with the economists' view of human beings motivated primarily by greedy self-interest.

Greed is not good. It is bad.

I am not saying that companies should in future compete less energetically for market share. Energetic competition and the desire to sell more than your competitor is the cornerstone of the business arena. I am talking about the basic motivations of individuals who work for those companies.

The best thing a board can do for its company is to abolish the bonus system. So long as executives and managers have their eyes fixed on their yearly bonus, any attempt at developing a longer-term strategy is subverted and undermined. Find some other way to reward your people for their hard work and loyalty. Look beyond the bottom line.

Of course it is not so easy to 'give up greed'. Start by reminding yourself of all the things that money can't buy. Then ask whether your latest bonus or salary-hike was really worth it after all. Now you see your wife and kids less than ever, you have permanent stomach cramps from the stress, you have no time to enjoy the fruits of your self-sacrifice.

A company or its owners can ask a similar question. Was that take-over really worth it? Look at the real consequences, the things that matter to you as individuals and collectively, in terms of personal satisfaction as well as your long term ideals, not just at the balance sheet.

In the future, the 'greed is good' credo will be seen for what it is, a curious aberration in human history, a temporary madness that took hold when people allowed themselves to forget that they were human beings.

Peter Drucker famously talked of a 'post-capitalist' society. Undoubtedly, much has changed and is changing. The old image of capitalists versus workers is no longer valid. But the most important change, which we can see happening now, concerns our perception of values and the true nature of wealth.

Our wealth is not just the totality of our money or possessions but the quality of our human relationships, the values of the society in which we live, the physical environment which all human beings ultimately have to share.

As a consideration determining consumer choice, as well as the decision about where to seek employment, these are the factors that money can't buy. Narrow minded cost-benefit analysis is giving way to humanity and a new idealism. It is time that economists woke up to the reality of a post-economic age.

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