Corporate Social Responsibility

Introduction

Corporate Social Responsibility (CSR) has arrived. Once mainly advocated by left wing politicians and activists, it now seems to be a mainstream philosophy. The debate whether or not CSR is a good thing appears to be over. Large, stock exchange listed companies especially, can’t afford not to have a CSR policy. Advertising increasingly expresses the social awareness of businesses. Companies proudly report their social targets and achievements in their annual reports. The European Union has formulated a code of conduct that businesses should adopt. Other governing entities follow suit. Myriad rankings exist that weigh and compare companies on the social and environmental sustainability of their operations. There is a widely shared belief that CSR is a desirable, essential and morally binding way of doing business.

CSR in action
The electronic tickertape in the lobby of the London headquarters of Marks & Spencer highlights some prime examples of CSR. The British retailer wants to contribute to improving education in Uganda. A daunting enough ambition in itself this is however only one of a hundred goals the company has set for itself to be achieved by 2012. They also want to sell more organic foods and aim that the cotton in over 20 million clothing items comes from fair trade programs. Naturally they also strive to reduce their carbon dioxide emissions. M&S calls this ‘Plan A’ because there is no ‘Plan B’.

The example shows that not only CSR is prominent in the policy making of certain businesses, but that it also encompasses a wide range of noble and good causes. And M&S certainly isn’t the only company to make CSR the center of their strategy. When one of the ever reoccurring floods hit Bangladesh in 2007, a special team of Dutch based TNT was ready to come to the rescue. This was no coincidence. The logistics company has a team of 50 permanently poised to be anywhere within 48 hours in emergencies like this. The logistical expertise of the company enables them to be there quickly and help emergency aid reach its destination efficiently. TNT’s team is a result of their collaboration with the World Food Program (WFP) of the United Nations.

We could effortlessly extend this set of examples with many others. The question whether companies should embrace CSR seems irrelevant today. Companies do it and they do it with gusto. But why? What are the driving forces behind the rise of CSR. And how does it relate to traditional corporate goals like making a profit? We will try to answer these questions in the coming sections of the paper.
The Rise of CSR

Doing business and entrepreneuring is an unalienable aspect of human behavior. And as for other forms of behavior, ethical and moral standards have been adopted. These standards often have their roots in religion. CSR is actually nothing new. In the Jewish Torah landowners are urged not to reap the entire yield of their harvests but to leave the proceeds from the edges of the fields to travelers and the poor. In both Christian and Muslim doctrines charging interest was deemed not acceptable as it was seen as unethical income that required no labor effort. The Quakers that settled in North America in the 17th century did not want to benefit from the trade in slaves and weapons. The founder of the Methodist Church John Wesley (1703 – 1791), preached that people should not engage in sinful trade and should not enrich themselves by oppressing and exploiting others. So like we said; nothing new under the sun. However since the 90’s of the last century CSR really has made a quantum leap in recognition.

Companies, certainly large multinationals, are under much more pressure than before to account for the effects their operations have on society. One of the main reasons for this is the increasing power of Non Governmental Organizations (NGO’s). NGO’s are special interest groups such as Greenpeace and Amnesty International and many others. They constantly scrutinize companies and are ready to go to battle when a company doesn’t meet their standards on an issue they find to be particularly relevant. With growing funds at their disposal they can finance sophisticated campaigns that can cause immense reputational damage to companies. A classic example is the Brent Spar affair of 1995. Oil giant Royal Dutch Shell wanted to dispose of an obsolete oil rig by sinking it to the bottom of the North Sea. Spokesmen of the company claimed this was the most environmental friendly way of getting rid of the thing. Greenpeace waged an effective campaign resulting in a consumer boycott. Under the gun, Shell brought the rig to shore to dismantle it there. According to experts the environmental cost of this was higher than that of the original plan but Shell has been devoted to CSR ever since. NGO’s mainly target large and internationally renowned companies when seeking exposure for their causes. The media coverage is more attractive and the pockets are deeper. But no matter whether the criticism of NGO’s is correct or not, no company can afford to ignore them. Companies have to deal with the pressure of special interest groups and publicly converting to the church of CSR is one way of doing it. Not one CEO today can get away with not paying attention to the environment.

Also the consumer has become more critical and demanding about the way companies conduct their business. The ethically inclined consumer is willing to pay a premium price for products that reflect his or her personal values concerning the environment, human rights and a huge range of other issues. The Internet also helps people in becoming informed about businesses and the way they operate. Specialized websites and bloggers follow businesses every move. Pressure also comes from the shifting balance of power on the job market. Companies increasingly use CSR as a tool when trying to attract scarce
talents. Employees, and certainly the highly educated ones, want their employer to be aware of its social responsibilities. In the so called ‘Battle for the Brains’, companies can not ignore CSR.

Probably the single most influential driver of CSR lately is the growing concern for the environment and the supposed human influence on climate change. Companies have no choice but to say they are paying close attention to their ecological footprint and that they seriously try to lower their CO₂ emissions.

CSR by now has become an industry in itself that employs many different people. Consultants advise companies in formulating CSR policies. Rankings such as the Dow Jones Sustainability Index become important benchmarks for companies. Governments formulate standards and try to make them legally binding. Whole armies of lawyers are ready to take cases to court.

With so many people active in the CSR industry there is a final important but less often heard reason why CSR has become so prominent: self interest. The self interest of those who work in the CSR industry and want to continue doing just that. When a certain concept has achieved a critical mass, it gets its own momentum making sure it can not be ignored.

So companies find themselves under greater scrutiny than ever before. In a 2007 study by McKinsey 95% of the CEO’s surveyed stated they feel that the general public expects them to be involved in social issues. So it is no surprise that companies embrace CSR. Also there are CEO’s who think it is more sexy to fraternize with rock singer and activist Bono than to just lead their company in relative anonymity and only take the stage at the annual stockholder’s meeting.

It is obvious companies engage in CSR. But is it clear exactly what it is?

**Types of CSR**

To start with that last question, to many the answer is no. The Marks & Spencer example makes it clear there are numerous ways to be socially responsible. It is possible however, to define four broad categories of CSR.

**The Climate and the Environment**

Thanks to Al Gore the most prominent of all CSR sub species. Often also captured under the heading *sustainable business*.

**Poverty & Hunger**

Trying to reduce hunger and poverty in the world. The collaboration of TNT with the WFP is a good example.

**Health Care**

Increasing access to health care and medical services.

**Human Rights**

Not doing business in countries like Myanmar where human rights are violated.
Besides this individual investors can choose from a wide range of ‘ethical funds’ that don’t invest in businesses that are seen as undesirable like for instance the tobacco or weapons industry.

With so many different faces of CSR, the need for clarity increases. A great many definitions of CSR try to overcome the growing confusion. Not always with the desired effect as three examples will show:

“Consistently and openly weighing the interests of all stakeholders, with the aim of achieving maximum added value for the company, the people and the environment” (Adburdias Consultants).

"A concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment" (European Committee)

“Corporate Social Responsibility (CSR) is concerned with treating the stakeholders of the firm ethically or in a responsible manner. ‘Ethically or responsible’ means treating key stakeholders in a manner deemed acceptable in civilised societies. Social includes economic and environmental responsibility. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation." (Michael Hopkins, 1998)

These definitions hardly deliver more clarity. In the end they generate more questions than answers. How will Adburdias measure the ‘added value’ they refer to? And who are ‘the people’ they mention? The employees? The customers? Or maybe the entire world population? And what does the European Committee mean when they mention ‘a better society’. The opinions on what this could be differ greatly.

The prevailing tendency of these and other definitions is that companies should take into account the impact of their activities on a wide range of groups and interests. Simply abiding by the laws is not enough. CSR is only really CSR when it is done freely and voluntary and not because it is mandatory.

With so many potential societal goals and objectives to strive for, companies have a hard time aligning these with their other goals and objectives. And with that we touch upon a very fundamental question: what is the corporate objective function?

**Corporate Goals and the Corporate Objective Function**

The corporation is an organizational tool to produce the goods and services that society needs and to sell those on the market. This is basically its role in society. Different types of organizations have different tasks and roles but they all must answer a simple yet crucial question. That question is: how well are we doing? In other words: how do we measure the results of the organization? And as a consequence organizations must also know what
decision criteria they use when choosing between alternative courses of action.

Regarding the objective of corporations, two main points of view dominate the political and academic debate.

For many economists, the decision criterion when making decisions is the long term market value of the firm. The overriding goal of management should be to maximize the long term value of the firm. This market value can be described as the excess value created over and above the value of the resources that have been used in the course of business. It is a goal that is the departure point for almost all textbooks on corporate finance, like the widely used one by Ross, Westerfield & Jaffe (2005). It is a way of thinking that is particularly dominant in the Anglo Saxon countries. In these countries the interest of the stockholders is seen as the key decision criterion. This means that when making decisions the final criterion is the long term market value, in other words the interest of the stockholder. We therefore call this the ‘Stockholder Model’ of the corporation. It is a model that has its roots in the work of Adam Smith (1776) and the following centuries of economic research. The opposing philosophy states that the interests of all stakeholders should be taken into account when formulating objectives and making decisions. This view is often referred to as the ‘Rhineland Model’ since it is traditionally dominant on continental Europe but also in a slightly different guise in Japan. The Rhineland model is hardly new but it lacks the rigorous academic underpinning of the Stockholder model. That’s why since the 1970′s various scholars and researchers have worked on what could be called a ‘Stakeholder Model’ of the company. These scholars mainly hail from the management & organization departments of business schools. Their most important point is that stockholders are just a particular group of stakeholders, just like employees, suppliers and customers. They claim that the interests of no single one group can be more important than those of others. Also they say that the contributions of all of those stakeholders are vitally important for the survival of the company. Of course this last claim is undeniably true.

Freeman (1994) says that Stakeholder Theory aims to answer two questions:

- What is the goal of the firm?
- What responsibilities does management have regarding all stakeholders?

Stakeholder theorists are of course not the first to raise those type of questions. The answers however differ from the ones given by economists. Freeman states that pursuing a single objective (market-value maximization) does not do justice to the complex human interactions that are innate to doing business. According to its followers, this would make Stakeholder Theory much more useful for decision making because it explicitly incorporates and recognizes the value of human interaction as Donaldson & Preston (1995) put it. Freeman, Wicks & Parmar (2004) state that the risk of the stockholder view is that it can be used as an excuse to ignore or even violate the rights of others (non stockholders). They also think the interests of stockholders are not absolute and should not be used to limit the rights of others without their consent.

All of this implies that management should look after the interests of all stakeholders and not only those of the stockholders.
Stakeholder theory rightly emphasizes the importance of human relations in business. It is a point of view that seems to have no place in (neo) classical economic theory and its models full of maximizing economic actors. Economic theory however does not deny the existence of such relations nor their importance. Economic theory has (so far) been unable to incorporate these relations in its models. It makes the models abstract and void of the important human element as stakeholder theory rightly claims.

This does not rid stakeholder theory from its most important flaw however. It does not provide a criterion as to how the interests of the various stakeholders should be weighed and compared.

Employees want higher salaries and job security. Customers want low prices and high quality and suppliers want the best possible deal for their contribution. In the end it’s management’s job to make trade offs between these often conflicting interests. A theory that claims to be more managerial than the stockholder theory should at least provide managers with the tools to make such trade offs. That means stakeholder theory can not yet deliver its promises. It is based more on emotion than on a well defined model.

Jensen (2001) says: “it is the failure to provide a criterion for making such tradeoffs (among stakeholders), or even to acknowledge the need for them, that makes stakeholder theory a prescription for destroying firm value and reducing social welfare.”

In other words, stakeholder theory does not provide adequate decision making criteria. Blair (2005) states that “stakeholder theory has, so far, failed the rigorous model test and continues to be rather ad hoc.”

Tirole (2001) finally, notes that “management can almost always rationalize any action by invoking its impact on the welfare of some stakeholder.”

The stockholder theory on the other hand does have an unbiased and clear criterion for making decisions. This criterion says that the company should only devote resources (to certain stakeholders or anything else) when it increases the market value of the firm. This criterion forces companies to use their resources efficiently. This is something that certainly something that benefits many more than just the stockholders. Organizations that use their resources efficiently and effectively contribute to a more prosperous society. While the stockholder theory beats the stakeholder theory in terms of academic rationale, the stakeholder view appears to be winning the battle for the hearts and minds of the general public. With this we can give another explanation for the rise of CSR: a deeply shared mistrust of the public corporation and the concept of profit.

**Ignorance, Mistrust and Prejudice**

A company is an organizational tool to produce goods and services and sell those on the market as we stated earlier. To be able to do this, several inputs are needed. Labor is needed to do the actual work. Brainpower is needed for making decisions. And capital is needed for financing the investments. These three inputs are the very core of any business enterprise. In a sole proprietorship, these three inputs are provided by one person, the entrepreneur. This is not the case in a large (listed) company. Here we witness a sophisticated division of tasks between workers, managers and
stockholders. This division of roles over various agents is the very cause of much of the prevailing misunderstanding. To eliminate this misunderstanding it may help to briefly discuss the origins of the company form. When the scale of business activities expands, there will be a point where the required capital can no longer be provided by one person. Multiple investors may be needed. With many investors involved, it is no longer practical to involve all of them in daily decision making. Too many commanders would immobilize the organization. Decision making is therefore delegated to a board of managers, specifically appointed for this task. It is however not likely that investors would entrust managers with their resources if as stockholders, they also risk losing money not invested in the company should it fail. The solution to this is the concept of limited liability. Limited liability for stockholders requires the business to become a legal body, with its own legal rights and obligations. The fact that the business now is a legal entity, in the corporate form, leads to the understandable but fundamentally wrong perception of seeing the company as an entity with its own goal or purpose. When referring to the interest of the corporation, whose interest is intended? Who is the corporation? The publicly held corporation can not have its own goals nor can it have its own responsibilities. It is people that have responsibilities so we could say that corporate leaders should use the corporate means entrusted to them responsibly. A corporation can not be thrown in jail, but its management or employees can be incarcerated. A corporation can of course be fined for wrongdoings (as executed by its management) as it has its own (financial) obligations. But in the end it is the stockholder who pays the price as the fine is likely to lower the value of their stock or could otherwise have been paid out as a dividend. Ultimately the corporation is merely a legal fiction, a legal front if you will, behind which the interest of various stakeholders are at play. Employees, stockholders and others have their own legitimate, identifiable and sometimes conflicting interests. The legal entity has no, and can not have interests of its own. The legal entity serves as a nexus for drawing up contacts between those stakeholders involved in the business activities as Jensen & Meckling (1976) have argued. These stakeholders will try to get favorable terms when negotiating contracts. Ultimately, these contracts determine how the business’ revenues and risks are divided between the stakeholders. By its very nature, a business activity involves risk. There is no way to tell beforehand how successful a product will be on the market. It is therefore not possible to give exact contractual promises to all stakeholders as to how much they will receive because it is not sure whether the contract can be honored. There have to be stakeholders who are willing to let the business risk be an explicit element of their contractual relationship. Someone must be willing to forego payments from the company when times get rough. Someone must sustain possible losses. In the company, this duty is performed by the stockholders. The stockholders have a rather simple contract with the company. They can only claim anything from the business proceeds and assets after the obligations towards all other participants have been met. If indeed ‘something’ remains, accountants say the company made a profit which is then the reward for the stockholders. Because stockholders are last in line when business proceeds are divided and can only hope for a possible surplus (residual income), it becomes logical that management should try to make this surplus
as large as possible. This is the core of stockholder capitalism and has brought us an unprecedented growth of prosperity over the last century or so. Yet there is a lot of animosity towards this model of economic organization. There are a number of reasons for this. Firstly, stockholder capitalism is often associated with going after short term gains. This is an unfair and unjust characterization. The value of a share does not only depend on the profits of this year or quarter but of all expected future profits (more correctly the present value of all future cash flows). If management would decide to boost this year’s profit by postponing vital investments or cut down on employee training this appears to be in the stockholders (short term) interests. The opposite is true. Since future profitability becomes endangered, the value of the contract (the share) that the stockholder holds will be negatively affected. It is true however that many managers focus on ratios like earnings per share (EPS) when making decisions. Focusing on this ratio and setting higher targets for every coming fiscal quarter can indeed make management ignore the long term. It is the curse of EPS that makes managers not invest in positive net present value projects as a study conducted by Graham, Harvey & Rajgopal (2005) has shown. In this study, managers confess they will not undertake profitable (positive net present value) investments if they feel the investment will hurt the short term EPS. There are various reasons for this behavior. First, their own salaries and bonuses may be tied to EPS targets. Also they think stockholders will not react kindly to a (temporary) drop in EPS with a lower stock price as a result. However, if the investment indeed has a positive net present value, the stock price should react positively. Managers should be able to explain the consequences of proposed investments and be able to motivate their choices for investments that temporarily lower the EPS.

Both managers and stockholders need to understand the danger of focusing on a simple statistic like EPS to assess company performance and value. Enron’s management proudly claimed to be “laser focused on EPS” in their 2001 annual report. We all know how that ended. Enron’s management did not serve their stockholders nor any other stakeholder group with the exception of themselves. And even at that in the end they failed as some ended up in jail for their fraudulent behavior. Also it is often stated that stockholders can not have a long term perspective since they can sell their shares at any given moment. Some critics go as far as to say that there should be a minimum term for investments in a company’s stock. This is of course a gross infringement on economic freedom and will increase overall cost of capital and ultimately lead to lower prosperity. Of course there are investors who invest for a short period of time. There is nothing against this. They can only sell their stock on favorable terms if the new owners have sufficient confidence in the future perspectives of the business. Consecutive ownership, made possible by a well functioning stock market, ensures the long term perspective can not be ignored without consequence, even when individual investors hold their shares for only a short period of time.

A second, maybe even more profound reason for the animosity mentioned above, is the statement that management’s chief duty is to create stockholder value. It sounds unsympathetic to many because it makes it seem as if stockholder interests override those of all others. This is not true. Stockholder
value can only be created if and when other stakeholders continue to contribute to the activities of the business. This will only happen if also their interests are being recognized and respected. Yet, many feel that creating stockholder value is unfair towards other stakeholders. These critics tend to see the proceeds from a business as a given amount of money. Give more to stockholders and less is left for everybody else. This is not the way it works. The business result is not some predetermined size pie. Rather, the size of the pie depends on a multitude of decisions and courses of action. We could also say that the managerial goal should be to make the total pie as large as possible. Since the sizes of the slices promised to the other stakeholders are more or less predetermined by way of contracts, this effectively means trying to maximize the surplus on top of these slices. And if certain stakeholders feel their slices are not large enough, they can (and do) renegotiate their contracts when the time comes. The managerial goal of creation of stockholder value is there, not because stockholders are more important than others, but because stockholders are the residual claimholders. And as we have argued above, residual claimholders are vital to a company’s survival.

Let’s change the model by way of experiment and make the employees the residual claimholders of the business. The stockholders will no longer bear the risk and receive a fixed and contractual compensation on their investment, much like interest on a loan. In this model it would have to be management’s goal to achieve the highest possible income for the employees since now salaries are the residual income. This will sound attractive to labor unions and other critics of stockholder capitalism. They will like the practical implications far less however. It also means that there will be years when no salaries can be paid. Employees simply can not bear such risks since they need a stable and reliable income and cannot diversify the risk over many companies. Thanks to well functioning capital markets, stockholders can. Capital markets reduce the risk of stock investments and thus contribute to financing ideas and businesses and economic growth.

Growth can however be painful. Striving for stockholder value means that when a certain activity can be done more efficiently than before, certain people may lose their jobs in the company. This can be a dramatic experience for those involved and a reason for others to wave the banner against capitalism in general and stockholders in particular. For the larger society however, the elimination of non productive jobs is useful because the released labor may be put to use in other or even totally new areas of activity. The quest for stockholder value directs scarce inputs where they are of most use. It’s the mechanism that the economist Schumpeter (1942) has called ‘creative destruction’.

Profit means that the goods and services the company creates are worth more than the resources that have been sacrificed. Profit is an essential compensation for supplying capital and bearing risks. It most certainly is not some ill gotten gain for which the receiver has not labored and toiled.
The Bottom Line

CSR actually extends the stakeholder model with many more groups that the company should be accountable to. Stakeholder theory originally primarily focuses on participants that are directly involved in the business. CSR can easily result in having to deal with - and answer to a limitless number of stakeholders. This leads to unworkable situation. It is very honorable to try serving all interests but in the end choices have to be made. Not all interests can be met at the same time. As we said earlier, the stakeholder theory does not provide an adequate framework for making decisions and neither do followers of the CSR movement.

Advocates of CSR often refer to ‘People, Planet, Profit’, the so called triple bottom line. Instead of one overriding goal (profit) there appear to be three. This may sound more sympathetic but it often is a rather meaningless concept. Of course in certain situations various interests may be perfectly aligned. A business that critically assesses its energy use because of climate change concerns, contributes to lower carbon dioxide emissions while also lowering their costs.

In many other cases the interests do clash. A company that rationalizes its production process and as a result needs fewer people do to the same job faces a choice. Do they choose for job security or for a lower cost level. Will it be People or Profit? The stakeholder theory doesn’t provide an answer to this question. The stockholder model does. In the end there can be only one bottom line. Or in the words of Milton Friedman (1970): “The Social Responsibility of Business Is to Increase Its Profits.”

This may not sound very ethical to many but it is a clear criterion for decision making. And it is not only the stockholders who benefit. The immediate interests of the fired workers may not be served, but the long term interest of society is. Keeping people in unproductive jobs is tantamount to stealing from society. By continuously striving for more efficiency, goods and services become cheaper and more affordable for more people. Also productive time and talent is released to create totally new goods and services. In order to increase stockholder value, companies are forced to always look for new and better ways to serve the customer. These are the dynamics that have caused an unprecedented growth of prosperity ever since the rise of the open market based economy. And not just prosperity, but wellbeing too. More people live healthier and longer lives than ever before. In affluent societies, people have far greater opportunities to engage in activities that increase the quality of their lives than in less prosperous societies, whether it is visiting the theater or simply enjoying a stroll in the park. This is not despite the quest for profit and stockholder value, but because of it. And where and when this quest clashes with other interests like the environment, it should ultimately be the democratically elected government that decides what matters most.

Let’s briefly stop here. So far we paint a very rosy picture of business and entrepreneuring. Reality is not always so nice. In business we also witness exploitation, abuse of power, corruption and other undesirable acts. These are however no specific characteristics of business but unfortunately akin to human nature. We can see these forms of unethical behavior in all walks of life, not in the least among some opponents of the free market society.
Towards Common Ground

Because of the heated debate between the advocates of the two philosophies, it seems as if they’ll never reach mutual agreement. However, by accepting some of the basic premises of the other point of view, this doesn’t have to be true. Jensen (2001) calls this “enlightened value maximization” and “enlightened stakeholder theory”. Enlightened value maximization means that managers have to realize that no value maximization can be achieved when the interests of other key stakeholders are ignored or abused.

An enlightened stakeholder theory can keep the foundations of its initial thoughts but should accept that the final criterion for decision making is and should be value maximization. Like we said before, there has to be such a criterion when weighing alternatives. Without an objective criterion, any decision can always be justified by referring to a particular stakeholder. Decisions are likely to be made on an ad hoc basis.

When looking at the CSR policy of many companies, the haphazard nature of it is striking. Many CSR projects appear to be the personal pet projects of managers and directors. We can witness a wide range of activities with no relation to the main activities and strategy of the firm.

Porter & Kramer (2006) suggest it is possible to align social and corporate goals when an effort is made to look for a strategic fit where these goals are complementary and strengthen each other. Porter & Kramer refer to this as ‘shared value’.

Conclusion

Their activities make companies centers of specialized knowledge, expertise and means. There is a lot to be gained when companies can also utilize these means to help solving certain social issues.

To make CSR a workable concept for the future, companies must look for shared value. Simultaneously, NGO’s must realize that they can not use (or abuse) companies for every social issue they strive to solve. Checks and balances are important in every walk of life. NGO’s can play an important role in revealing and addressing important issues. But also NGO’s should be aware of their limits and use their power responsibly.

Companies that can not adequately run their business go bankrupt and can not serve any purpose. Without a clear idea of the strategic fit and shared value, CSR won’t be much more than responding to the cause or NGO that happens to be the flavor of the day. In the end companies should only address those social issues that match their core activities and also serve their commercial interests. An example is the Debswana Mining Company in Botswana that organizes information sessions on preventing AIDS and also supplies free medication to employees and their relatives. This is of course a noble social goal but it is also in the interest of the business as it finds it increasingly difficult to attract sufficient staff because of the AIDS epidemic. It is not always easy to determine whether the social and business goals are positively correlated. The efforts of TNT to help the WFP certainly are linked to the core expertise of TNT. Without a doubt TNT’s employees will also learn
It a lot. But whether this has positive effects on their motivation and capabilities to perform their main job is harder to determine. Without the latter however, there is no shared value and TNT should not involve itself in it. Many CSR advocates may find this a harsh remark. To them, CSR has to be a form of altruism where companies (usually meaning stockholders) voluntarily donate means to social goals. But why should the expense of CSR solely be carried by stockholders? Why not let the cost be paid for by the employees and managers by way of lower paychecks? The resentment against profit that was described above certainly plays a role. It is also simple and convenient to let stockholders pick up the check since as residual claimholders they are not entitled to any contractual form of income. This division of expenses makes for a new form of injustice where managers enhance their personal prestige by publicly doing well, while letting others pay the cost. Of course any private individual (stockholders included) is free to donate any amount to whatever cause they want. A company is however not the right vehicle to make these choices for them. Furthermore companies that transfer the possible cost of their CSR activities to the stockholders make themselves vulnerable to takeovers because of lower stock prices. CSR may have gained popularity on the waves of globalization, but likewise the mobility of capital has increased enormously. Finally, donating money reduces the opportunity for the business to invest in opportunities that are beneficial to society. Maybe even more beneficial than the way the receiving NGO or charity uses the donation. In such a case, the donation would be socially irresponsible.

Sometimes it is stated that companies have a duty to perform social roles because they are better equipped to do so than governments or other organizations. While this may be true in certain countries it would be a dangerous shift of responsibilities. Ultimately a society can only prosper with a strong (not meaning big), stable and just government that protects rights and enforces obligations. Also it is the government that is the final arbiter between conflicting societal interests and to protect those with adequate legislation. The best way to help the world is to install decent and just governments and let the free market unleash its wealth creating capacity. This is a long term goal and far from reality yet. In the absence of this, companies can certainly help solve certain social issues but only within the boundaries of stockholder – and shared value. Companies are not governments or charities. When companies can not conduct business, everybody looses. Let’s not forget a basic and for some inconvenient truth. The most important social role that companies perform is the efficient creation and distribution of goods and services that society needs and wants. They meet their social responsibility by doing just that.

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