

Corporate Social Responsibility

– Rhetoric or Reality?

Alan Wood, the Economics Editor of The Australian recently wrote (28th May 2002) about the outcomes of a debate orchestrated by the Australian Institute of Company Directors (AICD) on the topic 'Corporate social responsibility (CSR) is a force for good'. The end vote was quite one-sided, but not the side that most would usually expect to win. Surprisingly, the majority of company directors present at the forum voted against, prompting Mr. Woods to write his article titled Failure is the Triple Bottom Line. Mr. Woods iterates that "CSR holds that businesses should assume a leading role in making the world a better place, and that there should be a large role in business decision making for numerous categories of stakeholders – mostly anti-business and anti-market groups." He continues debating that "CSR is based on "sustainability", a highly imprecise concept encompassing a bewildering array of expectations about corporate behaviour. At first blush all this seems harmless enough, even desirable. After all, who wants unsustainable growth or would want to support irresponsible or anti-social business behaviour? But it is a very big jump from this motherhood position to embracing CSR as a corporate philosophy that compromises the rights of shareholders as the only legitimate owners of a business and gives incompetent, lazy, timid or dishonest boards an excuse for their failure to protect shareholder value. Enron was the US's triple bottom line company par excellence and is not the only corporate crook to rush to embrace CSR."

Mr. Woods is not alone in his stance. Indeed he was backed by a number of Australian company directors who attended that meeting. One extreme is the view that maximising profit is the sole responsibility of organisations, most famously articulated by Milton Friedman that the social purpose of business is to increase its profits (Friedman, M. (1970), 'The Social Responsibility of Business is to Increase its Profits', New York Times (Magazine), 13 September 1970). Mr. David Henderson, writing on behalf of the New Zealand Business Roundtable (Misguided Virtue, 2001) argues similarly that "CSR involves the voluntary adoption by businesses of broader objectives, more complex procedures, and more exacting standards. To this extent it would tend to impair enterprise performance, with effects on both costs and revenues, short-run and long-run. These effects are played down by its supporters."

One of the key issues that each of these opponents of CSR point to is that CSR is not defined properly and that it is "a highly imprecise concept encompassing a bewildering array of expectations about corporate behaviour". The World Business Council for Sustainable Development defines CSR as "the commitment of business to contribute to sustainable economic development, working with employees, their families, the local communities, and society at large to improve their quality of life". Whilst related, CSR is not to be confused with sustainability or even the notion of triple bottom line – a definitional issue that is not appropriately addressed by Wood or Henderson. Sustainability essentially (as coined by the Brundtland Commission) is development without compromising future generations to meet their own needs; and triple bottom line is to integrate environmental, social and economic aspects of business so as to generate a more balanced view of corporate performance (ie. Integrating externalities into business performance measurement and valuation).

In my opinion CSR is a means to an end and not an end in itself. It is a message or a theme that can be utilised in implementing corporate sustainability strategies and triple bottom line programs. And why would corporations need to implement such stakeholder-oriented purposes? To capture a number of benefits such as improved cost savings, retaining a licence to operate from the community, access to capital (through the growing number of socially responsible investment funds), developing new markets and products (ie. alternative energy) and increasing or retaining brand reputation. Ultimately, the market does, and will continue to, take these issues into account in valuing a company. The indeterminate is the extent, comprehensibility, comparability and reliability of the information that is presented to the market.

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Written by Terence Jeyaretnam,
Director, Net Balance Management Group
Director, Net Balance Foundation

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