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Corporate Social Restriction

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In recent years Corporate Social Responsibility (CSR) has become a mantra. A complex movement has been campaigning throughout Europe for high labor, environmental, and human rights standards, even though it is not quite clear what 'is meant by "high". The movement comprises Western trade unions, environmental non-governmental organizations (ENGOs), and human rights activists who have little faith in the ability of private companies and free markets to generate wealth and improve living conditions for all workers. In fact, these groups believe that there exists a threshold beyond which a company's profits become too high, inequitable, and even immoral.

The CSR movement has grown to become a potent regional political force, and has thus far succeeded in causing many companies to "voluntarily" adopt or develop programs that have nothing at all to do with their core businesses. They range from special commitments to environmental and labor conditions, to aid initiatives in developing countries that are often accompanied by information and education-based campaigns. Notwithstanding the costs incurred and distractions suffered by such companies in pursuit of CSR, many critics within the CSR movement are still not satisfied.

Sensing that companies are employing CSR disingenuously as a mere advertising façade to cover up their otherwise socially bereft conduct, CSR activists have sought to raise the level of "public accountability". They now want the current voluntary benchmarks converted into something more concrete: mandatory requirements. Their goal, simply, is to impose upon companies third-party monitoring and enforcement systems, thus providing themselves with an ample source of future employment, to ensure that pure and unadulterated CSR is practiced company- and region-wide. And they have enlisted none other than national governments and international organizations, including the United Nations, which endorse public "naming and shaming" campaigns in order to "smoke out" (expose and extinguish) corporations' heretical practices. The movement is especially strong in the European Union, where the Commission is expected to and often does embrace every request.

If you combine the political agenda of the CSR movement and the political power of the European Commission, the result may well be explosive. In fact, Europe's business climate is already less-than-welcoming. There continues to be a persistently low rate of economic growth and technological innovation, and a dramatic rise in the number of costly regulations that require strict company compliance. It is no surprise, then, that European companies have chosen to invest significantly less on local research & development than their American and Asian counterparts.

If recent media reports are any indication, perhaps the Commission has finally awakened from its largely self-imposed stupor, and has discovered the distinctly negative influence that the movement has had on European corporate performance. Indeed, Enterprise and Industry Commissioner Günther Verheugen might have been so startled by what he found when he actually took the trouble to look, that he "moved [the Commission] towards a more pro-business view on CSR over the past year." This change of heart has resulted in last month's launch of the "European Alliance for CSR". The alliance focuses on enterprises as the "primary actors in CSR". This is an elegant way of signaling that, at least for the time being, CSR is and should be the business of companies, and not the business of NGOs or the Commission. "The Commission has opted for a voluntary approach which is more effective and less bureaucratic," Verheugen said. "Since CSR is about voluntary business behavior, we can only encourage it if we work with business."

CSR proponents, such as the European Trade Union Confederation and Friends of the Earth, attacked Verheugen as a hijacker of CSR. Despite his attempt to implement a soft move from the old to a new concept of CSR, however, one must seriously question the Commission's ability to stay the course in the face of rabid NGO opposition. No matter how one "packages" CSR the problem of unmasking its true identity will remain, as long as the core issue underlying CSR is left unresolved: what is the social responsibility of a business? According to renowned economist and Nobel laureate, Milton Friedman, "there is one and only one social responsibility of business -- to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud." Although this makes perfect sense in the increasingly competitive and low-margin global marketplace in which companies operate, regionally-focused and regulatory-minded NGOs and EU bureaucrats abhor it.

If a business has any "social" corporate responsibility at all, it is owed to the shareholders and debt-holders who keep it going. Plus, in order to survive and flourish another day so that it might later consider redeploying excess profits to "social philanthropic causes", a business must also competently serve its market constituents. If Jean Q. Consumer is different from Jean Q. Citizen, then the products and services a company offers for sale may also need to be different. For instance, Jean Q. Consumer may only want high quality and performance-driven goods and services at an affordable price, while Jean Q. Citizen might not be so concerned. He might instead demand only goods and services with a "high" level of environmental, labor and human rights protections, for which she would be willing to pay a higher price, even though she does not quite know what those protections really mean. Is it substantively different than "low" standards? How is this measured? Who makes such a determination? Is it verifiable and truthful?

In the end, the decision to purchase one rather than the other of these types of products or services is part personal and part market-driven. And, despite what the NGO community often claims, there exists no moral difference between the companies that respond to these different demands. Indeed, one may argue that each such company is socially responsible.

EU bureaucrats and European NGOs recognize the truth about market influences, and have developed ways to distort it. One such way is to identify artificial distinctions between products and services, such as "low" and "high" environment, worker, and human rights content, and to falsely claim that the former are not socially responsible because they pose unacceptable health and environmental hazards to the public. When this distortion rises to the political sphere as the result of well-organized and funded NGO public fear campaigns, it is usually doomed to turn into anti-business regulations that raise costs to all businesses, harming both shareholders and consumers. Firms that suffer from harmed reputations become fearful, risk averse, less competitive, and protectionist in nature. As Professor David Henderson, formerly head of the Economics and Statistics Department of the Organization for Economic Cooperation and Development Organization, has said, "insofar as this trend weakens enterprise performance, limits economic freedom and restricts competition, the effect is not only to reduce welfare: it is to deprive private business of its distinctive virtues and rationale".

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