



# The Case Against 'Corporate Social Responsibility'

David Henderson

A new conception of 'Corporate Social Responsibility' has caught on across the world. It is based on false beliefs and poses a threat to the market economy.

Issues concerning the social responsibilities of private businesses have been the subject of study and dispute for decades if not centuries. But in recent years a new way of thinking on the subject has arisen and taken hold. Both in the business world and outside it, there is wide and growing support for today's conception of Corporate Social Responsibility (CSR).

## New vistas

There is no universally agreed statement of just what CSR means and implies, and ideas on the subject are still evolving. All the same, a common body of doctrine has now taken shape and won general approval among those who favour the approach.

According to this way of thinking, a combination of recent changes on the world scene and pressures from public opinion now requires businesses to take on a new role, a newly-defined mission. They should play a leading part in achieving the shared objectives of public policy and making the world a better place. In doing so, they should embrace the notion of 'corporate citizenship'. They should run their affairs, in close conjunction with an array of different 'stakeholders', so as to pursue the common goal of 'sustainable development'. Sustainable development is said to have three dimensions—'economic', 'environmental' and 'social'. Hence companies should set objectives, measure their performance, and have that performance independently audited, in relation to all three. They should aim to meet the 'triple bottom line', rather than focusing narrowly on profitability and shareholder value.

All this applies to privately-owned businesses in general, and in particular to large multinational enterprises (MNEs). Only by acting in this way (so the argument goes) can companies respond to 'society's expectations'. Making such a positive response is presented as the key to long-run commercial success for individual corporations in today's world. This is because profits depend on reputation, which in turn depends increasingly on being seen to act in a socially responsible way. Thus taking the path of CSR will in fact be good for enterprise profitability: it will bring and sustain support and custom from outside the firm, and make for greater loyalty and keenness from its employees. To embrace corporate citizenship represents enlightened self-interest on the part of business.

There is also a wider dimension, going beyond the individual corporation. The adoption of CSR by businesses generally is seen as necessary to ensure continuing public support for the private enterprise

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The essay has been recently published by the New Zealand Business Roundtable (NZBR). It may be ordered from the NZBR or downloaded from the NZBR website at <<http://www.nzbr.org.nz/documents/publications/publications-2001>>. It is to be published in London by the Institute of Economic Affairs.



system as a whole. For modern capitalism to be made acceptable and hence viable, it has to be given 'a human face'.

#### *Today's consensus*

CSR has caught on. It has been endorsed by a substantial and growing number of businesses, especially among the MNEs which are under close outside scrutiny and have in many cases been subject to hostile attacks or campaigns. Evidence of the spread of CSR among companies across the world is to be seen in the substantial and still-increasing membership of business organisations that are committed to it. Prominent among these are the World Business Council for Sustainable Development, the Prince of Wales Business Leaders Forum, and what was until recently the European Business Network for Social Inclusion and has just been renamed CSR Europe. In many industries, including in particular such exposed cases as mining, petroleum and pharmaceuticals, it is now unusual, and arguably imprudent, for a leading MNE to remain aloof from such CSR-oriented organisations. To join them provides a badge, a token, of corporate citizenship.

In and around the business world more generally, CSR has been taken up by academics and commentators, including faculty members in business schools where it increasingly finds an honoured place in the curriculum. It is insisted on by the growing number of investment institutions which stand for 'socially responsible' or 'ethical' investment of shareholder funds. It is advocated by a likewise growing army of advisers and consultants, who stand ready to assist firms in defining their new goals, establishing their credentials as socially responsible enterprises, and auditing their performance in relation to the 'triple bottom line'.

Outside the business milieu, CSR is typically favoured, and often demanded, by so-called 'public interest' non-governmental organisations (NGOs), many of which are leading and forceful critics of businesses in general and MNEs in particular. In many cases, the endorsement of CSR by companies can be seen, in part at least, as a response to well publicised attacks on them as greedy, secretive, exploitative and concerned only with making money for their owners and managers. The development of the Internet has

opened up new possibilities for NGOs to engage in effective worldwide campaigns against what they see as threats, abuses or non-responsible conduct on the part of businesses or others.

Last but far from least, many governments have endorsed the notion. For example, the present British government has appointed a minister formally charged with the duty of advancing the cause of corporate social responsibility in general. Again, the European Commission, with encouragement from ministers of the member governments of the European Union (EU), has just issued a 'green paper' on CSR specifically. This marks the beginning of a six-month 'consultative exercise', the aim of which is reported to be the establishment of a 'fully-fledged CSR policy' covering the EU as a whole.

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The precepts of CSR are viewed as universal, and this is itself a new development on the world scene. It is true that the general notion of corporate social responsibility goes a long way back. But whereas previous attempts to give expression to it were chiefly made by individual firms acting on their own account, the modern doctrine is all-embracing: it applies to businesses everywhere and of all kinds. One aspect of this extended scope is that firms

endorsing CSR are seen as having the duty to ensure that other businesses that they may have commercial ties with—suppliers, contractors, partners in joint ventures—conform to the same standards.

Both in the business world and in official circles, there is at present little by way of overt opposition to CSR. Elsewhere there have been a good many criticisms of 'stakeholder theory', with which it is linked, but CSR as such seems to have provoked fewer enemies.<sup>1</sup> A broad consensus in its favour has now become established.

#### **Twin objections**

I believe that this consensus view is misguided, for two main related reasons. First, the doctrine of CSR rests on a false view of the world. Second, a general adherence to it will have damaging consequences for people in general, even though it may contribute to the profitability of individual businesses.

#### *Oversimplifying the issues*

The picture of reality that CSR presents is at fault in several respects. For one thing, it greatly oversimplifies



issues, problems and choices. Its supporters characteristically take for granted the idea that the problems of today have known and agreed 'solutions'. In particular, they speak and write as though sustainable development were a well defined and obviously desirable objective: they imply that there is general agreement on what it involves and how it is to be achieved. This is not at all the case. Admittedly the notion is an appealing one, which has now gained wide support across the world: to raise doubts about sustainable development may appear as eccentric or perverse. All the same, there are both uncertainties and substantial differences of opinion as to its meaning, interpretation and usefulness as a guide to the conduct and policies of businesses—as also of governments. Again, the threefold division into 'economic' 'environmental' and 'social' aspects, and with it the notion of a triple bottom line, is widely taken as well established but is in fact highly dubious.

The notion of 'society's expectations' is likewise open to question. Many supporters of CSR simply assume that these expectations are given authentic voice in what the leading critics of business—NGOs, commentators, parliamentarians and so on—are currently saying. But how far these critics are representative is debatable. It is in fact open to doubt whether what most people now expect of businesses is that they should work with stakeholders in pursuit of sustainable development and the triple bottom line, even though, as will be seen, this could well result in higher costs and prices for the products and services in question. In any case, not all public expectations, and the demands arising from them, are reasonable and well founded. Businesses have a right, and arguably a duty, to argue a case against views which they see as mistaken and proposed measures which they think could lead to harmful consequences. This aspect of corporate social responsibility is scarcely mentioned in the writings on CSR that I have seen. The emphasis is on appeasement of critics and compliance with demands on business.

*Embracing global salvationism*

Often though not always, CSR advocates, both in the business world and outside it, are adherents of what I call *global salvationism*. This goes with an acceptance of

alarmist views on the state of the environment and the damage done to it by business-related activities, a belief that fateful choices now have to be made on behalf of humanity and the planet, and a distorted view of globalisation and its effects. In accepting these ideas, and by financing organisations that give currency to them, many businesses have joined forces with critics of the market economy, both in the NGOs and elsewhere.

Contrary to global salvationist assertions, it is not the case that globalisation has brought with it 'social exclusion', nor has it 'marginalised' poor countries. Again, it has not brought disproportionate benefits to MNEs in particular, nor has it increased their power to influence events while reducing that of governments. To the contrary: governments retain their capacity to act, while in recent years privatisation, deregulation and the freeing of cross-border trade and capital flows have combined to *reduce* the economic power of businesses by making markets more open and competitive. The idea that corporations now have to take on new and wider national and international responsibilities, because they have become more powerful while governments have become weaker, has no basis. Yet it has been uncritically repeated by business executives, business organisations, and others in the business world, as well as by outsiders.

But the trouble with CSR is not just that it rests on dubious or false assumptions. Putting it into effect is liable to do significant harm.

*Reducing welfare*

Within businesses, the adoption of CSR carries with it a high probability of cost increases and impaired performance. Managers have to take account of a wider range of goals and concerns, and to involve themselves in new and time-consuming processes of consultation with outside stakeholders. New systems of accounting, monitoring and auditing are called for. On top of all this, the adoption of more exacting self-chosen environmental and 'social' standards is liable to add to costs, all the more so if firms insist on observance of these same standards by their partners, suppliers and contractors.

There is no reason to believe that these various adverse effects on enterprise performance will be more than offset

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by gains. In particular, and contrary to what is often assumed by supporters of CSR, it is not the case that progress necessarily results from the adoption of 'higher' norms and standards. There are many instances where insistence on these has brought higher costs in exchange for benefits which were dubious or disproportionately small. There is an obvious risk that, in the name of CSR, and in the pursuit of questionable objectives such as 'eco-efficiency' and 'social justice' that are said to reflect 'society's expectations', businesses will find themselves going further down such a path. This would make everyone worse off.

There are also risks that go beyond individual firms. Insofar as 'socially responsible' businesses find that their new role is bringing with it higher costs and lower profits, they have a strong interest in ensuring that their unregenerate rivals are compelled to follow suit, whether through public pressure or government regulation. The effect of such enforced conformity is to limit competition and hence to worsen performance across the economy as a whole. The system effects of CSR, as well as the enterprise effects, will tend to make people in general poorer.

The greatest potential for harm of this latter kind arises from attempts, whether by governments or by businesses in the name of CSR and 'global corporate citizenship', to impose worldwide norms and standards. Since circumstances differ widely across countries, such official and unofficial regulatory actions would restrict the scope for mutually beneficial trade and investment flows. In particular, they would hold back the development of poor countries by suppressing employment opportunities within them.

Prominent businesses which have adhered to CSR have lent their support to dubious corporatist notions of 'global governance', in which businesses join hands with governments, international agencies and leading NGOs to raise standards across frontiers. A recent leading instance of this tendency is the so-called Global Compact, initiated by the Secretary-General of the United Nations. Besides carrying with them the danger of over-regulating the world economy, such collaborative ventures confer on organisations which are not politically accountable—both businesses and NGOs—powers and responsibilities that do not rightly belong to them.

### *Corporate irresponsibility*

In embracing CSR, many corporations and business organisations have failed to contest, or have even endorsed, the arguments and demands of anti-business activist groups. They have treated these arguments and demands as reflecting the views of 'society'. They have accepted many of the leading ideas of global salvationism, and failed to make an effective case for the market economy. Many of their public statements show little regard for easily accessible facts, arguments and ideas. With few exceptions, the contribution of the business world to public debate on these broad issues of public policy has been, and continues to be, inadequate or worse. It is high time for those leading corporations that have retained a sense of proportion to consider how they could improve this state of affairs.

### **Strengthening the market economy**

The advocates of CSR want to remake capitalism anew. They see defence of the market economy in terms of making businesses more popular and respected, through meeting 'society's expectations' which they identify with current radical programmes for change.

Such an attitude confuses ends and means. It may well be true, or become true as the doctrine prevails, that firms must take the path of CSR in the interests of survival and profitability in an unfriendly world. But insofar as their doing so weakens enterprise performance, limits economic freedom and restricts competition, it deprives private business of its distinctive virtues and rationale.

The case for private business, and its key role in contributing to the general welfare, does not depend on the willingness of those who direct it to embrace 'corporate citizenship'. It largely rests on the links between private ownership, competition and economic freedom within a largely market-directed economy. In such an economy, firms make profits, and can only make profits, by providing products that people wish to buy of their own free choice, and by being enterprising and innovative in doing so. The most effective way to improve the business contribution to society is to extend the scope and improve the functioning of markets. Among the advocates of CSR, there is little recognition

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of this aspect, and the role of profits as an essential signalling device is often disregarded or played down.

*Striking a balance*

None of this is to say that questions relating to the conduct of private businesses today, and the rules and conventions that bear on it, have simple answers. Now as in the past, there are unresolved issues of corporation law, corporate governance, business ethics, and the relationship between private profitability and the general welfare. Today as always, companies have moral as well as legal obligations. Now more than ever, they are under pressure to justify what they do, and need to be concerned with their public reputation. They have to show that they treat people in ways that are fair and humane, that their activities are not giving rise to seriously damaging external effects, and that, where current environmental and social concerns appear to them well founded, they are ready to contribute, in ways that are consistent with their primary purpose and obligations as commercial entities, to common efforts to deal with these.

But responsible conduct, in this sense, is not to be identified with adopting CSR. To the contrary, it is neither necessary nor wise for corporations to endorse dubious notions of 'sustainable development' and the 'triple bottom line'; to make questionable assumptions as to 'society's expectations', and to treat these supposed expectations as unchallengeable; to approve without qualification the principle of 'stakeholder engagement'; to accept, or acquiesce in, the tangle of false doctrines that makes up global salvationism; to go out of their way to appease anti-business groups; and to lend support to ill-conceived ventures in 'global governance'. In relation to any useful conception of corporate social responsibility, all these lines of thought and action are simply excess baggage. Yet all of them form an integral part of today's CSR.

**Conclusion**

Like sustainable development, corporate social responsibility is an appealing concept, and the general notion is—or was until recently—a helpful one. But the current widely-held doctrine of CSR is deeply flawed. It rests on a mistaken view of issues and events, and its general adoption by businesses would reduce welfare and undermine the market economy.

**Endnotes**

<sup>1</sup> A noteworthy exception is Robert Halfon, in his incisive paper entitled *Corporate Irresponsibility: Is business appeasing anti-business activists?* (London: Social Affairs Unit, 1998).