Ethical capitalism
How good should your business be?
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Corporate social responsibility has great momentum. All the more reason to be aware of its limits

HOW wonderful to think that you can make money and save the planet at the same time. "Doing well by doing good" has become a popular business mantra: the phrase conjures up a Panglossian best-of-all-possible-worlds, the idea that firms can be successful by acting in the broader interests of society as a whole even while they satisfy the narrow interests of shareholders. The noble sentiment will no doubt echo around the Swiss Alps next week as chief executives hobnob with political leaders at the World Economic Forum in Davos.

For these are high times for what is clunkingly called corporate social responsibility (CSR). No longer is it enough for annual reports to have a philanthropic paragraph about the charity committee; now companies put out long tracts full of claims about their fair trading and carbon neutralising. One huge push for CSR has come from climate change: "sustainability" is its most dynamic branch. Another has been the internet, which helps activists scrutinise corporate behaviour around the globe. But the biggest force is the presumption that a modern business needs to be, or at least appear to be, "good" to hang on to customers and recruit clever young people.

Thus for most managers the only real question about CSR is how to do it. Our special report this week looks at their uneven progress in that regard. But it is also worth repeating a more fundamental question this paper has asked before: is the CSR craze a good thing for business and for society as a whole?

Begin with business, where the picture is mixed. Much good corporate citizenship is a smug form of public relations. Public relations is part of business. A bad name has seldom been more expensive, especially when there is a war for talent and customers can look at your supply chain in Vietnam on YouTube. Public companies, remember, are creations of the state. In return for the privilege of limited liability, society has always demanded vaguely good behaviour from them. The cost of this implicit social franchise, whether shareholders like it or not, has risen. Companies as varied as Nike in clothing, GlaxoSmithKline in pharmaceuticals and Wal-Mart in retailing have had to change their ways quickly to avoid consumer or regulatory backlashes.

And it is not just a question of fending off disaster. CSR has got more focused: there are fewer opera houses, more productive partnerships with NGOs. Greenery, in particular, has paid off for some companies' shareholders. Toyota stole a march on other carmakers by appearing greener. European power companies which helped set up the continent's

carbon-trading system did extremely well out of it.

Some people complain that this sort of "good corporate citizenship" is merely another form of self-interest. Correct—and good. They should be happy that this category has grown. The difficulties with CSR come when companies get it out of proportion. For instance, there is a lot of guff about responsibility being at the core of a firm's strategy. But even the business gurus who promote the idea admit that examples are scarce. And being a champion at responsibility does not guarantee great financial results, as recent setbacks at Starbucks and Marks & Spencer have shown.

An inconvenient truth for advocates of CSR is that the connection between good corporate behaviour and good financial performance is fuzzy at best. The latest academic research suggests that a positive link exists, but that it is a weak one. Of course, it's not clear which way the causality runs—whether profitable companies feel rich enough to splash out on CSR, or CSR brings profits. Either way, there is no evidence to suggest that CSR is destroying shareholder value, as Milton Friedman and others feared. But nor is it obviously the most productive way for managers to spend their energies. Caution is especially called for at a time when the CSR bandwagon is on a roll.

Caveat voter If companies need to be vigilant about the limits of CSR, the same applies even more to society as a whole. A dangerous myth is gaining ground: that unadorned capitalism fails to serve the public interest. Profits are not good, goes the logic of much CSR; hence the attraction of turning companies into instruments of social policy. In fact, the opposite is true. The main contribution of companies to society comes precisely from those profits (and the products, services, salaries and ideas that competitive capitalism creates). If the business of business stops being business, we all lose.

Most of the disasters have come from politicians seeking to offload public problems onto business: American health care is one sad example. But companies are increasingly keen on public policy. Take for instance, the vogue for "multi-stakeholder initiatives"—firms getting together with competitors, activists and others to set rules for a particular area of business (diamonds, project finance, extractive industries and so on). In some impoverished places such "soft law" helps to fill a void. But be wary: businesses do not always adhere to voluntary rules; they naturally want ones that help them make money. Above all, it is governments, not firms, that should arbitrate between interest groups for the public interest.

So the apparent triumph of CSR should prompt humility, not hubris. There is money to be made in doing good. But firms are not there to solve the world's political problems. It is the job of governments to govern; don't let them wiggle out of it.