

## CARING CAPITALISM

# The Corporate World Is Taking Its Social Responsibility to Heart

By Edward Roby

**C**orporations long ago won the status of legal persons. Should they also be warm, loving, caring persons? The European Commission, numerous corporate chieftains and a host of advocates of corporate social responsibility certainly think so. Skeptics cite hidden dangers, saying the proper social role of business is the pursuit of entrepreneurial profit.

The vague concept of corporate social responsibility — which has even acquired its own business acronym, CSR — goes beyond good business ethics and compliance with laws. The European Commission commended CSR to companies large and small as a basis to put “voluntary social and environmental concerns in their operations and to integrate them into dealings with stakeholders.”

Stakeholders may include not just employees, customers and suppliers but also communities and entire countries in which business is conducted. Procter & Gamble, for example, nailed down second place in Business Ethics magazine’s 2004 ranking of the “100 best corporate citizens” for a bagful of good deeds. These included earthquake relief in Turkey, combating malnutrition in India, donating to poor youths in Vietnam and helping minorities and women. Deere & Co., a tractor maker lauded for its workplace safety, made the U.S. top 10 by deeding a \$1.5 million property to Western Illinois University instead of selling it to a developer.

### Fostering Understanding

Similarly, Turkish conglomerate Dogus and cement company Akcansa jointly bankrolled the film “Gallipoli.” Turkish director Tolga Ornek’s poignant documentary, which fosters international understanding, will premier in Australia, New Zealand and Turkey in March, the 90th anniversary of the World War I battle. “We believe in this project,” says Taifun Ones, Akcansa’s sales and marketing chief in Canakkali. But this sponsorship will also polish his company’s image at home, he says.

Such social responsibility costs money. U.S. companies alone gave \$988 million to favorite causes last year, according to Forbes magazine. Benefits to a company are often hard to quantify, although public accolades for altruism certainly help the brands of a consumer-product purveyor such as Procter & Gamble. Such high-profile CSR might then raise social welfare as well as profit, making it simply good business.

Other forms of CSR may not be, the Economist concluded in a cover story which viewed the spread of CSR as a trendy triumph of political correctness over sound economics. Does society really benefit if profit is diverted to the pursuit of well-meaning causes, it asked. It also identified a perverse category of CSR that actually diminishes both profit and social good while managing to sound ennobling. The magazine’s main concern was whether social engineering is a duty that business should share with government.

### Stockholders and Stakeholders

The CSR leap from stockholders to stakeholders departs from orthodox liberal economics. Ever since Adam Smith published his “Wealth of Nations,” the credo of capitalism has been that enlightened self-interest, namely the pursuit of profit for its own sake, somehow delivers the greatest social good for the greatest number of people. This assumes, of course, an efficient, competitive market and a political framework of laws and rules that curb private excesses for the public good.

Continental Europe, where statist government dabbles in business, has never warmed to that Anglo-American laissez faire. The EU even suggests that the raw profit motive may be bad for business. Citing “a growing perception,” the EU wrote last October that “sustainable business success and shareholder value cannot be achieved solely through maximizing short-term profits, but instead through market-oriented but also responsible behavior.”

This perception is indeed growing in multina-

tional companies. They now regularly augment their annual financial statements with reports on environmental initiatives, human resources programs and progress toward sustainable development. “One of BASF’s strategic guidelines is to ensure sustainable development,” says Juergen Hambrecht, chairman of the world’s largest chemical company based in Ludwigshafen, Germany. BASF has earned a squeaky-clean reputation in its industry. “We have therefore set ourselves global environmental goals. In the same way that our environmental goals are global, we enforce the same standards for safety and environmental protection at all our production plants world-wide,” he says.

“If you do business in a sustainable way, you’ll be successful in the long term, which is best for the shareholders in the end,” says Pieter Schaffels, vice president of corporate communications at Philips Electronics NV of the Netherlands. But his company, No. 1 in its group on the Dow Jones Sustainability Index, draws a line between such ethical business practices and

charity. The company, which spends €10 million a year on local initiatives and runs its own programs for tsunami relief and mobile health care in rural India, treats CSR projects as business models, always forecasting a return.

Business Ethics magazine hailed two new metastudies — studies of many past studies — as the first “statistical proof” that “responsible companies perform better financially.” In the absence of a firm definition of CSR, businessmen remain skeptical. CSR-associated promotion and advertising do yield returns. But altruism alone, says Mr. Schaffels, conflicts with good business because it only costs money. “What does help fulfill a role in society is to engage with stakeholders,” the Philips executive says.

Yet, some CSR boosters seek more than ethical, responsible businesses. They lobby for causes, such as distributing free AIDS drugs, or boycotting Africa’s “blood” diamonds or investment in poor countries that may not match Western standards of labor protection. Corporations, Irene Khan, director of Amnesty International, told Handelsblatt the German business newspaper at January’s Davos summit, “care about their reputation. Whoever doesn’t promptly cooperate with nongovernmental organizations pays a high price for this.”

### Rewarding Initiatives

Socially responsible investment, a growing industry, rewards various CSR initiatives with ratings, research and special funds that invest in what are deemed good companies. Governments lacking funds to meet their own basic obligations also welcome CSR. Even the surrender of roads and bridges to “public-private partnerships” might be hailed as CSR.

New social demands are being made upon business because it now dominates society in a way that such institutions as the Church, the aristocracy and national governments once did, according to Elfren S. Cruz, a management professor of De La Salle University School of Business in the Philippines. No other contemporary institution so influences land use, culture, entertainment, prices of medicines, information flows or the definition of a living wage. Shouldn’t big business also give something back to society?

The debate over social responsibility is more often framed as a tradeoff between the interests of corporate owners and the larger good of other stakeholders. As a charge written against stockholders, CSR largesse may also be spreading because it disproportionately empowers one very prominent stakeholder: the hired manager. Increasingly collectivized and anonymous forms of corporate ownership come with a transfer of power and influence to an ambitious managerial class. In the West, authentic capitalists who put their own wealth at risk, are found today mostly in comparatively small companies run by their owners.

### Endangered Breed

Hayo Werner, founder and chief executive of Cologne media services company Canbox, is a thoughtful member of this endangered breed. “One must consider that business managers with a CSR budget are directly distributing gains actually due the stockholders,” he says. “The stockholders themselves ought to ponder their social responsibility and act accordingly.”

Mr. Werner, who outlined his 21st century vision of prosperity and business growth in his new book, “Winstons Masterplan,” endorses CSR as a corporate strategy that deserves a separate budget and boardroom supervision.

“When a company addresses its social responsibility, the paramount goal can only be that the company regards itself to be responsible for those whom its operations affect,” he says.

“The social responsibility of companies is a function of the ownership of capital,” Mr. Werner adds. Therefore, he says, the social responsibility of an individual shareholder of a corporation owned by many small shareholders would be less than that of a major stockholder of a corporation with only a few owners. “The more concentrated the stockholding, the greater the social responsibility must be.”

