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MAKING THE BUSINESS CASE FOR CORPORATE SOCIAL RESPONSIBILITY

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[Response to Errol Mendes' Lecture, "The Moral Argument against the Business Case for Corporate Social Responsibility"]

Generally speaking, I am quite sympathetic to the views expressed by Professor Mendes. In my thirty years working in this realm, I too have seen all manner of corporate and government chicanery going on under the banner of social responsibility. However, I have also witnessed the widespread integration of CSR into corporate strategy, across a board wide range industries. CSR has spread further and faster than I would have ever imagined. In many cases these efforts go well beyond basic compliance, and in a few instances they seem to stem from deep seeded commitments to ethical behavior, and not just pursuit competitive advantage. But, I am not sure that even the later motive is such a bad thing.

In a moment I will reference some of the mounting evidence for the business case, but before I do that I wanted to share an observation on cost-benefit analysis. My skepticism regarding the use of this crude calculus is even more pronounced, I believe, than that of Professor Mendes. It is worth pointing out that irrespective of its vague philosophical connections to Utilitarianism, cost benefit analysis is and has always been an easily manipulated political device disguised as an accounting tool. It had its beginning back in the 1950s, and was designed by engineers not economists. It fact, it was created by the US Army Corps of Engineers and used to justify just about any water project they desired (or in the words of one unnamed major “it allows us to build any damn dam we want”). In 1958 they revised their infamous *Green Book* as a shoppers guide to bag of benefits construction. By simply placing a boat landing here, or a park bench there, they could add-on millions in recreational benefits, whether the resulting body of water was indeed deep enough to accommodate boats or not. For the Feather River Project in Northern California they added flood control benefits for acreage that would be permanently under water. However more damning than these dam practices was the unquestioned and inaccurate internal assumption that the benefits of these projects were distributed evenly upon the society at large, and not just to the adjacent property owners.

When Ronald Reagan came to Washington in the 1980s to dismantle government (except for the Defense Department), the political valence of Cost-benefit analysis was shifted (from plus to negative) and it was applied to discern whether any government regulations were worth enforcing. And guess what, they determined that very few were. In this case, costs to individual industries were muddled with benefits to society as a whole, and now economists were tasked with determining the value of the average human life. But since economists are, by definition, individuals who know the price or everything and the value of nothing, what they really showed that most lives sparred by government regulations were overvalued at any price. Unfortunately it is this later version of the voodoo that is mirrored in its current corporate incarnation. The Ford Pinto case being a prime example.

For decades business professors have studied whether social performance pays, and the evidence was so mixed that it was basically a toss up. They looked for correlations between subjective measures of social performance and narrow objective measure of economic output. However, it is now pretty evident that, given data limitations, many of these studies focused on short-term pay-offs, when most true benefits only accrue over time. A recent meta-analysis of 52 separate studies by Orlizky et al. (2003), concluded that corporate and environmental investments (especially the later) do pay off. Thus, as Berkeley Professor, David Vogel (2005 in his book, *The Market for Virtue* suggests, that while some firms may be acting on less that pure motives, they are, none-the-less, increasingly including stakeholder concerns into their strategic decision-making. I recently heard a talk by Brenda Kenny, a local executive and an adjunct professor at Haskayne. She was reporting on her recently completed dissertation research (for a Ph.D. in Resource and Environment here at U of C). She not only confirms the competitive advantage of CSR, but also implied that many firms began their pursuit of social responsibility out of principle, rather than profit, and then discovered than it brought this unintended bonus. One of her examples was Nexen's community development adventures in Yemen). This process would also seem to have been at work in you Johnson & Johnson case. One might conclude from these cases, that such few brave closet Kantians would welcome a strengthening of the business case; they would not feel like such lone rangers.

Over the last year a series of conferences was held at the world's leading business schools (including Harvard, Wharton, Kellogg, and Stanford). The topic was the *non-market forces in corporate strategy* the most prominent of these which was corporate social responsibility. These papers were just published in the prestigious *Journal of Economics & Strategic Management* (Baron, 2007). As one might expect, some of these detailed clinical type, as well as formal mathematical studies, pointed out that CSR does not always yield immediate pay-offs. *Nevertheless, they also highlighted that under certain circumstances firms can do quite well from doing good.* For example, for those firms who use it to build increased visibility for so called “credence goods” (as opposed to experience goods) CSR is becoming a vital element of their competitive strategizing. Other studies contend that over the long run CSR can reduce the need for burdensome government regulatory intervention. Still other studies contend that it is becoming so embedded into strategy that its long term benefits will continued to be very difficult to disaggregate, but the financial effects are generally positive. Sure some, if not many, of the firms studied are just making cosmetic efforts, and/or otherwise gaming the system. However, I believe this emerging linkage between CSR and Strategic Management is a very positive process and something to be further nurtured wherever possible.

One final observation comes from my newest colleague, Leonard Kahn (Ph.D. in Meta-ethics at Oxford University). He pointed out that any ethical system, even Christian Ethics, would be subject to abuse or gaming of the system. For example the case of HEALTHSOUTH Executive, Richard Scrushy, who escaped conviction for accounting fraud, by purchasing TV time and conducting a bible study program. Jurors just could not believe that such a good Christian could be such a crook. He was later convicted of bribing public officials. Or consider the leadership of another born-again Christian fellow, George Bush.

Well on that cheery note, perhaps it is time to open the discussion with our attentive audience. Thank You