Can corporations contribute directly to public goals?

Peter J. Buckley reveals the web of influences on business to 'do good'

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Corporate social responsibility

Corporate social responsibility (CSR) is a concept that attempts to bring a broader ethical understanding to the topic of business organisation. CSR refers to the idea that business people should consider the social consequences of economic actions when making decisions: that there should be a bias towards decisions that have both good economic and social outcomes. The value of CSR has, nevertheless, been questioned.

A theme in explanations of CSR is that it consists of the design of new business practices that respond to civil society expectations of what good corporate citizenship should be. Therefore, CSR removes the need to set the responsibilities of corporations in legal terms. And if this were to be an effective mechanism, then there would be no need for regulation.

It is perfectly possible for CSR to have an extensive and major effect in one particular area of society, for example, a contribution to education, or a contribution to health. This is the 'weak' mission to 'Do Good'.

This may well not be the core business of the corporation, and that can result in a number of problems. There is no standard as to what can be defined as 'Corporate Responsibility', so managers with CSR responsibilities are simply able to select for support the social causes that they prefer. Also, in general CSR managers are poorly endowed with financial and human resources, and during commercially challenging times CSR budgets may be the first to be cut.

On the plus side, it should be acknowledged that there are examples of firms going beyond CSR, by building social values directly into the operations of the corporation. For example, Nestlé's Moga Milk District in India uses the supply chain to generate local social benefits and stimulate development.

A final consideration is that, while CSR initiatives may improve welfare in one respect, the determination of the benefit to the corporation is the guiding feature, so they may damage welfare in a different respect. For example, CO_2 emissions are made worse by higher ethical standards in meat production, but only the ethical achievement is publicised. Similarly, Walmart's environmental initiatives to reduce waste and improve energy efficiency in Chinese factories resulted in a reduction in workplace health and safety. Confectionery manufacturers publicise their CSR initiatives, but tenaciously defend their marketing of high sugar products that are not consistent with promoting consumer health. It would be far better to introduce CSR in their core business, but no manufacturer will do it until they all do it.

This is where regulation comes in.

Regulation

Government regulation solves two interrelated problems for a regulated firm. It solves the governance problem, in the sense that profit-making enterprises do not then have to justify why they are diverting substantial resources to non-productive aims. It solves the problem of competitive dynamics, meaning that firms will not hesitate to make the necessary investments because they are assured that other firms in the industry will face similar investments and time frames. Proactive and forward-looking firms might still enjoy a lower cost of compliance than lagging firms, but regulation helps to 'level the playing field'.

Effective regulation depends on good quality, time-sensitive information being available to regulators. Therefore the control of 'private' information by companies is an increasing difficulty, and firms could equally contribute to the common good by making available the information that is necessary for effective regulation. In such cases, the relationship between firms and regulators has already shifted from command-and-control to some type of negotiated regulation.

New challenges are also emerging. The interconnectedness and complexity of markets and emerging new technologies mean that even more private information is needed by regulators. This is particularly the case in the new areas of the digital economy related to how firms collect, process and disseminate information and how they influence consumers and citizens.

Corporate social responsibility, government regulation and moral frameworks influence corporations to 'do good'. But none is enough on its own to ensure that corporations contribute to social goals.

Moral frameworks

The United Nations Sustainable Development Goals (SDGs) are a framework intended to guide policy, the actions of firms and indeed of civic society. In September 2015, the UN adopted the set of 17 goals to end poverty, protect the planet, and ensure prosperity for all, as part of a new global sustainable development agenda. Each of the goals has specific targets to be achieved over the next 15 years – the '2030 Agenda'.[1]

It can be argued that multilateral frameworks have little effect on policy or outcomes. However, there is substantial and increasing evidence that multinational enterprises (MNEs) do take account of such moral frameworks, and are increasingly constrained to do so by their stakeholders. A 2017 KPMG survey showed that the SDGs resonated strongly with businesses worldwide less than two years after their launch. Around four in ten Corporate Responsibility reports studied[2] made a connection between the company's Corporate Responsibility activities and the SDGs.

The moral framework of policy at both international and national levels provides a set of constraints and incentives to corporate behaviour that cannot be ignored. The complex web of hard, legally binding and 'soft' law overarches international business conduct, and transcends the 'governance triangle'. These 'moral' effects on inward and outward foreign direct investment (FDI) are concrete, and operate through markets, governments and civil society.

There is a great deal of overlap (e.g. on 'sustainability') between 'private' guidelines – such as the Guidelines of the International Chamber of Commerce – and voluntary intergovernmental codes – such as the International Labour Organization's MNE Declaration, the UN Guiding Principles, and the OECD MNE guidelines – suggesting that there is a strong convergence. The focus of recent codes is to bring investment rule-making into the multilateral trading system and to facilitate (increasing) investment, rather than just protecting investment and reducing risk.

Conclusions

There are many sources of rules and signals influencing business. CSR, regulation and moral frameworks are important. But there are others: shareholder activism, (global) standards, ethical consumerism and public and social pressure. Corporations also face price signals and stakeholder pressure from social movements, ownership changes and lobbying. And corporations are not passive receivers of rules and signals – they also make them. Business organisations collectively and individually formulate rules, and send signals to the rest of society.

Rules and signals vary by time and place. Where a corporation is domiciled and where its activities are located are crucial determinants of behaviour. Space between operations influences behaviour, as in cross-border trade and cross-cultural management.

The idea of a web of rules and signals has important implications for governance. Managers of corporations play a crucial role in deciding which elements of governance to prioritise, and government policy is not the sole determinant of these decisions, although it is an important one. The choice to go beyond what governments (including supranational bodies) require is often made by corporations, or sometimes is forced on them by non-governmental pressures (often via CSR and moral frameworks).

It is clear that only some of the rules and signals that influence corporations emanate from governments. Others are from compliance with standards, customer expectations, supplier demands and civil society norms. Corporate social responsibility, government regulation and moral frameworks influence corporations to 'do good'. But none is enough on its own to ensure that corporations contribute to social goals.

1 The relationship between business and the UN Sustainable Development Goals is discussed further in this issue by Henrietta L. Moore (pp. 23–25).

2 The study included in its sample the top 100 companies by revenue in each of the 49 countries researched in the study, and the world's 250 largest companies by revenue (based on the Fortune 500 ranking of 2016).

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