

# Corporate Social Responsibility—Or Good Advertising?

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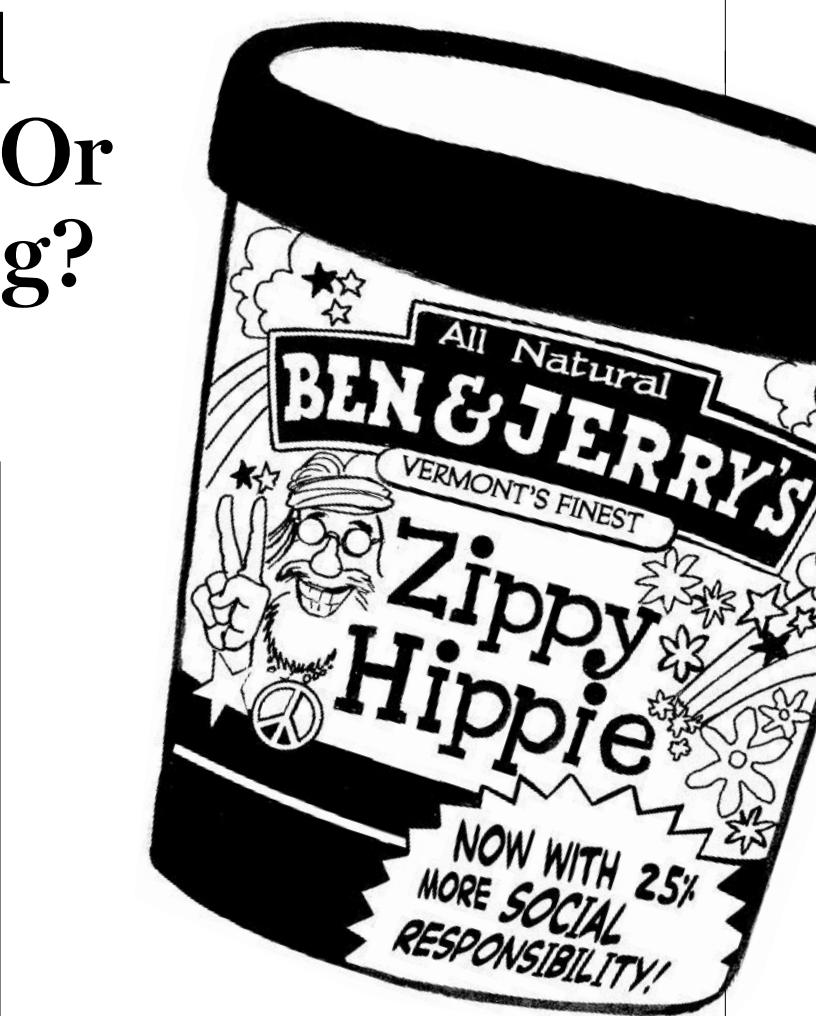
**I**N THE UNITED STATES, CORPORATE MANAGERS are fiduciary agents for a firm's owners—the shareholders. Those managers should act in the interest of the shareholders by maximizing the returns of the company. Despite that responsibility to the owners, some people argue that a company should be responsible to a much more broadly defined group: stakeholders—those people who are affected by a firm's behavior. The problem with this, the corporate social responsibility (CSR) perspective, is that a company focused solely on pleasing all stakeholders will go out of business.

Ultimately, the corporation is only a reflection of consumers' demands and priorities; true social change necessarily involves changes in consumers' demands. Voluntary CSR is really nothing more than corporate advertising that makes consumers aware of new products with features for which they are willing to pay. Although CSR advocates portray a profit-centric corporation as socially irresponsible, the opposite is true. A profit-centric firm provides the optimal amount of socially responsible behavior.

**WHAT IS CSR?** The ethic of corporate social responsibility has been described as "the alignment of business operations with social values. CSR consists of integrating the interest of stakeholders—all of those affected by a company's conduct—into the company's business policies and actions." Fundamentally, socially responsible behavior internalizes all external consequences of an action, both its costs and benefits.

But there is a problem with this definition. What should a company value in its pursuit of social responsibility? Should it attempt to minimize the negative impacts of its business activity, or maximize its positive impacts, or find some optimal combination of positive and negative impacts? And how much do various stakeholders' preferences matter? Do the opinions of environmentalists count more than those of labor activists? Or shareholders? Or consumers?

Those questions can become so overwhelming and convoluted that they quickly distract a company from its original



purpose—to provide profits to shareholders while supplying consumers with goods and services that add tangible benefits to their lives. Companies provide consumers with goods and services that they prefer enough to forgo other consumption. If consumers are willing to pay a premium for more socially responsible production, however that is defined, then businesses would be actively pursuing those methods of production without any new organizational framework besides simple creative profit maximization.

The fact that the market gives us precisely what we ask of it is difficult for many CSR advocates to believe. A business's methods of production and the products it provides are mirrors that reflect individuals' preferences and economic trade-offs given a budget constraint. For example, gasoline stations would begin selling biomass fuel tomorrow if consumers were willing to pay the premium necessary to make that venture profitable; but, in general, consumers are not yet willing to make that monetary sacrifice. Sure, there is discontent with the pollution that stems from our combustion-based economy, but consumers do not seem to be eager to pay more than current gasoline prices to relieve their discontent.

The economic dance of supply and demand works to maximize social welfare, but externalities such as pollution

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are sometimes produced in the supply process. To combat those externalities, government sometimes (arguably too frequently) intervenes in the private market, implementing incentives and disincentives in attempts to change consumer or supplier behavior. The government can tax a product, thereby manipulating the market to address the externalities produced. In those cases, the government attempts to force

firms to act in a socially responsible manner by changing the equilibrium conditions of the market. The government has the ability to pass the cost of an externality onto consumers through "Pigouvian taxes." However, to the demise of CSR theory, firms cannot unilaterally pass externality costs downward onto consumers just by increasing the price. Any company that attempts to add back the externality's costs without a signal from the government or consumers will be punished by investors.

Take two firms producing an interchangeable and indistinguishable commodity. One company strictly tries to maximize profits, but the other engages in socially responsible behaviors such as charitable donations. That social responsibility (if not demanded by consumers) will come at the cost of profits. The profit-maximizing company will be able to reinvest and grow more rapidly than the socially responsible competitor. The profit-maximizing company will gain market share as it takes advantage of economies of scale, undercutting its competition. Eventually, the "socially responsible" company will fail. The result: the socially conscious management team and its employees are out of work and on the unemployment rolls, while consumers are worse off because there is less competition (and possibly higher prices) in the marketplace. Everyone is worse off because there is less economic activity.

The optimal solution would have been for both firms to compete strictly based on profit maximization, and then allow consumers, stockholders, and employees to decide whether they want to donate some of their cost savings, profits, or wages to socially responsible activities. Each person would weigh the costs and benefits individually and come up with an appropriate dollar amount to contribute. In this scenario, people remain employed, the economic growth rate is higher, more jobs are created, consumers have more choices, there is more competition in the marketplace, and everyone enjoys lower prices. In addition, leaving the decision of charitable donations to individuals results in a superior allocation of funds. It is the consumer that should bear the burden of a conscience, not the corporation.

**CONSUMER CONSUMPTION** Companies logically pursue any CSR activity that yields positive returns after all costs are considered. The only reason for a firm not to engage in a socially responsible activity is because consumers are not willing to pay extra for the additional cost. The socially responsible activity

must be more costly than other methods of production, otherwise companies would do it proactively to profit maximize. Engaging in an unprofitable corporate responsible action would either lower company profits, raise prices, lower wages, lower the number of employees hired, or a combination of all four. Interestingly (but not surprisingly), those four outcomes also occur when a tax is levied on a firm.

When a corporation voluntarily engages in socially responsible activity, it does so to advertise its behavior, differentiate its product, increase market share, and boost profits. For example, enter any Starbucks and you are surrounded by advertisements explaining how socially conscious Starbucks is. BP is now "Beyond Petroleum" in an attempt to persuade consumers that the firm is not "Big Oil." The list goes on and on, begging the question, is there a difference between traditional advertising and advertising a company's socially responsible behavior? Both are attempts to increase sales and profits.

Of course, a company would not employ advertising unless the advertising yields the company additional revenue, otherwise it would just be throwing away money. Would this logic not hold for CSR too? Just because the advertising comes in the form of social responsibility, it does not make it any less like advertising. A firm would no sooner make an anonymous donation to a charity than it would buy 30 seconds of silence on the radio.

The corporate decision about whether to pursue CSR can be approached by management just like a marketing decision—with cost/benefit analysis. If a company advertises its corporate

social responsibility as a substitute for traditional advertising, the implication is that social responsibility follows from a corporation's desire to influence consumer preferences. It does not mean that the firm's corporate behavior has somehow been

"reshaped" as the CSR literature would have you believe; the firm is still trying to maximize profits, and it believes it will do so by adopting (and advertising) the CSR ethic.

Thus, when consumers' preferences change, companies' behaviors change. Those corporations that do not follow such rules fail to do so at their own peril. If enough consumers change their preferences to purchase more socially responsible corporate products, then companies will meet that demand because they are continually trying to maximize profits. But let us be perfectly clear, in this dance between consumers and corporations, it is the consumers who lead.

So can social responsibility exist? Sure. We would be the last to say that a firm should not act in a reasonable manner. But activists and managers must realize that the path to social responsibility needs to rely on the carrot and stick of consumers' actions. If a firm wants to articulate change in a consumer's demand function to rationalize CSR activities, then the firm must advertise. And if a company is engaging in CSR activities, it had better be using those activities to garner customers and increase profits, or else management is not fulfilling its duties.

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