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Globally Responsible Business BSMP6001

CSR Essay

1.0 Executive Summary

This essay sought to analyse a quote by John Mackey that business social responsibility should not be coerced, as well as to come to a consensus as to whether CSR reporting should be voluntary. Corporate social responsibility (CSR) is defined by Carroll (1999) as ‘four kinds of social responsibilities ... economic, legal, ethical and philanthropic’.

The case for voluntary reporting argued that mandatory CSR would violate the spirit of the historic Western economic system and make altruism soulless. The case for mandatory reporting argued that the planet is in crisis due to corporate indifference, so mandatory reporting would do more for the planet than altruism.

The discussion and conclusion sections pointed out how both arguments rely on worst case scenario thinking; both points of view should be understood when attempting to navigate a complex issue such as this. The essay ultimately agreed with Mackey’s quote as it was suggested that incentives for reporting be used instead of force through law.

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3.0 Introduction

'Business social responsibility should not be coerced; it is a voluntary decision that the entrepreneurial leadership of every company must make on its own.' -John Mackey
(Mackey, Friedman & Rodgers, 2005)

The aim of this essay is to critically analyse the above viewpoint and come to a conclusion as to the extent to which I am in agreement with it.

Corporate social responsibility (CSR) is a vast term with many definitions (Dahlsrud, 2008). Dahlsrud refers to Carroll's (1999) literature review on the evolution of CSR, in which he gives his own interpretation based on literature:

[Four] kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. Furthermore, these four categories or components of CSR might be depicted as a pyramid. ... The pyramid of CSR depicted the economic category as the base ... and then built upward through legal, ethical, and philanthropic categories

The backdrop to the debate was Friedman's (1983) controversial article, which can be summarised as stating the following:

- Businessmen who deem the concern of businesses as being with 'desirable' social ends are preaching socialism;
- When executives spend a business' proceeds on social purposes, they are acting as civil servants;

- Civil servants are selected through a political process; 'social responsibility' therefore means accepting the socialist view that only political mechanisms are appropriate for resource allocation

It is impossible to pinpoint the drivers of Friedman's point of view, but geopolitical context may provide clues. This article was published when the cold war was still ongoing; Friedman, as a staunch libertarian (Behan, n.d.), would've been alarmed when confronted with a development in the business landscape which resembled socialist incursion.

More recently, it has been debated whether CSR reporting should be made mandatory. Supporters say the current issues facing the planet, such as poverty and climate change, require urgent action — ending poverty and climate action are the UN's first and thirteenth targets, respectively (UN, n.d.) — and claim that mandatory reporting will help. Extinction Rebellion, a more vocal organisation, demands a culture of climate transparency (Extinction Rebellion, n.d.). This essay will outline points both for and against voluntary CSR reporting, with a discussion and conclusion to weigh up both.

4.0 The case for voluntary reporting

In the debate, both Friedman and Mackey made reference to Adam Smith (1999) as one of the fathers of modern free markets. If Smith was alive today, he'd likely refer to his idea of the *invisible hand*, which is to say that people — by directing their own industries for self-interest — are seemingly led to promote a social end which was not a part of their original intentions.

Smith's idea can be developed to say that free market competition will succeed in bringing about the benefits for business in general. Businesses may see voluntary CSR reporting as a competition to win over the most environmentally conscious customers; those who participate will be unwittingly stirring the invisible hand to move the business landscape in the direction of more transparent reporting. This, in theory, would spur on more charitable activity, representing an extra step taken towards a solution for the climate and poverty crises. Naturally, the downside to this argument is that the idea of an invisible hand is purely theory.

Another case for voluntary reporting is on the grounds of preserving the authenticity of altruism and preventing the potential for abuse of reporting. Mandatory reporting will be reduced to a simple box-checking exercise, taking the sincere nature out of the act of altruism and painting the nature of social responsibility. Stephen Post (2003) listed five benefits of altruistic behaviour, ultimately improving multiple facets of the life of the agent. For a corporation, this would translate to a boosted employee morale, resulting in enhanced productivity overall. Furthermore, altruistic corporate behaviour is appealing to socially and environmentally conscious consumers. This means that altruism not only creates value for the customer, but for the company and its internal stakeholders as well. Making such altruism a necessity by forcing corporations to report their CSR standards will lead such altruistic acts to become a 'dime a dozen'. This means that they will no longer carry the same weight to the consumer as every firm becomes obliged to do something to make

themselves appear in line with competitors; in the worst case scenario, this could end with a CSR 'arms race' between competitors; such 'one-upping' — the act of doing something better than another (Cambridge Dictionary, n.d.a) — does not amount to genuine altruism. The communities that could stand to benefit from authentic acts of generosity (namely those who purportedly stand to be affected by climate change and those in the most poverty-ridden countries) would likely not receive nearly the same benefit from attempts by rival corporations to look the best.

On the topic of the potential for the abuse of mandatory reporting, this is strengthened by the previous point. Corporations would have more reason to see CSR as an box-ticking exercise and, as such, would treat it as one. If Milton Friedman (1983) was correct in saying that corporations have a social responsibility to increase their profits and Adam Smith (1999) was also correct in saying that industry is driven by self-interest as opposed to benevolence, then surely companies would treat an expensive box-ticking exercise only with regard to self-interest. Out of this self-interest, businesses could always make unethical decisions in order to improve their bottom line; these include simply moving money around by funnelling payments for 'altruistic causes' into shell companies, or attempting to appear altruistic by performing the lightest possible acts of benevolence so as to look good without leaving too large a mark financially.

As mentioned before, such actions as these corrupt the spirit of altruism by making it easy to reap unearned rewards from underhand activities, in addition to creating new ways for companies to appear better on paper while maintaining the same operations.

Overall, this argument can be concluded by saying that forcing companies to report their CSR would create a disaster for corporate altruism and violate the spirit of the western free market economic system.

5.0 The case against voluntary reporting

The case against voluntary reporting comes from the point of view of those affected by current global crises. This point of view is shared by organisations such as Extinction Rebellion (n.d.b), Sunrise Movement (n.d.) and Greenpeace (n.d.) who each campaign for climate-related causes.

The predominant argument against voluntary reporting is that free markets have failed to produce a solution to the existential threat to the planet caused by the climate crisis. This is reminiscent of Keynesian economics, brought about by John Maynard Keynes. In opposition to Friedman's free market economics, Keynesian economics bases itself on the premise that the government should play an active role in the economy; Keynes advocated for the manipulation of government spending and taxation to influence the economy where Friedman would've instead advocated for a monetarist policy (Chen, n.d.).

Keynesian economics applied to the issue of CSR reporting would likely call for a more active approach by governments; because the free markets have failed to produce a solution to the climate crisis, the government should step in with a solution. Influencing government policy in a manner favourable to the planet is the primary goal of many climate organisations; for instance, Extinction Rebellion (n.d.b) demands that the government acts now to prevent further loss of biodiversity while Greenpeace demands that world governments implement strong rules to foster global cooperation (Flores, 2021).

The real question is *what* does the world stand to lose if such goals are not met? According to NASA (n.d.), droughts and heatwaves may increase in intensity and heat, wildfire seasons may be prolonged, the sea level may increase by 1-8 feet by 2100 and precipitation patterns may change. The Met Office (n.d.) predicts that oceans will become more acidic, the habitable region for pests will expand and localised flooding will

become more frequent. Zurich (2021) noted that a study indicated that the United States economy could lose \$520B owing to the future rise in temperature. This shows that the coming crisis has been proven to be damaging to the bottom line of many companies in addition to communities — going by Smith's (1999) explanation of industry being driven by self-interest, it would therefore be in the interest of many companies to take further action. However, the world is not on track to meet the targets set by many countries at the Paris Agreement in 2016 (Harvey, 2023); according to Keynesian economics, it's past overdue for the government to step in to remedy the situation. Mandatory CSR reporting would be a good Keynesian-style step forward to apply pressure to underperformers to stand a better chance of meeting the Paris climate agreement.

A small argument to make in addition to the former is that the environmentally conscious consumer may have an easier time accessing CSR records; this means that, contrary to the arguments against mandatory reporting, the free market competitiveness of companies may even be improved. Companies will strive to reach an acceptable — or even progressive — level of sustainability to ensure they can sufficiently attract and retain customers who are now empowered to shop around. As customers 'vote with their wallets' for the most progressive firms, Smith's invisible hand of the free market would be stirred to move the business landscape towards a more sustainable future. This shows that such change doesn't require the mass systemic upheaval that some may worry about.

Overall, this side of the argument sought to refute the opposing side by stating that saving the planet would do more for society than altruism in this situation; mandatory reporting is not the disaster for free markets that it may be made out to be, as proven above with the analogy of the environmentally conscious consumer being empowered with additional choice.

6.0 Discussion

This section of the essay aims to compare and contrast both arguments in order to identify any commonalities between the two sides and uncover any issues with the presentation of each.

To start, looking at the worst case scenario presented by each side, what would be the worst option? The side *against* mandatory reporting concludes by warning that mandatory CSR reporting would be an unmitigated disaster for altruism and a violation of the spirit of the western economic system. The side *for* mandatory reporting concludes by saying that the health of the planet is at stake, and potentially even the human species — although the human race is fairly resilient, demonstrated by its ability to thrive in a multitude of different climates.

What would be worse for society and the business landscape: a disaster for altruism or a disaster for the planet? While, at first, it may seem easy to judge a planetary disaster as being the worst of the two, one may recall Post's (2003) five human benefits of altruistic behaviour and conclude from this that humanity would have a lot to lose. Furthermore, the purported violation of the spirit of Western society and its important legacy of free markets would, in the eyes of an economist such as Friedman, be a step backwards for the free market as it would be forced to disclose its CSR activities.

It is important to remember that the worst case scenarios presented for each argument are just that — worst case scenarios. They are unlikely to occur in reality and, if they were on track to occur, it is hoped that steps would be actively taken to mitigate this. For instance, it is just as senseless to

say that mandatory CSR reporting would irrevocably ruin all corporate altruism as it is to say that the effects of climate change would completely eradicate the resilient human race. The likeliest outcomes should be observed; mandatory CSR reporting could potentially tarnish the reputation of corporate altruism just as much as voluntary CSR reporting could contribute towards a laissez-faire approach to CSR uncondusive to a better climate.

The last point to note is that there is a discrepancy in need of resolution between the two arguments. The *voluntary* side of the debate argues that, because altruistic acts will become forced and inauthentic, they will no longer carry the same weight to customers; they will therefore lose out on an important way to gauge companies' true ethics against their own. The *mandatory* side of the debate argues that the customer will be empowered with additional choice because all companies will have their CSR activities listed as required by the government. Resolving this discrepancy can be done by arguing that customers will indeed have a great catalogue of business CSR activities through which to browse, should they wish to choose a corporation in line with their own beliefs, though this catalogue will perhaps be of a lower quality owing to the need for each business to do *anything at all* to appear as a benefactor to someone.

Concluding this discussion, it is fair to say that both sides of the debate use worst case scenario logic to invoke emotion with their arguments. It is important to look at both points of view when such polarising opinions are presented in order to view the situation rationally.

7.0 Conclusion

Concluding this essay, two persuasive arguments were presented as to whether the reporting of CSR should be made mandatory or kept voluntary. This essay sought to either agree or disagree with John Mackey's (Mackey, Friedman & Rodgers, 2005) quotation on the coercion of business social responsibility.

The argument for voluntary reporting is summarised as being that mandatory reporting would violate the spirit of the free market and a free Western society, in addition to tarnishing the reputation of corporate altruism. The argument against voluntary reporting stated that saving the planet and reducing poverty before it is too late is more important than trifling over free markets, which have failed to generate a solution to the issue.

Analysis in the discussion chapter of the essay pointed out that both sides of the argument, however earnest, relied on worst case scenario thinking to convey their points; neither will the entire act of altruism be tarnished nor will the human race or the business world go extinct. In reality, the true arguments likely lie somewhere in between: perhaps corporate altruism may become more of a mundane act following mandatory

reporting; perhaps some potential progress against climate change could be lost if corporations are not pressured to perform better by mandatory reporting.

Overall, the conclusion reached is that a compromise should be made to avert a possible crisis without significant upheaval of the free market on which the modern Western economies were founded. Uprooting the West from centuries of economic history may solve the crisis but at the cost of extreme unrest and a very uncertain future. In order to avoid setting a precedent that the free market can be trampled on by governments, they should instead seek to offer incentives for voluntary CSR reporting instead of involuntary reporting; however, what falls under the term 'incentives' and how effective these will be remains to be seen.

What does this mean when thinking back to Mackey's quote on coercion? The Cambridge Dictionary (n.d.b) refers to coercion as the use of force to persuade an unwilling person or entity; in the spirit of the free market, and because no corporations will be forced (instead incentivised), I am ultimately in agreement with Mackey.

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