‘Corporate Social Responsibility’ is a Band-Aid for a Broken System

When it comes to doing what is morally right, there are some things that are best not left to the market, writes Martijn Boersma, lecturer in the UTS Management Discipline Group.

Last week, CNBC reported that a Goldman Sachs analyst wrote in a note to clients: “Is curing patients a sustainable business model?” The argument he allegedly put forward was that healing people with a one-shot cure does not bring in the same revenue stream that chronic therapies do and is therefore bad for business in the long run.

Gender equality in the workplace provides another illustration of instrumental rather than moral corporate motives. While it is true that the underrepresentation of women signifies untapped economic potential, the problem with this “business case” view is that it overshadows the superior argument: women should simply have the same opportunities as men.

Both examples expose a larger issue: whether corporate social responsibility (CSR) can be achieved through market forces.

In essence, CSR comprises voluntary and self-regulatory corporate activities that are focused on society and the environment. For CSR to work, it relies on the notion that social, environmental and financial interests can be balanced by the invisible hand of the market.

In theory, this means that companies do not only take the concerns of their shareholders into account, but also those of individuals and groups that are affected by the company’s activities.

In practice, CSR is about offsetting the reputational damage done to a company when activist groups expose the social and environmental damage it commits. If Greenpeace campaigns against your company, positive CSR can give you a much-needed reputational boost, thus adding financial value.

An increasing number of companies seem to have survived severe public outrage relatively untarnished.

Apple has experienced well over a decade of issues, including structural worker exploitation leading to multiple suicides at its supplier Foxconn, and child labour in its raw materials supply chains. Yet, the company has the highest market value of any company in the world.

Companies such as Walmart and Amazon have locked horns in their tussle to dominate the retail landscape, while paying workers so little that many have to survive on food stamps.

Volkswagen not only deceived its stakeholders, including governments, by installing software in 11 million diesel cars to cheat emissions tests, it also put monkeys inside airtight chambers watching cartoons while piping in exhaust from new car models.

> *DESPITE THEIR UNETHICAL CONDUCT, THEY ARE 'TOO BIG TO SHAME': THEIR SO-CALLED 'SOCIAL LICENSE TO OPERATE' CANNOT BE REVOKED.*

What do these companies have in common, apart from their misbehaviour? All are included in Fortune magazine's latest list of top-performing American and global companies.

One way to explain the performance of these companies, despite their unethical conduct, is that they are 'too big to shame': their so-called 'social license to operate' cannot be revoked, as no amount of reputational damage poses an existential threat.

If the market doesn't sufficiently penalise the misbehaviour of these companies, who will?

Largely absent from all these scenarios is the institution that should protect the weak and restrain the strong: the State. However neoliberal ideology has a stranglehold on governments around the world, and any reforms to reign in corporate power is branded as red tape and decreasing global competitiveness

Even the establishment of the Modern Slavery Act in the UK does little more than introduce 'reporting requirements' for companies, and the exploration by the Australian Government into establishing a similar act is unlikely to result in more ambitious and tough measures.

CSR is a Band-Aid for a broken system. Continued reliance on the market to find solutions for social and environmental issues will only maintain the status quo in favour of companies.

Meanwhile for disadvantaged stakeholders, the invisible hand is just that: invisible.

This piece was originally published on The Feed.

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