

Making the business case for the business case

The Economist and Ethical Corporation have both missed the boat when it comes to corporate social responsibility, says Phillip H Rudolph

High-profile critiques and defences of corporate social responsibility are coming out of the woodwork. Most prominently, in its 22 January issue, *The Economist* devoted 22 pages to a highly critical “survey” of the topic, and on 31 January, Ethical Corporation entered the fray with a spirited critique of *The Economist*’s piece. Corporate social responsibility has suddenly become the David and Victoria Beckham of finance journalism.

Each article shares a common whipping-boy, albeit that each wields the whip in a different way. The flagellated party is “the business case for CSR”. *The Economist* devotes almost the entirety of its harangue to the conclusion that there is not now and has never been a business case for corporate social responsibility and that business leaders must not engage in wrong-headed altruism at the expense of their shareholders. It defends this approach by, among other things, flogging poor Adam Smith.

Ethical Corporation, on the other hand, takes the view that “the business case analysis” that *The Economist* sets up and then shoots down is a sacred cow that deserves to be slain. It posits that, if capitalism and ethics come to loggerheads, capitalism must ultimately defer.

Unrealistic and extreme

Both *The Economist* and Ethical Corporation rest their conclusions on unrealistic and extreme positions. *The Economist* refuses to acknowledge that there is any argument that would support a business case for corporate social responsibility. It argues that business decisions should somehow be based solely on a narrowly defined notion of what is good for a single category of stakeholders – the shareholders. Ethical Corporation, on the other hand, refuses to accept that there is any need to make a business case at all. This position, taken to its logical extreme, might be construed to mean business decisions must be made by taking account of the views of every stakeholder except the shareholders or, perhaps less provocatively, that the views of shareholders must be subjugated to some notion of the greater good.

Neither position is tenable but, importantly, neither position – when carefully analysed – really argues against the need for a business case. Rather, each simply defines its own conception of which factors and inputs should properly be considered in the course of putting that case together. A business’ franchise – its licence to operate – depends upon its ability to balance



conflicting and ever-changing demands and expectations. Whatever label one chooses to attach to this process, business decisions are – and must be – based upon a business case.

All of this teeth-gnashing and hand-wringing over the business case obscures and distracts from the far more serious and important question of how to motivate business leaders to manage the impacts of their activities on their true stakeholders. Perhaps the business case terminology doesn’t play well to corporate social responsibility advocates in Europe and other parts of the world. Perhaps it is read, inaccurately, as a euphemism for catering to the mercenary interests of shareholders. But in truth, shareholders and owners are critical stakeholders. While the needs and concerns of other stakeholders must necessarily be a driver for much of what we call corporate social responsibility, minimising or diminishing the importance of shareholder concerns is a recipe for disaster and would represent a huge step backwards for the corporate social responsibility movement.

Convergence, not divergence

Angst over the legitimacy of the “business case analysis” is also wholly unnecessary. There is a perfectly compelling case that behaving in a socially responsible manner, managing externalities and operating sustainably enhances employee satisfaction, reduces legal risks, mitigates non-governmental organisations’ concerns, addresses socially responsible investment issues and generally reflects good management practices – all things that ultimately maximise long-term shareholder value. In other words, this is not an either/or proposition. The business case and the social case are convergent, not divergent, concepts.

In this context, the business case debate is the reddest of herrings. Business case terminology is merely a tool, an enabler, for a dialogue about the need for businesses to manage their impacts on stakeholders. Often it is the necessary catalyst for a discussion that, *The Economist* excepted, most would agree needs to take place. Without this catalyst, business leaders whose fiduciary obligations and consequent legal exposure are explicitly driven by their duty to shareholders might never open the door to such a discussion. If business case dialogue is necessary to motivate executives to focus on corporate social responsibility, then such dialogue should be welcomed, embraced, and perfected. ■