

## **CSR and company competitiveness?**

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### **Self-interest and social responsibility**

In 1970, US economist and Nobel Prize winner Milton Friedman said in an article in the New York Times Magazine that "the only social responsibility of companies is to increase their profit", because, as Mr Friedman put it, "The business of business is business". According to Mr Friedman, a profitable company is also a socially responsible company, because it creates employment that is taxed and from which society therefore benefits greatly.

Mr Friedman's point of view has been under heavy criticism and characterised as immoral and cynical. But today, I will venture to assert that Mr Friedman is right that "the business of business is business". However, I will also claim that companies' acceptance of corporate social responsibility (CSR) does not necessarily conflict with Mr Friedman's recommendation. The explanation for this apparent paradox is that, today, "the business of business is a different kind of business". Since the early 1970s, the business environments of many companies have changed decisively, meaning that a rising number of companies are increasingly forced to include CSR initiatives in their overall business strategies.

### **Changed business environment**

The process of globalisation has resulted in significant changes for many companies. First, structural changes such as technological developments, deregulation, trade liberalisation and so on have resulted in companies becoming more international, whereby they gain greater geographical influence. As the reach of companies has grown, particularly the companies operating in third-world countries are increasingly called to account for economic inequality between rich and poor countries, environmental protection and compliance with human rights conventions.

Second, internationalisation has meant that companies are operating in third-world countries where the local authorities will not, or are not able to, enforce fundamental standards for environmental protection, human rights and anti-corruption. Companies operating in such countries are given more and more responsibility to assume the exercise of authority such as establishing health clinics and schools and improving infrastructure.

Third, recent years' corporate scandals like Enron, Parmalat and WorldCom have caused institutional investors to call increasingly for documentation proving that companies follow ethical guidelines. Finally, NGOs (non-governmental organisations) have today cast their critical eyes on companies. NGOs closely monitor company behaviour. Examples are Shell's clash with Greenpeace over the Brent Spar oil storage platform and the human rights organisation Human Rights Watch, which criticised Nike's sub-suppliers in Indonesia for making use of child labour, among other things.

### **Link between social and economic goals**

But is it worthwhile for the companies to take an interest in CSR? Studies of the link between CSR initiatives' effects on company bottom lines do not produce quite unambiguous results. However, numerous studies of the effect of CSR initiatives show a predominantly positive link (see Margolis and Walsh, for example).

Michael Porter, the American professor in strategy at Harvard Business School, does not necessarily see a conflict of interest between companies' social and financial activities as Milton Friedman did. Mr Porter describes in his article "The Competitive Advantage of Corporate Philanthropy" how companies can improve their long-term business potential by linking social and financial goals.

### **A Danish example**

A new study, which is being completed by Allan Lerberg Jørgensen of the Copenhagen Centre, shows that social responsibility is becoming more and more important for Danish small and medium-sized companies as they increasingly operate outside Denmark. Globalisation means that setting up global production may become a central competitive parameter for Danish

companies. They must be able to handle standards for price, quality and times of delivery across global production networks. But that does not do the trick alone as there are also more soft values at stake in global value chains.

The Copenhagen Centre's study reveals that two out of three small Danish companies are today faced with quality requirements from their customers in areas such as environmental protection, human rights and anti-corruption. So the handling of such soft quality requirements will thus form part of the range of competences that is the way forward to growth for many Danish companies.

As global producers, Danish companies must be capable of addressing standards for human rights and environmental protection across global production networks. The new conditions for Danish companies' creation of value in the globalisation process thus also change the conditions for their social responsibility. But they do not necessarily mean that social responsibility will have to be sacrificed. On the contrary, social responsibility will to some companies be a condition for exploiting the potential of globalisation.

### **Focus on social movements is useful**

The Economist recently pointed out that social problems and movements may be of great importance to the strategic development of companies. One such example is the growing belief in the West that HIV medicine is too expensive in third-world countries. This criticism has, for instance, induced the European Commission to propose new World Trade Organisation rules. The rules are intended to make it easier for pharmaceutical companies to manufacture and export generic versions of patented medicine to third-world countries with special health needs and no possibility of manufacturing medicine themselves.

The pharmaceutical industry has already spotted the market for generic medicine. For instance, US-based Gilead Sciences teamed up with South African Aspen Pharmacare in the spring of 2005 to manufacture Aids drugs with a view to selling them in Africa. The rules may thus pave the way for new business opportunities. Another example is the strict Danish environmental legislation which has helped make Denmark the current leader in wind turbine production.

Moreover, a growing debate on the costs of obesity in western countries has triggered a discussion on the need to limit the marketing of unhealthy food such as burgers, chips and soft drinks for children. Big chains like McDonald's have changed their product range and introduced new and healthier products. In the retail trade, the Wal-Mart chain has come under heavy fire on account of the working conditions in its stores. Low pay, employment of illegal immigrants and union membership bans cause the chain problems as communities now vehemently oppose the opening of new Wal-Mart stores.

The point is that it may be very detrimental to a company brand if the company ignores these new social expectations. However, these new expectations may also create new business opportunities such as increased demand for generic pharmaceutical products and healthier food.

### **Two-edged sword**

Companies may, however, find themselves faced with greater demands the more socially responsible they try to be. For instance, Coca-Cola was severely criticised for its initiative at its factories in South Africa to reduce the spreading of HIV infection. Critics were of the opinion that Coca-Cola could have done more to reduce the spreading of the infection.

Furthermore, monitoring of sub-suppliers is expensive and time-consuming and it may be difficult for the buying company to ensure that the information collected is correct. However, many companies – especially international companies – find that the business environment is changing and that ignoring such changes could adversely affect the bottom line.

On balance, corporate social responsibility has become much more mainstream for companies and politicians and it increasingly forms part of many companies' risk handling and strategic thinking.

### **Do you want to know more?**

A. L. Jørgensen. Sustainability and Competitiveness in Global Value Chains – A Small Business Perspective. Study from The Copenhagen Centre for Corporate Responsibility. To be published in 2006.

J. D. Margolis and J.P. Walsh. 2001. People and Profits? The Search for a Link between a Company's Social and Financial Performance. Mahwah, New Jersey: Lawrence and Erlbaum Associates.

M.E. Porter and M.R. Kramer. 2003. "The Competitive Advantage of Corporate Philanthropy". In Harvard Business Review on Corporate Social Responsibility paperback: 27-64.

I. Davis. 2005. "The biggest contract". In The Economist, 26 May.