Why Corporate Social Responsibility Isn’t a Piece of Cake

Although corporations can play important roles in addressing some of society’s problems, it’s naïve to think that corporate social responsibility can turn the corporate landscape into a win-win wonderland.
Corporate Social Responsibility (CSR) isn’t a piece of cake. It is fraught with contradictions, subject to political challenges and demands deep commitment. So let’s stop sugarcoating it. Relying on the familiar clichés — “doing well by doing good,” finding “win-win solutions” and being a “good corporate citizen” — accomplishes little in the bigger scheme of things. In fact, these platitudes sometimes encourage corporate social irresponsibility.

In nutrition, eating cake can leave you unsatisfied after the sugar hit has worn off. Although we don’t want readers to finish this article feeling unsatisfied, we also don’t want people to think there’s a simple recipe for responsible corporate behavior. We begin by critiquing four common recipes for CSR. We call them “let them eat cake,” “icing on the cake,” “everyone gets a slice of the cake,” and “having your cake and eating it too.” We find none of them adequate, however, and believe managers should instead focus their attention on the bread and butter of responsible corporate behavior.

1. Let Them Eat Cake University of Chicago economist Milton Friedman famously denounced CSR as a “fundamentally subversive doctrine,” arguing more than 40 years ago that “there is one and only one social responsibility of business — to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game.” Friedman’s argument was elegant, influential — and flawed, predicated on a black-and-white world that is artificially compartmentalized: Social consequences are conveniently excluded from economic decisions, so long as markets are competitive and rules are clear.

Sadly, too many companies cause significant harm while playing by the rules of the game. We all know about the criminal cases of corruption in the marketplace, exemplified by convicted swindler Bernard Madoff. Far more damaging may well be the legal corruption embodied in practices that benefit a few corporations but harm the wider society. One blatant instance came to light during the subprime mortgage crisis and its aftermath, but such market manipulation is hardly isolated. An article in The New York Times in July 2013 described a more recent example: a scheme by investment bank Goldman Sachs and others in which 1,500-pound bars of aluminum were shuffled between warehouses, enabling the companies involved to earn billions of dollars at the expense of consumers. Goldman Sachs apparently broke no laws in these transactions: It was merely operating within the rules of the game.

Precisely the problem. Yet, although
companies often don’t act in the public’s interest, economists keep telling us to trust the marketplace.

2. The Icing On the Cake Too often, CSR is about public relations exercises more focused on corporate image than corporate behavior. If the company is “the cake,” then what is the value of icing it with CSR — either on top, with pronouncements by the CEO, or around the edges, with philanthropic activities disconnected from the operations? These actions just play into the hands of critics, who accuse companies of “window-dressing” or “greenwashing.” Corporate philanthropy, increasingly commonplace since the end of World War II, became a proxy for good corporate citizenship. Communities, schools, hospitals and other institutions have benefited — and we hope will continue to do so. But as many people have noted, such activities accomplish little in addressing the broader, systemic issues.

While neither author has ever eaten a sweet and sour cake, both of us have encountered companies whose lofty pronouncements belie their actions. For example, BP launched its “Beyond Petroleum” campaign in 2000, and for a while it earned the company high rankings on CSR and ethical indices. Then, with the Deepwater Horizon oil spill, BP’s rankings came crashing down. When icing covers the cake, you can’t tell what’s inside. But CSR can only hide irresponsible behavior for so long.

3. Everyone Deserves a Slice of the Cake The stakeholder view that sees the corporation as a social institution responsible to everyone affected by its actions — employees, customers, local communities and shareholders — offers a more enlightened approach: Everyone deserves a slice of the cake.

In 1981, the Business Roundtable, an association of CEOs of leading American companies, declared in its “Statement on Corporate Responsibility”:

Balancing the shareholder’s expectations of maximum return against other priorities is one of the fundamental problems confronting corporate management. … giving enlightened consideration to balancing the legitimate claims of all its constituents, a corporation will best serve the interest of the shareholders.

Then, in 1997, the group reversed its position. In its “Statement on Corporate Governance,” it claimed:

The notion that the [corporate] board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors. It is, moreover, an unworkable notion because it would leave the board with no criterion for resolving conflicts between interests of stockholders and of other stakeholders or among different groups of stakeholders.

No criterion? How about judgment? Then the pendulum swung back again. In 2012, the Business Roundtable issued its “Principles of Corporate Governance”: [I]t is the responsibility of the corporation to deal with its employees, customers, suppliers, and other constituencies in a fair and equitable manner and to exemplify the highest standards of corporate citizenship.

But by then, it seems to have been too late. Although the economic pie may be getting bigger in the aggregate, for most people the slices have been getting smaller.

4. Having Your Cake and Eating it Too The most popular recipe these days among managers, policymakers and many academics is the idea that companies can do well by doing good — that they can become more profitable by engaging in CSR. Sometimes referred to as “the business case for CSR,” this view holds that it pays to be good. This notion is certainly appealing, and yes, it can pay to be good — sometimes. But three decades of research have produced surprisingly little overall support for this claim. As University of California Berkeley professor David Vogel argued in his book The Market For Virtue, the market for CSR is limited: “CSR is best understood as a niche rather than a generic strategy.”

And how about companies that do well by doing bad? We question the belief that corporate social responsibility will compensate for the corporate social irresponsibility we now see around us. Green retailing will not make up for greedy polluting any more than overt charity will compensate for covert lobbying. In a similar vein, how likely is it that the business case for CSR will provide sufficient incentive for profitable but irresponsible companies to rethink their business models? Although we should encourage companies to “do well by doing good,” let’s not pretend that a desire to do good will turn the corporate landscape into a win-win wonderland.

Of course, the same companies can act both well and badly. Wal-Mart Stores Inc., for example, has given attention to greening even as its labor practices have been the subject of criticism. Similarly, Toyota Motor Corp.’s leadership role in hybrid cars has clashed head-on with some of its lobbying positions. In its 2008 sustainability report, for example, Toyota described how it planned to lead the way “toward the goal of achieving sustainable mobility.” But in late 2007, the company was criticized for working with Detroit’s Big Three automakers to lobby the U.S. Senate not to tighten auto fuel economy standards.

An extension of the “do well by doing good” recipe holds that since governments aren’t able to make much headway in solving our most pressing social problems, it’s incumbent upon business to lead the way. But the primary role of business is to

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The Bread and Butter of Social Responsibility

In his landmark 19th century study of the United States, *Democracy in America*, Alexis de Tocqueville described the genius of American society as “self-interest rightly understood.” These days, thanks to the mantra of shareholder value and blind belief in the sanctity of markets, we see a great deal of self-interest fatefully misunderstood. Many people in the United States want bread, not cake. Delivering the bread demands responsible leadership at all levels — in government, business and throughout society. Without socially responsible institutions, the health and vitality of society will decline.

So let’s stop the sugarcoating and concentrate on the substance: the bread and butter of responsible corporate behavior. Here are several changes that need to be considered, within and beyond our private institutions.

Fostering Ethical Judgment Within the Enterprise

Company leaders face countless difficult choices, many of them in gray areas. Having the right policies and procedures in place is necessary for fostering responsible behaviors, but it is not sufficient. Having the right norms in place is often more important. Companies are social institutions, not just economic ones. Indeed, the economic and social aspects of many decisions are often difficult to distinguish. Workplaces need to be infused with strong values that reject corruption. Ethical issues have to be openly discussed at all levels of the corporation. These issues may not be black and white, but the process for addressing them should be.

Rethinking Compensation and Financing

Corporate boards, policymakers, academics and business leaders need to devote considerable effort to eliminating the conditions that discourage responsible leadership. We have no more need for a cult of shareholder value than we do for frenetic stock markets that drive huge compensation packages for executives. (How can CEOs who are paid hundreds of times what employees earn truly be considered leaders?) Such pay practices undermine the ability of executives to build sustainable enterprises — socially, environmentally and often even economically as well.

Of course, this problem has been debated for years, yet it continues to get worse. It is not, however, a lost cause; there are other, often-effective ways to finance and structure successful enterprises. For example, the Tata Group, headquartered in Mumbai, India, is a publicly traded conglomerate with more than 100 operating companies controlled by family trusts. Mondragon Corporation, a federation of worker cooperatives with headquarters in Spain’s Basque region, answers to its more than 70,000 workers rather than the stock market. Both companies are highly regarded for the economic and social value that they create, not to mention the insights into effective management that they provide.

Acknowledging the Benefits of Regulation

Responsible enterprises view government regulation as a necessary component of a well-functioning market system. While corporate resistance to some government regulatory efforts may be warranted, knee-jerk rejection of all regulation is counterproductive. In a classic 1968 article, “Why Business Always Loses,” Harvard Business School professor Theodore Levitt argued that, starting in the late 19th century, American business had repeatedly “placed itself in the unedifying role of contending against legislation which the general public has viewed as liberating, progressive, and necessary” — including child labor laws and other measures that ultimately proved good for business. In Canada prior to the 2008 financial crisis, banks lobbied the government to relax restrictions on financial sector mergers. The government held firm, however, and Canada’s regulatory framework helped protect its banks during the financial crisis.

Holding Corporate Lobbyists to Account

Corporate advocacy and lobbying may be a fact of political life … but not inevitably to the extent that it is now practiced in the United States. Under communism, the state co-opted the enterprises; under unfettered capitalism, enterprises are now co-opting the state. Citizens have the right to make their voices heard, but the role of private money in public elections now constitutes a menace to democracy in the United States, thanks to the Supreme Court’s Citizens United ruling in 2010, which sanctioned unlimited corporate and union spending for political advocacy. In response, some companies voluntarily disclose their political spending to shareholders, and there are moves afoot to require transparency, which can only help.

Enabling the “Plural Sector”

Will corporations and governments lead us towards resolving the world’s most pressing problems, such as global warming, the degradation of our physical environments, poverty and inequality? Too many companies are waiting for the business case and too many governments have become co-opted or overwhelmed by private interests. A succession of failed conferences on global warming prompted former United Nations Secretary General Kofi Annan to ask in 2013, “What now?” His answer: “If governments are unwilling to lead when leadership is required, people must. We need a global grass-roots movement that tackles climate change and its fallout.” Annan saw opportunity in civil society and what is commonly
known as the third sector, but which might better be called the plural sector, so that it can be seen to take its place alongside those called public and private. If there is going to be serious change, it may have to start in the plural sector, with its activist nongovernmental organizations, social movements and social initiatives.

**Social Responsibility Across Society**

Reform will only happen when governments, businesses, NGOs and other associations of the plural sector join forces. In recent years, we have seen the rise of partnerships on issues such as carbon pricing, corruption and human rights. Some of these collaborations have undoubtedly involved some “icing on the cake,” but many have been able to pool expertise, to experiment with solutions and gradually establish consensus for change.

For example, recent attempts to rid global supply chains of conflict minerals such as tin, tungsten and gold — leading drivers of humanitarian crises and armed conflict in parts of Africa — have involved a web of NGO advocacy, government regulations, multi-stakeholder initiatives and cross-industry coalitions. These require considerable investments of time and effort, and the payoff isn’t always clear or the results certain. But if we are to make meaningful progress in building socially responsible societies, we shall need a great deal more of such spirited and creative collaboration.

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