The Economist Debate
"The Business of Business is Business: Against the Proposition"[*]
John G. Ruggie
Gotham Hall, New York City
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In these days of staggering public bailouts of private firms, one almost wishes that the proposition were true. But I'll resist the temptation to go there and make four points about how and why the business of business goes beyond business, narrowly construed.

1. The proposition we are debating rests on the premise that there is an autonomous sphere of government, which conducts the public's business in the overall public interest. That's a fine premise in the abstract. But in the real world what governments do is not independent of business preferences. And when business manages to impose its preferences on government, society may turn around and make demands on business to do the things that government should have been doing all along—but which business didn't want the government to do.

Take the example of health care in the United States. The big three automakers – at least they used to be big, and there used to be three – complain that they spend more money on retiree's health benefits per car than they do on steel. But what has been their position on health care reform over the years? They've lobbied against it vigorously. Sorry guys. You can't have it both ways. Certain social services have to be provided, somehow, by somebody.

The same is true of regulation. It is no mystery that corporate social responsibility took off in lock-step with the drive toward deregulation and privatization. Society inevitably demands some form of protection from the negative effects of business activities.

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[*] For the proposition: Clive Crook and Will Wilkerson; against the proposition: John Ruggie and Bennett Freeman.

2. Over time, CSR has evolved into a social institution in its own right. Critics often equate it with philanthropy, but the two are quite different. CSR occupies the space between the requirements imposed on companies by law, and prevailing social expectations of the corporation's role in society. Social expectations typically evolve more rapidly than the law, and they define what is sometimes called a company's "social license to operate." These social expectations include both risks and opportunities for companies. Most companies don't recognize these new risks or opportunities immediately because conventional business models don't encompass them. Typically, external stakeholders have to hammer them home.

3. The gap between the requirements of legal compliance and prevailing social expectations is particularly wide in countries with weak governance and weak rule of law. In that setting, it may take companies a while to figure out that legal compliance by itself is not enough to operate successfully.

For example, the Peruvian partner of a major American mining company said this on TV once about their troubled operation on indigenous peoples' lands: "I don't understand this social license to operate. I get my license to operate from the Ministry of Mines in Lima." Shortly thereafter the local community blockaded the only access road to the mine, out of frustration that the company was not responsive to its complaints about adverse impacts. Once the mine was shut down, then he understood what the social license to operate meant. Now the company has an active CSR program.

The companies that are most susceptible to this kind of social pressure are those with large physical impacts on their surrounding communities, like oil and mining; those with highly visible brands, like Nike or GAP; and even Internet service providers who can get their customers into trouble by revealing sensitive information to governments. For none of these firms and industries is CSR a matter of choice; it becomes an operational necessity. It becomes social risk management. And their practices slowly spread to other businesses.

4. Proponents of the proposition that the business of business is business argue that management doesn't have the right to give away shareholder money. Three quick responses to that:

(i) Managing social risk by means of CSR is not giving away money; it is a management responsibility;

(ii) By law, management has considerable scope in making judgments about what is in the best long-term interest of the company— this is called the business judgment rule;

(iii) The more than two hundred of studies of the relationship between social performance and financial performance have produced no evidence that financial performance suffers as a result of CSR. The largest meta-study ever conducted, by my Harvard colleague Joshua Margolis, found a slight positive relationship in the aggregate and across all sectors. So the "giving away money" argument is moot even in the narrowest terms.

My debate partner Bennett Freeman will address the fact that CSR also creates opportunities for business, which businesses otherwise might not recognize and act upon—or at least not as quickly.

To sum up, the proposition that the business of business is business may sound compelling as doctrine, but it neither reflects realities on the ground, nor does it help companies deal with those realities. CSR is a response by business and society to corporate-related social challenges beyond what government is willing and able to do.