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Aneel Karnani makes the case against corporate social responsibility.

1 Can companies do well by doing good? Yes—sometimes. But the idea that companies have a responsibility to act in the public interest and will profit from doing so is fundamentally flawed. Large companies now routinely claim that they are not in business just for the profits, that they are also intent on serving some larger social purpose. They trumpet their efforts to produce healthier foods or more fuel-efficient vehicles, conserve energy and other resources in their operations, or otherwise make the world a better place.

2 It is not surprising that this idea has won over so many people—you can have your cake and eat it too! But it is an illusion, and a potentially dangerous one. Very simply, in cases where private profits and public interests are aligned, the idea of corporate social responsibility is irrelevant. In circumstances in which profits and social welfare are in direct opposition, an appeal to corporate social responsibility will almost always be ineffective because executives are unlikely to act voluntarily in the public interest and against shareholder interests. The danger is that a focus on social responsibility will delay or discourage more-effective measures to enhance social welfare in those cases where profits and the public good are at odds. As society looks to companies to address these problems, the real solutions may be ignored.

3 Consider the market for healthier food. Fast-food outlets have profited by expanding their offerings to include salads and other options designed to appeal to health-conscious consumers. Other companies have found new sources of revenue in low-fat, whole-grain and other types of foods that have grown in popularity. Social welfare is improved; everybody wins. Similarly, auto makers have profited from responding to consumer demand for more fuel-efficient vehicles, a plus for the environment. Plus, many companies have boosted profits while enhancing social welfare by reducing their energy consumption and thus their costs.

4 But social welfare is not the driving force behind these trends. Healthier foods and more fuel-efficient vehicles did not become so common until they became profitable for their makers. These companies are benefiting society while acting in their own interests; social activists urging them to change their ways had little impact. It is the relentless maximisation of profits, not a commitment to social responsibility that has proved to be a boon to the public in these cases.

5 Privately-owned companies are a different story. If an owner-operated business chooses to accept diminished profit in order to enhance social welfare, that decision is not being imposed on shareholders. Indeed, many shareholders themselves use significant amounts of the money they make from their investments to help fund charities or otherwise improve social welfare.

6 Still, the fact is that while companies sometimes can do well by doing good, more often they cannot because in most cases, doing what is best for society means sacrificing profits. This is true for most of society's pervasive and persistent problems; if it were not, those problems would have been solved long ago by companies seeking to maximise their profits. A prime example is the pollution caused by manufacturing. Reducing that pollution is costly to the manufacturers and that eats into profits. Poverty is another obvious example. Companies could pay their workers more and charge less for their products, but their profits would suffer.

Executives are hired to maximise profits; that is their responsibility to their company's shareholders. Even if executives wanted to forgo some profit to benefit society, they could

7 expect to lose their jobs if they tried—and be replaced by managers who would restore profit as the top priority. The movement for corporate social responsibility is in direct opposition, in such cases, to the movement for better corporate governance. That is one reason so many companies talk a great deal about social responsibility but do nothing—a tactic known as greenwashing. This is not to say, of course, that companies should be left free to pursue the greatest possible profits without regard for the social consequences. But, appeals to corporate social responsibility are not an effective way to strike a balance between profits and the public good.

8 The ultimate solution is government regulation. Its greatest appeal is that it is binding. Government has the power to enforce regulation. No need to rely on anyone's best intentions. But government regulation is not perfect, and it can even end up reducing public welfare because of its cost or inefficiency. The government also may lack the resources and competence to design and administer appropriate regulations, particularly for complex industries requiring much specialised knowledge. Industry groups might find ways to influence regulation to the point where it is ineffective or even ends up benefiting the industry at the expense of the general population. Outright corruption can make the situation even worse. What is more, all the problems of government failure are exacerbated in developing countries with weak and often corrupt governments. Still, with all their faults, governments are a far more effective protector of the public good than any campaign for corporate social responsibility.

9 Civil society also plays a role in constraining corporate behaviour that reduces social welfare, acting as a watchdog and advocate. Various non-profit organizations and movements provide a voice for a wide variety of social, political, environmental, ethnic, cultural and community interests. Overall, though, such activism has a mixed track record, and it cannot be relied on as the primary mechanism for imposing constraints on corporate behaviour—especially in most developing countries, where civil society lacks adequate resources to exert much influence and there is insufficient awareness of public issues among the population.

10 Self-regulation is another alternative, but it suffers from the same drawback as the concept of corporate social responsibility: Companies are unlikely to voluntarily act in the public interest at the expense of shareholder interests. But self-regulation can be useful. It tends to promote good practices and target specific problems within industries, impose lower compliance costs on businesses than government regulation, and offer quick, low-cost dispute-resolution procedures. Self-regulation can also be more flexible than government regulation, allowing it to respond more effectively to changing circumstances. The challenge is to design self-regulation in a manner that emphasizes transparency and accountability, consistent with what the public expects from government regulation. It is up to the government to ensure that any self-regulation meets that standard. The question is whether the government is prepared to step in and impose its own regulations if the industry fails to police itself effectively.

11 In the end, social responsibility is a financial calculation for executives, just like any other aspect of their business. The only sure way to influence corporate decision making is to impose unacceptable costs such as regulatory mandates, taxes, punitive fines, public embarrassment on socially unacceptable behaviour. Pleas for corporate social responsibility will be truly embraced only by those executives who are smart enough to see that doing the right thing is a by-product of their pursuit of profit. And that renders such pleas needless.

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