The spotlight and the microphone
Must business be socially responsible, and can it?

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Ten year ago, at the time the Hoover Chair was founded, I was, if not altogether dismissive, at least frankly sceptical towards so-called business ethics or, to use an expression that has since become more fashionable, "corporate social responsibility".[1] But I have gradually changed my mind, to the point of regarding it today as a major potential tool for the sake of realising a more just society, in the same league as – though not quite on an equal footing with – representative democracy. The purpose of this note is to briefly explain the reasons of this change of mind.[2]

Neither desirable nor possible

At the root of my initial scepticism was the conviction that assigning to firms a major ethical role was both undesirable and unviable.

I considered it undesirable because I believed it was the role of politically organised communities, not of private economic agents, to determine what values should affect the functioning of the economy, In this sense, Milton Friedman was right in declaring, three decades ago, that the social responsibility of business was to make profits. In my view, it hardly needs saying, this profit-making had to operate, not on the background of some sort of laissez-faire capitalism, but within the firm legal constraints of a social and ecological capitalism, in which an intelligent battery of democratically determined regulations, taxes and transfers would steer profit-driven activity for the benefit of a fair and efficient economy.

Assigning a major ethical role to firms, I believed, was not only undesirable. It was also impossible. True, it is often in the interest of profit-maximising firms to comply with the law, not to cheat its customers or shareholders, or to treat its work force in humane fashion. But in a competitive environment, as soon as there is a perceptible conflict between profits and these ethical considerations, it is clear which of the two should yield to the other. And indeed if it did not yield, the virtuous firms would see their market shares shrink and eventually they would disappear, ethics included, leaving the vicious ones to thrive, proliferate and expand. To put it more crisply: if ethics pays, it is redundant; if ethics costs, it is suicidal.[3]

1 See Van Parijs (1991).

2 This note is largely based on my contribution to the conference "Fabrica Ethica" organised in Florence on 13-15 March 2002 by the Regione Toscana. It benefited from useful conversations with Philippe de Woot, François Cornélis, Jean-Pierre Hansen, Jacques Fraix and Robert Jourdain, and from a "Midi de l'éthique" on "Corporate social responsibility with Etienne Davignon, Dominique Bé and Gérard Fonteneau (Louvain-la-Neuve, 16 April 2002).

3 Along the samelines, see, for example, Baumol.& Blackman (1991).

More desirable than I thought

Why did I change my mind? Because I became convinced that "social responsibility" – roughly defined as doing more for the good of society (or less for the bad of society) than what follows from effective-law-abiding, image-insensitive profit-seeking – was both far more desirable – indeed sometimes indispensable – , and more viable – indeed sometimes unavoidable – than I thought.

Most powerful in affecting my views on the desirability side was my visit to the Congo in the Spring of 2001. It made me aware of how utterly utopian it was to expect in some parts of the world that a fair and efficient economy could emerge from the rigorous enforcement of just laws, themselves the outcome of deliberation giving a fair hearing to the representatives of all layers of the population. When the majority of the population does not even speak the language in which politics is being conducted, when those in charge of elaborating new laws lack the expertise and resources needed to face complex challenges and ever changing circumstances, when there is no money to print and disseminate the laws that get adopted, no money to train or pay the inspectors, judges or policemen in charge of enforcing those laws – apart from the money they can collect in exchange for keeping their eyes shut – , under such conditions how can the combination of representative democracy and legal constraints on profit-making be expected, whether today, tomorrow or even the day after, to bridle the economy in a socially desirable way? Once humbly aware of the current and prospective weakness of this first mechanism – ideal in the abstract, perhaps, but hopelessly out of reach in many parts of the real world, it makes sense to be more indulgent for an alternative, no doubt messier mechanism, one which relies more on pompous ethical declarations in rich front windows than on sound law enforcement in poor back yards.

Before reflecting on the potential effectiveness of a powerful mechanism of this type, let me mention three further ways of motivating its desirability that are by no means confined to the most problematic parts of the planet.

One takes as its point of departure the deepening of globalisation. As capital, human capital and consumer demand all become trans-nationally mobile, nation-states increasingly have to behave like firms subjected to competitive pressures, anxious to attract or retain investors, qualifications and customers, sometimes at the expense of some of their social and environmental concerns. Of course, one can dream of strong rules of the game on a world scale that would constrain and steer each nation's quest for competitiveness so that it serves a fair world order, in the same way as one used to think of national rules of the game constraining the profit-seeking of capitalist firms operating within a nation's borders. But such a global legal system is still far off the agenda, and alternative disciplining mechanisms, however imperfect, would therefore be more than welcome.

Secondly, there is the fact, possibly more significant than ever under modern technological conditions, that compliance with the law is often difficult or costly, and sometimes simply impossible, to monitor in a reliable way, at least without far more collaboration by the firms than what they could get away with. Whenever this is the case, again, the standard sound-law-enforcement mechanism reaches its limits, and it would be a great help, in order to improve conduct and reduce the cost of bureaucratic controls and legal proceedings, if an alternative mechanism could be switched on.

And finally, there is the sheer speed of technological, economic and social change, essentially induced by the multidimensional effects of the computer-internet revolution and of globalisation. Fast change keeps generating opportunities for ways of "misbehaving" that have not been adequately anticipated by existing laws. But democratic law-making in technically intricate matters is often a slow, laborious, clumsy process. Even when there is a broad consensus, it can be held up by many obstacles, and once it is passed, it can contain elements that are hard to change even when there is broad consensus that that they should be changed. In this context, a more responsive form of self-policing is not unwelcome. Indeed, in some cases it may make legislation unnecessary, or constitute the necessary exploration that will enable it to take more quickly the most appropriate form.

More feasible than I thought

For all these reasons, I became less complacent about representative democracy and law enforcement providing us with all the equipment ethics needed in order to shape the economic realm, and I became correspondingly convinced that an alternative mechanism, based on the firms' voluntary exercise of social responsibility, may be most useful, indeed indispensable. What is indispensable, sadly enough, is not always possible. But on the possibility side too, my scepticism has gradually subsided.

The most influential event in my change of mind, here, was not a trip to the Congo but a conversation I had in the Spring of 1999, with the CEO of Belgium's main multinational, then on the verge of being absorbed by a bigger conglomerate with dubious ethical credentials. It made me aware of the following quick change in the way in which ethics can shape a firm's behaviour over and above what enforceable laws impose.

The way in which "social responsibility" occasionally entered business decisions in the past was mainly through some well-meaning business leader, typically the head of a family-own firm, using some of the available slack to pursue some social aim to which he happens to attach special importance. He may thus channel part of the firm's surplus into furthering the welfare of its workers and their families, or into improving the local environment, or into giving some vulnerable suppliers a higher or more stable reward that what they were in a position to demand, just as some of their colleagues would indulge in personal conspicuous consumption, or in support for the arts, or in donations to the local church.

In today's typical firm, this is no longer possible. If the CEO tries to explain to his board that he is using part of the surplus for some charitable purpose, the representatives of the shareholders will be quick to respond that this is a misuse, indeed an ethically unacceptable misuse, of his powers. A CEO's job is not to indulge his personal moral tastes, but to manage the resources of the firm so as to make money for its owners. If the latter, or at least some of the latter, want to play generous, it is up to them to decide for what precise purpose and to pick the agency which they believe will best help them do what their ethics requires.

The situation is completely different, however, if the CEO turns up at the board with the news that the way in which they treat their employees in one plant, or the way in which they mess up the environment in another, or support for an oppressive regime in a third one, is beginning to attract the attention of some NGOs, of some media, of some ethically sensitive consumer organisations or investment funds, indeed of the stock market itself. In that case pleading for a more ethical behaviour is no longer an abuse of one's function for personal purposes, but the professional duty of someone whose role is to look after the value of the shareholders' assets. The legitimacy of ethical pleas in the board room can now no longer be summarily dismissed, even in those cases in which the personal convictions of the pleader lead him to overplaying somewhat the "ethical risk" for the value of the firm's stock of behaviour she finds objectionable.

The embarrassing power of transparency

What is at work here is a mechanism whose main components can be metaphorically characterised as a spotlight and a microphone.

The spotlight is the patchwork of organisations and devices that makes visible and assessable what a firm does, directly or indirectly, throughout the world: it includes the NGOs and Trade Unions that detect and document objectionable practices; the media that alert public opinion to what NGOs or Unions denounce or directly echo the complaints of the individuals and communities that suffer from some practices; the ethical consultants agencies that attempt to design meaningful indicators and to gather the information required to apply them; the consumer organisations that incorporate ethical criteria among those used to praise or blame specific products; the ethical investment funds that use such criteria for selecting the firms they preferentially channel their funds into; and sensitive stock markets whose anticipations tend to reflect more quickly than sales or profits any perception of socially responsible or irresponsible behaviour that might subsequently trigger adverse behaviour by consumers, investors or workers.

How effective the spotlight can be obviously depends on how quickly, how far, how deeply the information travels, which has been hugely helped by the spread of the internet: the coordination costs of the worldwide network of NGOs have plummeted, and access to information about behaviour of a firm, of its suppliers, of its subcontractors, has become massively easier and cheaper through availability and regularly updating on web sites. Access to information, however, is not enough. A good spotlight is one that provides correct, reliable information. Its effectiveness therefore also depends on the professional rigour and integrity of NGO workers, journalists and ethical consultants. Finally, the information provided must be legible. To assess a firm's environmental or social record, one needs to be able to compare it meaningfully to others, or to itself in the past, or to some sensible standard. And whatever labels, or norms, or distinctions are introduced, they must be sufficiently few in number and intelligible in content for consumers and investors to be able to make their choices in this light.

The civilising power of hypocrisy

An effective spotlight – transparency – is important, but not sufficient. Those responsible for what the spotlight makes visible must be held accountable. This is the role of the microphone: a microphone forcibly pushed before the mouth of the head or spokesperson of a firm that has (or whose suppliers or subcontractors have) allegedly done something objectionable – like injuring, sacking, discriminating, polluting or cheating – , a microphone keenly held by that same head or spokesperson whenever there is something to say that could usefully improve the image of the firm. Increasingly, business leaders cannot just do, and get things done. They are constantly summoned to talk, to account, to justify, to commit themselves publicly. They must explain that that they have done nothing wrong (sometimes very much despite the appearances), or promise that they'll never do it again, or undertake to do a number of praiseworthy things over and above what the law requires them to do.

Like the spotlight, the microphone can work more or less well. To make it effective, competent and conscientious NGOs, medias, academics must make the right people talk at the right time on the right topic, to deny or to confess, to explain and to promise, not only through the medium of real microphones, but also through press releases, brochures, adverts, enterprise charters and web sites. Of course, there will be plenty of hypocrisy involved, plenty of trying to look far better than one really is, of giving a flattered image of one's intentions and for one's deeds. But never mind. If representative democracy manages to achieve something far closer to a just society than what would come out of the power balance between self-interested groups and individuals, it is in large part because of what Jon Elster (1986, 1998) calls the "civilising power of hypocrisy": the fact that having to use arguments that sound good in parliament makes what is being proposed, and hence what it is done and even in the end what is genuinely thought by those who do it, less self-interested and more common-good-driven than the initial motivations of representatives and voters. The business leader's microphone does not work differently, in this respect, from the politician's: having to justify what you do to all affected, having to pretend that what you do is better than it really is ends up making you better than you are. A firm's or its bosses' grand declarations about how much good and how little harm they do need not to be taken at their face value. But the uttering of such statements makes it far more damaging to be caught doing precisely those bad things one emphatically denied doing, or not doing those good things one pompously claimed one was doing. The urge to avoid such damaging embarrassments will put pressure on what a firm does.

One particular but important impact of an effective microphone is that it can greatly increase the effectiveness of the spotlight. A firm's categorical declarations about how much good it does and how little harm can cleverly be used to elicit an agreement to regularly publish crucial data on the web, or to make them verifiable by independent agencies, or to implement internal procedures that make illegal behaviour by firm employees more easily detectable by law enforcers, or to protect whistleblowers – insiders who denounce improper practices – rather than persecute and sanction them. Feedback loops of this type – the more exacting the microphone, the more revealing the spotlight can be made, and the more revealing the spotlight, the more exacting the microphone can become – turns this mechanism, once it gets off the ground, into a powerful device for disciplining the economy in the service of the general interest, or at least the interest of all those to whom the people talking into the microphone feel they have to justify themselves to.

Closing the gap

Seeing the twofold mechanism thus sketched at work, hearing vivid descriptions of some aspects of it, is what gradually convinced me that assigning firms a major ethical role was not that crazy after all. There is of course no pre-established harmony between ethical standards and maximum profits, and whenever there is a serious tension, the former will tend to be sacrificed to the latter. But the mechanism sketched above systematically reduces this tension: when the spotlight and the microphone are switched on, virtue and profits become better friends – at least in an environment in which purchasers, investors and workers are not insensitive to how correctly they perceive a firm to behave, in which stock markets anticipate such sensitivity and in which board members are willing to bring up, and sometime overplay, the risks and opportunities created by such anticipations.

True, as a way of making reality conform to ethical standards, this mechanism is and will always remain very imperfect, uphazard, messy, with countless overlookings and overshootings. But let us face it: representative democracy is not a perfect instrument either. Moreover, the goal cannot be to substitute one mechanism for the other, but to make each complement the other so as to best achieve the ethical standards both are meant to pursue. What is the exact content of these standards? The above discussion has been extremely elliptic on this question. But the presumption has been throughout that the need for public justification, in the realm in which firms address public opinion to assuage sensitive investors, consumers and workers no less than in the realm of representative democracy, induces a commitment to standards of equal concern for all (or at least for all those who are meant to listen), and hence to a (responsibility- and efficiency-sensitive) egalitarian conception of social justice (see Van Parijs 2002).

In other words, an intelligent use of the spotlight and the microphone will makes firms behave more as they would if the world's laws were perfectly just even under conditions in which they are far from being so. In this sense, with image-sensitive consumers, investors and workers, a clever handling of this twofold tool can close part of the gap between social responsibility and responsibility to the shareholders, it can make ethics pay in many cases in which it used to cost.

Not a mean achievement.

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