

CSR - Milton Friedman was right

© Bath Consultancy Group 2011

Bath Consultancy Group
11 Kelso Place, Upper Bristol Road,
Bath BA1 3AU
Main Office: +44 (0)1225 520866
Email: office@bathconsultancygroup.com

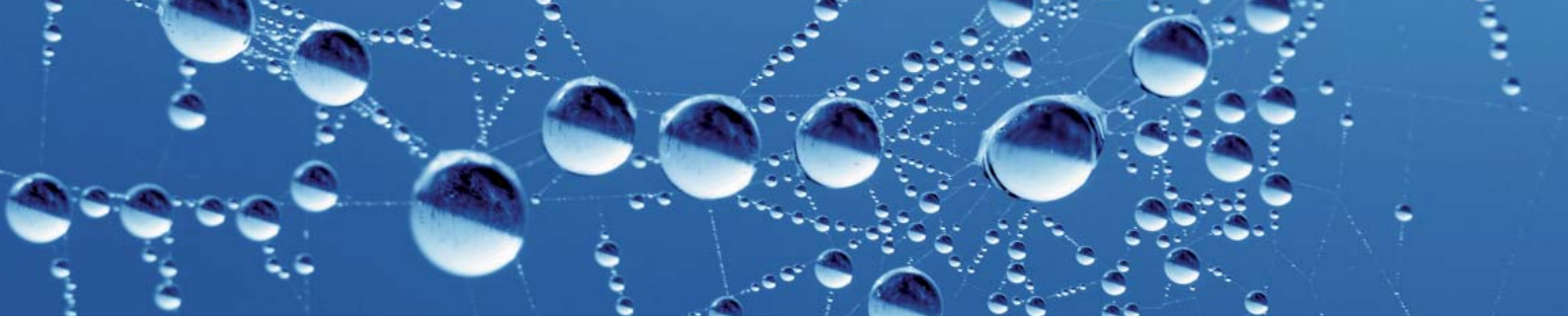
CSR - Milton Friedman was right

Of the hundreds of thousands of words written about Corporate Social Responsibility, one of the earliest quotations is one of the most persistent - the statement by the late economist Milton Friedman that “the social responsibility of business is to increase its profits.” Indeed, those words were the headline of Friedman’s article in the New York Times in September 1970. This might seem odd from a supporter of CSR, but I am going to argue that Friedman was right - if you read the story behind the headline.

Friedman’s headline words were expanded upon in the main text of his piece, and it is here that they take on their full meaning. “I have said”, he writes, “ 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, which is to say, engages in open and free competition without deception or fraud.”

The key words are those I have put in italics - his definition of staying ‘within the rules of the game’ in 1970 extends only to the basic free market principles, but nowadays the list of ‘rules of the game’ would cover many pages. Society’s expectations of business increase every year, and no firm can hope to be successful without taking account of those expectations - whether it is the environmental campaigner wishing to see a reduction in pollution, the consumer wanting detailed contents labelling, or the workers’ group seeking additional health benefits.

The frameworks that have built up around CSR can help companies to make sense of these expectations, and achieve a balanced approach to their responsibilities. Often, when we work with companies starting to define their position in CSR, we find that one area (but only one) will be really well managed and reported. Perhaps an environmental group really hit the spot, or maybe an appeal for philanthropic giving found a receptive executive, but for whatever reason in isolated pockets some excellent responsible projects and activities will be flourishing. The challenge - for a truly integrated CSR approach - is to build up from these foundations a broad-based approach to CSR which acknowledges the requirements of all the stakeholder groups, not just one - and which makes sure that good CSR practices are embedded in the company and integrated into all aspects of planning, strategy and operations.



So, the level of concern for the environment that a water company (for example) might display will nowadays have to be matched by an understanding of customers, suppliers, the community the company serves, its shareholders and other financial stakeholders, and the employees who work for it. A well-written CSR report will illuminate the company's issues and approach to those who are interested - and the corporate reputation will grow as a result. In the past year a range of studies has shown that investors are starting to see CSR as one of the most reliable indicators of company performance - in essence, the conclusion is that, because CSR is so difficult to get right, companies that are performing well in CSR can be assumed to be getting the other parts of business management right as well. CSR performance is now, for some analysts, a surrogate for overall management quality.

It is not only investors who are seeing CSR as central to their assessment of a company's likelihood of success. Employees are increasingly important as judges of CSR performance. As economies mature, the war for talent gets more intense, and in most advanced societies it is now employees who pick a company to work for, rather than companies selecting from a passive pool of skills. The modern employee has personal values which she expects to see reflected in the values of the company which wants to employ her. If those values are not on display, she will take her talents elsewhere.

For many companies, their present and future employees are the key consumers of the firm's CSR communications - one leading bank analysed the route that new applicants took through its recruitment website, and found that more than 75% visited the CSR page, often as their second 'click' immediately after checking the pay and working conditions page. These Values Driven Professionals look for corporate values which match their own personal values, and CSR is often the best way to articulate this. One big employer has found that it costs £3,000 to replace each member of staff who leaves - and the reduction in staff turnover they attribute to better CSR reporting more than pays for the production of the report, indeed it pays for all of the CSR activities of the organisation.

The 'rules of the game' are evolving quickly, and the range of issues that companies are expected to address expands over time. Friedman was right that companies must stay within 'the rules of the game' - but he could not have predicted how pervasive those rules would become. For the companies of the 21st century, a well-researched and properly balanced approach to CSR issues is an essential component of success. "Doing" CSR well enhances reputation, motivates staff, attracts customers and therefore, as Friedman required, increases profits. Friedman could not have spotted the cause and effect, but his famous quote rings true today - except nowadays companies increase their profits through responsible business practices, not instead of them.