

DOING WELL BY DOING GOOD:

DISTINGUISHING THE RIGHT FROM THE GOOD IN THEORIES OF CORPORATE SOCIAL RESPONSIBILITY

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Abstract

Global economic and environmental circumstances require that business in the 21st century be practiced in a way that is *economically* vibrant enough to address the real needs of billions of people, yet *ecologically* informed so that the earth's capacity to support life is not diminished by that activity and *ethically* sensitive enough that the human dignity is not lost or violated in the process. This paper will argue that any adequate model of corporate social responsibility (CSR) must meet these three normative standards: it must be economically, environmentally, and ethically sound. My argument to support this conclusion falls into two parts: arguments against the adequacy of mainstream models of CSR to meet these standards and arguments in support of the sustainability alternative. This alternative provides a contemporary model of the good company that is true to the Catholic tradition as well as being economically and environmentally satisfactory for addressing global needs.

Introduction

The corporate social responsibility movement (CSR) is, depending on how one counts, about forty years old. A range of social movements in the 1960s-- the student movement, civil rights, environmental, women's-- had, by the early 1970s, resulted in widespread calls for business to take on greater social responsibilities than previously. Milton Friedman's famous essay rejecting this new call for corporate social responsibility was published in 1971.¹

One can think of the competing models of CSR emerging from this movement as existing along a continuum of expanding ethical constraints upon a general goal of increasing profits by responding to consumer demand. At one end of this continuum, we find the very narrow view of CSR associated with neoclassical economics. Business's social responsibility is to maximize profit by meeting consumer demand, and the only constraint is the duty to obey the law. At its most libertarian extreme, defenders of this view would also argue that the only appropriate laws are those that protect property and prohibit fraud and coercion. Theories of CSR become more moderate than this extreme by expanding the range of constraints upon the pursuit of profit. Thus, one finds Norman Bowie, for example, arguing on Kantian grounds that beyond obedience to the law, business also has moral duties not to cause harm, even if not prohibited by law.² Various stakeholder

theories expand and develop this range of duties by identifying ethically legitimate stakeholders other than investors and by articulating the specific duties owed to them.

We can thus characterize these theories as variations on the theme of balancing utilitarian and deontological ethics. The pursuit of profit is the mechanism by which business is thought to serve the utilitarian goal of satisfying consumer demand and thereby maximizing the overall good. This utilitarian goal itself is to be constrained by the duties that one has to persons affected by these activities. Our duties to other people (and their rights) create side-constraints or boundaries on business activity; as long as business does not overstep those boundaries, it is free to pursue profit. Depending on the theory of rights and duties that one adopts, those constraints range from the minimal duty of obeying the law to more extensive accounts of duties associated with the stakeholder theory.

This framework has always been problematic from the point of view of Catholic social teaching. In particular, Catholic social teaching would hold that social institutions have a positive responsibility to promote the common good while this CSR framework allows only negative duties to constrain the pursuit of profit. At best, CSR understands the common good only in terms of the utilitarian goal of satisfying consumer preferences, a perspective that is decidedly at odds with the Catholic understanding of the Common Good.

I would like to pursue this topic as it plays out on the issue of environmental responsibility. It is fair to say that virtually all of these mainstream theories of corporate social responsibility (CSR) deny that business has any special environmental responsibilities. From the classical model of CSR associated with Milton Friedman and other defenders of the free market to the more recent stakeholder theory, environmental concerns function, at best, as side-constraints upon business managers. Business may have some negative duties associated with the environment—duties not to pollute and not to cause harm—but business certainly has no positive duty to conduct itself in ways that contribute to long-term ecological and environmental well-being. I would like to offer some reasons for thinking that this view asks too little of business. Expecting business to take a more active role in addressing environmental and ecological concerns is, I believe, more reasonable than usually acknowledged. I will suggest that a model of sustainable business is compatible with, if not implicit within, Catholic social teaching's focus on the Common Good as the ethically appropriate end of business.

CSR and Liberal Social Justice

What one will not find among these mainstream views of CSR is any suggestion that business has positive duties either to *prevent* ecological harm that it is not directly causing or to *do* environmental good. Continuing the side-constraint and boundary metaphor introduced previously, one does not find ethical goals determining either the direction or the substance of business activity. Business managers, according to these views, are ethically passive; managers can fulfill their ethical responsibilities by actively doing little or nothing at all. Business passively *responds to* the demands of the market.

Business is passive in *not violating the law*. Business is passive when it *causes no harm*. According to these views, the social responsibility of business requires business *to do* virtually nothing at all.

This point, of course, reminds us that both utilitarian and the Kantian deontological theories of social justice are thorough-going *liberal* theories. Philosophical liberalism denies that ethics can require anyone actually to do good; that would be asking too much of free and autonomous individuals. Ethics does not provide the goals of our behavior, only the limits. Liberty demands that we not coerce anyone to act in ways that they have not chosen, as long as their choices cause no harm to other individuals. Negative, not positive, duties are obligatory for every individual. Besides, given the wide variety of competing conceptions of the good life, there is little chance that we can arrive at a defensible, objective, or commonly-accepted account of the good.

Thus classical liberal theories tell us that doing good is supererogatory, an imperfect duty that we can encourage and praise but not require. Like charity, it is something that we hope for and encourage but not something that ethics obliges us to do. Of course, this is exactly the point at which liberal theories of social justice are in tension with Catholic understandings of the Common Good. The Catholic tradition holds that there is a substantive and objective good common to all, a good that we have a responsibility to pursue even if it conflicts with our individual choices. Unlike the Catholic tradition, liberal theories create a sphere of free choice between those acts ethically prohibited and those that are merely praiseworthy.

Unfortunately, many crucial environmental and ecological concerns are thought to fall within this sphere, particularly when the agent involved is business. Releasing toxic pollutants can be ethically prohibited, but preserving biological diversity, conserving natural resources, protecting wild and open spaces, reducing energy consumption, or designing fuel-efficient cars or sustainable production methods cannot. In fact, it is difficult to find many environmental concerns other than the ban on pollution that are thought to be part of business's social responsibility, and even that can be trumped when allowed by law. (CO₂ emissions being the obvious example--while they are known to cause harm, business is free to continue emitting copious amounts of this pollutant since it is all quite legal when released in relatively small amounts by individual firms and individual consumers.)

The view I wish to put forth holds that business does have an ethical responsibility, even when not required by law and not demanded by consumers, to redesign its operations in a way that is ecologically and economically sustainable over the long-term. Environmental responsibilities should provide the direction in which business develops as well as the constraints within which it operates. I suggest that this goal ought to be conceived of as the *telos* of business institutions in the twenty-first century. Sustainability, meeting the real needs of presently living human beings without jeopardizing the ability of future people to meet their own needs, represents the twenty-first century's Common Good. My argument to support this conclusion falls into two parts: arguments against the ethical adequacy of the standard models of CSR and arguments in support of the alternative.

Arguments against standard models of CSR

Utilitarian-Market Aspects

We can begin with objections to the market-based, utilitarian aspects of the standard models. Implicit within those models is an assumed utilitarian ethical foundation. Business is advised to pursue profits; profit measures the efficiency of allocating goods and services to those most willing to pay; willingness to pay is a measure of how highly valued goods and services are; people are happiest when they get what they most highly value. Thus, by pursuing profits a business manager contributes towards the goal of maximizing happiness. Assuming the utilitarian understanding of the common good as maximized happiness, efficient markets work towards the common good.

There are, of course, significant difficulties with this line of reasoning. First, to state what should be obvious: profit is not, in itself, an ethical good. One can profit from ethically beneficial goods and services and one can profit from ethically abhorrent goods and services. Business managers have no ethical responsibility to pursue profits *per se*. Within the neoclassical model, profits provide managers with information that their decisions are, in fact, efficiently allocating resources. Pursuing profits thus is a shorthand way of saying that business managers ought to allocate resources in ways that satisfy the interests of those most willing to pay.

Stated this boldly one can easily understand that the apparent ethical and utilitarian basis of efficient markets is no ethical basis at all. Ultimately, and at best, markets can only attain the satisfaction of those preferences expressed by consumers in markets. The goal of any market exchange is the satisfaction of those desires expressed by the participants in that exchange. But why should the satisfaction of consumer preferences be taken as a goal of ethics? Why should one think that the world is, ethically, a better place when consumers get more of what they want?

The answer to these questions turns out to be an assumption, and it is this assumption that seems to make the connection between the results of markets and utilitarianism plausible. It is also an assumption that turns out to be false. This assumption is that consumer satisfaction, people getting what they want, can be identified with happiness, first in an empirical psychological sense and, in turn, that psychological happiness can be identified with happiness in an ethical sense. Thus on this account, optimizing the satisfaction of consumer preferences is to optimize happiness.

But this identification is empirically false and conceptually confused. As an empirical claim, this can be shown false both at the level of individuals and at the level of societies. Individually, this claim would be that the more someone consumes, *of anything*, the happier he or she is. This, of course, is false, as any alcoholic, cigarette smoker, hospital patient, crime victim, or bankrupted consumer can testify. More generally, numerous empirical studies confirm that there is at best a mixed connection between overall consumption or economic growth and happiness. Affluent societies are not necessary

happy societies. Individuals themselves often report that the more they buy and consume, the less happy they are. Conversely, many individuals report that they are happier leading a life of frugality and simplicity. As long as there are *some* people who are *less* happy when consuming *more*, identifying the economic goal of satisfying preferences with the utilitarian goal of happiness is a mistake.

As it turns out, economists are aware of these problems and their reaction is to treat the identification of preference satisfaction and happiness not as an empirical claim, but as a conceptual one. That is, what they *mean* by happiness (or “welfare” or “well-being” or “utility” or whatever they think is increased by economic growth) is simply the satisfaction of those preferences expressed by consumers in the marketplace. But this collapses the ethical justification of markets into incoherence.

The justification question begins with the query, “Why should, ethically, one accept the results of market transactions?” The answer would appear to be “because market transactions produce happiness.” But, by *defining* consumer satisfaction with happiness, the actual answer turns out to be “Because market transactions will produce more of those things that markets produce.” But, of course, the original ethical challenge remains, “Ethically, why should one accept those results produced by market transactions?” The conceptual response is no response at all.

The lesson of this is clear. The supposed overall good attained even by the most efficient markets is not the common good identified as a fundamental element of Catholic social teaching. Theories of corporate social responsibility that base their normative claim on the alleged good of efficient markets are incompatible with the Common Good.

Deontological Aspects

The views that I am arguing against hold that business has only the negative ethical duties to cause no harm but no positive duty to do good. Traditionally, there are two general philosophical rationales offered in defense of this liberal conclusion: positive duties would violate the respect owed to each individual as an autonomous agent, and there are no rationally defensible or widely acknowledged positive goods that can be binding on individuals. I contend that in the case of business’s environmental responsibilities, neither of these two rationales is persuasive.

Let us consider the autonomy side first. Philosophical liberals argue that only negative duties prohibiting harm are compatible with the respect owed to an individual as a free and autonomous agent. Requiring an agent to perform positive acts of goodness is to treat that agent as a means to an end, to coerce that agent against her will, and to have one’s ends chosen by another. Thus, the moral respect owed to the dignity of individuals trumps the goods that can be attained through positive duties.

However, this is to forget the obvious: business institutions are not moral agents who have an overriding right to be treated with the respect due to autonomous individuals. Business institutions are not autonomous individuals; they are precisely the type of thing

Kant had in mind when he spoke of means, rather than ends. Thus, requiring business to serve human ends is to treat business exactly in accord with its nature as a human institution designed and created to serve human ends. Human beings, acting in concert through their social, political, and legal institutions, created the modern corporation and established its legal and ethical duties. My proposal is simply that those duties need to be rethought.

That leaves only the value-relativist claim standing opposed to my proposal. This response claims that we cannot expect business to be responsible for achieving social goods because society itself lacks any consensus on the nature of the good. In the terms of traditional liberalism, the right has priority over the good because of irreconcilable disagreements over the nature of the good. After all, who is to say what is, or is not, good?

The converse of this view, the priority of the good over the right, is highly contentious. Nevertheless, I would like to defend something very much like it. In this, of course, I am very much out of the mainstream in modern philosophy and especially out of the mainstream of business ethics. But this is firmly within the mainstream of Catholic social teaching. What if we could offer a rationally defensible account of the good for business, one objectively better than the value-neutral model of business that emerges from neoclassical economics?

An Alternative Model of CSR: Sustainable Business

The narrow views of CSR sketched in earlier sections implicitly rely on a distinction between actively causing harm and passively allowing it to happen. As we have seen, most liberal theories hold individuals responsible for harms that they cause but not for harms that they allow to happen. Thus, while I may have a strong duty not to cause the starvation of my neighbor (a perfect duty in Kantian terms), I have no duty (an imperfect duty in Kantian terms) to prevent that starvation if I am not the cause. Doing good is praiseworthy but not obligatory. But this distinction has been challenged, persuasively, by many philosophers and it is a distinction not comfortably at home in Catholic social teaching.³ It is, perhaps, not surprising that those few laws that require positive duties are referred to as “good Samaritan” laws. Only the most ethically callous person would insist that we have no moral duty to prevent serious harm if in doing so we face only minor inconveniences.

I would like to suggest that something very much like this situation faces contemporary business institutions. Significant harm can be prevented, at present and into the near future, if business institutions would remake themselves on a model of sustainability. I would further claim that this is possible without putting most businesses in any greater financial jeopardy than is already and normally faced under the present model. Risks exist, of course, but there is no reason to think they are any graver than the risks normally faced everyday by business entrepreneurs, managers, and business leaders.

Thus the view I wish to defend holds that business managers have an ethical responsibility for taking positive actions to create a more just and environmentally sustainable world. This is a view consistent with ordinary understanding of business management and leadership. Business managers, of course, take an active leadership role all the time. Managers have a great deal of discretion in choosing both the ends of their business and the means by which those ends might be attained. If managerial prerogative means anything, it means that society expects and demands managerial professionals to exercise their judgment in determining the proper course for business. If the concepts of business leadership or entrepreneurship mean anything at all, they mean that business managers are widely understood to be capable of, and responsible for, taking positive actions.

The harms to which I refer exist along two dimensions: ethical and ecological. First, hundreds of millions of people, mostly children and the overwhelming majority of them morally innocent in every way, lack the basic requirements of a decent human life. Lack of clean drinking water, nutritious food, health care, education, work, shelter, and clothing is a daily reality for hundreds of millions of people. Population growth, even at the most conservative rates, will only exacerbate these problems in the near future. Because population growth is highest in those areas in which people are already most at risk due to the effects of poverty and oppression, these ethical challenges will only get worse in the future. To meet these needs, the world's economy must produce substantial amounts of food, clothing, shelter, health care, and jobs, and distribute these goods and services to those in need. Clearly then, significant worldwide economic activity must occur if these harms are to be addressed at all.

But these ethical goals and the economic activity to meet them must rely on the productive capacity of the earth's ecosystems. Two facts about that ecosystem are at the core of my argument. First, the economy is but a subsystem within earth's ecosystem, and therefore that ecosystem establishes the biophysical parameters of economic growth. Second, that very ecosystem is already under stress due to the economic activity of human beings. Unless a model of business can be created that allows significant economic activity without further depletion of the biosphere's ability to support both life and the very economic activity on which it depends, humans are facing global ecological, economic, and ethical tragedy.

Fortunately, such a model of business does exist. What has been called, alternatively, "sustainable business," "the next industrial revolution," or "natural capitalism" provides a model of business which can, in the words of the U.N. Commission on Sustainability, "meet the needs of the present without jeopardizing the ability of future generations to meet their own." It is a model of business that emerges out of a paradigm shift in economics. We must abandon the economic model that takes *growth* as the economic goal and replace it with one that targets economic *development*. Paraphrasing the economist Herman Daly, economic growth means the economy is only getting bigger; economic development means it is getting better. Where economic growth, within a finite biosphere is necessarily limited, economic development never is.⁴

What is the model of business that emerges from this new economics? First, we should recognize that there is not a single, unique way in which a sustainable business should be organized. Several models have been described in the literature, but we can abstract some common aspects of these various models.⁵ The first aspect is a significant increase in economic efficiency brought about by design changes inspired by biological processes. This alternative business model should be based on a principle of biomimicry in which wastes of the production cycle are recycled back into a closed loop. “Waste equals food,” in the words of William McDonough and Michael Braungart. Just as the detritus of decomposed material is turned back into fertile soil within biological systems, sustainable business must be designed so that its by-products are themselves the resources for new productivity.

A second feature of sustainable business shifts the goal of production from goods and products to services. Human beings *need* surprisingly very few *products*: food, water, and clean air are obvious examples, and so far at least, only the first two have become commodities. Human beings do need many *services*: education, health care, shelter, security. As consumers, we need very few of the products purchased in the marketplace. What we actually *want*, although we often do not fully understand ourselves, are services. As the popularity of auto leasing shows, consumers want convenient personal transportation, not ownership of a 2000 pound automobile. As the information technology industry is showing, consumers want easy access to software, Internet, and Email, not ownership of a soon-to-be-outdated piece of computer hardware or software written on 3 ½ inch floppies. As the carpet manufacturer Interface Corporation has shown, people want floor-covering services, not carpet ownership. This list goes on.

This focus on services rather than products has important implications for both business and consumers. By emphasizing services rather than products, business has strong financial incentives to create longer-lasting, more durable products that are easily recycled back into the product-stream. Significant entrepreneurial opportunities exist here for creative business leaders to seize this initiative in creating a service economy. Significant economic opportunity also exists as one-time product-purchasers become long-term service lessees. Consumers benefit if they are helped to escape what has been called a commodity fetish.

The final aspect of this alternative model requires business to invest in natural capital. For too long, business (and growth-based economics) has treated the productive capacity of the earth’s biosphere as an unending revenue stream. Earth’s productivity was something that could be spent without cost. Only in the last few decades have the true costs of spending down our natural capital been understood. The better metaphor is to think of the earth’s productivity as capital, as something capable of generating revenue in the form of interest but not something that should be spent to the point where it is incapable of continuing to be a source of income. A prudent financial strategy is to spend interest but not capital. The earth has demonstrated a remarkable ability to produce life-sustaining necessities indefinitely, but only if we maintain sufficient savings in reserve to generate these necessities indefinitely.

One of the most interesting things about this alternative model of sustainable business is the huge potential it holds for entrepreneurial activity. Creative business leaders will find vast opportunities for new business ventures that transform business from the old industrial model to the new sustainable model. Thus, the fear that doing good is too much to ask of profit-seeking institutions is ill-founded. Sustainable business does not ask managers to forego profits (although it would require that profits from ecologically destructive activities be abandoned); it only requires that profits be obtained in ecologically sustainable ways.

The ecological guidelines for this new approach to business are, in their most general form, relatively straightforward. The entire economic production process takes resources from the biosphere, turns them into products and services, and generates by-products (or wastes) in the process. The ecological guidelines for sustainable business mirror the two sides of this production cycle. Resources going into the production process should be used only at the rate at which they can be replenished by the productive capacity of the biosphere. By-products and wastes of this production process should be generated no faster than the earth's capacity to absorb them.

More specifically, we can recognize that economic resources come in a variety of types. Some are nonrenewable, either in principle or in practice. Once a species becomes extinct, humans will never again have the ability to use it. Once oil or coal is burned, it is gone forever, in any practical sense of the word. Thus, use of nonrenewable resources ought, eventually, to be eliminated but should, in the meantime, be reduced to a minimum.

Other resources are renewable, some only within certain parameters, others practically without limit. Agriculture, fisheries, and forests are renewable, but only if we use them at moderate rates. Used wisely, the earth can produce biological resources at a sustainable rate indefinitely. Other resources—energy produced by the sun, hydrogen, wind, tides, and geothermal sources—are for all practical purposes infinite. An efficient, wise, and ethical sustainable business will use these infinitely available resources first, moderate its use of other renewables, and wean itself from reliance on nonrenewables.

Similar guidelines can be developed on the waste and by-product side of business. Waste is a bad thing, both economically and ecologically. Sustainable business must strive to eliminate all of the wastes created along each step of the production cycle. In general, all wastes are sent back into the earth's biosphere and, to be sustainable, must not be put there beyond the capacity of the biosphere to absorb them. For some by-products that will be easy. Much agricultural waste, for example, can be recycled back into the earth as mulch. For other by-products, the pollutants of much of the petrochemical or nuclear industry for example, that will be impossible. Such wastes will need to be eliminated. But, to emphasize, business wastes are not only an ecological harm, they are also an economic harm. As the word itself suggests, wastes are unused resources and any business that has a lot of waste is an inefficient and poorly-run business. Great economic opportunities exist for discovering ways to transform this waste into useful resources.

Perhaps the best test of the plausibility of this next industrial revolution is a test of vision. Try to envision two futures. One is a future in which business acts upon the principle of sustainable development, redesigning itself to meet the economic and social needs of the present without jeopardizing the ability of future people to meet their own needs. The second is one in which the present paradigm of growth and consumerism expands to the earth's entire population, at present slightly more than 6 billion people but in the near term even more. Envision a world in which the 1.3 billion people presently living in China used as many resources and created as many wastes as the 300 million people of the United States. One estimate has it that if China consumed oil at the rate of the United States, it would consume 80 million barrels of oil each day, more than the world's total production of 74 million barrels a day. If China consumed paper at the rate of the United States, it alone would use more paper each year than the entire world produces. If the Chinese economy ever reached the level of CO₂ emissions as the present U.S. economy, China alone would produce double the present worldwide CO₂ pollution.⁶ Now imagine that same world in which the people of India, all 1 billion of them, join the economic party at the same rates. Add to that another billion people from Indonesia, Brazil, Russia, Pakistan, Bangladesh, and Nigeria. Which of these future worlds is likely to be economically and ecologically stable? Which of these future worlds is likely to be judged ethically better?

Sustainability and the Common Good

I would like to conclude with some brief reflections on how this model of sustainable business can appropriately be understood to serve the Common Good as understood within the tradition of Catholic social teaching. That tradition understands the Common Good, as defined in The Catechism of the Catholic Church as " the sum total of social conditions which allow people, either as groups or as individuals, to reach their fulfillment more fully and more easily."

Two aspects of this definition are relevant for the discussion of sustainable business. First, the emphasis of human fulfillment means that the good is not the good of market-provided consumer happiness. The Common Good is teleological not utilitarian; human fulfillment is not a matter of getting more of what one wants, but of what one needs to lead a full and meaningful human life. On this model, economic growth is not a measure of how well economic institutions are serving the Common Good; serving human needs is.

Second, this definition recognizes that the Common Good is something that requires attention and work. The right "social conditions" are necessary for individuals and societies to further the Common Good. Human fulfillment does not emerge by an invisible hand working its magic. Human beings have the responsibility to create the social conditions under which fulfillment can occur. Business and economic institutions must be designed in ways that promote the satisfaction, not of consumer preferences, but of real human needs. Such is the call of the Common Good of Catholic social teaching and such is the aim of sustainable business.

Endnotes

¹ Milton Friedman, "The Social Responsibility of Business is to Increase its Profits," *New York Times Magazine*, 1970.

² See Norman Bowie, "Morality, Money, and Motor Cars," reprinted in *Contemporary Issues in Business Ethics*, DesJardins and McCall (eds), Belmont, California: 2005, 5th ed.).

³ The distinction rests upon the view that there is an ethically significant difference between acting and refraining, a distinction that has been seriously challenged. See, for example, the well-known essay by James Rachels, "Active and Passive Euthanasia" (*New England Journal of Medicine*, 1975) in which Rachels argues against the moral significance of this distinction as it has been employed in the ethics of euthanasia.

⁴ See *Beyond Growth*, by Herman Daly (Beacon Press, Boston: 1997).

⁵ My own thinking on this has been particularly influenced by three approaches. Herman Daly's writing on ecological economics and especially in *Beyond Growth*; Amory Lovins, Hunter Lovins, and Paul Hawken's *Natural Capitalism*; and William McDonough and Michael Braungart, in "The Next Industrial Revolution" and elsewhere.

⁶ These estimates are from Lester Brown, *Eco-Economy: Building an economy for the Earth* (W.W. Norton & Co., New York: 2001), Chapter One.