

*OccasionalPaper* **44**

## CSR: Capitalism at its best or an anti-capitalist mentality?

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Imprint:

Editor

Liberal Institute

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Production

COMDOK GmbH

Office Berlin

Reinhardtstraße 16

D-10117 Berlin

2008

# CSR: Capitalism at its best or an anti-capitalist mentality?

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Paper presented at the International Colloquium „Global Freedom? The Future of International Governance“ organised by the Liberal Institute of the Friedrich Naumann Foundation, Potsdam, Germany 9–11 November 2007





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## Introduction

In the Fable of the Bees, Bernard Mandeville suggested that in markets private vices like vanity and avarice turn into public virtues of abundance and prosperity:

*Millions endeavouring to supply  
Each other's lust and vanity  
Thus every part was full of vice  
Yet the whole mass an earthly paradise*

*Fools only strive  
To make a Great and Honest Hive  
Without great Vices is a vain  
Eutopia seated in the Brain*

Many even today believe this to be an accurate description of markets and why we should allow or rather tolerate them. It is then easy to understand why the public discourse on corporate governance is abuzz with phrases such as "corporate social responsibility," "business ethics," "ethical investment," and "triple bottom line." Corporations are under increasing pressure to be more responsible, ethical, environmentally conscious, and concerned with sustainable development. They are asked to consider not just shareholders but also all stakeholder – employees, suppliers, customers, the communities in which they operate, and the ecosystem from which they extract resources.

Corporate social responsibility (CSR) has such a nice ring and PR that it seems foolhardy to challenge it. When many corporate honchos are supporting it, why should anyone outside the corporate world stand against it? It makes any opponent look like a heartless soul, denying any good that someone can or wants to do for the society. However the potential impact of CSR on the business and society necessitates closer scrutiny.

Nobel Laureate Milton Friedman offered detailed critique of CSR in his 1970 article, aptly titled 'The social responsibility of business is to increase its profits.' "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" (Friedman, p. 9). He recommends businesspeople to "make as much money as possible while conforming to the basic rules of the society, both those embodied in the law and those embodied in ethical custom." Friedman defends the basic morality of commerce and argues that what the busi-

ness does everyday is its social responsibility, as long as it does not violate the laws and ethical norms.

I suspect that today many, but certainly not all, advocates of CSR would in principle agree with Friedman that businesses should work for profits, actually without profits they would not even exist to engage in CSR activities. The advocates seem to want the business to go an extra mile in the direction they deem worthy – 'Make money, don't give it all to shareholders, share with communities, workers, and the environment.' Much energy is now spent in designing innovative methods and schemes to do this 'sharing,' and in aligning this 'sharing' with the core activity of the business.

An elaboration of three critical concepts in this discussion leads to a different understanding of the nature of business and its social responsibility, different from that of Friedman as well as CSR advocates. The three concepts are: profits or profit maximization, laws, and ethical custom. First, profits or profit maximisation. CSR advocates and Friedman both see the work of business as divided into two separate compartments: one, the for-profit, commercial, economic activity; and two, the non-profit, socially responsible, moral activity. Friedman suggests that only the first is what the business is about, it does not need any further justification for its existence, and the business meets its social responsibility as long as profit-maximisation is done within the bounds of the law and ethical custom. CSR advocates maintain that the first needs to be done, but – and one can see different shades of beliefs in what goes here – profits must be accompanied by, moderated or tempered by, or toned down with, or justified by socially responsible actions.

The dichotomised view of business does fit the common perception that all businesses would choose to be like sweat shops with minimum facilities and maximum exploitation to maximise profits but due to legal and social pressure they are forced to care for their employees, customers and communities. The real challenge of running a business is that one has to balance across multiple margins simultaneously. The CEOs, for example, do not first maximise the margin of profits and then worry about HR, PR, brand image, and most importantly, their personal values. They operate along all of those margins simultaneously.

The mainstream neoclassical economics view of business as profit maximisation is a caricature of what real world business actually does. The models of perfect competition and general equilibrium give false understanding of the decision-making processes within a business. The Austrian School of Economics that emphasises dispersed knowledge, uncertainty and discovery process offers a more realistic and humane understanding of entrepreneurship, competition and

business success. What constitutes profits is subjective and it is better to view businesses as value maximisers, albeit one of the important values is profits but that surely is not the only value that people in business strive to achieve. The path that leads to profit maximisation is itself subjective; it is not simply an optimisation problem solvable by computers as neoclassical economics seems to imply. There is no one clear, objective path to profit maximisation. The 'right' or profit-maximising choices are not objectively defined by utility and production functions but are subjectively conjectured by agents by using their technical skills as well as the larger understanding of the material, social, and political space of the human world.

The second critical concept is 'ethical custom.' What constitutes this and who defines it? Friedman implies that the moral responsibility of businesspeople is to follow the 'established' ethical customs; they are not obligated to go beyond that. CSR advocates do emphasise a higher moral responsibility of the business and offer many ideas on how to fulfil that responsibility.

None however see businesspeople as moral entrepreneur – developing and defining 'ethical customs' themselves. Corporate managers do have a fiduciary and contractual responsibility towards stockholders. However this principal-agent relationship imposes obligation on both sides. The agents are hired not just for their specific technical skills, particularly at higher levels of management, they are valued for their leadership qualities, interpersonal relationships, and importantly for their personal ethics and value – the type of corporate culture they are able to help build. Agents are not just profit-maximising robots. Agents bring their own personal ethics and that cannot be and should not be left at the door of the corporation. Agents are moral beings and it is they who give the corporation its culture, image, brand – and its products and profits. Warren Buffet said, "In looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you." That integrity can increase or reduce profits. It's a double-edged sword. Any attempts to blunt one edge – the profit-reducing value – are unlikely to be productive, simply because they deny the humanity of the agent.

The third concept that plays an important role in this discussion is 'laws' or the 'rules of the game.' It is generally expected that the task of the business is to abide by the existing laws as conscientiously as possible. However individuals and other organisations are expected to do both – challenge the laws that are seen unjust and push for new laws that are necessary for good society. If the people in the business are viewed as economic as well as ethical agents then they too should be expected to work actively to create a better legal structure in the society. It is

equally their moral obligation and a moral right to demand removal of bad laws and establishment of good laws. Businesses should not use the power of the government for their benefits, seek favours and special treatments that harm other businesses or customers or hinder open and free competition in the economy.

With the help of Austrian understanding of economics and Ayn Rand's ethics of rational egoism as expounded by Tibor Machan, I attempt to construct a different line of challenge to CSR. The primacy of economic and ethical agency of individuals in business converts CSR into ISR, Individual Social/ Self Responsibility. The new approach, paraphrasing Friedman, is: 'the social responsibility of business is to recognise the moral agency of its people.' The business obviously recognises and rewards economic agency but human agents must be valued in the totality of their self – they cannot be dichotomised into economic and ethical selves.

So subjectivist economics and the ethics of rational egoism make room for moral action in business; actually they not just make room but demand that individuals be moral in all aspects of their life – consistently, coherently and completely.

Following this outline of my argument, I will first identify and critique the basic premises of CSR, then draw attention to some of the inherent contradictions, and build a case for individual self responsibility as an alternative framework to assess activities and individuals in business.

## Reconsideration of the Underlying Premises of CSR

### Economics of Zero Sum and Positive Sum: Fundamental Conflict or Harmony of Interests?

A most common presupposition that underlies our view of business is that one person's gain comes from another person's loss always and everywhere – it is a zero sum world and there is fundamental conflict of interests among human beings. Business is about making profits and we suspect that profits are made at the expense of others. So business is immoral to the extent that it is profitable.

Our common sense or gut understanding of economic and ethical beliefs was shaped well before the Industrial Revolution and unfortunately has remained largely unaffected by it. When I, as a hunter-gatherer, took an apple or a deer, this meant one less for you – it was a world of zero sum, a world of fundamental conflicts of interests. I cannot gain without your loss. The Industrial Revolution made possible the most dramatic and consistent shift from the zero sum to a

positive sum world. Our reasoning mind generated tremendous knowledge about the world, which translated into sciences and technologies and that into expanding production and consumption. Despite the great increase in our numbers, an average person today produces (and consumes) more than at any other time in human history. Increasing division of labour and specialisation and expansion of capital and technologies have converted a zero sum world, a world of perpetual conflicts of interests, into a positive sum world, a world of fundamental harmony of interests.

In the aftermath of the Industrial Revolution, our formal economics and politics have become modern but our ethics has remained mostly pre-modern. We must move from the ethics of the jungle to that of the city, from the ethics of re-distribution to the ethics of production, from the ethics of zero sum to the ethics of positive sum, from pre-modern to modern ethics.

Resources are not limited in the sense required to generate conflicts of self-interest. I am not in conflict with you for a limited supply of goods, for by thinking and producing we can increase the supply of goods. The increase is not made at another's expense. If I am a scientist who creates a better hybrid of corn, I increase the net stock of food. If I am an inventor who improves the efficiency of a loom, I increase the net stock of cloth. Whatever my profession, it is to my self-interest to think and produce, as it is to everyone's self interest. There is a fundamental harmony of self interest here, rather than a conflict – others' reasoning and producing increases the supply of goods, as does mine, making it possible for us to trade to mutual advantage. (Hicks, 2007, p. 31)

In the post-communist world, the practical necessity of private business is almost universally accepted. Central planning, demands for nationalisation, opening of new public sector units are now outside the bounds of accepted policy discourse. It is clear that in the production and distribution of material goods and services, there is no better alternative than private enterprise.

However the morality of private enterprise is still suspect. Adam Smith, through the metaphor of invisible hand, lucidly explained the social value of the pursuit of self-interest. In a system of private property and free competition, individuals' pursuit of self-interest leads, 'as if guided by an invisible hand,' to the attainment of social welfare. But this 'invisible hand' alignment of the private and public interest is not as widely accepted as it should be.

Self-interest and morality are still seen as opposites. Professor Hicks provides a telling example of how morality could be furthered through self-interest. "Consider teaching ethics to your child. Suppose that your child steals, whines to get

his way, or hits another child to get something. The child is 'selfish'; he believes that stealing, whining and hitting are practical means to his ends. The traditional restraint model teaches him: Yes, those are practical means to your ends, but you must renounce either your ends or the means for the sake of the others. By contrast, the rational egoist model teaches him: No, those are not practical means to your ends; rather, productiveness, friendliness, and cooperation are practical means to your ends. (...) The difference is crucial. It is the difference between teaching the child that self-fulfilment is immoral because it means stepping on others and teaching him that self-fulfilment is a worthy goal and there is a rational, non-conflicting way to achieve it" (2007, p. 35).

## **Exploitation in Markets: Feudal and Competitive**

When we say markets will do such and such, we actually mean that people will do such and such – people operating in the market or interacting within a framework of rules that form the market. The market is not an entity that exists apart from the people. The charge that market is immoral actually means that the people operating in the market are acting immorally. To make the market moral, we need to make people moral.

Markets are equated with exploitation; it is a little different play on the zero-sum theme. CSR advocates maintain that corporations working in developing countries have greater responsibility since unlike in developed economies poor people are far more open to exploitation. In an underdeveloped economy with a single or a very few buyers and sellers, no effective choice may exist for the poorer members. Such feudal markets with one employer, or a moneylender or a grocer provide the setting for exploitation. But a ban or strict regulation of these markets has rarely been a workable remedy. People working in local governments are as dependent on feudal lords as is the general population. So prohibitions and regulations are rarely effectively enforced.

Moreover, removal of the moneylender, for example, does not really address the problem. People do need credit. Where would they go? The monopoly power in feudal markets is commonly achieved and maintained by the threat of violence. Proper law and order – police and the judiciary – would go a long way in tackling the power of feudal markets. That should be the central focus of government action in making these markets competitive. If people have the confidence that the government will protect their life, liberty, and property (however little it may be), they will be able to find ways to tackle feudal exploitation. The security will increase mobility and access to information that will generate market competition so that the people will not be at the mercy of a single seller or a buyer. The

corporate social responsibility should be to demand proper rule of law and help create an environment where competition increases. This would address the fundamental problem far more effectively than any random or even systemic acts of charity and compassion.

The tragedy is that in underdeveloped countries the government itself exploits the poor. In urban areas, entry-level professions, like street vendors, cycle rickshaw pullers, barbers, and small shop owners need a license to operate; these are limited in number and difficult to obtain. The entry-level professionals therefore face constant harassment, humiliation, and extortion. Government functionaries extract several million rupees a month in many Indian cities from these barefoot capitalists. In rural areas, restrictions on movement and marketing of agricultural products across district, state or national borders depress incomes for farmers and farm labourers. Moreover, the two most important resources of the rural people other than land are generally nationalised: forests and water. Having lost the most economically lucrative resources, people in rural areas do not have much wherewithal to earn an honest living. On the one hand, the government spends huge sums for employment generation schemes, but on the other hand it destroys the very means of livelihood for small entrepreneurs and agriculturists.

Remove restrictions on entry-level entrepreneurs and agricultural produce, give forests and water back to the people, and provide effective rule of law should be the demands emerging from CSR. These will create competitive market – the best relief to people from the exploitation of feudal markets.

India's experience in the move towards markets since 1991 suggests that the rich have become richer and the poor have become slightly less poor, not because the growth of the rich has been a hindrance to the advancement of the poor. It is because the areas in which the rich earn their living – the formal industrial sector of the economy – have been liberalised. The license-permit-quota raj in the industry has been abolished. However the vocations in which the poor earn their living – the entry-level professions in urban areas and agriculture in the rural area – have hardly seen any liberalisation. Any concern for equitable distribution of benefits of globalisation would be more effectively addressed by granting more freedom to the vocations of the poor than by curbing the freedom of the upper class. What the poor need most urgently is the expansion of their economic freedom – a level playing field to earn and expand their livelihood. CSR advocates remain largely silent on the responsibility of influential corporations to demand livelihood freedom for the other, less fortunate, commercial actors.

## Neoclassical Economics, Profit Maximisation, and the Scope for Morality

The neoclassical economics of perfect competition and general equilibrium models suggests that given the supply and demand schedules, there is "one clear path towards profit maximisation." Any deviation from this clear path implies that the manager – fiduciary agents of stockholder – are not maximising profits. They are derelict in their contractual duty to stockholders and are exploiting the 'principal-agent' problem. Any act of 'social responsibility' is then misuse of stockholders' assets. Once we allow managers to deviate from the 'clear path,' there is no telling how far they would go. This diversion towards social responsibility, it is concluded, must be nipped in the bud, lest it undermines the principal engine of economic growth – the private enterprise.

The Austrian School of Ludwig von Mises and Friedrich Hayek has long challenged the perfect competition and general equilibrium economics as misleading in understanding the real-world market process. For them, competition is a discovery procedure by perceptive and risk-taking entrepreneurs in an ever-changing world full of uncertainty. Here there is no 'one clear path' but a constant process of learning and unlearning, of discovery and innovation, of judgements and decisions. The 'right' choices are not objectively defined by utility and production functions, but are subjectively conjectured by entrepreneurs with their limited and fragmented knowledge. There are actually multiple paths to profit-maximisation.

If the world approximates the perfect competition model, there is little reason to even discuss the issue of moral decision-making because managers and business owners have no margin of discretion. In other words, the conclusion that managers have no social responsibility is bound up in the assumptions of equilibrium analysis. The view that profits are objective opportunities to be found (...) separable from the person of the entrepreneur who perceives them, suggests that there is only one correct path to achieving profit maximisation. (...) Because seeking profit opportunities is more interpretation and judgment than optimisation, it leaves room for a multiplicity of profit strategies to emerge (Lavoie and Chamlee-Wright, p. 242 and p. 245).

Neoclassical economics gives a formalistic rather than realistic understanding of how markets work. It views the economy as a closed text, as an optimisation problem, and not as a polysemic text which is open to different and divergent readings and interpretations, not as a discovery of profit opportunities, some of which might involve 'socially responsible' actions. The Austrian view frees the market from the neoclassical straightjacket and places it in the material, social and cultural space of the human world, where there is genuine uncertainty, lear-

ning, and discovery and where humans attempt to construct a world they find worth living in.

There is no 'one clear path towards profit maximisation.' And I would add that there is no one single rate of profit. In the millions of markets, multitudes of profit rates co-exist. A ten-percent monetary profit rate could be balanced by a five-percent monetary profit plus the psychic income of opposing apartheid or the United States. That could be balanced by 11.5 percent monetary profit minus the psychic pain of investing in countries where basic human rights are routinely violated. The Austrian critique makes the economics underlying the proposition of CSR advocates as well as Friedman untenable.

### **Virtues: Aristocratic, Peasant, and Bourgeois**

More than two centuries after the Industrial Revolution, after unimaginable prosperity created by capitalism, our instincts favour aristocratic or peasant virtues and disdain bourgeois virtues. Even the existence of bourgeois virtues is hardly ever recognised. Professor McCloskey describes each class and its virtues thus:

**Aristocrat, Patrician Virtues:**

Honour; Loyalty; Courage; Pride of being

**Peasant, Plebeian Virtues:**

Duty; Reverence; Humility; Benevolence; Fairness; Charity; Pride of service

**Bourgeois, Mercantile Virtues:**

Enterprise; Honesty; Thrift; Trustworthiness; Responsibility; Prudence; Pride of action

We cherish the values of the soldier, worker, and the artist, but not of the merchant. In reality, commerce has the most civilising influence: It gives us "polite, accommodating, energetic, enterprising, risk-taking, and trustworthy people" (McCloskey, p. 181). Bourgeois virtues have made civilisation possible.

Our literature, plays, and films reflect this moral indignation of businessmen. Businessmen are the commonest villains. This is also true in the so-called capitalist societies. Several classics can be immediately listed where businessmen are portrayed as bad characters. It is extremely difficult to find a work let alone a classic that shows businessman as the hero. It is assumed that success in business requires no higher virtue; mechanics and management of success are studied but not mercantile values.

Today only charity brings any moral recognition to businesspeople. They are commended not for the money they make but for the money they give away. Unfortunately, businessmen themselves have accepted this moral condemnation – the unearned guilt. They are more proud of their philanthropic activities than their productive work. They seem to be trying to wash away their sin of earning wealth by giving it away. They fund poverty alleviation programs, forgetting that their factories and shops are the most effective and sustainable means of poverty alleviation.

### **Politicians & Businessmen: Who reflects us?**

It is instructive to contrast our treatment of businessmen with that of politicians. Thoroughly corrupt politicians are relieved of moral condemnation by assertions like: 'politicians come from the same society as we do.' 'We ourselves elect them; they reflect popular will!' No one can cast a stone on the politician. We are all equally guilty for political corruption. Corrupt politicians are a reflection of the failing values of the society. We should feel responsible that they exist in our midst.

How about corrupt businessmen? Are they a sign of moral degradation of the society? Are they a reflection of us? No one seems to hold society responsible for the existence of corrupt businessmen. It is hard to imagine that they could be from us. They are judged to be a different species altogether.

While criticising the corrupt politicians, one is reminded that there are good politicians too. It seems that one good politician can provide cover for all the corrupt ones. No one excuses bad businessmen by remembering good businessmen. One bad businessman undoes all the good ones. We are satisfied if a few politicians are honest but dissatisfied unless all businessmen are perfect. Actually a distinction between corrupt and non-corrupt businessmen is hardly ever made. They are all treated alike. They exploit workers, gouge customers, and ruin the environment. We rationalise corrupt politicians but refuse to consider the possibility of an honest businessman.

Constant complaints about corruption in politics bring the reply that one should join politics and unless one does so one has no moral right to complain. What is the reply to complaints about corrupt businessmen? Surely not to join business! Even business management students take pride in declaring that they would like to work for non-profit organisations. The commercial civilisation evolves us into better being – in the standard of living, etiquette, and in moral behaviour. The Invisible Hand of capitalism also produces the Invisible Heart.

I do not argue with that businesspeople are inherently superior, morally or otherwise. It is the system under which they operate that over time makes them more honest, reliable, and innovative. Unfettered competition imbues them with mercantile values. Wealth earned through voluntary transactions in a marketplace is moral, not when acquired with the use of force. Greed of one businessman helps to turn the greed of another into an asset, a virtue.

Businesspeople must acquire moral certitude, understand the bourgeois virtues they practice. They should not appease promoters of anti-capitalist mentality and undermine the great commercial civilisation they have helped create.

## The Many Facets of CSR & Their Contradictions

Milton Friedman in his classic 1970 article exposes the basic contradiction underlying CSR:

What does it mean to say that the corporate executive has a „social responsibility“ in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers. For example, that he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation. Or that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law to contribute to the social objective of improving the environment. Or that, at the expense of corporate profits, he is to hire „hardcore“ unemployed instead of better qualified available workmen to contribute to the social objective of reducing poverty. (...) In each of these cases, the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions in accord with his „social responsibility“ reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending customer's money. Insofar as his actions lower the wages of some employees, he is spending their money.

CSR demands that profits of corporations must be shared by all stakeholders, and not be appropriated by shareholders alone. Surprisingly though, stakeholder theorists are silent about the sharing of losses. Why would one invest in equity if the gains are given to all but the losses are only for them to bear?

The top management of a corporation is the primary focus of CSR advocacy. It demands more discretion being given to the top management in the use of

company resources and profits. The advocates seem little concerned about the negative impact of such unilateral strengthening of the hands of the top management at the expenses of other stakeholders of the corporation. First, this approach treats other employees as second-class citizens, denies them their moral agency to act on their personal values within the corporation. Secondly, the stakeholder politic – attempts to manage conflicting claims of various stakeholders in every major business decision – in corporate boardrooms and annual meetings would turn managers into politicians. As Professor Alexi Marcoux quips: "If a camel is a horse designed by a committee, then what misshapen beast is a firm shaped by the strategic interactions of its stakeholder representatives?"

Is corporate social responsibility simply a mask for activities that are otherwise profitable and good for business? Paying attention to the concerns of customers, suppliers, and communities makes good business sense. A large majority of activities done under CSR can be honestly justified under PR, marketing, customer relationship. CSR is then in the danger of becoming just a glorified tag for otherwise profitable corporate activities.

Often the distinction between what a corporation does and what a person working in the corporation does is not clearly understood. Bill and Melinda Gates Foundation, Azim Premji Foundation are touted as great CSR acts. But these are not foundations of the corporation but of individuals who run them. They are personal and private charities of people who happen to be corporate executives. They do this not in their capacity as executives but as people of wealth.

Friedman aptly captures this distinction between the corporation and the person of the corporate executive. "Of course, the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognises or assumes voluntarily – to his family, his conscience, his feelings of charity, his church, his clubs, his city, his country. He may feel impelled by these responsibilities to devote part of his income to causes he regards as worthy, to refuse work for particular corporations, even to leave his job, for example, to join his country's armed forces. If we wish, we may refer to some of these responsibilities as 'social responsibilities.' But in these respects he is acting as a principal, not an agent; he is spending his own money or time or energy, not the money of his employers or the time or energy he has contracted to devote to their purposes. If these are 'social responsibilities,' they are social responsibilities of individuals, not of business."

The CSR champions focus only on corporates and rarely talk about other commercial entities--small businesses and traders, professionals like accountants,

lawyers, teachers, doctors. Do non-corporates have any social responsibility? Are corporations chosen as the target because they have deeper pockets? If we create a separate ethics for corporates then do we also need to advocate a trader ethics, teacher ethics, doctor ethics, politician ethics, bureaucrat ethics? What is required then is not some special ethics for businessmen but an ethics to guide every one of us in all our endeavours. What we need is not corporate social responsibility but individual self-responsibility.

## **Business Ethics: Friedman, Fox, and Freeman**

Individuals in business do not and should not sacrifice their personal ethics for profits. Their contractual obligation to shareholders (employers) is to maximise profits, but not at the cost of their ethics. They are hired not just for their job skills but for the totality of who they are – as human beings embedded in a particular personal, social and cultural space. This includes, inter alia, their values, their personal ethics.

Michael J. Fox in the movie "For Love or Money" works as a concierge, who anticipates and goes out of his way to satisfy the needs of the hotel customers. His perceptiveness and foresight bring not just comfort but genuine happiness in the lives of customers. Would this be required in any contractual obligation of a concierge? There are other concierges at the hotel who kept their job without doing what Fox did. He did not stop to ask whether it was his contractual responsibility. As the movie progresses, we learn that Fox was not faking his interest in his customers, that's the kind of person he really is. It is precisely because of the kind of person he is that he served the hotel so well and did well for himself. He does expect to be tipped well for his thoughtful services. And he does this all to earn more so as to build a hotel of his dreams.

We do expect the anaesthesiologist, nurse, sales person, receptionist, waiter to go 'beyond the call of their duty.' Not just the public, but also their employers expect it. What do we mean by 'beyond the call of duty?' That they should act and behave as human beings with honesty, benevolence and empathy – with their moral traits. We desire that the encounter – the exchange – be 'human to human', not 'anaesthesiologist to customer'. Employees are hired not just for their job skills but for the totality of who they are. When their moral traits work in favour of employers, they are indeed happy. The same morality at times would guide employees to act in a way that reduces (monetary) profits. The exchange – here between employees and employer – is a two-way street. Moral employees may bring benefits, and may cause losses.

Employers (shareholders) are not required to retain employees (agents) whose moral values bring losses. Surely, if an employee claims that her ethics requires giving goods to the poor for free, she would be let go. This will apply to the worker as well as to the CEO. The fiduciary responsibility defines the lower boundary of what is ethically permissible for all agents. The personal values and ethics define the upper boundary. The entrepreneurial abilities of the agents would help them navigate between these two boundaries.

The point is that employees are hired and expected to act as human beings, in their full humanity. If we expect that from a concierge, why shouldn't we ask the same of managers, CEOs and Chief Mentors? But asking is not the same as compelling them by law. Legislated morality negates the moral agency of the individual. The moral as well as efficient choice is to leave them alone – legally. However, we must exhort, persuade, and shame them. We should be on their backs and on their hearts and on their mind – morally.

We must fight for what we believe – at the city hall, at the Rotary Club, at the restaurant, at the bus stop, at home, and yes, at the office. We should not leave our values at the office door. We have already discussed the views of Milton Friedman. Edward Freeman is the protagonist of the stakeholder theory of CSR. Michael J. Fox provides a golden middle ground between the two.

## **From CSR to ISR (Individual Social/Self Responsibility)**

Building on the ethics of classical individualism – also called classical egoism – Tibor Machan proposes that the moral responsibility of individuals extends to all aspects of their lives. To be a moral human being is to be moral in all decisions of life. That part of life spent in the workplace or marketplace cannot be artificially compartmentalised to apply a different degree or type of morality. Businesses hire persons, not work machines. The values these persons hold 'cannot simply be turned off once inside the corporate world.'

Warren Buffet advised: "In looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you." A person has no integrity if his values change from place to place or time to time. Personal ethics is about guiding us consistently, coherently, and completely.

Professional responsibilities are fully consistent with paying heed to other goals, including, fulfilling parental duties, being a good friend, enhancing the

quality of one's community, improving the environment, and developing and maintaining sound political institutions. (...) The totality of one's moral tasks, combined with those arising from the fulfilment of professional tasks within the physical and political setting of one's place of work, oblige one who is in the world of business to go beyond what Friedman claims he ought to pay exclusive heed to. (Machan, p. 197)

The moral space for market actors is wider than that envisioned by Friedman or CSR advocates. Integrity requires that individuals abide by their values in all dimensions of their work and life. People working in business may face different types of moral dilemmas and issues than those operating in other lines of work. Specialised ethics like business ethics and other professional ethics would deal with these differences and provide guidance in varied situations. But a specialised ethics is an extension of personal ethics and cannot be a substitute for or contrary to it.

However, just as there are multiple paths to profit maximisation and multiple rates of profit, there are multiple ways to articulate, embody and express one's values. The usual insistence by advocates of CSR about the 'correct and clear path' that corporations should follow commits the same mistake as neoclassical economists. Both deny the agency of the individual in choosing the path to maximise profit or the path to 'socially responsible' action. The subjective paths to profit maximisation imply subjective forms of 'socially responsible' actions. Neither neoclassical economists nor CSR advocates can make any claims of superior reading of the reality than the actors themselves.

The Austrian understanding of entrepreneurship in economics extends to entrepreneurship in ethics. Perceptive and risk-taking entrepreneurs discover profit opportunities, and similarly uncover opportunities to live ethical lives. Maximisation of profits is not equal to solving given supply and demand schedules. Living ethically is not equal to following some set rules, ethical customs. Entrepreneurial discovery is at the heart of the market process as well as the moral process.

There is indeed a scope (economically à la Austrians) and an obligation (ethically à la Machan) to go beyond neoclassical profit maximisation. It should be clear that the obligation emerges from the agent's personal ethics, it is not imposed in any way from the outside.

Tibor Machan's classical individualism/egoism leads to the conclusion that business ethics is personal ethics. Businesses are legal and not living entities. Individuals managing or working for businesses act, make choices, and have values. They would act according to those values, whether inside or outside the office.

However there is nothing particularly morally hazardous about business. Any human activity that involves choice between right and wrong has its moral hazards. Businessmen may face larger number of moral dilemmas in their activities, but they could scarcely be more than those faced by bureaucrats or politicians, or for that matter, by professionals like doctors and lawyers. What is required then is not some special ethics for businessmen or politicians, or lawyers but an ethics to guide every one of us in all our endeavours. Business morality is simply personal morality. No more and no less.

It should be clear that to live by one's personal ethics is not to engage in random acts of charity but to refuse to abandon or undermine any of one's values while pursuing profits, while fulfilling one's contractual obligations to the company. It is in this sense that good personal ethics is good business ethics. The corporate social responsibility, if it can be called that, is to articulate one's personal ethics and act on it within the corporation – consistently, coherently, and completely.

How does one decide on a personal code of ethics? Education and persuasion are the only appropriate means. Aristotle distinguished between intellectual virtue and ethical virtue. "Ethical virtue is for the most part the product of habit (ethos) and has indeed derived its name, with a slight variation of form, from that word. (...) Our moral dispositions are formed as a result of the corresponding activities. (...) It is therefore of no small moment whether we are trained from childhood in one set of habits or another: on the contrary it is of very great or rather supreme importance."

Brian Griffiths elaborates: "This insight, namely that the formation of a habit is of supreme importance in developing ethical behaviour, is typically associated with the raising of children, but it is just as relevant for the implementation of a moral standard within a company." Generally parents and teachers provide ethics education. But as Griffiths argues, corporate leaders can play an important role in cultivating values in the organisation, particularly since people spend a large proportion of time at the workplace.

The habit of ethical behaviour is difficult to cultivate. C. S. Lewis asked: "Is there a difference between a man who thinks honesty is the best policy and an honest man?" Surely there is: an honest man is honest by habit and not by cost-benefit calculation. In this largely secular age, blind obedience to any religious commandment is not feasible. And the cost-benefit calculus comes more naturally and cannot be suspended forever. Given this reality, the only way to be honest is to convince ourselves through the cost-benefit calculus that honesty is the best policy. The critical issue is to expand the understanding and accounting of total

costs and benefits on as many entities as possible and over as long a period as possible. With this extended knowledge, as individuals become more fully aware of the total consequences of their actions, they may decide in each case that honesty is the best policy. Only over a period of time, can this policy become a habit.

The difference between selfishness and self-interest is the degree of one's knowledge and accounting of consequences of one's action. Selfishness is the refusal to think about or take into account the impact of one's action on self and others today and over a longer period of time. With rational analyses and extensive experiences, selfishness metamorphoses into self-interest.

Again there are parallels between economics and ethics (Yeager 2001). In economics, private property and free competition provide the basis for reconciliation of self-interest with social interest. That is Adam Smith's famous invisible hand. In ethics, fuller knowledge and understanding of the consequences of one's actions provide the basis for evolution of selfishness into self-interest and then its reconciliation with social interest.

"It is, thus, always important to keep in mind that professional ethics depends mainly on constant vigilance, on sustained discretion and prudence, and on wisdom, rather than on certain set rules. It is true here as elsewhere that character is destiny" (Machan, p. 203). The social responsibility of business is to recognise the moral agency of its people.

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