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Schumpeter

Companies aren’t charities

In poor countries the problem is not that businesses are unethical but that there are too few of them

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STEVE COOGAN, a British comedian, once told a joke about David Beckham, a footballer who is unlikely to win a Nobel prize for physics: “They say, ‘Oh, David Beckham—he’s not very clever.’ Yeah. They don’t say, ‘Stephen Hawking—shit at football.’” Successful corporations are like Mr Beckham. Both excel at one thing: in Mr Beckham’s case, kicking a ball; in the corporations’ case, making profits. They may also be reasonably adept at other things, such as modelling sunglasses or forming task forces to solve environmental problems. But their chief contribution to society comes from their area of specialisation.

Ann Bernstein, the head of a South African think-tank called the Centre for Development and Enterprise, thinks that advocates of corporate social responsibility (CSR) tend to miss this point. In her new book, “The Case for Business in Developing Economies”, she stresses the ways companies benefit society simply by going about their normal business. In a free and competitive market, firms profit by selling goods or services to willing customers. To stay in business, they must offer lower prices or higher quality than their competitors. Those that fail disappear. Those that succeed spread prosperity. Shareholders receive dividends. Employees earn wages. Suppliers win contracts. Ordinary people gain access to luxuries that would have made Cecil Rhodes gasp, such as television, air-conditioning and antibiotics.

These are not new arguments, but Ms Bernstein makes them fresh by writing from an African perspective. Citizens of rich countries often fret about the occasional harm that corporations do, yet take for granted the prosperity they create. People in developing countries do not have that luxury.

In South Africa, where more than a third of the workforce is jobless, the problem is not that corporations are unethical but that there are not enough of them. One reason is that South Africa’s leaders blithely heap social responsibilities on corporate shoulders. Strict environmental laws cause long delays in building homes. This is nice for endangered butterflies, but tough for South Africans who live in shacks. Such laws also slow the construction of power plants, contributing to the rolling blackouts that crippled South Africa in 2008. South African labour laws make it hard to fire workers, which deters companies from hiring them in the first place. And a programme of “Black Economic Empowerment”, which pressures firms to transfer shares to blacks, has made a few well-connected people rich while discouraging investment. Ms Bernstein ducks this last topic, which is highly sensitive in her home country.

Sometimes the pressure on business to solve social problems comes, not from governments, but from non-governmental organisations (NGOs). Ms Bernstein cites the example of a pipeline that Exxon built in Chad. The giant oil firm spent six years trying to figure out the best way to comply with the "Equator principles", an ambitious set of goals for avoiding harm to nature and indigenous people. Exxon strained every sinew to preserve gorillas' habitat and compensate displaced villagers. Yet NGOs still mounted a furious campaign condemning it. "Many reasonable companies must surely have concluded…that investment in poor countries is not worth the effort," sighs Ms Bernstein.

Anti-corporate activists sometimes claim that big companies are mightier than governments. This is absurd. Governments can pass laws, raise taxes and declare war. Companies have virtually no powers of coercion. If people do not voluntarily buy their products, they go bankrupt. Business is thus extremely sensitive to public opinion. This is often a good thing. Ms Bernstein cites the example of white-owned shops in South Africa under apartheid. When black shoppers started boycotting them, "it was remarkable how rapidly most white shop owners were prepared to ditch racist practices." Yet companies can also be bullied into doing the wrong thing. When multinationals bow to pressure from campaigners against "sweatshops" and sever links with suppliers in poor countries, the workers who previously stitched shoes for export may end up scavenging from rubbish heaps.

Accountable to all means accountable to none

Advocates of CSR argue that firms should pursue the "triple bottom line": not only profits, but also environmental protection and social justice. This notion, if taken seriously, is "incomprehensible", says Ms Bernstein. Profits are easy to measure. The many and often conflicting demands of a local community are not. A business that is accountable to all is in effect accountable to no one, says Ms Bernstein.

She does not take the absolutist view that companies should strive only to maximise profits while obeying the rules. In poor countries, the rules are often unclear. Multinationals will face choices where what is locally acceptable would be criminal back home. Obviously, they should err on the side of rectitude, but it is far from obvious where to draw the line. In the most benighted areas they will sometimes build roads and schools to keep the locals friendly. They will brag about such acts, but they are simply a cost of doing business, not an instance of corporate altruism.

Ms Bernstein glosses over the innovative work a few companies have done in integrating CSR into their strategy, and she is better at identifying problems than offering solutions. She urges businesses to defend capitalism as energetically as they promote their own products. She thinks companies should provide incentives for market-oriented journalism, films and even novels. Good luck with that. Businesses strenuously lobby for particular favours from government, and chambers of commerce campaign for lighter regulation. But the companies that are so brilliant at selling the fruits of capitalism—from iPads to medicine—are seldom much good at popularising the system that yields them.

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