"Vogel and Frederick, Together At Last!...Well, Almost"

David Vogel, *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility*
Washington, D. C.: Brookings Institution Press, 2005

A Review by Bill Frederick, February 2007

In the CSR trade, the clashes between Vogel and Frederick are legendary. It all goes back to a conference in the 1980s when David fumed about Bill's take on the meaning of CSR and – the at-odds couple that they are – Bill fumed right back. In the intervening decades, each has taken potshots at the other, without significant effect on either one. Could Vogel's recent book lead to reconciliation – thus ending all the fun? Read on.

Vogel's central position is that CSR is limited in its expression and extent by dominant economic market forces. He concludes that the only way to expand CSR is to combine civil society pressures with regulation by government authorities.

Within this framework, Vogel's arguments are persuasive, particularly revealing the weak case for socially responsible investment (SRI) and the benefit-cost restrictions encountered by firms that pursue well-intended CSR policies and practices. The "market for virtue" can and does produce significant CSR results which, nevertheless, are uneven in effect and limited to those firms (at particular times and places) whose cost structures permit CSR initiatives. This CSR market has expanded since the early 1990s because global markets have exposed large corporations to greater public scrutiny for their impacts on Third World nations, worldwide environmental problems, and prospects for long-term sustainability of the global economy.

The book focuses on CSR in three major areas: working conditions (Chapter 4), environment (Chapter 5), and human rights (Chapter 6). Many examples are described, analyzed, and critiqued. The literature base is comprehensive, the references current and apt. You can learn a lot about the successes and failures of CSR from these chapters alone.

Vogel's bottom line is quite clear: "But in the final analysis, CSR is sustainable only if virtue pays off. The supply of corporate virtue is both made possible and constrained by the market." And again: " . . . precisely because CSR is voluntary and market-driven, companies will engage in CSR only to the extent that it makes business sense for them to do so." And again: "The main constraint on the market's ability to increase the supply of corporate virtue is the market itself." And yet again: "CSR is best understood as a niche rather than a generic strategy: it makes business sense for some firms in some areas under some circumstances." Here, Vogel writes new lyrics for an old refrain: J. K. Galbraith in *The New Industrial State* (1967) and Neil Chamberlain in *The Limits of Corporate Social Responsibility* (1973) penned the original score.

The main limitation of Vogel's argument about CSR is, oddly, to be found in the very feature that makes his approach so impressive—his reliance on the market as the main conceptual device limiting CSR initiatives, which are for him a voluntary departure from "normal" or "legal" profit taking. By defining CSR as a market derivative, or even by speaking of a "market for virtue," it becomes difficult to think in out-of-the-market-box terms. Seeing CSR through a market filter is what Thomas Frank in One Market, Under God scorned as "market populism," the neo-con idea (but obviously not Vogel's) that everything worth doing can be accomplished through free markets (just ask the American Enterprise Institute). Within a market framework, Vogel's treatment is indeed an impressive account of CSR and its limitations. But give Vogel credit for saying at the book's end that CSR can be achieved more abundantly only by stepping away from the market: favoring non-market civil regulation (NGOs, stakeholders, social pressures) along with more government rule making.

Vogel is both right and wrong. The persistent search to prove that social initiatives carry economic and financial advantage for CSR-inclined companies—that "CSR pays" or is "good business" or that a "market for virtue" exists—has not only produced inconclusive results [here, he is right] but is premised on a flawed vision of CSR's core meaning [here, he is wrong].

CSR is not intended or designed to "pay" a firm in dollar terms or to commercially induce it into social compliance. CSR is not simply about the success or failure of a firm's *economically-productive role*, which is itself a form of social responsibility. Rather, CSR also embraces a firm's *community-ecology role*, its ultimate impact on planetary life writ large. The search is for an organic linkage of Business and Society that preserves the integrity of both. The "CSR pays" viewpoint, often advocated sincerely by corporate officers and by CSR advocates, is a digression from the central issue of Corporate Social Responsibility. A firm's commercial gain from social activity is literally beside the point and is no measure of its social responsibility. The market, and business profit-seeking, register only part of a more complex process of values transformation. CSR companies seek to sustain both themselves and the people whose lives they influence. That quest takes them deeply into a realm of value and purpose where the language of commerce fails to capture the quest's goals.

The absorption by business practitioners of such values is a subtle, nuanced process, not easily measured. Social awareness seeps quietly and unevenly into executive minds attuned to the everyday necessities of running their firms. But seep it does. The current CSR scene in the US and Europe—transparency, accountability, codes and compacts, brand and reputation strategy, activist NGOs by the thousands—would have absolutely boggled the minds of corporate leaders a half century ago. What passed for CSR in the 1950s (mainly *noblesse oblige* philanthropy) won't cut it now—*and today's business executives know it*. Their companies now commit to CSR principles embedded in codes and compacts, they draw on the expertise of CSR consultants, they negotiate in good faith with NGO representatives, they accept CSR as a normal part of company strategy, they create organizational cultures sensitive to human rights issues, they report their CSR activities to shareholders and the general public, they empower CSR/ethics officers to police company routines, and in conference settings they huddle with academic experts, government representatives, and civil society stakeholders to seek ways forward toward shared CSR possibilities. A recent OECD-commissioned study by Jeremy Baskin reveals impressive CSR advances among SME's in emerging economies in South Asia, Latin America, and Africa. The sheer volume of these efforts creates a CSR dynamic of its own that builds greater social awareness among the business classes.

Vogel is absolutely right to say that government regulations and civil society pressures have been a major *means* lying behind this value transformation—and that CSR has been attained in only limited measure through the market, as well as through government rule making that is blunted by business lobbying and business-friendly regulatory appointments. But the CSR *goal* of values transformation is underway, albeit unevenly, as pragmatic executive minds struggle with the complexities of melding economic production with ecological constraints. They do so within a free-market system where economic production is king and community ecology only a pretender to the throne. They've a long way to go, but they've also come a long way.

So, where does this leave our at-odds couple, David and Bill? They agree that CSR is in limited supply. Both approve greater action by NGOs. They favor stronger government rule making and enforcement. Bill admires David's withering critique of what is often peddled as private CSR initiatives. While agreeing with David that voluntary CSR actions undertaken through the market produce less social good than desirable, Bill believes that the more comprehensive meaning of CSR outstrips market bounds as business practitioners move—though slowly and unevenly but also surely—to embrace values responsive to both economic needs and ecological necessities.

Truce time, David?

Note: My views on values transformation in business may be found in *Values, Nature, and Culture in the American Corporation* (Oxford University Press, 1995) and *Corporation, Be Good! The Story of Corporate Social Responsibility* (Dog Ear Publishing, 2006).