

note 1-429-177
September 13, 2011

Note on Corporate Social Responsibility—A Debate

This note is a summary of the articles originally published in the Winter 2011 issue of the *California Management Review*, vol. 53, No. 2. Professor Aneel Karnani from the University of Michigan's Ross School of Business debated against Professors Pietra Rivoli from Georgetown University's McDonough School of Business and Sandra Waddock of Boston College's Carroll School of Management. They debated the definition and value of corporate social responsibility (CSR), otherwise referred to as corporate responsibility (CR).

Corporate social responsibility is commonly defined as operating a business in a manner that takes into account its social and environmental impact. This may include a company actively taking measures to reduce its negative social and environmental impacts, or a company going further by aiming to create a positive social or environmental impact, either through a corporate foundation or by integrating social and environmental impact into its core business.

Karnani's "Doing Well by Doing Good": The Grand Illusion

Professor Karnani began the debate by focusing on the "do well by doing good" (DWDG) proposition, which argues that firms have a responsibility to achieve some larger social goals, and can do so without a financial sacrifice. Then, he systematically dismantled that proposition.

Karnani argued that in efficient markets, private profits and public interest are congruent, and the private and social optimums coincide (see **Figure 1**). Public interest (or social welfare) is equal to private profits plus consumer surplus. Customers who buy from the company do so voluntarily, and must derive value greater than the price paid; this is the consumer surplus, which contributes to social welfare. Assuming markets are efficient, firms pursuing profit-maximizing strategies end up maximizing public interest as well. In this situation, there is no need to appeal to managers on the grounds of social responsibility; CSR is irrelevant. In the case of a *market failure*, profits and social welfare were not aligned, and at a certain point, there necessarily existed a trade-off between profits and social welfare (see **Figure 2**). In this "zone of trade-off," in the case of market failures, Karnani contended that, "it [was] neither desirable nor effective to rely on the goodwill of managers to maximize social welfare, and there [was] need for some other constraints [besides CSR] on free markets."



Published by GloLens, a division of The William Davidson Institute at the University of Michigan.

©2011 William Davidson Institute. This note was written by Research Associate Nilima Achwal, under the supervision of Aneel Karnani, Associate Professor of Strategy at the University of Michigan's Ross School of Business, Pietra Rivoli, Professor of Finance and International Business at Georgetown University's McDonough School of Business, and Sandra Waddock, Professor of Management and Organization at Boston College's Carroll School of Management.