

Corporate Social Responsibility when Ethical Beliefs and State of Public Governance vary

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Abstract

This is a conceptual paper that seeks to dig out some of the distinct understandings of corporate social responsibility (CSR) and relate them to basic economic and ethical choices and theories. Most of the discussion is focused on enterprise choice of tax payment in a context where both enterprise production activities as well as their tax payment may be allocated between constituencies where the state of public governance and poverty levels may differ widely. The presentation is non-formal, but mostly stylized and empirical information is mostly presented in the footnotes.

1. Introduction¹

In this paper I will look at some ethical issues that are relevant for the management of business enterprises. Several are discussed under the heading of corporate social responsibility (CSR). The latter also embraces a class of specific business expenditures or part of cost components that sometimes may reflect ethical concerns, but that may also be induced by pure commercial interests. The increased interest in CSR in public debates, by public authorities as well as in research reflects the increased power and prestige of private companies and the declining prestige of the public organizations which are supposed to regulate them. A question that naturally arises is whether they are able to use that power to internalize eventual negative external effects of their commercial activities and to deliver public good and services or redistribute income on a voluntary basis traditionally left to public organizations or not? A number of claims that enterprises have indeed been able to move in that direction and that the fraction of 'social responsible investment appears to have been increasing (Benabou and Tirole, 2010). They may have stimulated the interest in CSR from the positive end.

Many of the ethical issues involved in CSR appear most acute when the private companies turn multinational and operate in countries with highly unequal income levels and/or levels of competence and honesty in the public sector. They are then directly confronted with the ethical issues that arise from an international economic order that philosophers like Pogge (2008: 107) for good reasons characterize as globally unjust. Moreover, unlike most public organizations they may move part of their organizational structure and activities across countries and interact directly with populations at these very different income levels and with public authorities of different levels of competence and benignness. The lack of any corresponding international mobility of public officials creates regulatory lacunas that increase the need for voluntary compliance of public regulations.² When located in extremely poor countries branches of multinational companies sometimes constitute islands of efficiency surrounded by mass poverty and

¹ I will like to thank CUTS International and NUPI for economic support of this paper that is an off-shoot of a cooperative venture with CUTS on a project on CSR issues in the pharmaceutical industry and among private hospitals in India. I have benefited from discussions an introduction to the field by Rijit Sengupta and Vikash Batham at CUTS and by Professor Vasanthi Srinivasan at the Indian Institute of Management, Bangalore. Professor Rune Jansen Hagen, University of Bergen, has made several wise proposals for how to clarify and improve the structure when refereeing the paper at Nordic Development Economics meeting in Bergen, June 2013. Alas, I could not do them all.

² We have seen a weak tendency towards cross-country mobility of public officials lately. For example, US regulators of the pharmaceutical industry have been allowed to establish an office in India itself for controlling that country's export of pharmaceutical products to the US. Such movement remains still quite rare, however.

extensive public mismanagement. The ethical questions associated with corporate social responsibility are raised sharply when significant part of the activities of multinational companies is located in countries where public authorities fail and mass poverty rules. Since private companies are playing a larger part in the international and national economic orders, ethical misconduct on their part becomes a more significant threat, increasing the interest in CSR issues.³

From the negative end the interest in business ethics and CSR has been stimulated from the number of large business scandals occurring at the turn of the millennium where instances of serious misconduct have reached the public. Most of the well-known business scandals have been based on various forms of unethical manipulation of information. They appear also in various ways to be connected to financial deregulation that has increased the leverage for manipulation. Combined with the perennial state of imperfect information possessed by the various ‘stakeholders,’ the scope for choice that makes some conduct ethical or not, has widened.⁴ Not willing to return to a regulatory regime that restricts the freedom of choice for private companies, the cases of large scale violations of ethical conduct, raise the question of how to make companies follow norms of proper conduct and to do so voluntarily?

2. Plan and aims of the paper

After presenting three definitions of CSR that I will apply in various part of the paper, we discuss two opposite deontological views on the profit maximization, Milton Friedman’s and a Kantian Marxist one.

³ The connection between CSR and the new economic order of extreme capitalism has perhaps been drawn most clearly in the Indian debate about its new company law from 2011. Here it was proposed that the larger private companies set aside two percent of its average profit the last three years for CSR expenditures. The payment was to be obligatory but its composition the company should decide (Ministry of Corporate Affairs, 2011). Here an economic elite favoring a rapid expansion of private companies would force the companies to spend money on visible social targets as a way to propagate the new economic order to a mostly poor and skeptical electorate more or less by instinctively looking for solutions by the state.

⁴ Some of the leading US scandals such as the Enron and World Com scandals were characterized by fraudulent estimates of profit that allowed insiders with the assistance of outside accounting firms to defraud outside stockowners as well as regular employees for their share of profits and their pensions (Krugman 2002). In the leading Indian business scandal, a modern IT firm, Satyam, that had World Bank as one of its customers, used the old “Dead Souls”-techniques well-known from defunct states: it held 13 000 imaginary employees in its employ and paid out their wages to themselves before assessing the profits to be shared with the outside owners (Shirur, 2011). The scandal has had significant effects on the Indian debate, but the systematic defrauding by insiders sometimes with use of violence, such as in the case of Khodorkovsky (Black et al., 2000), has had a more extensive system-determining impact on the political legitimacy of the private companies in Russia. During the Russian transition several of the unethical techniques for manipulating financial information were transmitted to other countries like the US and were later exposed during the 2008 financial crisis- despite the post-Enron reforms in corporate governance. The Siemens scandal was of a somewhat different nature, but it showed that a large multinational company, using slush funds, was able to organize a systematic bribing of a large number of different country governments without being caught by outside monitoring agencies (*New York Times*, December 21, 2008).

Since we are studying private companies and CSR, the role of profit is of course crucial both for the possibility of financing CSR expenditures and for the scope and meaning of business ethics. Then we outline a Walras-like competitive system where the relevant ethical judgments are clearly consequential; this as a brief benchmark for the further discussion. While CSR expenditures make no sense in such an economy, enterprises (and consumers) may be taxed, and subsequently we discuss corporate tax payment and CSR. The normative questions raised here apply to all sectors since they all are potential tax payers while many other issues are more sector-specific, and CSR issue may in fact only become interesting in a sector specific context.⁵

With a few exceptions the paper keeps to the tradition in the literature to base the discussion of CSR to a typical, single enterprise. Many important normative aspects of enterprise behavior may then slip through the net. For example, may a cooperation (bargaining) between enterprises internalize external effects (the Coase theorem)? May the ethical significance of a given action change with the number of enterprises, engaging in it, and so on?

The major aim of the paper is to explore the nature of the normative choices involved across different forms of CSR expenditures and across countries at different income levels and public governance capabilities for a single enterprise. It is clearly conceptual in intent and focuses on normative issues. References to empirical data or cases are mostly placed in footnotes. The discussion is informal and while stylized, no explicit model will be formulated. Since most of the debates around CSR appear tied to very recent developments while in fact many of the substantial questions are quite old, I have indicated this by drawing on older levels of thinking both when they were following the same tracks as the present one, as a matter of contrast.

Part of the discussion around CSR is unavoidably normative and hence not directly amenable to scientific analysis. Nevertheless, in order to gain some form of objectivity we allow the normative assumptions vary. The two major ethical belief systems applied here are known as deontological and consequentialist (to be outlined). Given our emphasis on cross-country responsibilities, it is reassuring that this distinction itself may be cross-cultural. According to Amartya Sen (2010: 23 -24) the distinctions between these two forms of ethical reasoning are, for example, well known by students of Hinduism and in

⁵ For example, in the pharmaceutical industry an important ethical issue is whether present patenting harming today's poor should be kept in the interest of potential new medicines for future generations. In the case of the oil industry it is the opposite. Should the present generation gain through its resource extraction on the cost of depleted resources for future generations?

the cultural environments in which Indian-located enterprises operate in.⁶

3. CSR defined – from normative and decision-making points of view

I will in the following define CSR in three different ways. The first one, the A-definition is openly normative. The second, B-definition focuses on business (mis)conduct and the third on cost and expenditures.

Definition A: CSR *embraces all set of actions, rules or principles of action a corporate leadership may follow or induce among their employees to make the enterprise conducts its business in an 'ethical' way.* Note here that whether a corporate leadership displays ethical conduct or not is not only a question of private, individual ethics of individual business leaders. The leadership is responsible for allocating *decision-making* powers including the geographical localization of its activities, *information-streams* internally as well as externally. The same applies to other enterprise efforts to influence or try to avoid influencing its external social, economic, biological and social *environment* through price-setting, pollution control, lobbying and other means. An additional responsibility is to design an *incentive structure* and try to induce the *motivation* that goes together with it. The incentive structure may stimulate or prevent ethical misconduct.⁷ It follows from the definition that what is meant by an 'ethical' action needs to be specified. Competing ethical principles such as the different deontological and consequential ethical systems may yield different extensions of the definition. In the following we will mainly discuss either rather simplified consequentialist or deontological⁸ arguments. At this

⁶ According to Sen, Krishna, Arjuna's advisor, argues that it is Arjuna's *duty* to fight whatever the consequences while Arjuna himself is more concerned with the bloodshed and misery (the *consequences*) caused by any fighting to the end.

⁷ An example of the former is to tie the rewards of the local leadership of a multinational company tightly to the success of gaining concessions in a highly corrupt country. Knowing that local leaderships located in highly corrupt countries on average perform corrupt acts more frequently than other decision-making points of a multinational concern, the incentive structure here induces misconduct, although it is the local leadership that performs it. The role of incentive structures is often neglected in the anti-corruption policies of private and public enterprises.

⁸ Deontological ethics is often defined as an ethical system based on the idea that the ethical subjects should be judged on the basis of the degree to which they obey the norms assigned to them ('deon' means obligation or duty). More generally, it is the kind of motives that guide their conduct, not the consequences of their actions that define the ethical content of the actions as well as the ethical status of the subjects making them. Obviously, what kind of motives that are considered ethical may lead to different systems of deontological ethics: *duty* to some organizational entities; *non-harming* or *love* may lead to quite different normative judgments than duty considerations. Sometimes deontological systems may be defined over sets of actions so that an act may be ethically wrong or right whatever the motive for it or its consequences.

stage we may consider the definition to consist of the union of all the conceivable ethical systems.⁹

Definition B: A company displays CSR behavior when not engaging in any business misconduct. – Presumably this is a more operational definition than definition A) and can be specified by a list of business misconduct such as: corruption, fraud, exploiting children, engaging mafias, joining illegal cartels, non-compliance of public laws, public rules or standards; and so on. The longer this list, the more narrow (or precise) will the definition of CSR become since more forms of behavior then are defined as non-CSR. It is more operational than B) since it does not have to define what is ethical. For example a number of public standards or laws may themselves be considered unethical and the authorities themselves not legitimate, so any violation of these rules may not be unethical, but they still may represent some form of business misconduct.¹⁰

Definition C: CSR embraces i) all expenditures and extra costs that a company voluntarily incurs for a public end. Normally, ii) part of its net income is sacrificed in the short or medium term to achieve these aims. Like A) the C) definition is defined positively: it is something the enterprises do that makes them (or their actions) socially responsible. The expenditure part is in principle not too difficult to make operational and several lists of observable components of activities to include in a *social responsibility vector*¹¹ have been presented and applied in empirical work.¹² Among the public ends that have received the greatest attention in the debates about CSR, is the effect of a company's actions on its natural environment. Somewhat more difficult to observe is the cost component since it will have to embrace all forms of costs that the enterprise *voluntarily* incur to improve the conditions of its workforce,

⁹ Hence if even if action x is ethical according to ethical system S, but non-ethical according system R it belongs to our class of ethical actions.

¹⁰ This may be of particular relevance for our focus on taxation since many companies may consider some tax laws as unethical and the authorities of at least some countries as illegitimate.

¹¹ A typical list is presented in Margolis et al (2008) and embraces charity, environmental performance, regulatory misdeeds, and transparency of company information together with a number of other items.

¹² Most of the classifications and resulting measurement of CSR aspects of expenditures and inputs have been left to external commercial or non-profit NGOs. Their numbers have mushroomed and their measurement 'products' are of varying quality. Schäfer et al (2006) present a descriptive overview. Many indices are mainly meant for prospective 'ethical' investors or consumers so they may take various ethical aspects into consideration when investing or purchasing. Others are mainly to be used to guide the local management about the situation in their enterprise. They may even be applied by the public authorities when granting the enterprise licenses to produce. The most frequently applied in econometric research is based on a set of indices developed by the research firm Kinder, Lydenberg, Domini Research & Analytics (the KLD index). Their measurements are now incorporated among the indices owned by MSCI Inc. It is based on observations (constructed as ratings) from a collection of larger US enterprises. Like many of the other ratings it includes a number of different 'social' components ranging from human rights to environmental issues. The rankings are highly subjective and the enterprises considered are rated much in the manner known from the financial rating of Moody's an others - from AAA and downwards.

reduce the negative externalities of its activities and increase its positive externalities alone or in cooperation with other enterprises in its industry over and above what follows from legal compliance.¹³

The second part of the definition is most helpful for the study of the interaction between private companies and public authorities. If the companies have no choice or it is in their own private interest to follow a public regulation, it is unreasonable to regard compliance as a form of CSR behavior. In order to estimate the size of the extra costs in defining its contribution to the relevant public end, the difference between the cost of actual and the minimum level of compliancy the company may get away with is a reasonable measure, but somewhat difficult to operationalize.

Definition C) is tailor-made for studying tax payment and CSR expenditure choices of private companies. The well attested phenomenon of tax avoidance even in countries with the best public monitoring capabilities indicate that the difference between actual tax payment and the lowest possible tax payment may be a matter of choice for private companies, so when some pay more, it should become an important item of any social responsibility vector. Even in countries with the highest public efficiency levels this possibility arises. Presumably, the income difference between the (legal) tax avoidance tax and the actual tax is spent on some public end, so from the private company's point of view this part of its tax payment should be considered against the other forms of social expenditures and as part of its portfolio of social responsibility actions and expenditures.

The second part of the definition may nevertheless be somewhat controversial since many authors argue that corporate social responsibility expenditures actually *increase* corporations' net incomes, at least in the longer run and have made some empirical evidence for the claim.¹⁴ For some normative intuitions a definition that emphasizes some form of *sacrifice* of profits as definition C) ii) does, appears reasonable. If the motivation is simply the profits of the company you manage and not any public end, that action may not count as a socially responsible one. Without sacrifice of profits the proper social motivation may appear not genuine. Tax payment above what the company may get away with, satisfies the sacrifice condition.

¹³ In the CSR literature 'compliance' may either refer to adherence to public regulations or to a wide range of voluntary standards developed by a number of NGOs, independent public agencies or enterprise associations.

¹⁴ In an article that summarizes much of this research till late 2007 (Margolis et al, 2008) finds that there is on average a weak positive relationship between the enterprises' social responsibility indicators and their financial results. The causality may go in both directions, but appears to be stronger (quite plausibly) from financial results to CSR activities than the other way around, so a positive association may be quite compatible with a sacrifice since presumably more profitable enterprises can afford to spend more on CSR..

Returning to tax payment regarded as part of a *portfolio* of social responsibility expenditures, the company would ideally have to compare the expected value of the different components; that is, it would have to compare:

- i. The expected value of the additional *government –managed* public goods and services that the extra tax payment may give rise with
- ii. Its *own-managed* delivery of public goods and services. It may spend resources on improving the conditions for its own working force above the levels dictated by market competition and government regulation, establish its own schools and worship buildings, or supply some of its goods or services to poor customers below market price, and so on ,
- iii. Or *outsource* these activities to specialized institutions whether they are private companies or non-governmental organizations, NGOs.

The choice will be influenced by a host of factors. It will lead us too far to go into details here, but clearly the different signaling and attributes of the choices will be of importance: What will the outside world know about the company's contributions to the society? How may the company assess the actual effects of the social expenditures in the different cases? In case a channeling through government is considered, the efficiency and integrity of the relevant governmental apparatuses would of course also have to count.

The precondition for making any choice between the various options of social expenditures on a sustainable basis is that the company has the income available, that it at least operates with what Alfred Marshall (1920) once called positive *quasi-rent*, that is, the price of the company's output will have to be above its short run average costs. Hence, the quasi-rent defines the maximum income that may be taken out of one of the company's plants that could possibly be spent on social aims without impairing the running of the plant.¹⁵

4. Are profit-making and CSR incompatible?

Profit seeking is the major underlying principle guiding private company behavior. Is this principle compatible with any (other) form of social responsibility for the enterprise leadership? And what is the ethical status of this principle itself? Here we may find some widely different views:

¹⁵ The reason why we invoke the old Marshallian notion of quasi-rent is that we will touch (briefly) some older neo-classical theories where net profit may become zero but quasi-rents positive.

- A) *Profit is intrinsically valuable and should not be tampered with.* In a famous article Milton Friedman (1970) argued that private corporations in “free-enterprise system” have no social responsibilities but profit-making. His discussion was focused on our definition C) of CSR when its ii) clause is included. Firstly, a business is an organization and cannot have any responsibilities, only people can, he rightly observed.¹⁶ Secondly, the only responsibility business managers may have is to maximize profits for their owners under ruling legal restraints. If they spend money on some unnecessary social expenses, they would steal from their owners, an irresponsible act. Only the owners could legitimately indulge in such out-payments, and then only in their private capacity. The major thrust in the argumentation against CSR in this essay was based on the leadership’s (top management and eventual majority owners) *duty* towards the owners as a group; that is it was at the first level a kind of deontological ethical argument. The ethical legitimacy of the owners’ claim to the profits was not spelled out, but he referred to the efficiency of the “free-enterprise private-property system” that is a kind of consequentialist argument. Since Friedman does not qualify the responsibility to group of owners in the case where the company is in a monopoly situation and where its profit is based on monopoly (or monopsony) prices, the deontological argument against CSR trumps the efficiency argument.
- B) *Profit-seeking is intrinsically unethical and based on private greed.* This is an old populist argument that is based on the motivation of the leadership. If this motivation is a precondition for actually gaining profit, a private company would be unable to display any CSR according to our definitions A) and B), but CSR defined by C) is possible if one relax the condition that profits have to be sacrificed (the ii) clause) and that one allows a consequence based definition. A moral trade-off between the intrinsic evilness of greed against the good consequences would then have to be made. Since it here is profit-seeking as a motive that is unethical, profits as such might be ethically defensible; for example if a scientist wants to test out

¹⁶ This is a rather trivial point in most cases and applies also of course to public organizations. Usually when considering CSR we are thinking about the behavior and ethical issues involved in leadership behavior. With significant disagreements within the leadership including the major owners, however, the actual aggregate corporate behavior may reflect the norms of no-one. Nevertheless external observers may hold ethical opinions about aggregate leadership behavior as well whether consistent or not as they may opine about the behavior of the single leaders separately including judgments about their disagreements. I will not try to explore this further, however, and only consider CSR for centralized business units – as is done in most of the CSFR literature.

an innovation in real life and gains considerable profits from it.¹⁷ In situations where capitalist ownership is unavoidable, it would be more acceptable – along this line of ethical thinking – if corporate management reinvested the profits in new productive lines of activity rather than distributing it to the owners. CSR implies investment in this case. To keep as much as possible internally for social investment would fall in the same category. Note that the implication here is the opposite of Friedman's: the least ethical act will be to hand over profits to the owners for their private consumption.¹⁸ For completely different reasons both the Friedman'site and the socialist-inspired analyses will tend to relegate CSR activities to the periphery of corporate management decision fields.

C) *Profits are unethical, but profit-seeking are not a matter of ethical choice*; hence it makes no sense to raise deontological arguments against it. This is a kind of Marxian position.¹⁹ Strictly speaking, Marx would not argue that profit-making is a matter of ethics at all, but just the outcome of blind economic laws characterizing the capitalist stage of development. Since profits are based on exploitation (and Marx's analyses are permeated by moral indignation of it – cf. Luke (1985)), but since the company leaderships are obliged to follow the laws of competition, the conclusion appears close to Friedman's: CSR and capitalism is not in general compatible. To explain any observed CSR-like expenditures, however, Marxists may be tempted to apply some functional explanations: CSR drawn from profits may at a certain stage of development be used in order to defend private profitmaking, that is, it may have good

¹⁷ Many within the same tradition considered competition to be sufficiently lax to allow other more ethical motivations to rule. In fact profit-seeking was unnecessary for efficient company. Profits should be taxed away by the state and distributed to the population at large, or the enterprises should be nationalized or become worker managed. The two first possibilities were emphasized by state-friendly socialists while the latter was part of the views of the early utopian socialists. Regarding the latter Robert Owen (1771 – 1858) was a particularly important forerunner for present CSR-thinking and practices. The overriding aim of his New Lanark enterprise was to maximize the community welfare including the welfare and freedom of its enterprise workers. The whole surplus should in fact be disposed for the public welfare; to be spent on a kind of CSR strategy much more extensive than anything considered among present CSR strategies.

¹⁸ A major ethical work modernizing a Marxist conception of exploitation is Roemer (1982). In practical daily activities similar ethical feelings often arise among enterprise employees: to have worked with something for a while gives feelings of ownership rights. Out of fashion should not imply any wholesale dismissal of an approach. What is considered beautiful, change also in academic contexts. A strong recommendation of taking Marxist approaches seriously is A. Sen (1987).

¹⁹ The key ethical issues in Marxist thought are of course more macro-oriented and oriented towards the question of systemic change, and by what means that were legitimate to bring it about. What scope of choice the single company may have regarding CSR expenditures may be considered outside the orbit of Marxian analyses. The remarks here are Marxist-inspired, however, but would be unlikely to be accepted by committed Marxists who would refuse to make any ethical judgments of this kind. We may find judgments of related kind by revisionists like Kautsky and neo-Kantian Marxists.

consequences in the short run but negative ones in the long run if they thereby delay a desirable social revolution.²⁰

5. A Walras-inspired full information benchmark

Friedman's discussion of CSR and the "free-enterprise private-property system" was based on a specific view of private ownership rights, and not on the leading neoclassical modeling of that system: the Walras-Arrow-Debreu models of competitive general equilibrium. There were good reasons for that. These models are too abstract to be really appropriate for discussing CSR as defined by definition C), and they are not committed to any specific normative view regarding property rights. Nevertheless, I will use them –in a very loose and partial way – to create a benchmark for our following discussion. Most economists are likely to begin any exploration of CSR here. While too abstract for most purposes when analyzing CSR issues, we may nevertheless reasonably impute a view on CSR from them that resemble Friedman's regarding the main conclusion, but it follows along a very different normative route.

Here firms are organizations that have as their main task and responsibility to society to transform inputs into outputs as economically as possible. In a market economy that implies profit maximization as goal. Hence under the ideal conditions of free competition²¹ CSR is either non-existing or simple in principle: It is to maximize profits. If the government so wishes, however, it may tax away the profit and spend it on socially desirable ends (or take over the ownership of the assets – market socialism). Only the government needs to make the ethically difficult decisions, usually represented by a central welfare function. A well-known result here is that the normative ideals represented by any given welfare function could be achieved by a free competition economy too (given a number of well-known assumptions we will not discuss here) where profit maximization is an important behavioral building block.

To achieve maximum welfare a transfer of income between consumers is normally necessary. To achieve that the center would have to be able to tax some consumers, ideally by a set of lump-sum taxes on

²⁰ Luke (1985: 147) interprets Marxian ethical thought as based on long run consequentialism (with a very low or even negative discount factor when applied to the present). Today pharmaceutical companies use the same form of long run consequentialism when they defend the right of patenting life-giving medicines.

²¹ In the debate that followed Walras it was demonstrated early on (by Barone in 1908) that given the conditions of free competition, government ownership of all productive equipment would make no difference. As late as in 1970 this was the established view in academic economics that Oscar Lange in 1937 had demonstrated the case for a Walrasian socialist market economy, but it has later been made quite clear that this result was based on unrealistic assumptions about the information generated, Hayek's critique at this point which was first discarded, has later become accepted (Lavoie, 1985).

consumers' income (such as profits) that would not disturb the deliberations of the consumers and firms. One such form of tax would be a lump sum tax on profits. Note that in this kind of economy where all prices as well as all sold and bought quantities are known and the prices parametrically set, the center would have perfect information about the size of profits. No tax avoidance or any form of choice regarding tax payments is possible given this distribution of knowledge. This will be our benchmark situation.

Returning to the normative aspects of the situation we note that unlike the Friedman view which could either be based on a rights-based ethics or on a consequentialist argumentation, the Walras approach here is based on consequentialist argumentation only. The motive, profit maximization, may not be either good nor bad by itself,²² but since any other form of motivation are likely to lead to less good consequences in terms of economic efficiency and consequently to lower welfare. Hence any other form of enterprise behavior will not be CSR according to this consequentialist interpretation of definition A) or B).

This is not the only or maybe not even the most realistic way to link profit maximization to CSR, however. When firms are just profitmaking machines, it may be reasonable to discuss CSR decisions as the outcome of a two stage decision process: first maximize profit. Then decide how to spend that profit. Regarding the expenditure decisions at the second stage all kinds of assumptions regarding leadership aims may be considered, including purely altruistic ones. In much of the following we will discuss CSR as expenditure decisions²³ at this second stage, that is, we will apply definition C).

From this benchmark situation we will loosen some assumptions and explore whether its conclusions regarding the desirability and forms of the CSR behavior are likely to change. First we will loosen the assumption of a *single authority state*, since an important underlying interest is in what constitutes multinational ethical company behavior when the international order is potentially unjust. Then we explore whether the Walras model's result regarding the ethics of the division of labor between government and companies may hold when government may not be fully informed about the size of the enterprises' prof-

²² In developing his analyses of consequentialism Parfit (1984: 26) suggests that the ethical status of motives may derived from its consequences: "(C5) The best possible motives are those of which it is true that, if we have them, the outcome will be best." This may, for example apply to profit maximization in some situation like free competition s, but not all.

²³ While possible, cost decisions (such as paying wages above market rates in poor environments) and sales decisions (such as selling life-saving medicines below market rates), as components of a CSR strategy are more difficult to separate from profit maximization in a second stage without violating the profitmaking norms of behavior in the first stage.

its and finally we look at the CSR consequences of profit-making when competition rules change.

6. CSR in a free competition multi-constituency case with equal tax rates

Here we consider an enterprise that operates plants in several political constituencies under free competition (FC) conditions. As before all inputs and output are homogenous, prices known, but the prices as well as technology may differ across the constituencies. The only tax is profit tax. In this section we will (unrealistically) assume that the tax rate is the same in all constituencies. The authorities are able to costless assess the taxes to be paid in each constituency, and no tax avoidance is possible in either.

In the case when the enterprise is unable to shift income from one constituency to another, the CSR issue is unchanged. Both a Walras socialist and Friedman will tell the plant leaderships to do the same as before: maximize profits. When some profit income may be transferred across constituencies, some non-trivial ethical choices may have to be made, however.²⁴ In case the transfer is costless, and profits transferred to another country are only taxed in the receiving country, profit maximization will not decide where to locate the profit to be taxed. Another normative principle in addition to efficiency will be needed. Since the ownership group is the same, Friedman's principle of ownership rights will not determine the location of profits either. If all owners are located in one country and we assume it is more costly for citizens of one country to spend their income in any other, all profits will be transferred to the owners' country, if Friedman's principle is applied.

Some socialist variation of the idea that a company is mainly responsible to the producers is another way to determine the location of profits. The profit should then stay in the country where it is produced, and so should the taxes imposed on it and therefor the public goods that these taxes pay for should also be delivered in the country where the profit originated.²⁵ Behind this socialist notion that value of pro-

²⁴ The large number of well documented cases of tax avoidance (for example the ones in the UK recently: Pfizer (*Guardian* 30 Jan, 2011), Google (*The Independent*, June 28, 2013), Starbuck (*The Independent*, Jan 5, 2012, etc.) illustrates the wide scope of choice for relocation of profits across constituencies for multinational companies. The point here is not tax avoidance as such since in the hypothetical situation outlined above in this section it is impossible. But the empirical fact of profit relocation among multinational companies revealed under more realistic conditions indicates that the ethical dilemma stylized here is a pertinent one.

²⁵ The same outcome would of course arise with either Walras or the Friedman assumptions in the case of transfer costs such as taxes on income transferred abroad or higher financial costs on foreign transfers.. Joint profit maximization will then tell the profits to stay where they arise.

duction should belong to its producers there is an implied notion of desired egalitarianism. All directly involved are necessary for the outcome. Egalitarianism will not generally lead to this result across countries, however.

Assuming realistically that substantial difference of income levels across the different constituencies exists. Let us now and in the following assume that one plant is located in a rich constituency, an R-state. The owners of the enterprise are also citizens of R. The other is located in a poor constituency, a P-state. Then a utilitarian and consequence oriented ethics will recommend a CSR strategy where the enterprise allocates the largest share of its taxable net income to the P-state so the authorities there may receive a large share of the tax and accordingly receive a larger share of public goods and services that the taxation of the profit may give rise to. This will give a higher total utility (if we add some assumptions about cardinal utility and declining marginal utility of income).

This argument assumes that the *political* constituencies may not transfer tax incomes between themselves, that is, we disregard the possibility of foreign aid. If they are able to do so, however, the enterprise needs to take that into account the possibility of cross country public transfers in its CSR strategy. In this simple case when both constituencies operate with the same tax rate, the enterprise may simply allocate all taxable income to the R-state and let the public authorities there divide its tax income between R-state use and foreign aid to the P-state authorities. We are here back to the old division suggested in the Walras approach: decentralize economic decisions, centralize the ethical ones.

Note that this presupposes that the owners really belong to the R-constituency, are citizens there and accept the R-authority allocation of tax income between the R-and P-constituencies. If they are genuinely cosmopolitans or the ownership contain members from a P-country, the ownership group may be divided and the location of profits across constituencies may be decided by bargaining inside the ownership group but where the preferences are influenced by the public transfer flows between the R- and P country. Here the enterprise ownership group may disagree with the public arrangement and do its own allocation of taxable income between the constituencies.²⁶

²⁶ We may generally expect that the company 'welfare' function (over the profit expenditures) will consider the utility of mainly its owners, but also its employees and citizens in both countries while the two state welfare functions may or may not do so.

7. CSR in the FC, multi-constituency case with unequal tax rates

Here the Friedman CSR instruction is clear: allocate all income to the country with the lowest tax rate. Anything else will be to steal profits from the owners. Ethical complexities are more difficult to avoid for the Walras approach, however. Profit maximization will lead the enterprise to allocate as much as possible of the income to the constituency with the lowest tax rate in the same way as for the Friedman enterprise. If this is an R-state this implies that all profits and taxes will go to the R-country. Or more realistically, the prevalence of areas with exceptionally low tax rates, the *tax havens*, implies that profit maximization implies that company leaderships should locate as much of the profit as legally possible there. These are mostly constituencies with small local populations, mostly with medium or high incomes compared to a P-country.²⁷ Hence, their prevalence implies that less tax will be paid in P-countries (as well as in R-countries) by multinational companies.²⁸ If a company's CSR strategy is based on enterprise preferences over profit expenditures that give some weights to the welfare of the population in the poor country. What then to do? It may either

- i. accept the profit loss involved when letting a larger share be taxed in the P constituency than the one yielding maximum profit, which implies that it voluntarily gives away some income to the authorities in P,
- ii. it may spend part of the profit by developing do-good activities in P on its own, or
- iii. it may transfer funds to specialized do-good organizations supplying some form of services to citizens of in a P-state where some of its profit arose.
- iv. I will return to the considerations that may influence the choice of CSR strategies in this context.

²⁷ For example, at present between 80 to 90% of foreign direct investment (FDI) to India has been flowing through Mauritius (*Wall Street Journal*, March 22, 2010). A major cause of this flow has been a tax agreement with India and Mauritius and the absence of capital gain taxation in Mauritius. This form of tax avoidance has been legal (although sometimes challenged). At times it has caused tax avoidance in both India and a capital-exporting country, which in most cases is India itself. In a dynamic context a possible ethical defense of this form of tax avoidance is consequence oriented: it may have contributed to economic growth. In a static case the Friedman's argument about the property right may apply.

²⁸ Considerable tax avoidance efforts have been documented for both mining (*The Guardian*, April 15, 2011) and sugar companies (*The Guardian*, February 9, 2013) in Zambia. While we are not focusing on tax avoidance in this section since it presuppose imperfect information, its prevalence testifies to the fact that multinational companies have an ethical choice to make regarding how much they should pay in taxes in poor countries.

8. CSR and tax payment with imperfect income assessments

Under imperfect information of profits and taxable income, the ethical choice set for corporate management widens. Dishonesty becomes a possibility and the ethical handling of information an important part of corporate management. Imperfect information raises more immediate issues for the A) and B) definitions of CSR than for the C) definition. The extreme case of lying is a classical problem in ethics since Kant (the A) definition). Lying is an important component in many forms of business misconduct such as fraud and corruption (the B) definition). More generally, unethical handling of information has also impact on the portfolio of CSR expenditures (definition C) mainly through its impact on tax payment.

Unlike the transparent FC situations so far assumed, most companies operate under conditions where they may manipulate the size of profits through management of the information about the size and timing of its various income- and cost components. One of the purposes for doing so is tax minimization.²⁹ How the enterprise presents its income data for the different tax authorities then naturally becomes part of its ethical agenda: What will be its corporate social responsible way of revealing its taxable income? Moreover, the public authorities here have to choose allocation of taxable income that between countries with softer or stricter monitoring. The choice here will obviously be influenced by the technical capabilities and the motivation of the public officials. At the positive (non-normative) end actual enterprise tax payments becomes part of solutions to games played out between the enterprises and the authorities in each country.³⁰

In one sense, ethically the situation may not be so different from the situation with several constituencies with different tax rates, except i)

²⁹ We have already noted that profits may also be fraudulently *maximized* in some situations as displayed in the scandals of Enron, WorldCom and others in the early 2000s. In the case of Enron the enterprise had capitalized overestimated future profits flows (mainly through underestimated expenses) into the current bottom line. This overestimated income assessment could then be cashed in when selling stocks. The other US fraud cases outlined by Krugman (2002) vary in how stock and flow variables are intermingled, but the point in all these cases is an overestimation of profits that can be cashed in as high stock values at a certain point of time by sections of corporate leadership and a sub-groups of owners. In the Satyam case profits were underestimated by the insiders not in order to reduce tax expenditures but in order to steal income via fraudulent wage expenses that went into the insiders' accounts. Profits when defined the same way cannot of course not simultaneously be maximized and minimized as part of profit-making strategies, but the point here is that accounting complexities give scope for income manipulation, often accompanied by tax avoidance, that companies may use illegally to their advantage.

³⁰ A clear and early exposition of how the interaction between different authorities and larger enterprises should be analyzed with game theoretical apparatuses (cooperative and non-cooperative) is analyzed in a general way in chapter 2 of Leif Johansen's classic lectures in macroeconomic planning (Johansen, 1977). Unlike most other regulation games, the enterprises and the authorities have only opposite immediate interests in tax payment games (as long as they play their roles), while in most other regulation games they have both opposite and common interests. Since the typical enterprise here has the immediate opposite interest of the government here, it is an interesting testing ground for CSR behavior.

that the problem that profit maximization behavior may now also give rise to deliberate tax manipulation also in the single constituency case, ii) it may give scope for behavior bordering on or crossing the sphere of legality. This raises another traditional CSR issue: *compliance*. The weaker the monitoring strength of the authorities and the larger the scope for manipulation of taxable income in the industry in question, the larger is the scope for not complying with the tax rules, but also the potential share of actually paid taxes in the CSR expenditure portfolio. To comply with the rule with weak monitoring becomes more clearly part of CSR compared to a case where compliance may not be much a matter of choice.

In the multi-constituency case the enterprise allocation of taxable income may now not only be influenced by tax rates, but also by the monitoring strength of the public authorities. This is likely to favor P-states with respect to the cross constituency allocation of taxable income since whatever the formal tax rates, less income is likely to be taxed in a P-state if a company will minimize its tax payments; on the other hand relative weak monitoring capacity implies that P-states will lose a larger share of the income that should accrue to them. Extensive corruption in the tax administration will imply that the advantage of low monitoring capabilities will be (at least partially) lost, and eventually altruistic motives for allocate the taxable income to a P-country will be lost.

While imperfect income assessment does not necessarily imply drastic changes in what a CSR strategy implies with respect to taxes compared to the multi-constituency case with different tax rates, the increased scope for tax avoidance is also increasing the area of ethical choice across the countries. It leaves a multinational company a larger scope of choice regarding its CSR portfolio: how much should it allow itself to be taxed and in which country? Here it also becomes clear how handling of information becomes an important part of the CSR strategy: what are socially responsible ways to emit information from the activities of business enterprise?

Imperfect income assessments raise not only ethical question with respect to authorities, but also with respect to owners of the enterprise, or sub-groups among them. Here the accounting choices that have been opened up with recent liberalization of the financial industry have increased the scope for income assessment manipulations and made them more profitable, but some efforts have been made to reduce the possibilities again; particularly in the direction of protecting minority owners.³¹

³¹ New legislation has been added to the company laws in a number of countries. For example, the Ministry of Corporate Affairs in India has made a series of proposals to deal with

9. Avoidance of tax avoidance vs. other items on a CSR portfolio³²

I have argued that particularly in situations where income assessments are imperfect may an enterprise *choose* to pay more taxes than would be the outcome when maximal efforts on tax avoidance is expended. The difference between the minimum tax and actual tax paid may be considered as CSR expenditure assuming that the actual tax paid follows more closely the intention of the lawmakers. If so the difference fits well with, for example the CSR definition of the Commission of the European Communities that (Beltratti (2005: 377) “defines CSR as a concept by which ‘companies decide voluntarily to contribute to a better society and a cleaner environment.’”³³ Presumably at least part of the resulting extra tax income will be spent on some public goods or services that otherwise will not be forthcoming or would have to be paid by others. An additional effect is that if a reputable business enterprise makes large efforts on tax avoidance, it signals irresponsibility to a wider audience that may copy the behavior. It is possible that the enterprises when determining its CSR expense portfolio are mainly considering the likely public good consequences of its investments. If so, a rational determination of a CSR portfolio would then be to invest so that the expected marginal rate of return on each item in the portfolio, including the results from the voluntary tax payment, should be roughly equal.³⁴

We only considered payments to a single authority when we discussed variation in tax assessments. The underlying issue is, however, what multinational companies should do when operating in countries with wide variation in in poverty levels and public efficiencies. How should they spread their eventual CSR portfolio across items and countries? Generally, for a given monitoring strength and poverty level the less of public goods and the more of public harm a country’s authorities may supply, the less of its income should the company allow to be taxed in that country. When the state apparatus in the P-state is ineffective and corrupt, tax avoidance here may not cause a corresponding decline in public good or services. The evaded tax may then get a better effect for the citizens in the P constituency if the company uses its own organizational apparatus to provide public goods and ser-

this problem in its Company Law proposal of 2011 after the Satyam scandal (accessible at the ministry’s web page).

³² Christensen and Murphy (2004) are one of the relatively few studies that bring tax payment into the CSR field although they have more focus on the wider issues related to tax avoidance rather than CSR.

³³ The ethical attitudes to the state vary, of course. Anarchists and libertarians may consider all state activities as illegitimate and hence consider even the voluntary part of tax payment to be unethical.

³⁴ In general, it will of course be impossible for the enterprise to assess the effects of voluntary tax payment, since the resulting, particular public goods and services will not in general be identifiable. It has to be assessed on the basis of the general efficiency and utility of public services as perceived by the enterprise.

vices to citizens of that country.³⁵ Alternatively it may finance some of the activities of specialized non-profit, do-good organizations (the NGOs) that operate in the P-country.

Here and in the following we have considered the country distribution of the company's activities as given, but it is obvious that in order to be taxed in a country, it must have some activities located there. This means that the strongest form of tax avoidance of a badly governed country is not to establish any plants or any other activities in it at all, and in the extreme case not even export anything to the country in question. Even if not paying any taxes at all³⁶ the location of a company's activities to a country implies a kind of support to the ruling regime that may raise new ethical problems of an inter-temporary nature: when the company pay taxes today will that increase its period of survival and decrease the prospects for better public services in the future? This dilemma becomes particularly acute for resource extracting companies since in addition to paying taxes and in other ways supporting the ruling regime, by extracting the resources those will not be available when or if a better regime will be ruling.³⁷

The ethics of the location decisions of multinational companies may not only be looked form a consequentialist point of view –the actual consequences for the poor of a company's actions – various deontological arguments have also been advanced. For example, one may consider it wrong and not a CSR action for a company to locate in a country where human rights are severely violated although the company is uninvolved in the violations itself and its own activities may improve the welfare of the poor in the country. Deontological arguments dominate the discussion of general economic sanctions directed against such regimes where even export activities of a company are considered not CSR, and when the consequences of the country avoidance may harm its poor severely. Only with a considerable increase in the likelihood of regime improvement may such actions be defensible from a consequentialist point of view. We found a defense of this kind of action when exposing some of the Marxist ethical

³⁵ As already noted by Max Weber, private and public sector organizations have many structural features in common and may within limits be able to supply the same kind of goods and services. The choice between engaging its own productive apparatus or not will be strongly influenced by the industry in which the company operates. For example, a tobacco company can hardly use its own apparatus to supply a poor country with inexpensive tobacco as part of its CSR activities while a pharmaceutical company may easily do so by providing it with medicines far below market price since the marginal costs of medicines are normally far below it. NGOs may (and have in fact) nevertheless often be used also in the final distribution of the medicines.

³⁶ The latter only happens in case the country is exposed to international economic sanctions.

³⁷ In countries with extremely exploitative ruling elites, the foreign investments are empirically skewed to financial investment or resource extraction that both have strong negative inter-temporary effects in case a better regime may appear in a reasonable future. In Norwegian public debate so far the focus has been on petroleum extraction by Statoil, but financial investment will receive more attention as the Government Pension Fund Norway is increasing in size and geographical spread of its investment.

thinking, but collective sanctions that embraces exports to harmful regimes are normally not defended ethically this way, but rather by deontological arguments, or not at all, only to express moral concern.

Returning to the more limited question of tax avoidance, consequentialist reasoning will not yield a definite answer to the allocation of tax payment of multinational companies across poor and rich countries. Since on average the countries with most poverty also have the least effective and most corrupt public apparatuses, judgments of regime quality do not give any clear instructions towards where tax avoidance should be most strongly avoided, but they do suggest that the country distribution of the CSR portfolio should be directed towards poorer countries with a larger share of either own-or NGO supplied public services.

The advantage of the NGOs is that they may cover a much larger set of public services than the enterprise may deliver itself, but they may give less ownership to the outcomes, and more importantly, the information about their efficiency is difficult to gather and may remain imperfect. An advantage of both compared to tax payment, however, is that the enterprise's contribution to public goods becomes visible and public knowledge.³⁸ Arguments of this kind may be difficult to ground on any normative platform, however, but are important for any positive explanation of the size and composition of CSR portfolios. I will only touch positive explanations briefly since the paper deals mainly with the normative aspects involved in CSR.

As already mentioned, the action-relevant normative beliefs of enterprises may be partly revealed through attitudes regarding tax payment where profits have to be sacrificed. Here it is a matter for reflection that there are few indications that tax payment figure high on the multinational companies' list of actual CSR activities while considerable efforts appear to be made to avoid tax payment.³⁹

10. Monopolies, cartels, profit maximization and CSR

We have already, almost by stealth, left the Walras-world of free competition (FC) when we began to study imperfect information, tax assessments and CSR. Profit maximization, with imperfect income monitoring, we suggested, might easily lead an enterprise to violate conditions for CSR behavior (according to definition B)) through tax avoidance, particularly in the case of a state with weak, but well-

³⁸ The relevant NGOs that may have a 'stakeholder' interest in the company may actively seek transfers through positive or negative (blackmail) inducements by making public the negative or positive public effects of the company's business activities.

³⁹ Here we should note that direct evidence of enterprises paying voluntarily more tax than what they could with visible tax avoidance efforts is difficult to establish.

meaning public authorities. Or it may lead to the violating of the rights of minority owners, but at the other hand this very increase in the potential area for business misconduct will also increase the scope for B)-defined CSR. The increase in the scope of voluntary tax payment or other forms of business misconduct will also increase the scope for CSR according to definition C including the ii) –clause: paying more taxes than necessary entails some sacrifice.

Various forms of imperfect information is not the only ways that the situation may change from an idealized FC so that profit maximization may not guide enterprise activities to maximal economic efficiency without any serious ethical side effects, even when we stick to consequentialist valuation. For example, a more classical, older issue in economics is that with non-convex technologies the enterprises involved may be led into monopolistic forms of competition. To maximize profit (by manipulating the output prices) the enterprises will then produce too little and charge too high prices so the enterprises' production capacities will be underused and the society will receive too little of their goods (or services)– a social loss. Its pricing decisions will be unethical in consequentialist terms. Compared to an FC situation, profits are likely to increase, so if the company leadership so decides, it may set aside more income to be spent on its CSR portfolio to mitigate the social loss at the same time as its profit maximization may not be considered a to reflect CSR any longer.

When judging profitmaking motive in this situation from a normative, consequentialist point of view the efficiency loss caused by the output shrinking should be compared by the welfare consequences of an eventual increase in CSR expenditures. Other ethical views may be less sensitive to this change in the situation. From Friedman's point of view, for example, the shift in the situation of an enterprise from FC to monopoly makes no difference as long as it is legal: the (deontological) duty to maximize profit for the owners of the enterprise remains.

11. Profit-making or altruism: briefly on the CSR observables

It is possible that in the final analysis the CSR- related costs and expenditures may increase profits and be motivated by informed profit maximization.⁴⁰ In the short run, however, they represent avoidable expense that will reduce appropriable profits for the owners, investors and top management. According to one reasonable *motive*-based definition of CSR, business leadership should rather *sacrifice* some of the corporation's income for some ethical purpose to make expenditures on charity genuine (Reinhardt and Stavins, 2010). A well-run company has a *duty* to spend some income or set aside some organizational

⁴⁰ Note that there is no way that they could increase profit under FC conditions.

capacity normally used for profit-making to improve the living conditions or capabilities of its employees and other ‘stakeholders’ involved over and above what its regular activities will do. Otherwise charity may simply be regarded as regular advertisement expenses without any ethical content – or with a negative one since the enterprise will *lie* about its motives. Simple compliance with legal regulations will not suffice either in this case. Costly over-compliance will be necessary for the enterprise to sacrifice profit in “the social interest” (ibid.) of which environmental regulations have received most attention in the CSR field. Without sacrifice no CSR.

If this kind of behavior dominates, some altruistic form of motivation on the part of the leadership must have been at work. Hence it is reasonable to explore whether some form of altruistic motivation may kick in when we seek to explain any short-run sacrifice of profits for a seemingly altruistic end. The easiest way to explain altruistic behavior is, of course, if the enterprise leadership in fact possess action-relevant ones. Here we may note that other forms of motivation than profit or utility maximization have been studied in economics that may prove useful in the context.⁴¹ Given the difficulty of observing motivation, experimental methods have been frequently used to study it. A number of experiments with different sharing experiments (dictator, ultimatum and public goods games) have shown that participants have chosen other division of outcomes than those that may be explained from selfish motives. Altruism appears to be a real motivational force in several experimental situations. Of particular relevance for explaining the composition of a CSR portfolio is the economic experiments where one has varied the degree of anonymity of the givers. They have shown that the willingness to pay for charity is rare under anonymity (Benabou and Tirole, 2010), so pure altruism in this sense appears to be quite unusual even in experimental situations where not much is on stake. A number of real life situations studied confirm this impression (donations, election participation and other situations where people sacrifice something for the common weal) and indicate strongly that people give much more when other people know about the giving.⁴²

If these results may be valid to transfer to corporate leadership, they may also be relevant for their potential altruistic behavior. For example, if leaderships tend to genuinely sacrifice profits in order to make social investments, we may expect them to give more, if the gifts are

⁴¹ Benabou and Tirole (2010) present and analyze research on pro-social behavior relevant for CSR

⁴² Donations to some US universities have been studied. For example, less than one percent of donations that Harvard Law School received in 1991 were anonymous while less than 0.2 percent received by Yale Law School was so. Looking at various other institutions (Glazer and Konrad, 2006) discovered that it was rare to find more than 1% of donors giving donations anonymously.

highly visible. Hence company gifts in terms of taxes paid that could legally be avoided should be expected to be rare for that reason alone.⁴³ It is also difficult to believe that many company leaders hold the activities of the public sector in so high regard that they may donate gifts to the state (even the most efficient and people friendly government) from the purest form of altruistic motivation. When a multinational enterprise pays more taxes than it can get away with when exploiting the possibilities opened up by the present international rules, it is likely to be more from a concern for its reputation as socially responsible corporation among the public officials that may influence it than by any purely altruistic motive as reflected in anonymous gift-giving..

Regarding the choice between CSR investment using own resources or resources giving to specialized NGOs, the latter have apparatuses to spread the knowledge of the gift wider and the gift-giving itself may be spread on several organizations covering different aims, which then may better cover the enterprise social preferences than when constined to use the enterprise's own apparatus.. Some increasing returns may also apply to an NGO that may be realized when funds from a number of givers are collected. On the other hand, as already noted, homemade social investment by the enterprise is more clearly identifiable and may have more immediate effects on present employee motivation as well as on the recruiting new employees with more altruistic propensities that may prove an economic advantage (Brekke and Nyborg, 2008) – hence maybe not become any economic sacrifice after all.

The backside of publicity is that if social investment is highly announced and proves to improve the economic standing of the companies, its moral value may become heavily discounted (Bénabou and Tirole, 2010).

As far as I know no empirical estimates of CSR-motivated tax payments exist. On the contrary, there are indications that the willingness of private enterprises to pay taxes has either declined or their ability to avoid it have been increasing due to institutional changes during the last decades. From this we may not immediately conclude that the share of CSR motivated taxes have fallen, however, since the potential for tax avoidance may have increased at a faster rate due to the larger scope for shuffling profits across jurisdictions that have followed in the wake of financial liberalization and localize them in countries which have extremely low rates of taxation. As already noted, unlike the other items on the CSR portfolios there exist no estimates of the

⁴³ n Norway individuals' tax payment has been public knowledge and easily available information. Rich individuals who pay nothing in taxes are likely to receive bad publicity.

size of taxes paid by the companies that are above the minimum legally possible and paid mainly for altruistic or reputational concerns.⁴⁴ Regarding the other two CSR components there are available a large number of empirical studies of the aggregate of the other two expenditure classes. While perhaps observable in principle the increase in these (classified) CSR expenditures has been suspiciously fast, while the tax rates have declined. As reported in Benabou and Tirole (2010) the value of assets in the US classified as social investments grew at annual rates of about 12% in the 1995 -2005 period and at 18% in 2005 -2007. By the end of 2007 these social responsible investment (SRI) assets constituted 11% of total assets.

A number of empirical investigations study the association between CSR expenditures, when operationalized, and financial results. A weak positive association has been the most common result (Margolis et al, 2007). This certainly suggests that managers are not ‘stealing’ profits to do charity as Friedman feared, but may then not reflect much CSR in the sense of Reinhard and Stavins (2010) either. After finding that the corporate financial and social rates of return are almost unrelated in the aggregate Baron et al (2009) suggest that this may be explained by that different types of leadership and enterprises may cause the weak association: Some enterprises with low financial rates of return may yield high social returns, but some with high financial returns may also do so.. Given the reliance of the CSR indicators on classification procedures informed by enterprise policy concerns (cf. the rapid increase in SRI classified assets referred to above) the empirical standing of these econometric exercises will remain in doubt whatever their statistical properties. Nevertheless, the lack of convincing results suggests that whether to spend resources on CSR activities or not may not be decided on the basis of their effects on profits –other normative concerns need to be brought into consideration

⁴⁴ Eventual information about the size of this form of CSR investment is likely to be located in the four major international accounting firms and international banks with tax advice departments.. Global average tax rate on profits declined with 7.4% from 2006 to 2010/11 (PricewaterhouseCoopers, 2012: 15). While profits have increased its share of GDP in the US which presumably should increase the social responsibility to be shouldered by private companies, the share of taxes they pay from profit is unchanged since the tax rate on profits paid had fallen from 19% to 13% in late 2012 (*Bloomberg*, January 22, 2013). Both movements are connected to globalization and the increased ease by which profit may be relocated across jurisdictions. While strongly influenced by cyclical developments that have caused a strong recent decline, the downwards trend in tax payment in the US is indisputable. Compared to the 1950s the decade rate of corporate tax payment in the 2000s as share of GDP was halved (from about 4% to about 2%). Research indicates that tax avoidance is more developed in the larger companies (Dyreg et al, 2005), the group of enterprises we by implication focus on. They are more frequently multinational and CSR is more a subject of discussion among them. It is possible that this development towards more tax avoidance may be reversed due to political aftereffects of the 2008 financial crises and European post 2010 austerity policies, but whether this potential shift in policy will be realized or not is too early to tell at the moment.

Bad conscience may be one of them. Several authors have noted that companies that supply products or services that have some form of harmful properties or effects, spend more on CSR than others – that corporate irresponsibility generates social responsibility (Kotchen and Moon, 2011).⁴⁵ While suggestive, their results as the rest of the empirical investigations into CSR portfolios, I find rather inconclusive. The indexes used for the purpose contain too many subjective choices to carry any refined empirical analyses.⁴⁶

12. Company information handling, CSR and business ethics

The distribution of information and its handling is part of any reasonable CSR strategy. Increased possibilities for manipulating information will increase the corporate strategy set and the scope for responsible actions as well as the scope for the irresponsible ones. These possibilities vary strongly with the kind of product or service the company supplies; how easy it is to lie about its quality to the customers;⁴⁷ and how the public regulation of their supply to the market is

⁴⁵ According to Meng ((2007) the global pharmaceutical companies on average contribute five times more to CSR programs than the national US average. This must be regarded against their high profit margins. In 2004 the large pharmaceutical companies maintained a profit rate three times the median for the larger US companies (ibid: 20). The large share of product donations compared to cash gifts from the global pharmaceutical leaders is another important property. For example, in 2005 Pfizer contributed 6% of its total corporate giving in cash and 94 % in kind (together 8.8% of profits) while the British GlaxoSmithKline (GSK another global leader) spent about 15% in cash and the rest in different forms of in-kind expenditures - altogether 5.6% of profits. The major social irresponsibility form of conduct that the multinational pharmaceutical companies perform is a monopolistic pricing policy that contributes to the non-survival of poor citizens in poor countries. Her case study is supported by a multi-branch econometric analyses of CSR (Kotchen and Moon, 2011), although they use a wider definition of CSR embracing more than charity expenditures. They show that the pharmaceutical industry follows a more general pattern in that companies that 'do more harm also do more good,' using the KLD social rating data base for operationalizing the 'goods' and the 'bads'. Although only looking at the interactions within a US contexts 'chemicals and pharmaceuticals' (together with 'hospital management, and 'bank and financial services') are the industries where the 'bads' had the strongest impact on the CSR activities. It may be too rash to conclude from this that CSR activities in the pharmaceutical industry are only superficial letters of indulgence used in PR strategies. A number of pharmaceutical charity activities also reflect the genuine organizational difficulties when combining a private profit-based production of life-saving goods with the existing global distribution of income and public sector capabilities.

⁴⁶ An informative overview of the reliability problems of some of the most widely used of these highly subjective non-financial, 'social' performance metrics is Chatterji and Levine (2006). They followed it up by a statistical analysis of their –inter-correlation and predictive powers (Chatterji and Levine, 2008). The validity of the measures was explored by choosing the ones dealing with environment where they could be compared with some objective statistics (Chatterji et al, 2009). They found a reasonable correspondence historically, but that the subjective ratings had little predictive power, an important quality for their use as guiding socially conscientious investors.

⁴⁷ A common way to classify goods according to how easy it is to trick the customers about their quality is to distinguish between 'search goods', 'experience goods' and 'credence goods' (Katz, 2007: 13). In the case of search goods the consumer may determine the quality of the good before the purchase while in the case of experience goods the quality may only be determined afterwards when the consumer have used the good or experienced the effects of the service during a period. In the case of credence goods, however, the quality may not be ascertained at all without specialist investigations. Many ordinary goods – like precooked lasagna– have credence attributes: You may not determine from eating it that this particular lasagna contains horsemeat or beef or even harmful ingredi-

implemented. Again, the larger the scope for misrepresentation, the larger is the scope for ethical conduct. With a high rate of discovery it does not pay to make fraudulent products. When easy, it does and many may do so.⁴⁸

Any observed increase in the prevalence of fraudsters give the (correct) impression that CSR defined as absence of misconduct (definition B)) decreases with the ease of fraud (particularly in so-called *credence markets* with poor customers and weak public regulation).⁴⁹ According to definition C) (including the ii) –sacrifice-condition), however, the CSR activities may increase, since it may become more demanding to sacrifice profit by abstaining from fraud, but the size of this sacrifice and its incidence will not in general be observable. It is clearly possible and potentially profitable for multinational companies to exploit the consumers and authorities ability to control the quality of products across countries. Crime victimization studies indicate that poor countries are likely to be most frequently harmed. To do so will violate CSR demands according to the B)-definition, but not doing it when the possibilities increase may move more companies' actions from the adiabatic to pro-ethics areas, particularly when they abstain from it in poor countries.

Pure information acts and their manipulation are often done jointly with other forms of action and may impact the normative evaluation of the joint act. We have seen how this has been the case for tax payment. But the supply of information is an act itself over which agents make ethical judgments.⁵⁰ A reasonable part of any CSR strategy is its information policy, whether it seeks to emit only truthful information about its activities and results or not, and how much information it seeks to prevent reaching the public. Transparency has become a

ents. An important arena for credence goods are medical goods and services. Here quackery is known from time immemorial.

⁴⁸ While the data from crime victimization surveys contain unexplained variation, it is nevertheless a clear trend that consumer fraud is more prevalent in poor countries (van Dijk, 2008: 344- 347).

⁴⁹ A common way to classify goods according to their informational attributes is to distinguish between 'search goods', 'experience goods' and 'credence goods' (Katz, 2007: 13). In the case of search goods the consumer may determine the quality of the good before the purchase while in the case of experience goods the quality may only be determined afterwards when the consumer have used the good or experienced the effects of the service during a period. In the case of credence goods the quality may not be ascertained at all without specialist investigations. Many ordinary goods - like almost any food - have credence attributes. You may not determine from eating it that this particular can of tuna fish contains harmful metals. This property of much food and its relevance for CSR was made clear for the European public after the 'horsemeat scandal' of January 2013 (*The Guardian*, May 10, 2013) was made clear that horsemeat was fraudulently used instead of beef in a number of food items. In the case of medical goods and services the credence attributes are likely to dominate and give rise to a number of CSR issues.

⁵⁰ In fact, most multinational companies have established separate information departments - often closely connected to offices dealing with CSR and ethical aspects - that handle and control information emitted from the companies. Like the case of CSR the information activities may be outsourced to specialized institutions, in this case commercial PR organizations, consultancies or think tanks with more public aims on their agendas. Except possibly for the latter, charity motives are not likely to be involved.

catchword in debates about public as well as private governance, but a similar mechanism to the one pointed out for general CSR by Kotchen and Moon (2011) may have been at work here: more calls for transparency may in fact go together with stricter control of information and selective secrecy.

Since information characteristics such as lying/truthfulness are by themselves only resource demanding in a trivial sense from an economic point of view; the C) definition of CSR that we have used in most of our discussion of tax payment does not apply. It is either A) – CSR as ethical conduct, or B) – CSR as absence of business misconduct – that apply. Note that what we are discussing here is not lying by individuals who happen to be employed by a company, but lying performed by or incentivized⁵¹ by the company leadership, mostly in order to further the interest of the enterprise. It is then not obvious whether and how a lie represents an unethical act or a case of business misconduct in any given case since several plausible, partly contradictory ethical principles may apply even in this extreme case of information handling

A reasonable definition of is the following: lying is ‘an information act where the sender of information intentionally seeks to deceive the receivers either about the state of the world or about the sender’s belief’s about the state of the world,’ (cf. Mahon (2008)).⁵² Note that the definition includes both an action and a motivation component.

In his classic discussion Kant argued that lying was an unethical act whatever the ultimate motivation, situation or consequence of the act. Since lying about either motives or the state of the world is a component in more complex string of actions where most parts don’t rely on it, a Kantian assumption implies that a large number of corporate activities become unethical, also activities that normally are classified as CSR either because of the kind of expenditure involved or because of its consequences: If a pharmaceutical company expends 100 million

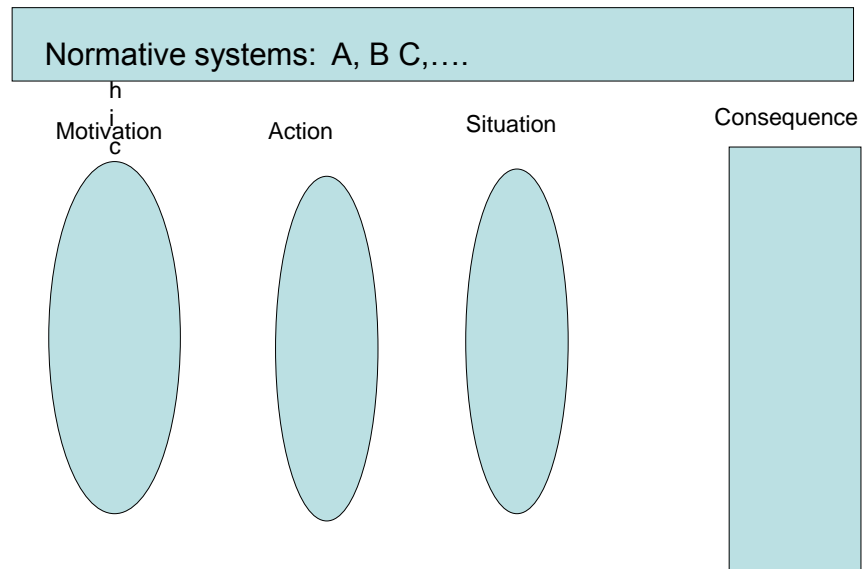
⁵¹ The incentives in applied in the financial industry have received considerable attention and have had a significant global economic impact through their stimulation of sales efforts of fraudulent financial packages.

⁵² The prevalence of lying is an aspect of human behavior that creates difficulties in management of people inside companies, in the public authorities steering of corporations and public behavior, and in the political organization of citizens. It also, of course, creates severe problems for social scientists when they try to map and explain behavior, attitudes and views of the world. Together with killing and stealing it is also a kind of behavior that is almost universally condemned in most religions and other value systems guiding everyday behavior. The classic treatment of lying that discusses it both from a philosophical and commonsense social science point of view remains S. Bok (1978). Although a classical problem in philosophy, it has only recently received systematic interest from economists despite its obvious importance for much economic behavior. One reason for the neglect is that the classification of the phenomenon relies on the difficult to observe motivation of the liar. The introduction and acceptance of experimental psychology methods in economics has changed that situation. A recent study of lie aversion when the lie has slightly positive effects for both the liar and the deceived is Cappelen et al (2012).

dollars on support to (expected) unprofitable research on leprosy or supplying gratis medicine, but does it not out of kindness, but in order to ensure political protection of its monopoly earnings and thus *lies* about its *motive*, it becomes unethical according to this ethical view about lying. Hence, expenditures classified as CSR according to the C) definition will not be so according to this ethical specification of definition A).

The hypothetical case of a multinational company that seeks to maximize the expected welfare of its tax payments across country regimes by moving taxes away from the harmful towards the helpful ones towards the poor, but in order to do so has to wrongly state where the profits actually has arisen (lying about the state of the world to one or several tax authorities) its tax evasion becomes unethical whatever the *consequences* and its *motive*. -Let us expand the case of lying and look more generally at the definition A) – CSR as ethical business conduct – when we allow several ethical systems to be potentially valid and illustrate this with the following schematic figure:⁵³

Diagram 1. Components in ethical judgments: a simplified scheme



⁵³ Note that we here and when presenting Definition A) have defined ‘ethical behavior’ *inclusively* as behavior that is allowed according one or more ethical system. In many everyday deliberations one may define ‘ethical’ *exclusively* as behavior that satisfies all the different, recognized norm systems as long as the rule systems don’t contradict each other with respect to a given act. To prevent such possibilities we may use diagram 1 to define ethics exclusively as a set of screens where only ‘good’ motives that guide ‘good actions’ in a set of allowable situations leading to ‘good’ consequences may be considered as ethical acts.

So far we have discussed two simplified ethical approaches to CSR: 1) *consequentialist* where the normative focus is on the consequences and where the rest of the components are either ethically neutral or derived from their consequences (cf. profit maximization under free competition vs. monopoly) and 2) *deontological* ones where the focus are either on i) actions like the Kantian case of lying and in much of human rights thinking⁵⁴ or ii) motives (as in some Kant interpretations). Since the discussion of ethics is confined to ethics as it may apply to leaders of multinational companies, this is part of any situation, but there may be other components of a situation that may be of interest. Generally what is right may change with the situation so CSR defined as ethical leadership actions may be local, and defined over bundles of motivation, action, situation and consequence components. Change in one, for example, a situation component, may change the normative valuation of the whole bundle.⁵⁵

Look for example at the case where a company leadership pays a bribe that gains both the company and the official that receives it without (a rather special, but possible condition) anyone else being hurt. The motive behind the action – profit maximization – and the action itself – the buying and selling of services – are often considered ethically neutral and when the consequences are good in this case, the whole transaction should look adiabatic from a deontological and recommendable from consequentialist point of view. Nevertheless, this situation where an enterprise transforms a public administrative transaction to a market one, will many perceive as unethical in itself.

There are many other and maybe more clear-cut cases⁵⁶ where the activity also may be wholly legal but where situational components such as the market organization of an action may violate situation-based ethical norms.⁵⁷ This may be of particular relevance for multinational companies that operate in constituencies where citizens may hold opposing local norms or where large differences in poverty levels may become the basis for profit. As a case of the latter we may consider a private hospital located in a poor neighborhood in a developing country that buys kidneys from the locals and sell kidney operations for

⁵⁴ A much discussed issue is the relationship between multinational companies' localization decisions and eventual local violation of human rights. In most cases it is not a question of whether the company itself violates a human right by its own actions (except through its location decision), but whether the authorities of the location do so. If they do, does this create a negative ethical spillover to the company directly derived from the authorities' unethical acts, or only if the location of the company has as one of its *consequences* that the violator regime strengthen its position and may continue its violation of human rights?

⁵⁵ Developed systematically, this line of thinking may get into conflict with several ethical systems that aim for generality. An important study that insists on the ethical importance of particular situations is Walzer (1983), where a number of different situations where different norms are likely to be invoked, is analyzed.

⁵⁶ After all, bribes are illegal, may imply some lying, and this may easily move such actions to the non-permissible fields from deontological perspectives.

⁵⁷ Sandel (2011) suggests a number of situations where such local norms about proper methods of transacting are violated when organized as markets.

profit to well-off people from the rich countries. Here it is the wide gap in economic circumstances in the different sides of the kidney market in addition to the market itself that may make the hospitals' profit-making ethically revolting, although it may improve the lives of everyone involved when all operations are properly done and both motivations and actions themselves are either ethically neutral or recommendable from deontological perspectives.⁵⁸ The point here is that whatever the company leadership is doing so may this field of activity as a profit-making arena appear incompatible with CSR.

13. Informational requirements of the different ethical evaluation systems

We have seen that informational actions will often be part of the CSR considerations and may be evaluated in similar ways as resource-demanding actions such as tax payment. When judging the various ethical norm systems and studying what kind of requirements they set on for company behavior including its informational acts, it is an interesting attribute of the different systems for judging the ethical value of company leadership behavior themselves have informational components. As soon as one put one's mind to it, it is rather obvious that the information required for making ethical judgments on the basis of motives, actions and consequences differ substantially.

In most cases it is almost impossible to get to know the *motives* of the different agents involved, although they may to some degree be inferred from behavior. Only the leadership of corporation itself will know their motives for any behavior: Is the motive for supporting a local school genuine concern for the education in the neighborhood or part of a political bribe?

Actions on the other hand are more easily observable together with their immediate consequences. Ethical systems based on judgments directly related to actions relevant for business leaderships are often closely related to rights-based systems.⁵⁹ Since the norms on which actions are judged may differ, knowledge of these – such as trade union or prayer rights- are important for enterprises operating in different political constituencies, but otherwise no deep knowledge of the society in question is needed in order to develop CSR strategies that may avoid condemnable actions of its own and comply with rights

⁵⁸ Particularly the asymmetry of information between the donator and the hospital, but also between the receiver and the hospital may give rise to a number of abuses in practice that are obviously unethical from all conceivable ethical points of view. To organize the allocation of transferable kidneys as a market represent a high ethical risk way of doing it, so when abuses occur the organizers of it, such as private hospital may, may be considered as corporate irresponsible behavior.

⁵⁹ For example, in the Kantian argumentation against lying, the right of its victims to know the true state of nature is violated.

based ethics. For a multinational company the question of rights arise most acutely at the time of entry or potential exit where it is not only a question of the company's own actions, but whether the violation of rights by the authorities in the constituency are so extensive that it will be ethically wrong (or excessively harmful to its reputation) to enter or stay. Location decisions are an extremely important part of any company's CSR strategy where the different informational requirements of the different ethical systems play a significant role.

To base ethical judgments on norms over *consequences* is on the other hand very information-demanding. Here it is not only a question of spelling out a set of norms and see whether a set of actions violate them in a direct way, but the set of the company's own actions have to be tied to a set of expected consequences and a metric for how their value should be aggregated, developed. This would ideally demand a thorough knowledge of the society in which the corporation operates. Without that knowledge it would impossible to assess the consequences of one's actions, i.e. how far one's responsibilities stretch. Again, this will normally be even more difficult when the corporate leadership belongs to a different constituency than the one in which a plant operates.

In principle, the consequences of any large enterprise activity may stretch far out. For example, in countries with widespread poverty where an enterprise with large earnings of quasi-rents is located, its choice of spending may potentially affect a large number of citizens: will it spend it locally or send it abroad? To aggregate the diversity of moral claims that arise from a study of the potential consequences of company actions may create unreasonably large moral claims against a company, leading corporate leaderships (like well-off citizens in general⁶⁰) to disregard all ethical responsibilities of this kind altogether. The set of consequences and the corresponding normative value assignments have to be limited in order to be manageable both from informational and ethical points of view.

In practical terms, a consequence-based ethical CSR strategy is then sometimes limited and based on a predetermined set of agents whose welfare is to be considered, a set of 'stakeholders' which is a term frequently appearing in the CSR literature. In line with a consequence oriented, utilitarian-like approach, the stakeholders are treated symmetrically. Usually the set of stakeholders are limited to the set of agents with whom the enterprise directly interacts; regulatory authorities, customers, workers, lenders and so on, but sometimes that will

⁶⁰ A philosophical analysis of the dilemmas that arise through such aggregation of moral claims in the case of citizens is Fishkin (1982). Since leaderships of large multinational companies dispose of more resources than any regular citizens, these dilemmas are at least as relevant for them .

also be too narrow. For example, in the case of a pharmaceutical enterprise that possesses an international monopoly of a life-giving medicine, the most important group of stakeholders are all the ill and poor people in the world who cannot afford to buy it. While demanding from an informational point of view, consequentialism appears more complementary to the regular activities of a profit-making enterprise which need to assess the prospects for profits before entering a new constituency anyway. To do so it has to assess the economic consequences of its entry.

Another way to solve the conundrum of how far to go in the collecting of information –one has to know what one still cannot possibly know in order to make the decision right – is simply to decide not to know any more. This decision may be motivated by a desire to avoid unnecessary complexity or to avoid knowing suspected unethical consequences of its actions- a quite common motivation in enterprise knowledge collection.⁶¹

One practical way to handle that suspicion is by blocking the access of knowledge about negatively valued ethical consequences of an action through *decentralizing* the information collection internally so the leadership will not know. For example, in the context of corruption, the corporate leadership may introduce strong economic incentives to the country heads for the corporation's activities in even highly corrupt countries. Country heads receive or lose large rewards when they succeed/ not succeed in gaining large contracts. The multinational company leadership may do so even though it knows that this incentive structure may go together with higher corruption risks. If they, as most leaderships claim, sincerely believe that corruption is socially harmful, they will now not *know* whether the profit-making choices induced by the harder incentive structure they have made, results in more corruption or not. That knowledge stops at the country head. The country head may then again effectively *outsource* that knowledge as well as the actual bribe actions to local consultants who know the actual constituency better.⁶² Outsourcing of high corruption risk activities is of course another general way of not knowing.

⁶¹ In a set of interesting experiments (Dana, Kuang and Weber, 2007) the participant are first presented with a simple dictator-like game where most participants are willing to sacrifice something small in order that the others are not strongly harmed. In a second more uncertain situation the 'choosers' may again choose an alternative where they receive either the best outcome or an outcome where they sacrifice something small. But now they are in a lottery where the best outcome may not always lead to the bad outcome for the others. They don't know for certain whether their action will prove harmful. To make the right choice for the other, they must ascertain which situation is on, which they can do without significant costs, but they don't do so and feel now free to choose the most selfish solution consistently. The other *might* not loose. That is enough.

⁶² There have been introduced clauses in anti-corruption laws of a number of countries that make it illegal for multinational companies to bribe abroad even through middlemen such as consultants or local partners, but such bribing is even more difficult to prove. In practice most companies that engage in such bribing follows the recipe once described in Marsh (1989) business manual for how to trade abroad; that is, do most bribing through

14. Lobbying, company cooperation and CSR – a note.

So far we have looked at an extremely simple situation where a single, typical (possibly multinational) company is studied. We have asked how its various ethically relevant choices may be judged under alternative, but very simplified ethical norm systems. Since both the potentially ethically relevant effects as well as the ethical norm system itself may change with the number or fraction of companies that are making the same choice, a study of a typical company may become too poor in a number of social contexts. In this section we will not try to open up the multi-agent case for systematic investigation, however. The number of possibilities expands too fast, so we will just point at a few, just to make aware the limitation in the typical enterprise approach we have followed.

One set of ethically relevant distinction of a multi-agent adoption of a given piece of enterprise action, is whether the adoption is reached through enterprise cooperation or not. In some ethical systems voluntary cooperation among enterprises may have an ethical value of its own while forced ‘cooperation’ dictated by the state may have a negative value. In a number of situations a proper CSR strategy implies a necessity for corporations to cooperate. Much of the strength of the CSR as an ideological movement has been the belief that companies through their own voluntary cooperation may avoid a number of regulations fixed by the state and introduce their own more flexible ones. An example may be introduction of voluntary quality standards (including one on CSR) instead of state-dictated obligatory standards where the degree of compliance may vary. The belief has been partly inspired by the idea that through mutual bargaining firms (and groups of consumers) may on a voluntary basis agree on the division of costs (in case of negative spillovers from one enterprise to another) or sharing of gains (in case of positive spillovers) that may gain both. Moreover, the actual outcomes may shadow any public solution.⁶³ By developing this possibility, adding some altruism or enlightened self-interest, one of the partners may even sacrifice some profits for establishing the common good whether that consists in abeyance to common technical requirements, pollution standards or the sharing of lobbying costs.

consultancies, but control each by one company employee, and one only. In addition to reducing the risk of being made responsible, by shielding the leadership from bribe information, it not only reduces some of the legal risks, but also some of the moral costs involved and much in the manner illustrated in the experiment described in Dana et al. (2007). If internalized, the only *certain* costs of an unethical act are its moral costs. Those may be at least partly avoided by not knowing.

⁶³ The classical exposition in economics here is Coase (1960). It has clearly inspired the later CSR movement by presenting a number of situations where several desirable outcome of public regulation *conceivably* may be achieved through voluntary bargaining, including economic transfers, between enterprises.

When the Ministry of Corporate Affairs, Government of India (2011) was spelling out the different dimensions of CSR it considers relevant, the ministry (unlike much of the prevailing CSR literature) emphasized the importance of the lobbying behavior of larger enterprises. Whether a company joins a company group effort that may cause a public harm or a public good is obviously very important for the final normative evaluation of the sacrifice it makes for its group public good. In practice, the ethical evaluation of company cooperation such as lobbying both when focused on information acts and when seeking to influence the allocation of real resources will to a large degree hinge upon whether it may create a public good or a public harm. For the area we have focused much of our attention on, taxes, the public characteristic of company lobbying for reduced taxes tends to be closer to a public harm than a public good.

In many cases the ethical assessment of any enterprise choice act may change with the fraction of companies that makes the choice, without any direct cooperation and where the different ethical assessment functions may move in opposite directions. For example, if the environmental returns from the adoption of a costly cleaning technology are increasing in the number of enterprises that adopt it, the environmental effects of the first firm that install it will be of less consequential value than the last one, when regarded in isolation. Sacrifices made when members are few tend to be higher (may have stronger negative impact on their competitive strength) and may be more praiseworthy from a deontological *inspired* point of view,⁶⁴ however. Lifting the isolation restraint, it is reasonable that the first movers' actions may be more ethically valuable also from a consequence oriented point of view, however, if they induce a more widespread introduction of the cleaning technology

That is, norms relevant for CSR may change and interact with the outcomes of CSR through the fraction of companies that adhere to a given action when they cooperate, but also when they interact independently. The consequence or situation sensitive (local justice) ethical systems may in general appear to be more sensitive to the number of enterprises that adopt any CSR sensitive type of action of the 'good' type, but also in the case of the 'bad' type where consequen-

⁶⁴ We are here deliberately vague at this point. I am not aware of any systematic ethical system that argues that some act is less morally reprehensible or praiseworthy the larger or smaller the fraction of people who commit it. This is very much a common sense kind of notion, but it may be defensible mainly under the roof of some consequentialism if we as part of the consequences include the psychological costs of doing something wrong. From a deontological point of view as suggested here it may make only sense metaphorically. In everyday life it is clear that ethically judgments are very sensitive to the relative incidence of the behavior in question where ethically 'good' acts increase in value with its rarity, and where ethically 'bad' acts become less blameworthy when they become more frequent. In a vague sense this common sense view may mix notions from deontological and consequentialist system by imputing value to deontological commitments through their assessed social and economic consequences for the performer.

tialist and commonsense deontological judgments (cf. footnote 64) interact.

To take an example of the latter: When a larger fraction of companies engage in corrupt behavior, the moral costs for each is likely to decline while. While the moral costs may decline with the fraction engaged in corruption their economic costs may increase for each company as well as for the whole group of companies and society at large. Nevertheless for each company in this situation it pays to bribe, but the corporate social responsible act is for each company to refrain from bribing and to establish forms of cooperation where they police each other and do not commit any corrupt act, but how?

15. Anti-corruption and prospects of company cooperation.

A case

Corruption is illegal and is supposed to be policed by a public anti-corruption agency with some police authority. Compliance with the public authorities' regulation ^{and} CSR behavior would imply that each company refrains from paying bribes and reports on others when they discover some misconduct. Alternatively, they could do the policing themselves according to the CSR through organized, but voluntary cooperation which then becomes part of their CSR strategy. This appears possible since they share a common interest in not paying any bribes at all. Empirically, both possibilities for CSR conduct – the refraining from paying bribes and the reporting of own and competitors' bribe payment seems to occur only rarely in the context, however.⁶⁵

We will look into some reasons that may explain the difficulty in organizing mutual policing with or without the cooperation of the relevant public authority even in situations where the companies have stronger immediate interests in cooperation than the one just outlined. We are looking at information acts only.

The particular case is taken from the oil industry where the multinational companies themselves are procurers of large scale projects and where their procurement may be diverted by bribes paid by the sellers or their representatives to some disloyal officials of the petroleum companies. Corruption now normally means that the companies have to pay a higher price, so each company has an economic interest in not

⁶⁵ The main mechanism that prevents cooperation and conveying information to the public agency is the proven unwillingness of the competing companies to whistle-blow on each other (Søreide, 2008). She suggests several reasons why that might be the case: that whistle-blowing by a company may prevent it to join a cartel, that local politicians controlling procurement may gain by from corruption. The simplest explanation in case one is in a high corruption equilibrium is simple tit-for-tat mechanisms: If you rat on me, I rat on you and both may lose contracts..

paying a price that includes a bribe.⁶⁶ Unlike their own eventual bribe payment where they may gain access to potential oil sources, as buyers the oil companies had no own interest in getting involved in a corrupt transaction. Here it is not only in industry interests, but also, and mostly so, in each transacting company's interest to prevent bribe-payment in its procurement process. Corruption would be harmful for each company not only for the money paid out, but also for the danger to the efficiency, loyalty of and commitment of the officials in its own organization. In addition, the eventual bad reputation caused by the eventual public knowledge that one of its officials was a bribe receiver, could hit its stock prices and its general social reputation: if one disloyal servant why not several? Why was not the company better in monitoring its employees?

The different companies have also important common interests and may gain by sharing information. They are often engaged jointly as co-procurers for a given extraction field (although headed by one of them as its 'operator'). Many of the same suppliers participate in the different procurement processes, so if anyone tries to bribe, it would be useful for the other companies to know. They may then consider a boycott or some other forms of policing the supplier. Also engaged in procurement are a number of so-called information brokers who buy and sell illegal (and legal) bid information throughout industry. If one company is able to discover an information broker who operate illegally and reveal the identity to the rest of the industry, it would more difficult for him to harm the other companies. For getting the full effect, the identity has also to be revealed to the police. That would also be the only socially responsible thing to do.

If any corrupt transaction would be publicly revealed, however, it may harm the company exposed to corruption strongly, and possibly also the reputation of the whole industry. If the latter effect was weak, it would harm the single company to go public, but would on the whole gain the whole industry. In practice, if bringing the case forward to the police, the case became public. If all cooperated and went public, it would on average gain the whole industry, and the loss to reputation of the single 'whistleblowing' company would be smaller if all the companies tend to go public with their corruption experiences. Hence, the following simple (assurance or stag hunt) game might catch the situation:

⁶⁶ This case is based on an attempt made by some major oil-companies (EXXON, BP, Statoil and a couple of others) in the mid-1990s to protect themselves against corruption directed towards their own procurement. They cooperated then by establishing a joint anti-corruption office in London and mainly manned by former police officers who cooperated with the security department in each company, not by its information or ethical specialists. The bribing processes together with their information requirements are presented and analyzed in Andvig (1995), but I did not then analyze or describe the establishment of this cooperation itself

Diagram 2. Policing procurement . ‘Cooperation’⁶⁷

BP – EXXON “go public/ stay secret” Stag hunt game

	<i>EXXON</i> Go Public	Stay secret
<i>BP</i> Go Public	{ 2 , 2 }	{ - 1 , 1 }
Stay Secret	{ 1 , - 1 }	{ 0 , 0 }

If this game describes the situation, a common information pooling office that may collect and share the participating enterprises’ corruption experiences between themselves and with the police could prove to be a lasting solution when first established, but to establish it from a situation where everyone keep their corruption incidences secret, should be difficult. Presumably each company will then continue to keep the information internally about their own bribe receivers and bribe-payers – a more interesting piece of information for the rest of the industry – to themselves. By conveying that information single-handed each will lose. For a number of reasons, not all known me, the cooperation broke down, however.

While the information pool might have broken down for a number of external reasons, it may also have been factors intrinsic to the situation that might cause a breakdown. While each company had an interest in fighting its own corruption, where its success will be increased if the other company emitted relevant information, the effects of the loss of reputation could be so strong and the gains from cooperation too small so that the situation could be stylized more like a prisoner’s dilemma game?

⁶⁷ To call this cooperation may be a misnomer. It is a non-cooperative game, but it is a game where one of the outcomes may sustain an office that may be perceived as a cooperative solution.

Diagram 3. Policing procurement. Non-cooperation

BP-EXXON "go public/stay secret" PD game

	EXXON Go Public	Stay Secret
BP Go Public	{ 2, 2 }	{ - 1, 3 }
Stay Secret	{ 3, -1 }	{ 1, 1 }

There we see that the advantage of secrecy is so large that it would pay to remain secretive even if the other company went public (that is, has gone to the police with its case). Here the value of secrecy will be added to the value received from the other company's corruption revelation. Like before, if the other company remains secretive, the best one can do is to remain secretive too.

If CSR really had become internalized in the industry and the companies were willing to and desiring to cooperate in a way that would be beneficial to themselves as a group as well as increasing the supply of public goods in the sense of making dishonest business practices less profitable, one would expect the companies to assist in keeping such an office going.⁶⁸ Rather than trivialize it, the stigma attached to corruption increased when revealed increasing the gain to secrecy. The main organizational consequence in the oil companies appears to be that the corruption-relevant CSR strategies tend rather to be administered by information/ethics departments closer to company leaderships than by company security offices manned by ex-policemen. With this arrangement more efforts are made to handle eventual reputational fall-outs due to corruption incidences than to catch bribe receivers and bribe givers, the focus of the former arrangements. In any case, fewer incidents will reach the public eye through voluntary company information actions when the 'fight against corruption' becomes more public and corruption stigma thereby become more pronounced.

⁶⁸ The office was closed after a few years.

If CSR expressed through corruption avoidance really had been internalized and expressed through joint efforts in reducing actual business misconduct (a consequence oriented value), one would expect the companies to keep information-sharing offices going. But if corruption avoidance mainly expresses a non-ethical, profit-motivated reputational concerns, the gain of secrecy would increase and a CSR strategy administered by an information/ethics department specialized in reputation management and not by ex-policemen eager to catch crooks will tend to make a better fit.

16. Summary and conclusions

In this paper I have focused on three different ways to explore corporate social responsibility (CSR): i) as a set of corporate behaviors that may be characterized as ‘ethical’ (definition A). Ethical has mainly been interpreted in an inclusive way so we have looked at the implications of some well-known ethical systems, but simplified close to banality in order to highlight plausible implications for business conduct. To study those I have taken the liberty to allow corporate behavior that may appear rather unrealistic. Ethical implications of profit maximization have been under particular scrutiny. ii) CSR as absence of misconduct (definition B). Here we have mainly studied pure information acts such as lying and corruption where information handling is a key. Most of the paper, however, has dealt with CSR as iii) ways to spend corporate net income for some public purpose (definition C). Here the main interest has been on tax payment as part of a CSR portfolio that otherwise includes resources spent on public goods or services supplied through the company’s own organization or outsourced to some non-government organization NGO or specialized private organization.

The focus on tax payment made it possible to study a *typical* and *multinational* company. Tax administration is a regulatory system that embraces all enterprises so we did not have to go into the technological and institutional details of any particular industry. Naturally, CSR issues vary significantly across industries. Moreover, a multinational company will to some degree be able to choose which country to pay tax to. This implies that it will choose where to assist the state to produce public services and goods (or bads) across regimes ruling populations at widely different income levels and with varying degree of efficiency and fairness. That is, tax payment choices bring us directly into one, if not *the* most important ethical arena today, the prevalence of widespread difference in poverty across countries (Pogge, 2008). If the high hopes that the increased power and prestige of multinational companies may somehow make a substantial contribution to resolve global inequalities, their tax payment is clearly one of the potentially

most important instruments. Moreover, if companies pay more taxes to poor, well intentional regimes than would follow from maximal tax avoidance efforts, it may reveal more purely eventual altruistic motivation than the other components of the CSR expenditure portfolio where the expenditures may be mainly motivated by reputation concerns.

Seen from this perspective the extensive use of tax havens and the available information about the large resource efforts made by reputable multinational companies in order to avoid taxes,⁶⁹ may throw doubts on the genuineness of the whole CSR agenda, and not only about the ethical motivation behind their tax payment decisions. Here we must add a qualification to our hypocrisy implication from tax avoidance to the wider CSR agenda: while there is available considerable amount of data about tax avoidance efforts, I am not aware of any empirical research that has estimated how much more taxes (and which) enterprises that may (deliberately) pay above the minimum legally possible taxes, so we are not able to definitely conclude that the whole CSR agenda is flawed, but it does throw considerable doubt about its sincerity.

In most of the paper we have studied the CSR choices seen from the perspective of one, typical multinational company. CSR naturally deals with *social* behavior where what the company leaderships are likely to do in terms of delivering public goods and services or feel about what may be right and wrong, will depend upon what other companies are doing and how ‘stakeholders’ – citizens, companies and organizations that are effected – respond. Hence, this is a severe limitation of the study, but to bring them in will bring on a large number of new considerations, if brought on systematically. In order just to indicate what kind of considerations that then may follow, we looked briefly on a case that involves an aspect of CSR difficult to handle by the typical company: cooperation among companies and eventual individual sacrifices for their common group good. Here we looked at pure information acts and showed that whether CSR forms of information conveyance from the single company will take place or not, hinged essentially on how the interests among the different companies were aligned, and where small changes may decide whether cooperation among the companies was likely to occur or not.

⁶⁹. General Electric is generally considered to have been among the most ethically concerned, large companies in the US. Nevertheless, while the company reported a world wide profit for 2010 at about \$14.2 billion, it paid no taxes and received \$3.2 billion in tax benefits. (Kocieniewski, 2011). This was not only a cyclical blip, but the outcome of systematic work of its tax department that has a staff of 975, instructed to treat the department as a profit, not compliance center (ibid).

It is clear that CSR deals with *corporate* responsibility and ethics, not the ethics or charity expenditures made by individual members of any company leadership. Although they may have some individual leeway for more or less ethically motivated choices, these have to be made under the shadow of the duty to maximize profits.

Under some theoretical conditions, such as free competition, that duty may be unproblematic from most ethical points of view, but otherwise profit maximization may lead private companies to choose deeply ethically troubling, ranging from such traditional negative welfare effects as polluting to lying and fraud. Ideally, it is the task of public authorities to regulate those so that it becomes difficult to make large gains to the company and large harm to the public from either lying or polluting. Whether the authorities are capable or motivated to do so, may often be an open question. Nevertheless, as long as one has to rely on profit maximizing as a major guiding principle for company leaderships, it remains difficult to believe that companies may solve such problems on any large scale basis on their own.

One ends with the rather unexciting conclusion that the major corporate responsibility of private companies remains to supply individual goods and services as efficiently as possible while most of the important moral considerations and trade-offs will have to be left to the government as in the fictional world of free competition. If the companies are able to internalize other ethical concerns in their behavior, it is a bonus, while a pretense of moral motivation where none is present, may rather become a reason for ethical concern and not only for Kantians.

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