The Social Responsibility of Firms: The Case of Effective Altruism

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Sustainability in business

- A mix of political, social, environmental, and economic goals
- How should these be reflected in business?
  - A criticism of Corporate Social Responsibility (CSR) initiatives, triple bottom line, and stakeholder management approaches is that they are *too vague*: they do not offer a principled method for dealing with trade-offs

    e.g., how to share value between shareholders, employees, communities and other stakeholders?
  - Likewise, how can firms decide which aspect of sustainable development goals they should prioritize?
    - e.g., how to prioritize between reducing poverty and combating climate change?
    - 17 global goals with 169 targets

Alternative methods for setting priorities

1. "doing well by doing good": strategic CSR; enlightened stakeholder value maximization: no (long term) profit sacrifice
   - Cost-reduction, e.g., through reducing waste
   - Costs passed on to consumers, employees: e.g. Fair trade
   - Long term benefits generated for firms by avoiding short termism; buying goodwill from regulators, the public, employees, customers, suppliers
2. An alternative approach: *Effective Altruism*
   - May require sacrificing some profit for the social good
   - Trade-offs between creating value for shareholders vs other stakeholders
   - Managers could act on their own initiative
   - Delegated: shareholders could accept lower returns on their investment

Effective Altruism: Doing the most good

Peter Singer on Effective Altruism:

- Living a minimally acceptable life involves using a substantial part of our spare resources to make the world a better place
- Living a fully ethical life involves doing the most good we can
  - Effective Altruists donate large parts of their income to the most effective charities
  - They choose careers in which they can earn the most so that they can do the most good
- Effective Altruists want to get the greatest "bang for their buck"

What about shareholders, managers, firms? Should they do the most good they can?

Corporate altruism: supporting considerations

Should firms practice philanthropy through developing, pricing and delivering their products and services?

Firms have cost advantages in achieving health, social and environmental goals:

- Special competencies, resources: know-how, skills, scarce goods, etc.
- Complementarities: economies of scale and scope
- The rationale for using the firm as a vehicle for altruism is cost-effectiveness

Firm decisions about product development, pricing, and delivery have implications for global health, social and environmental goals

Limitations of corporate altruism

- Disagreements, value trade-offs
  - Unresolved value trade-offs: For whom to create value? What kind of value to create?
  - Special responsibilities: to respect the rights of shareholders, employees; not to cause harm
- Accountability in the face of disagreement
- Institutional division of labor
  - Adversarial interaction within markets
  - Fiduciary duties within firms

Disagreements, value trade-offs

- What does doing the most good really mean?
  - Should the worst off be given some priority when others can be helped more effectively?
  - Are there ethical differences between the kinds of benefit a firm could provide?
    - Aggregating small benefits to many people vs very large benefits to a smaller number
- Are firms constrained by ethical values whose validity does not depend on maximizing the good?
  - Fair chances; Rights; Freedom; Responsibility for harms caused

Responsibility to respect rights

- Shareholders:
  - Maximized profits
  - Should a CEO develop/price/deliver products or services that do the most good but fail to maximize profits?
- Employees:
  - Labor conditions: e.g. workplace safety, unions
  - Nonexploitative wages
  - Should firms create more low-paid jobs with unsafe working conditions or fewer jobs that offer nonexploitative wages and safe working conditions?

Accountability – Why? To whom? How?

- Unresolved disagreements about value
  - The issue of accountability may not arise for small-scale individual charitable giving
  - But it does for corporate altruism (and for NGOs)
    - Difference between (small scale) investor and managerial perspectives on corporate altruism
- Shareholder vs stakeholder interests
  - Are firms/managers accountable to shareholders only?
  - Or are they accountable to all potentially affected by their actions?

Accountability – Why? To whom? How?

- Political values
  - When firms engage in making public policy, they need to consider political values that appropriately constrain decision making in public policy
  - Fair procedures, legitimacy, inclusiveness, transparency, publicity
- Some reasons to be cautious about setting social/environmental goals that compete with profits
  - Providing managers with a mandate to pursue social/environmental goals or to maximize the firm's net social impact may undermine *managerial accountability*;
  - *Corporate governance problems* are exacerbated: unsolved disagreements about priority setting make both defining managerial objectives and performance evaluation more contentious

Implications for Sustainable Development Goals

- Are there value trade-offs involved in the prioritization of various SDGs?
- Should managers have a mandate to pursue social/environmental goals independent of (long term) profit considerations?
  - Should SDGs be reflected in setting managerial objectives and evaluating managers' performance?
- How should firms accommodate political values in prioritizing between SDGs?
  - Fair procedures for decision making
  - Division of labor between political institutions and firms in shaping public policy