

E-OPINION PAPER

“Tamed capitalism” - competing on social responsibility.

By Pablo Nieto

The European Union faces a dilemma. On one hand, its economy needs urgent reforms to increase its productivity, boost innovation and improve its competitiveness at a global level. On the other hand, a majority of European citizens wishes to maintain and develop the European Social Model, a vision of society that seeks to guarantee continuous improvements in living and working conditions. In the last decades, employment stability, equality of opportunity and social protection have been pursued through a rigid industry and labour market regulation. The Welfare State has brought a suffocating level of taxes and bureaucracy that hinders business growth and the creation of new innovative enterprises. Politicians have relied on state intervention to achieve the objectives of the European Social Model. Their strategy has proven exceedingly harmful for economic development, failing to beat the challenge imposed by globalisation and the knowledge economy.

The European Commission recognises sustainable development and more and better jobs as the twin challenges the EU must address in the face of global competition. The revised Lisbon Strategy proposes measures and solutions at a national and continental level to rescue the European economy from stagnation. Among them we find the promotion of corporate social responsibility. From the Commission’s perspective, Europe needs “innovative answers to address the competitive challenge while defending European values” (...) “Europe does not need just business but socially responsible business that takes its share of responsibility for the state of European affairs”¹.

Sometimes, the impact of certain ideas over the social and economic structure surpasses all expectations. This may be the case of corporate social responsibility, a concept that could have revolutionary effects over the future relations between civil society, private enterprise and the State. While promoting business social responsibility, the European Union might face significant changes in its socio-economic system: capitalist democracy. *If European politicians want innovative citizens and innovative enterprises they will have to accept innovation regarding their ideas of economic and social organisation.*

Competing on responsibility

Capitalism offers customers a growing number of products and services, improves their quality, turns luxury goods into mass consumption products and gives incentive to innovation. No other form of economic organisation has ever been so successful in fulfilling human material needs.

¹ Implementing the partnership for growth and jobs: Making Europe a pole of excellence on corporate responsibility (European Commission, 2006).



**EUROPEAN
ENTERPRISE
INSTITUTE**

15-17, rue de Belliard
B-1040 Brussels

[info@european-
enterprise.org](mailto:info@european-enterprise.org)

[www.european-
enterprise.org](http://www.european-
enterprise.org)

This process has its origin in competitive dynamics. The survival of an enterprise depends on its capacity to offer more for less –or at least to match what is offered by its competitors. However, depending on the nature and maturity of the market, old competitive strategies can turn ineffective. When prices reach their lowest possible level, features and services are almost identical for a give price, and advertising campaigns do not offer a significant advantage, businesses need a new focus to distinguish themselves before the customer. This is precisely what corporate social responsibility strives for.

In a market economy, the client's decision is a major force. One of the basic objectives of corporate social responsibility is to influence or secure the customer's opinion about the company. Businesses assume their social responsibility as a project and a strategy of entrepreneurial character that allows them to differentiate themselves from competitors. At this point enterprises start to *compete on responsibility*.

There are two ways in which an enterprise can compete on responsibility, passive or active. The passive way seeks to prevent "irresponsible" actions that could harm the company's reputation. The active way attempts to expand the company's social commitment. The corporation takes the initiative and develops, *according to the moral values that originate its responsibility*, a policy of greater involvement, interrelation and dialogue with society.

The interest of the enterprise for corporate social responsibility could seem as a mere question of corporate image or marketing. It is not thus. Of course, the company must find an advantage in social responsibility. But, unlike other ways of building a business image –for example, associating the product or brand to social or sexual success- *social responsibility gives the members of the organisation –employees and shareholders alike- a higher aspiration by which they can morally fulfil themselves, an exceptional source of motivation build upon the improvement of society*.

Although some might argue that competing on social responsibility is just "much ado about nothing", there are reasons to think otherwise. The growing voluntary use of sustainability reporting guidelines by all kinds of enterprises shows that a serious competitive framework for social responsibility is possible. The creation of ranks and indexes that benchmark social behaviour also supports this idea.

With their basic material needs fully satisfied, the men and women of the knowledge economy will desire to fulfil higher motivations. *The future members of our informational society will hold in high esteem their moral convictions, demanding from other individuals and institutions a behaviour that matches their values*.

Hard competition on responsibility will come along with time, just like it has happened with other sources of competitive advantage like price, quality, brand, or customer support. Organisations will tend to increase their ethical commitment to differentiate themselves before clients, investors and citizens. In the end, customers will have the last word. *True competition on responsibility will only thrive if clients reward socially responsible conducts. The main virtue of free market prevails: freedom of choice*.

A “tamed” capitalism

Welfare State supporters maintain that free market is not enough to achieve full economic efficiency, social justice and development. *The government treats companies and citizens like irresponsible kids who should be guided and educated by force. Coercion is the fundamental reason why companies and individuals submit to the State.*

After accepting –as the European Commission proposes- a certain social responsibility, the enterprise integrates in its strategic plan objectives that consider social justice, sustainable development and the construction of a better society. Businesses are not anymore an irresponsible kid who must submit himself to the State. From an ideological point of view, responsibility and social values give the corporation the right to manage itself freely and independently. Competitive dynamics merge with social and environmental development, reducing the need for government interference. The growth of the company and the progress of all society move forward in the same direction. The inefficiencies derived from public intervention are minimized.

Greater social commitment on the side of corporations will justify a reduction in regulation. This reduction, in turn, will bring a higher degree of flexibility and a better adjustment of social development objectives with the enterprise's economic efficiency. Moreover, if businesses introduce social policy among their fundamental objectives, it is reasonable to propose a proportional decrease in their contribution to public spending. Trimming companies' taxes seems logical provided that business responsibility contributes to reach the government's social policy goals.

Corporate social responsibility offers Europe deep and meaningful changes. In a utopian vision of the future, the enterprise, in dialogue with other parts of civil society, assumes the execution of social policies, while the State merely sets reasonable objectives, verifies its fulfilment and mediates in possible conflicts. Enterprises become free from the taxes and bureaucracy with which government intervention curbs innovation and business creation. *Capitalism, formerly “savage” and subdued by the whip of the State, develops itself in freedom. A capitalism that will allow Europe to advance towards a more dynamic and, at the same time, more social economy, towards a democracy where the role of civil society grows over the power of the State. A capitalism “tamed”, not by bureaucracy and taxing, but by the free choice of consumers.*

* Pablo Nieto *works as a researcher and journalist for the Corporate Social Responsibility Commission of the Spanish Accounting and Business Administration Association (AECA).*

This publication is an EEI Opinion. This publication does not necessarily represent the belief of the EEI and all data, references and opinions should be attributed to accredited authors. The EEI does not take an institutional position on individual issues.