Taylor *Int J Corporate Soc Responsibility* (2023) 8:7
https://doi.org/10.1186/s40991-023-00083-7

International Journal of Corporate Social Responsibility

REVIEW ARTICLE

Open Access

Responsible government and responsible business: the challenge of harnessing CSR in a new epoch

Ian Taylor[1*]

Abstract

Much has been written of the implications for government policy on 'responsible business' but a comprehensive review of the subject is needed. This literature review will offer an assessment of varied insights to inform academics and practitioners on an important topic in need of scrutiny. The post-war consensus and strength of collective bargaining is waning in the Western world, and an inflection point may be nearing with a new way of working. Governments leveraging responsible business is among the options, but an understanding of the risks inherent in this option available to society is crucial. The world of business is in a new epoch of accepting social responsibility and, at the same time, a crisis of inequality means there is a need for every element of society to put their shoulder to the wheel. Businesses are an extremely powerful element in society, so how should governments harness that productivity for a social purpose? Should governments be encouraging responsible business to improve living standards and rebalance the inequity of incomes, or should political leaders be wary of engaging well-resourced businesses in areas that should be controlled from a democratic mandate? This article examines responsible business by providing comprehensive coverage of the literature in this deceptively mature subject area. Insights from secondary sources are analysed in relation to four key questions to reach an understanding of the risks inherent in crafting policy that expects more from business. The literature review concludes with a focus on the policy area of education, discussing how responsible business has been put into practice to resolve a market failure identified by J. K. Galbraith in the 1940s. Identifying areas such as this will maximise the opportunity of responsible business.

Keywords Responsible business, Government, CSR, Competitiveness, Regulatory capture, Efficiency

Introduction

What has become known as 'Responsible Business' is an area of study and practice that covers the role of business in social life, broadly synonymous with the term Corporate Social Responsibility (CSR). The dynamism of business makes it a very powerful force in society and the question of how the productivity of business can best serve that society is an important one. Since, fundamentally, businesses are a way of organising the efforts of people to produce and distribute goods and services as efficiently as possible, it is proper that all stakeholders in society constantly consider how to maximise that efficiency. Adam Smith's observation that profit-maximizing firms trading in competitive markets leads to the benefit of all society is complicated by the fact that markets are almost never fully efficient, necessitating governments intervene to correct failures (Stiglitz, 2009). Encouraging responsible business may be a way to guide correction of some of these market failures, even though there are risks inherent in embracing responsible business.

The early 2020s are seeing increasing corporate philanthropy and social action by businesses, as well as academic reflection on the meaning behind the terminology

*Correspondence:
Ian Taylor
ian.taylor2@bsg.ox.ac.uk
[1] Researcher & Policy Associate, University of Oxford, Oxford, UK

being used (Aslaksen et al., 2021). This trend is expected to continue. Forbes claimed in 2021 that stakeholders around the world, including government officials, are increasingly demanding proactive contributions from businesses to improve social outcomes (McClimon, 2021). Such expectations are being met with enthusiasm from business. A degree of consensus is forming around business leaders, policy makers and shareholders that it is necessary and desirable for business to take a larger role in society with a broader purpose (The British Academy, 2019). The new epoch that has formed around this desire for socially active businesses is an opportunity that governments should grasp; however, the role of government is replete with challenges.

This review examines the history of responsible business to identify and assess the opportunity and the challenges. A discussion of the new epoch that is driving an alignment of social and business goals is followed by an examination of the role that governments can play in harnessing the opportunity. Governments have various levers, from setting new options for corporate constitutions to mandating contributions. There is room for further action. While seeking to realise increased social contributions, the challenges of maintaining international competitiveness, efficiency, and preventing the capture of government policy by business demands caution. Yet caution should not prevent progress. There are opportunities where businesses will benefit, market failures will be addressed, and social value, beyond just profit, will be delivered. The area of education is discussed to demonstrate the type of circumstances in which government can expect more from businesses.

This narrative literature review has integrated secondary sources to produce a synthesis of the research on responsible business that progresses the knowledge of the subject. The method that was employed to produce this narrative literature review involved wide reading to map the state of knowledge, utilising academic literature sourced from databases, including those of university library search services (e.g. SOLO and Google Scholar). The academic literature was supplemented by grey literature on the subject. The initial literature review identified several themes discussed in this paper, resulting in sources being examined on a thematic basis. The absence of a systematic procedure for identifying sources, complete with acceptance criteria as would be used for a systematic review, presents the potential for bias through the inadvertent omission of material. The intention of this paper is to summarise a large and complex literature for a broad audience in order to stimulate debate. In view of this intention, the potential threat to internal validity of a non-systematic literature search methodology was considered minimal.

The piece offers a succinct starting point for academics and practitioners to consider an important topic in need of scrutiny. The article reviews the pertinent factors to consider in thinking through how government and business can deliver the best outcomes for society. A discussion of the academic thought that lies behind the current concept of responsible business serves as an introduction to the subject, offering an overview before moving on to discuss the new epoch which is challenging the previously dichotomous thinking. The complications of harnessing responsible business highlights some questions that public policy will needs to answer in taking its potential seriously. Among such prominent questions are:

- Should businesses focus exclusively on generating profits for shareholders?
- Should businesses be highly active in social and environmental interventions?
- Is it inefficient for business to have either a narrow or a broad focus?
- Is it ill-advised to allow business to act in the usual competence area of politics?

These four questions structure the exploration of the topic. In highlighting the key areas of consideration, it is suggested that:

- Businesses do not exist simply to generate profits for shareholders.
- The new epoch is driving businesses to be highly active in the areas that are typically beyond the purview of short-term profit seeking.
- Caution must be exercised by a society expecting a broad focus from businesses.
- Vigilance against capture is needed when bringing businesses into areas of policy that usually demand a democratic mandate.

Governments, such as the UK government, can go further in the social demands from some businesses, and a crucial part of this will be finding areas, like education, that are best suited to engagement.

The cultural context of a country is a highly significant variable for the political management of responsible business. This review is intended to discuss government policy for responsible business in a general manner, across a range of national contexts. Though the discussion draws on literature and examples from countries across the world, such as the USA and India, there is a focus, primarily, on the legal and cultural context of the UK. Given the importance of a national context, the answers to the questions in this review are more applicable to the UK than to other countries. Despite this, there is clearly an international relevance of the discussion that follows.

Should businesses focus exclusively on generating profits for shareholders?

History of responsible business

In considering whether businesses should focus exclusively on generating profits for shareholders it is instructive to explore the history of responsible business. The role of business in society is one that has taken multiple turns and corrections over many decades. Ever since liberal thinkers like Adam Smith and Voltaire promoted freedom of commerce in the eighteenth century, business has been acknowledged as the engine of productivity in the western world. In the nineteenth century, industrialists in the UK embodied differing views of how to efficiently design social welfare. Men like Sir Titus Salt engaged in philanthropy to better their community and the conditions of their workforce (Collier & Kay, 2020). Others, like Herbert Spencer, argued that social intervention contrary to the determination of the market was an inefficient absurdity (Galbraith, 1998). Anglo-American attitudes progressed to an understanding that there was some expectation of social responsibilities from business in the 1930s and 1940s, with Fortune magazine polling business executives about their social responsibilities in 1946 (Carroll, 1999). During the 1950's and 1960's academic research and theory started to define CSR and its practical implications, setting the stage for regulations against negative externalities of companies in the 1970s (Agudelo et al., 2019).

Economic pressures experienced in the UK and the USA caused a correction and an adherence to the thinking of Milton Friedman. As a central figure in articulating the role of business in society, Friedman's argument was that businesses should focus on generating profit for the shareholders, who are the owners of the business. The business executive leading the company should not spend the shareholders money on his own, potentially aggrandizing (Lee, 2008), concerns as this would make him an undemocratically nominated civil servant (Friedman, 1970). A clear distinction was drawn between the freedom of efficient resource allocation in business and the non-market concerns of the state. Friedman called a conflation of the two 'unadulterated socialism' (Friedman, 1970). In an era where the central planning of the state was still a palpable force in the world, Friedman was echoing the caution of the economist and philosopher Friedrich von Hayek; 'Where distinction and rank is achieved almost exclusively by becoming a civil servant of the state…it is too much to expect that many will long prefer freedom to security' (Hayek, 1944). Friedman's logic set out the terms of the debate as between rational effectiveness vs social conscious, or as 'the clash of stockholder and civic interest' (Tuzzolino & Armandi, 1981). Only gradually did thinking shift to a point where the dichotomy no longer held much force. By the turn of the century almost 90% of Fortune 500 firms embraced CSR, but experts were only just beginning to realise that CSR was becoming a part of the commercial strategies of business (Lee, 2008).

The history of responsible business shows that social contributions by businesses beyond profit generation has a substantial precedent. The development of a sense of social obligation by businesses has clearly been developing over time. Today the circumstances are conducive for businesses to contribute more than ever to society.

Should businesses be highly active in social and environmental interventions?

A new epoch

Across industries today there is a new epoch for business, especially in the Anglo-American world, with a higher expectation of responsible behaviour from both customers and shareholders. Combined with more direct control by the owners of quoted businesses, this new epoch makes the issue of whether a business should serve shareholders or be socially responsible less of a contrast.

Pressure has been building on business to have a social role for the last fifty years, with long-term trends developing and influencing the market. A 2003 IPSOS Mori survey found that 74% of UK consumers believed information on a company's social and ethical behaviour would influence their purchasing decisions, and that a majority of the population believed it was acceptable for companies to benefit from social activities (IPSOS, 2003). Progressing attitudes were coupled with the increasing ability of this preference to be expressed. Developments in communications technology and social media enabled customer boycotts to be increasingly effective (Edmans, 2020), driving CSR performance.

A shift from household share ownership to institutional control of shares occurred from 1970 to today, placing more discretion in the hands of fund managers who are able to express a preference (Hart & Zingales, 2017). In 2008, USA and European institutional investors, representing more than $8 trillion in assets, pledged to use their funds to combat climate change (Kostigen, 2008). In the retail investment market, there is a desire for responsible business, a 2019 DFID study found that 70% of people in the UK want their investments to avoid harm and achieve good for people and the planet (Department for International Development, 2019). Oliver Hart & Luigi Zingales (Hart & Zingales, 2017) theorised that, given a chance to make a choice, investors would select an ethical investment. Again, advances in technology are an influencing factor by enabling choice, for example the cost of investing $100 fell dramatically from $6 in 1975 to less than a thousandth of a penny in 2020 (The Economist, 2020). In the midst of global economic uncertainty due to COVID 19, when investors usually look for security, sustainable funds were reported to be outperforming their peers across multiple indexes (Cher, 2020). October 2020 also saw the milestone of a renewables focused energy company, NextEra, overtaking the Oil & Gas giant ExxonMobil in market capitalisation. In this context it is perhaps unsurprising that business leaders have been vocal in calls for business to serve a higher social purpose (Business Roundtable, 2019). The call for responsible conduct is occurring across industries, as reflected in the spectrum of industries represented in the signatories of the 2019 Business Roundtable statement.

In the new epoch of the 2020s, there are pressures from both consumers and investors for businesses to act in a socially responsible manner. These pressures are combining with a strategic motivation for businesses to create value by serving wider stakeholders.

Shared value

The trend for more socially responsible businesses is more than an ethical preference but appears to be an indicator of value. The 2019 DFID survey of investor preferences found that only 28% would choose a responsible and impactful investment if the returns were lower than for other investments (Department for International Development, 2019). Therefore, a socially responsible business does not negate the necessity for commercial success. A study in the Oxford Review of Economic Policy has confirmed a trend that companies with higher levels of environmental, social and governance activities (ESGs) are more resilient to shocks, such as those during the 2009–2008 financial crisis and the COVID-19 crisis (Johnstone-Louis et al., 2020). The consequence for businesses is that having a measurable social purpose sends a signal of reliable management.

If, as the data would indicate, being socially responsible is starting to equate maximising the value for shareholders then Friedman's logic compels businesses to engage in CSR. The argument that corporate executives should be judged only on how their actions affect the performance of a company is compatible with increasing social activism. On current trends the statement, 'Insofar as his actions in accord with his "social responsibility" reduce returns to stockholders, he is spending their money' (Friedman, 1970) is no longer a challenge.

The reality that socially responsible activities are a predictor for commercial success (Edmans, 2020) aligns with the 'shared value' concept advocated by Michael Porter and Mark Kramer in a seminal 2011 article in the Harvard Business Review. The Shared Value concept sets out 'policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates' (Porter & Kramer, 2011). Shared value creation involves taking a long-term view of enhancing a company's value by working with a range of stakeholders, such as governments, non-governmental organisations and suppliers. It acknowledges that working collectively towards regional infrastructure and institutions is essential (Porter & Kramer, 2011). This is a laudable aim, but close working relationships present risks that must be managed. Since businesses and the market are building in enthusiasm for social responsibility, it is important to consider what role governments should have moving forward.

David Baron has distinguished morally derived 'responsible' CSR activities from a strategic engagement in social activities, including to maximise profit, which he calls 'Corporate Social Performance' (Baron et al., 2011). The distinction may be a useful one to keep in mind for future policy design. Businesses may see strategic value in some social activities at some times, but there will occasionally be limits. Public policy will likely need to be sensitive to changes in priorities, say if a business experiences immediate profit difficulties and wishes to recalibrate to a simpler operational focus. Such a scenario was detected in the example of Kingfisher in the study of UK companies and responsible conduct by Keay and Iqbal (2019).

Despite the above caveat, the current epoch suggests that businesses should be active in social and environmental interventions, especially as part of their long-term strategic planning. Customers, investors, and strategic considerations are pushing businesses in this direction. Government is, therefore, in a good position to capitalise on this inclination.

Government's role

What the role of government should be in responsible business is not a simple matter and it covers a range of aspects. Responsible business would appear to be beneficial in addressing problems that might be difficult for governments to solve. Hart and Zingales (2017), remaining sanguine about the political process, point out that, 'even if the political process is efficient, it might be very difficult to write a regulation that specifies, say, that companies should treat their workers with dignity'. Yet governments can be seen to have impact on behaviour and to set norms. Empirical evidence indicates that public politics has a role to play in driving higher levels of responsible activities through the threat of increased regulation (Kitzmueller & Shimshack, 2012). It has also been theorised that Government involvement can help to mitigate power imbalances between companies working with suppliers and non-profits in creating shared value (Porter & Kramer, 2011). Clearly, opportunities exist for government to productively participate.

The scope of government intervention can range in terms of intervention. Shareholder primacy of businesses equates to the concept of the control of property, where the shareholders who have invested money in the business collectively own it and should be served by the management. However, this is a simplistic interpretation. The case has been put forward that businesses should be made more accountable to a wider stakeholder group. The British Academy's vision in the ambitious 'Future of the Corporation' research programme is that:

'The purpose of corporations is not to produce profits. The purpose of corporations is to produce profitable solutions for the problems of people and planet. In the process it produces profits, but profits are not per se the purpose of corporations.' (The British Academy, 2018).

For this vision to be realised action by governments is necessary. National and supranational governments have attempted to manage the responsible conduct of businesses through regulation, although mandating responsible business reporting has been hampered by the complexity and fragmentation of the various frameworks and standards available (Carrera, 2022). It has been noted that attempts to conform to inconsistent standards of responsible conduct is ineffective and increasingly expensive (IFSR Foundation, 2020), suggesting work is needed.

Within the legislation on the duties of the directors of quoted companies, the UK government have mandated reporting for socially responsible conduct. Section 172(1) of the Companies Act 2006 details that the directors must act in good faith to promote the success of the business for its members, taking into account various elements of the purpose of a business, including the following points that touch on responsible conduct:

- The need to foster the company's business relationships with suppliers, customers and others.
- The impact of the company's operations on the community and the environment.
- The desirability of the company maintaining a reputation for high standards of business conduct.

Alterations to Sect. 172(1) of the Act in 2006, which became known as Enlightened Shareholder Value by the Company Law Review Steering Group that was commissioned to review company law in the 1990s, were an attempt to retain centrality of the shareholder while introducing accountability for wider social and environmental concerns (Keay & Iqbal, 2019). Part of Enlightened Shareholder Value was the requirement for directors to account for the performance of their Sect. 172 duty in a Business Review under Sect. 417 of the same Act, which was later repealed with an account to be rendered in a Strategic Report, Sect. 414C(1) of the Act. There were differing opinions over how radical the changes to the UK's business legislation were, but there was undoubtedly an opportunity for the government to have mandated more exacting obligations from businesses. As it stands, Keay and Iqbal (2019) have observed that the impact of the 2006 revised legislation in the conduct of businesses was not considerable.

Government has the capacity to reform the legal governance of businesses further, to enhance the duty of management to serve a wider stakeholder group. There are advantages to the increased social expectations of businesses by governments being implemented through changes to the constitutional form of businesses (Sacconi, 2006). Those who have called for a reform of the UK's Sect. 172(2) believe that the creation of a new multi-stakeholder and public purpose corporate form would facilitate a better articulation of how a responsible business should behave (Woods & Collier-Keywood, 2021), enabling a clear contract between owners and managers.

Governments can take a stronger approach than the UK in the expectation of performance and reporting. In 2014 India became the first country to mandate CSR expenditure of business, demanding two percent of the net profit of its largest businesses is spent on CSR. The effect has been positive. It has been determined that the effect of this mandatory approach has increased the philanthropic contributions of businesses in India and positively affected the motivation of business leaders towards CSR expenditure (Gupta & Chakradhar, 2022). In the years after the introduction of mandatory CSR, the Indian economy continued to grow at an impressive rate. This limited example would indicate that a stronger role of government in encouraging responsible business can have positive results, however, caution must be taken. There are various risks that need to be considered by policymakers looking to strengthen the role of government in encouraging responsible business.

Is it inefficient for business to have either a narrow or a broad focus?

Focus

Of course, there is a question as to whether government should even encourage responsible business practices if it reduces the efficiency of profit generation. After all, profit generation undeniably serves a vital function in society, providing returns for savers, guaranteeing pension pots and even enabling insurance provision (Edmans, 2020). In a 2020 Forbes Magazine article entitled 'Why Stakeholder Capitalism Will Fail', the leadership expert Steve

Denning reminded the business community of the indecision and inertia that can result from diffuse priorities, 'The fatal flaw in twentieth century stakeholder capitalism was that it offered unviable guidance on what is "true north" for a corporation' (Denning, 2020). This is a key challenge that requires management. A focus on profit as a measure of business capacity is a potential way of reducing the distorting effect on efficiency, which was applied in the case of India.

The heterogeneity of the society the business operates in has been suggested as a variable that complicates the ability to balance the trade-offs necessary between stakeholders, such as citizens, customers, employees, and shareholders (Ramanna, 2020a). Even allowing for the variation in cultural heterogeneity a business executive potentially faces a dizzying number of stakeholder interests to consider. The stakeholders of a large firm could be divided into twelve distinct categories, including customer advocacy groups, trade unions and financial organisations (Carrera, 2022; Freeman, 1984). Yet this is a variable to be managed, not a reason for fatalistic resignation. Local communities impacted, potentially represented by subnational levels of government, could be engaged to articulate priorities and manage trade-offs. Such management is not uncommon, for example in the case of the management of the state of New South Wales and the closure of the major BHP Steel plant in Newcastle (Taylor, 2023). In this case the premier extracted mitigating funds and managed the impact. Consequential issues, such as geographic disparities in responsible business activities, could be monitored and mitigated through other means, including traditional tax and spend redistribution.

International competitiveness

The danger of negatively impacting international competitiveness should be an area of consideration for any government policy on responsible business activity. The fleet-footed nature of some businesses means an internationally competitive environment is important to maintain (Carrera, 2022). As a political concern in the West, competitiveness is prominent following the internationalisation of the economy that occurred in the last decades of the twentieth century. The redistribution of global production, and consequently wealth, created a worrying inequality and polarisation of the working age population in developed countries (Rodriguez-Pose, 1998). As globalisation developed, specifically between 1980–2017, a substantial reduction in the earnings of low skilled workers in the West was observed. This contrasted with the wage development vs skills in emerging markets like India, where the growth in Purchasing Power Parity dollars over the same period more than doubled (Ramanna, 2020b). The absolute global economic growth of free trade has not compensated for the inequality of those left behind in the West and rising nationalist protectionism has been the result. It could be argued that responsible business obligations have the potential to create an uneven playing field between domestic businesses in one country and its competitors in other countries, especially in developing countries with lower costs. Such concerns can be manifested in market perceptions in developed or developing countries. In India, when the government introduced compulsory CSR obligations, investors initially believed that the policy could harm a firm's performance (Bird et al., 2016).

Although the differences in national policies for responsible business might create divergences that could negatively impact competitiveness, there is reason for believing that its effects may be positive. Responsible business/CSR policy has been argued to boost business competitiveness in the international market, with support for the competitiveness of multinationals having been seen as an explanation for the surprisingly broad and strong government CSR policy seen in the UK (Gjølberg, M. 2009; Knudsen et al., 2015).

Analysis indicates that trends in traditional CSR between developed and developing countries has been more aligned than may have been expected (Baskin, 2006). A recent study of businesses in sub-Saharan Africa found that increased CSR made export-oriented businesses more competitive (Nyuur et al., 2019). The world's great exporter, China has been increasing CSR activity to enhance its international competitiveness (Liu, 2015), which is a change from the 1990s when profit generation and growth alone were seen as a responsible contribution to the developing society (Yin & Zhang, 2012).

Despite increasingly aligned cultural and institutional approaches to responsible conduct between countries, the potential for a problematic mismatch in the costs of doing business persists. It should be remembered that it was in the context of an increasingly competitive Japanese economy that Friedmanite thought took hold in the USA in the 1970s and 80s.

Limitations

It has been argued here that a socially productive purpose informing commercial strategy is not contradictory to a profit imperative, but caution is still advisable (Johnstone-Louis et al., 2020). Shared value and market enthusiasm for socially responsible activities may be coinciding in current trends, however, conflicting circumstances remain. Karthik Ramanna (2020a) has presented the challenging example of a company with a factory that is haemorrhaging money and asks what the responsible executives should do if closing the factory means mass unemployment in the location of the factory? In encouraging responsible business, government should be conscious of the effects and limits of responsible business policy in the context of problematic commercial performance. In the fringe situations where stakeholders' interests are mutually exclusive, businesses will still need to make hard decisions that create winners and losers (Edmans, 2020). However, responsible businesses may require a radical rethink of the assumptions underpinning difficult choices. The 'Future of the Corporation' research has emphasised that decisions informed by a wider concept of ownership and in reference to a clear responsible business purpose would have a moderating effect on potentially damaging strategic decisions (The British Academy, 2018).

The question of whether it is inefficient for business to have either a narrow or a broad focus is not a simple one. There are strong reasons for caution in saddling businesses with an expectation to serve wider stakeholders. Yet there are ways to mitigate the negative effects. Government would need to be careful in how it managed expectations for responsible business to ensure it does not sabotage the value businesses already deliver for their stakeholders.

Is it ill-advised to allow business to act in the usual competence area of politics?

Capture

The established role of government is to set the taxation and regulations which companies must comply with. Friedman believed that companies should only be compelled to conform with these basic rules of society (Friedman, 1970). Prominent thinkers, not least business leaders, have called for business to contribute more to society in order to improve public welfare. The government funding to support businesses during crises, as during the COVID-19 pandemic, has been seen by some as implying an expanded mutual support relationship in the future.[1] How should such additional contributions be extracted, and control maintained? Social activism by businesses crosses into the areas traditionally occupied by governments and can even correct market failures through the provision of public goods (Kitzmueller & Shimshack, 2012). Yet even in the undisputedly government purview of taxation and regulation, the ability of business to capture the governmental agenda is a legitimate concern (Miller & Harkins, 2010). Taxation powers in the Anglo-American world have already been severely limited through regulatory capture from a well-resourced private sector. When companies succeed at regulatory capture, they manage to unduly influence the regulatory elements through the use of relationships, expertise or more subtly through ideas (Stiglitz, 2009). The potential for subtle capture through ideas has been hinted at by Larry Summers, Economist and former Treasury Secretary under Bill Clinton, who believes that the socially responsible ambitions of some companies may be empty rhetoric devised as a strategy to hold off effective regulation and tax reform.

It has been persuasively argued by Ramanna (2020a) that it is in the 'corporate DNA' of businesses to engineer the rules in ways that increase profits, and that the adoption of a responsible business agenda could lead to a 'cultural capture' of western political systems in the same way that taxation has already been captured and limited. Public policy practitioners and politicians must recall the warning of Joseph Stiglitz that; 'awareness of the risks of regulatory failure, including those resulting from regulatory capture, should play an important role in regulatory design' (Stiglitz, 2009). On the positive side, even attempts on behalf of companies to subvert socially responsible activism would still require the prerequisite of firms internalising the norms that such obligation existed in some form. The leveraging of these norms to realise a new productivity is a promising prospect for government. It should also be emphasised that the capture and subversion of the tax system would not have been considered as a valid argument against the instigation of the obligations for businesses to pay taxes.

Governments should proceed with caution but that does not mean they should be too cautious to proceed. Vigilance is needed when bringing in well-resourced businesses to social provision. Identifying areas where there is a need for a correction of the existing divide between market and state to benefit both businesses and society will offer low-risk opportunities for responsible business.

The example of education

To illustrate how responsible business can help to resolve market inefficiencies it is useful to look at the policy area of education. Some long-sighted companies are already investing extensively in education. For example, IBM has been consistently increasing spend on educational CSR and in 2019 it spent a remarkable $708.1m on this area (IBM, 2019). This is part of a long-established intervention in education going back many decades. It involved engaging with governments to deliver services and appears to have had a substantial impact. The educational

[1] For example, see; Johnstone-Louis, M., Kustin, B., Mayer C., Stroehle, J. & Wang, B. (2020), 'Business in Times of Crisis', *Oxford Review of Economic Policy, Volume 36, Number S1*, pp. S242–S255, at pp. 243–245. and Wiggins, K. (2020, May 11), Now is the time to emerge as a corporate 'saint' not 'sinner', *Financial Times*. https://www.ft.com/content/e85eb8f8-5d77-11ea-ac5e-df00963c20e6

expenditure is classified by IBM as CSR, however, such long-term investments could potentially be acknowledged, as discussed below, as being central to the business's commercial future.

The distinction is important, as investments in education can solve a problem of resource allocation in capital flows that are vital to efficiency. Over four editions of *The Affluent Society*, from 1958–1998, John Kenneth Galbraith identified that while the market free flow of capital allocation worked sufficiently well for material investments, 'it operates only with manifest uncertainty and inefficiency as between material and personal capital' (Galbraith, 1998). The reason for this is the responsibility of the state for the provision of early education to the vast majority of people, with the private sector being largely uninvolved. Since there is no obvious market mechanism for the flow of capital from successful business to education, there is an impediment to the investment resource allocation. Government acts to remove the impediment through the provision of universal schooling. Nevertheless, it may be hard to deny the relevance of Galbraith's observation to left behind communities, as well as to the businesses that would seek to grow in those communities. Some regions achieve schooling more successfully than others. Paul Collier has highlighted the educational failings in the UK compared to more successful models in Switzerland and Germany, where there is significant business involvement (Collier, 2018). The educational impediment takes on increasing significance in the high-tech world of the 2020s, as was identified long ago by the economist of The New Deal. 'There can be no question of the importance of the impediment…this investment has become increasingly essential with the advance of science and technology' (Galbraith, 1998).

Business involvement in education is not therefore a purely charitable act, it can help to remove an impediment to the free flow of capital to improve long-term efficiency of a society. Successful businesses should, for example, invest in education in order to allocate capital to the future human resources of the community or society that developed a successful business. An ideal resilient business has been theorised by Johnstone-Louis et al. (2020) as having a purposeful strategy with intergenerational considerations. Activism in early education of the community where a business operates could be no better statement for long-term success.

The benefits that can be reaped through responsible business engagement can be seen in the example of IBM. As a tech firm operating in over 175 countries, IBM requires highly skilled employees (IBM, 2022). Having supported education for decades, the company has been able to benefit from recruiting educated employees at a lower cost in India. In order to benefit from education, companies would need to have extensive time horizons and a considerable impact. In supporting the education system in India, IBM achieved this. One programme that was started in the previous century is a notable example. Working with education ministries in different countries, including India, in its first 10 years IBM's KidSmart Early Learning Program claimed to have reached more than 10 million students and 100,000 teachers (IBM, 2009).

The development in sourcing employees has been remarkable. From 2007 onward, the number of IBM employees in India dramatically increased, to almost double in size, and by 2017 one third of the IBM workforce were based in India, whereas the workforce in its home country of the USA declined (The New York Times, 2017). It was reported that 59% of the jobs IBM posted between January and March 2022, constituting over 10,000 jobs, were posted in India (HR World, 2022). Through programmes such as KidSmart, IBM were investing in the provision of education in India and, over the subsequent decades, the country has become a major source of the organisation's recruitment. India is a very large country with vast educational need, but it seems clear that the business has benefitted from the education system that it has helped to support. Such shared value is as an example to emulate.

Conclusion

This literature review examined a range of thinking on the subject of responsible business to offer a concise overview of the opportunity and challenge currently presented to society. The world of business is in a new epoch of accepting social responsibility and, at the same time, a crisis of inequality means there is a need for every element of society to put their shoulder to the wheel. Governments have been hesitant in the past and there is room for more assertive action to harness the new epoch.

Four questions were posed at the beginning of this review and although definitive answers are illusive, there are some strong indications that should stimulate further thought.

Responsible business has a long precedent. It has been half a century since Friedman counselled businesses to have a profit only focus. Since that time, the development of the concept of responsible business has been dramatic, even if the fundamental problem of inefficient markets and the human desire to serve a purpose are age old. Neither businesses, nor the societies they are part of, consider the exclusive generation of profit for shareholders to be the sole purpose of businesses.

Responsible behaviour has become a characteristic of a successful business and it is likely to be used strategically in the future. As part of a long-term strategic plan for performance, businesses should be active as socially and environmentally responsible actors.

Governments can seize the opportunity presented to improve social outcomes for their populations, but harnessing it without damaging business competitiveness demands care. Policymakers should be concerned about issues, such as international competitiveness and allowing businesses to maintain focus, when designing policy for responsible business. That said, there are various levers governments can pull, including corporate constitutional reform or mandatory CSR. As has been discussed, some experts have argued that there are reasons to pull these levers, but more research is needed to conclude definitively in what circumstances they should be pulled.

Finally, the need to avoid being captured by well-resourced private interests is real. Businesses have succeeded in capture before. However, this success does not remove the expectation of contribution to society. Policymakers would be wise to be alive to the risk of capture and identify areas where opportunities exist for mutual benefit for businesses and society, such as education.

The new epoch of responsible business is an incredibly exciting time and the potential for constructive coalitions in society powered by business is transformative. Circumstances have converged to make a radical shift in the role of businesses in society not just desirable but realistic. Problems remain and will be of vital importance as the nascent area of public policy develops. This discussion addressed the four questions stated at the beginning of the piece, but the answers are not simple and require considerable thought. In the coming years work must be done to develop appreciation of these considerations so that government, business and the third sector can deliver the best outcomes for society.

Abbreviations

CSR Corporate Social Responsibility
ESGs Environmental Social and Governance activities

Acknowledgements

Not applicable.

Authors' contributions

The article is the sole product of the author, with no assistance in research or writing.

Authors' information

Ian Taylor is researching responsible business, place-based approaches and how society can improve social outcomes at the University of Oxford's Blavatnik School of Government. In May of 2022 Ian authored a Taskforce report on how the enthusiasm for responsible business could be harnessed entitled 'Partnerships in Place: The Business of Levelling Up' (https://www.bitc.org.uk/wp-content/uploads/2022/05/Places-Taskforce-Report_May2022.pdf). Ian has spent over a decade in the private sector where he worked in various management positions in industry, including Business Development Manager, Commercial Manager and technical Director UK & Eastern hemisphere.

Funding

This article was researched and written under employment by the Government Outcomes Lab at the University of Oxford, which was partly funded by the Department of Digital, Culture, Media & Sport. The funder was hands-off, allowing the author to research and write a piece that reflected what was significant.

Availability of data and materials

Not applicable.

Declarations

Competing interests

The authors declare that they have no competing interests.

Received: 20 July 2022 Accepted: 30 August 2023
Published online: 19 September 2023

References

Agudelo, L., et al. (2019). A literature review of the history and evolution of corporate social responsibility. *International Journal of Corporate Social Responsibility* 4 1–23. https://doi.org/10.1186/s40991-018-0039-y

Aslaksen, H. M., Hildebrandt, C., & Johnsen, H. C. G. (2021). The long-term transformation of the concept of CSR: Towards a more comprehensive emphasis on sustainability. *International Journal of Corporate Social Responsibility, 6*(11), 1–14. https://doi.org/10.1186/s40991-021-00063-9

Baron, D. P., Harjoto, M. A., & Jo, H. (2011). "The economics and politics of corporate social performance. *Business and Politics, 13*(2), 1–53. https://doi.org/10.2202/1469-3569.1374. Article 1.

Baskin, J. (2006), Corporate Responsibility in Emerging Markets, *Journal of Corporate Citizenship*, *2006*(24), 29–47. https://doi.org/10.9774/GLEAF.4700.2006.wi.00006.

Bird, R., Duppati, G., & Mukherjee, A. (2016). Corporate social responsibility and firm market performance: a study of Indian listed companies. *International Journal of Business Governance and Ethics, 11*(1), 68–88. https://doi.org/10.1504/IJBGE.2016.076351

Business Roundtable (2019, August 19), Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans' [Press Release]. https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans

Carrera, L. (2022). 'Corporate social responsibility a strategy for social and territorial sustainability. *International Journal of Corporate Social Responsibility* 7(7), 1–11. https://doi.org/10.1186/s40991-022-00074-0

Carroll, A. B. (1999). Corporate social responsibility: Evolution of a definitional construct. *Business & Society, 38*(3), 268–295.

Cher, A. (2020, June 2), Sustainable funds are outperforming their peers during the pandemic, BNP Paribas says, *CNBC*. https://www.cnbc.com/2020/06/02/esg-funds-outperforming-peers-during-coronavirus-pandemic-bnp-paribas.html

Collier, P. (2018). *The Future of Capitalism*. Penguin Books.

Collier, P. & Kay, J. (2020), *Greed is Dead: Politics after Individualism*, Allen Lane, London.

Denning, S. (2020, January 5), 'Why Stakeholder Capitalism Will Fail', *Forbes*. https://www.forbes.com/sites/stevedenning/2020/01/05/why-stakeholder-capitalism-will-fail/?sh=51909ac4785a

Department for International Development (2019), 'Investing in a Better World: Results of UK Survey on Financing the SDGs'. https://www.gov.uk/government/publications/investing-in-a-better-world-results-of-uk-survey-on-financing-the-sdgs

Edmans, A. (2020). Company purpose and profit need not be in conflict if we "grow the pie." *Economic Affairs 40*(2), 287–294. https://doi.org/10.1111/ecaf.12395

Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Cambridge University Press.

Friedman, M. (1970, September 13), *The New York Times Magazine*. https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html
Galbraith, J. K. (1998). *The Affluent Society*. Penguin Books, London.
Gjølberg, M. (2009). The origin of corporate social responsibility: Global forces or national legacies? *Socio-Economic Review* 7 605–637. https://doi.org/10.1093/ser/mwp017
Gupta, R., & Chakradhar, J. (2022). The consequences of mandatory corporate social responsibility expenditure: An empirical evidence from India. *Business and Society Review* 127 49–68. https://doi.org/10.1111/basr.12251
Hart, O., & Zingales, L. (2017). Companies should maximize shareholder welfare not market value. *The Journal of Law, Finance, and Accounting* 2 247–274. https://doi.org/10.1561/108.00000022
Hayek, F.A. (1944), *The Road to Serfdom,* George Routledge & Sons, New York, NY.
HR World, 'India accounts for over half of 23,000 jobs posted by IBM in 2022, says GlobalData', March 17, 2022. https://hr.economictimes.indiatimes.com/news/trends/india-accounts-for-over-half-of-23000-jobs-posted-by-ibm-in-2022-says-globaldata/90299303?redirect=1
IBM (2009), *KidSmart Early Learning Program*. Available at: https://www.ibm.com/ibm/responsibility/downloads/initiatives/COF03015USEN-KidSmart.PDF (Accessed 08 Dec 2020)
IBM (2019), *IBM 2019 Corporate Social Responsibility Report*. Available at: https://www.ibm.org/responsibility/2019/esg-metrics (Accessed 08 Dec 2020)
IBM (2022), *IBM 2022 Annual Report*. https://www.ibm.com/annualreport/assets/downloads/IBM_Annual_Report_2022.pdf
IFRS Foundation (2020), 'Consultation Paper on Sustainability Reporting', September 2020. https://www.ifrs.org/content/dam/ifrs/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf
IPSOS (2003, November 21), *Ethical Companies* [Press release]. https://www.ipsos.com/en-uk/ethical-companies
Johnstone-Louis, M., Kustin, B., Mayer, C., Stroehle, J., & Wang, B. (2020). Business in times of crisis. *Oxford Review of Economic Policy, 36*(S1), S242–S255. https://doi.org/10.1093/oxrep/graa021
Keay, A. R., & Iqbal, T. (2019). The impact of enlightened shareholder value. *Journal of Business Law* 4 304–327.
Kitzmueller, M., & Shimshack, J. (2012). Economic perspectives on corporate social responsibility. *Journal of Economic Literature* 50(1), 51–84. https://doi.org/10.1257/jel.50.1.51
Knudsen, J. S., Moon, J., & Slager, R. (2015). Government policies for corporate social responsibility in Europe: A comparative analysis of institutionalisation. *Policy & Politics 43*(1), 81–99. https://doi.org/10.1332/030557312X656016
Kostigen, T. (2008), Trillions turn green, *MarketWatch*. https://www.marketwatch.com/story/billions-of-investment-dollars-flow-to-climate-change-clean-tech
Lee, M. D. P. (2008). A review of the theories of corporate social responsibility: Its evolutionary path and the road ahead. *International Journal of Management Reviews, 10*(1), 53–73. https://doi.org/10.1111/j.1468-2370.2007.00226.x
Liu, M. (2015), Is corporate social responsibility China's secret weapon?, *World Economic Forum*. https://www.weforum.org/agenda/2015/03/is-corporate-social-responsibility-chinas-secret-weapon
McClimon, T. J. (2021), '10 CSR trends to watch in 2021', *Forbes*. https://www.forbes.com/sites/timothyjmcclimon/2021/01/05/10-csr-trends-to-watch-in-2021/?sh=43f391615904
Miller, D., & Harkins, C. (2010). Corporate strategy, corporate capture: Food and alcohol industry lobbying and public health. *Critical Social Policy* 30 564–589. https://doi.org/10.1177/0261018310376805
Nyuur, R. B., Ofori, D. F., & Amponsah, M. M. (2019). 'Corporate social responsibility and competitive advantage: a developing country perspective. *Thunderbird International Business Review 61* 551–564. https://doi.org/10.1002/tie.22065
Porter, M. E., & Kramer, M. R. (2011). Creating Shared Value. *Harvard Business Review January-February* 2011 1–17.
Ramanna, K. (2020a). Friedman at 50: is it still the social responsibility of business to increase profits? *California Management Review 62* (3)28–41. https://doi.org/10.1177/0008125620914994
Ramanna, K. (2020b), 'Should America Still Believe in Free Markets?', *The American Interest*. https://www.the-american-interest.com/2020b/07/06/should-america-still-believe-in-free-markets/
Rodriguez-Pose, A. (1998). *The Dynamics of Regional Growth in Europe: Social and Political Factors*. Clarendon Press, Oxford.
Sacconi, L. (2006). A Social Contract Account for CSR as an extended model of corporate governance (I): rational bargaining and justification. *Journal of Business Ethics, 68*, 259–281. https://doi.org/10.1007/s10551-006-9014-8
Stiglitz, J. (2009), 'Regulation and Failure'. In Cisternino, J. & Moss, D. (Eds.), *New Perspectives on Regulation*, The Tobin Project, Cambridge, MA, pp. 11–23.
Taylor, I. (2023), 'Turnaround Cities: Anglo-Saxon Case Studies - Insights from Pittsburgh (PA), Newcastle (NSW) and Windsor (Ont.)', *Government Outcomes Lab, Blavatnik School of Government*, *University of Oxford*. https://golab.bsg.ox.ac.uk/knowledge-bank/resource-library/turnaround-cities-anglo-saxon-case-studies/
The British Academy (2018), *Reforming Business for the 21st Century*. https://www.thebritishacademy.ac.uk/publications/reforming-business-21st-century-framework-future-corporation/
The British Academy (2019), *Principles for Purposeful Business*. https://www.thebritishacademy.ac.uk/publications/future-of-the-corporation-principles-for-purposeful-business/
The Economist (2020), Finance & Economics: 'The Generation Game'. https://www.economist.com/finance-and-economics/2020/10/20/wall-street-will-soon-have-to-take-millennial-investors-seriously
The New York Times, 'IBM Now Has More Employees in India Than in the U.S' September 28, 2017. https://www.nytimes.com/2017/09/28/technology/ibm-india.html
Tuzzolino, F., & Armandi, B. R. (1981). A need-hierarchy framework for assessing corporate social responsibility. *The Academy of Management Review, 6*(1), 21–28. https://doi.org/10.2307/257137
Woods, N. & Collier-Keywood, R. (2021), 'Building Back Better with Business', *Blavatnik School of Government*, pp. 1–43. https://www.bsg.ox.ac.uk/building-back-better-business
Yin, J., & Zhang, Y. (2012). institutional dynamics and Corporate Social Responsibility (CSR) in an emerging country context: evidence from China. *Journal of Business Ethics, 111*, 301–316. https://doi.org/10.1007/s10551-012-1243-4

Publisher's Note

Springer Nature remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.