

Welfare function of profit and CSR

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Some people hate the word “profit” and they think corporations should not be allowed to make profit, much less “enormous profit”. If entrepreneurs cannot make profit on providing transportation, we shall have no buses, taxis, airlines, shipping lines, jeepneys, tricycles, etc. If people cannot make profit on cooking and selling food, we shall have no restaurants, food shops, carinderias, ambulant food vendors. If people cannot make profit on selling rice, chicken, meat, fish, vegetables and fruits, we shall have no farmers, fisherfolks, animal growers. If people cannot make profit on education, we shall have no private schools and universities. Government colleges and universities like the University of the Philippines (UP) survive only because of the taxes that the state collects from taxpayers, including teachers, administrators and owners of private universities.

Private producers and sellers in the food chain provide everything, from food production to distribution to processing to selling in food shops and stalls. Everyone in the chain is profit-oriented, from the farmers to traders to carinderia owners. So, profit is good.

The desire for profit provides people the incentives to produce a particular good or service. If there are other producers and sellers of such good or service, newcomers will have to offer better quality, better price, better packaging, better location, to attract buyers. Competition among various sellers provide welfare to consumers because they can compare prices, quality, ease of shopping, warranty of service, etc.

Of course, there are profits which are abnormally high since they are the fruits of unhampered monopolies/oligopolies. Government can weaken these profits not by offering direct competition but by allowing other private producers and sellers to offer the competition. Telecoms companies in the Philippines like Smart and Globe have had a spectacular run with profits, enough to attract Sun Cellular to join the fray. There is no need for government to lift a finger yet since the competition among the three have yielded better services for cellphone users. When monopoly/oligopoly extra-high profits are due to state-creation and sponsorship, also known as "rent-seeking", the state can remedy the situation by backing off, by withdrawing its political intervention in granting the monopoly/oligopoly powers through economic liberalization.

Hence, government should not penalize profit by imposing various taxes and fees to people engaged in profitable ventures, such as high corporate income tax, value added tax (VAT), fringe benefits tax, capital gains tax, documentary stamp tax, among others. Government can pursue its social welfare objectives to its citizens by encouraging more profit-oriented private enterprises, whether corporate or single proprietorship/joint ventures. By creating plenty of jobs and offering good pay and benefits to the hard-working staff to keep them from moving to other firms, competition among private enterprises alone is already welfare-enhancing.

Corporate social responsibility (CSR) of a company is to make profit

In recent years, the concept of corporate social responsibility (CSR) has become popular. Companies, the big ones especially, are “expected” to undertake various social, economic and environmental programs, sort of "giving back" programs to society and the communities with no revenues or profit to be expected.

The idea is laudable, but I think the CSR of a company in a competitive environment is to make profit. This is because company officers and staff are accountable to the owners and/or stockholders of the company, as well as to their consumers who give their the corporate revenues. Once a company does not make any profit anymore, then it (a) lays off its workers and managers, worsening the unemployment situation; (b) stops producing essential goods and services to its customers, worsening the supply-gap (which is inflationary) of such commodities and services; (c) impoverishes its investors and stockholders, and makes the industry where the company is playing more susceptible to a monopolistic or oligopolistic industry structure.

Better see a competitive company giving out zero scholarships to poor students, zero environmental program, zero health care program to the community, etc. But that company is creating lots of jobs, employing previously jobless people, thereby giving the poor and industrious people an opportunity to improve their lives without being indebted to any politician or charity groups. And that company is providing good quality products (from slippers to cellphones to coffee) or services (from hair cut to medical check-up to bus lines) at a good price, thereby giving the poor good supply of reliable commodities. If the poor have stable jobs and regular income, they themselves can bring their kids to school, give them good food and health care.

Profitability of a company in a competitive environment is an indicator of the welfare that it has extended to society. Such welfare ranges from job creation to inflation control and supply expansion of necessary goods and services, to more innovation and modernization of production techniques.

I hate to see a monopoly or oligopoly companies giving out many scholarships, engaged in tree planting every year, giving out free medicines to poor communities, but they are bleeding their customers dry with super-expensive commodities and services; creating very few jobs (if at all) as they do not engage in innovation and cost-minimization (and hence, price-minimization) programs anymore.

A friend countered that "a significant number of companies contribute to uplifting the 'state of well-being' of the marginalized sectors. The Philippine Business for Social Progress (PBSP) is an association which has ongoing programs that respond to the needs of communities. And there are companies who just silently give their share - like, the project 'red school' of Coca Cola Philippines, which constructs school buildings."

For me, I'd call this “corporate social volunteerism” (CSV). And I totally agree, 101%, with CSV. The key there is "volunteerism", not "responsibility". The latter connotes "you must", otherwise you are heartless, soulless, or in the parlance of big government, "law violator".

Whereas in "volunteerism", it's something that you do because you want to do it, you are happy doing it, and you are not coerced or forced by someone, either by imposing high social expectations, or enacted in a law, to do it.

Because if we insist on corporate "responsibility", then their responsibility is to make profit in a competitive -- not monopolistic or oligopolistic -- environment. If they make profit in this environment, then they continue creating jobs, supplying various goods and services to society. If we insist on corporate "volunteerism", then "giving back to society" in the form of scholarships, youth leadership training, tree planting, coral reefs preservation, and so on, jive into place and in the concept.

There was a good article on corporate social responsibility (CSR) in Tech Central Station (www.tcsdaily.com) co-authored by Mr. Stagnaro and Mr. Kogan, entitled "Corporate Social Restriction". The 2 guys got the right adjective: restriction. Although I would add a more appropriate term: extortion.

Making those CSR benchmarks as "mandatory requirements" to be administered by statist NGOs + UN + national governments is tantamount to extortion. You slug it out in a very competitive market, where your competitors are employing various cost-minimizing production techniques (through expensive R&D and innovation, through locating their factories in low-wages countries, etc.), so you must employ more innovative production processes since your consumers want "good quality goods and services at reasonable and competitive prices". You don't please your consumers, you lose them, they buy the products of your competitors. Later on you close shop, forget about "social responsibility", whether realistic or imposed upon you.

If you combine the various national government taxes/charges/fees + local government taxes/charges/fees + environmental clearances/permits/ licenses/registrations + payment to third-party groups to make sure that you abide by the "mandatory CSR practices", that's a lot of expenses already on top of your normal production costs.

Taking care of the environment, giving out scholarships and free livelihood trainings to the communities, other social and ecological programs, are something that is up to corporations to undertake or not. These should be voluntary, not mandatory; freely provided, not coercively required.