“Sustainable development” and “corporate social responsibility” are assuming increasing prominence on the agendas of business leaders, governments, and non-governmental organizations. Although the terms are often used interchangeably, they can, and should, be distinguished.

Firms contemplating either voluntary wealth transfers under the “corporate social responsibility” rubric, or activities that promote the sustainability of economic activity, may be able to do so in such a way that shareholder value is enhanced. Like any other investments by a firm, such discretionary investments only increase shareholder value if, in some future state of the world, they result in increased willingness to pay on the part of customers, or in reduced costs for some input in the production process (including purchased materials and energy, capital, and labor).

Some firms, but not all, may be able to differentiate products along environmental lines. Some firms, but not all, may be able to influence regulators to impose asymmetrically large costs on their rivals. Some firms, but not all, may be able to find private cost savings that more than offset the costs of increasing environmental quality. Whether a firm can use environmental and social pressures to its strategic advantage will depend on the economics of the industry in which the firm operates, its position with that industry, and its organizational capabilities. The idea of “the business case for sustainability” is thus a misleading one: there is no one business case for sustainability that will apply to all firms.

If governments are interested in promoting sustainable development, they need to be ready to use the power of the state to compel the provision of public goods. The rhetoric of “win-win” environmentalism is appealing, but a great deal of environmentally “proactive” business behavior seems to be motivated by the desire to preempt or influence regulation, and a credible threat of regulation is necessary if this behavior is to continue.

If nongovernmental organizations are interested in promoting sustainable development, they need to encourage the state to use its coercive power, and to enlist selected firms in demanding welfare-enhancing government intervention that will also benefit the selected firms. It is not obvious that the NGOs or the
regulators should be eager to create additional latitude for self-designated
corporate statesmen to determine the types and amounts of public goods they
will provide.

Finally, if managers are interested in promoting sustainable development, they
too should acknowledge that the nature of public goods still inhibits their private
provision. They should seek to understand the willingness on the part of
consumers to pay voluntarily for public goods, and the limitations of that
willingness, in order to help governments create durable regulatory structures
that will reduce financial risk and reward investments in technology and relations
with customers rather than encouraging short-term rent-seeking and spin
management.

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