
On Adam Smith, Gordon Gecko and controls on self-interest



By Shellie Karabell

Maybe it's due to technology, maybe the global economy or maybe the revelations about corporate behaviour as one company after another, melting down and asking for taxpayer aid, laid bare the truth behind their balance sheets. Layman and businessman alike have come to realise that the old taboos surrounding ways of behaviour in the business world no longer work - or perhaps worked inefficiently at best.

The way of life that modelled itself on Gordon Gecko in the movie 'Wall Street' and adopted his clarion call of "greed is good," is all but gone.



H. Landis Gabel, Emeritus Professor of Economics and Management at INSEAD, explains there used to be two models of social responsibility, “one in which the company is good to its employees, is well-regarded by society, and makes lots of money for its main stakeholder – the shareholders. This would have made Milton Friedman happy. In the second model, the CEO allocates resources – that is, wealth – to the various stakeholders and the shareholders are just one part of that group; the others might be the employees, the suppliers, etc. But I don’t know of any CEO who could stand up at an annual meeting and say he’s reducing the value of his company in this way.” Gabel has a third model: voluntary compliance with social codes – the use of socially-aware groups to bring about corporate social responsibility (CSR). Not hard laws and regulations, but rules of behaviour. “The kind you learned at your mother’s knee,” he says.

“Corporate social responsibility is moving into an area where laws and regulations are ineffective or do not even exist to handle circumstances,” says Gabel. “Because of globalisation and the past two decades or more of de-regulation, there are more and more interrelationships between companies and countries that don’t fall into existing legal codes.” This creates a strong case for socially responsible interest groups that can galvanise corporations into taking the right actions, often using shame as a weapon – not unlike the “shunning” used as a behavioural tool in colonial America and elsewhere.

“CSR can make visible the shortfalls of a multinational and shame them into correcting that behaviour,” says Gabel. “This promotes voluntary compliance with sensible social codes. For example, a US-based multinational may have to police its manufacturing operations in a foreign land because the host country can’t do it. The consumer may shame the multinational into taking this step by making visible the shortfalls of the company. No company would want to be alone in this position, but if all are forced to police their foreign manufacturing, then the playing field is level and no one is at a disadvantage.”

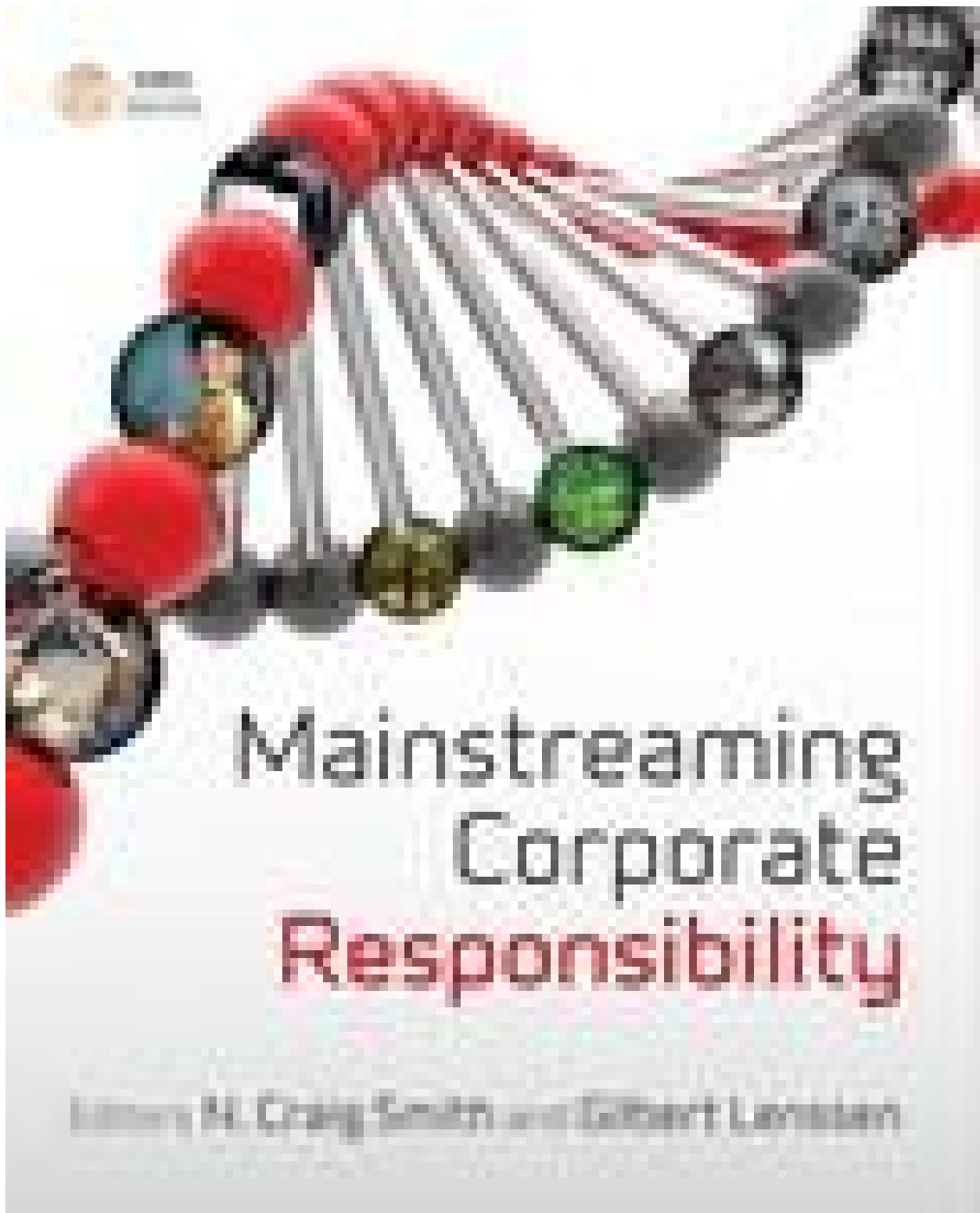
And the consumer is happy, believing he is getting what he pays for, which means the corporation can make money ... which goes back to the roots of capitalism in America, Adam Smith. “It’s not to the benevolence of the baker, the butcher, the brewer that we owe our evening meal, but to his self-interest,” Gabel says, adding that he doesn’t question the role of, or the

need for, self-interest in corporate society; he wonders where the reigns are. “Creating harmony between the pursuit of self-interest and the pursuit of social welfare depends on the constraints on self-interest.” Constraints can come from society exercising choices.



Filipe Santos, INSEAD Assistant Professor of Entrepreneurship, says Adam Smith knew this, and wrote about it in his book *Theory of Moral Sentiments* as a professor of moral philosophy. “Smith believes that decisions are better made in a decentralised way by people, rather than dictated by one person or one central group,” adds Santos. “Instead of relying on the government for the allocation of resources, Smith believed it was better to let widespread market forces do it. The problem today is not Adam Smith’s philosophy, but the way in which a few of his ideas have been enacted by the business community as dogma.”

There are laws, of course, and regulations to force compliance. “Many laws are onerous to business,” says Gabel. “And the latest financial crisis makes that eminently visible. There is tension between the ‘we need more laws and regulations’ and the ‘we simply need a different kind of behaviour than we’ve had in the past’ groups.”



Gabel admits we are likely to see more regulation in the coming months, though this is an expensive way to force compliance. “Compulsory laws and regulations are an extremely expensive way of controlling self-interest,” he says. “The best model for CSR is to promote voluntary compliance with

sensible social codes.”

H. Landis Gabel and Filipe Santos contributed two chapters to ‘Mainstreaming Corporate Responsibility’ (Wiley). Gabel’s chapter is on ‘Corporate Responsibility in Economics,’ while Filipe Santos’s chapter is on ‘Corporate Responsibility in Entrepreneurship.’ The book provides a collection of essays and case studies on different areas of management, in order to promote the mainstreaming of business education in the theme of social responsibility.

<http://executive.education.insead.edu/social-entrepreneurship>

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