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**Corporate Social Responsibility:
An Investment in Social Cooperation for Mutual Advantage**

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1 Introduction

„The phrase *corporate social responsibility* has been used in so many different contexts that it has lost all meaning.” (Sethi 1975, p. 58; *emph. in original*) Even though this statement is now over 30 years old, it is as current as ever. The discussion about Corporate Social Responsibility (CSR) has a history of more than 50 years.¹ Within the past years, it has gained in quality and intensity considerably.² To this day, it is still unclear what the responsibility of business means.³ CSR still describes an opaque construct and its content remains diffuse. D. Votaw expresses incisively: „The term [Corporate Social Responsibility; NL] is a brilliant one; it means something, but not always the same thing, to everybody.” (1973, p. 11)

The diffusivity of the discussion leads to the following problem: Virtually arbitrary contents can be subsumed under the term “Corporate Social Responsibility”, by which both the normative content and its heuristic function are in danger of eroding. Nevertheless, the discussion has until now moved a lot and has set in motion a socially worthwhile process of reflection. One cannot undervalue the responsibility of corporations being discussed, since this is defining a search domain for the possibilities of social “cooperative venture for mutual advantage.” (Rawls 1971, p. 4)

For corporations, the question of their CSR is increasing exponentially, because it is related with their license-to-operate, *viz.* their legitimacy.⁴ In light of the increasing critique of their economic activities within the last years⁵, corporations have to give answers concerning their social role. Otherwise, they risk losing their license-to-operate.

It would be narrow-minded, however, to think of this issue solely as a problem of business, for it is also a social issue. Corporations are a part of society and make a contribution to social life. In their role as main actors of the market economy system, corporations conduce to decentralized coordination of economic actions for the purpose of social cooperation for mutual success. Because of that, it cannot be fruitful to oppose CSR against the market economy system. Thus, the challenge for the discussion about CSR is also a challenge of (se-

¹ In 1953, presumably, the first scientific work on the topic was published by H.R. Bowen’s “Social Responsibilities of the Businessman”. A historical overview can be obtained from Carroll 1999 or Frederick 2006.

² Cf. Beckmann 2007, p. 32 ff.

³ This evaluation is almost completely shared in the scientific discussion (see, for example, Aupperle/Hatfield/Carroll 1983, p. 369, Crane/Matten 2007, p. 8, Henderson 2001, p. 40, Hill/Ainscough/Shank/Manullang 2007, p. 165, Kitchin 2003, p. 312 f.).

⁴ “Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions.” (Suchman 1995, p. 574; *emph. in original*)

⁵ See instead of many Sethi 2002, p. 20 ff. or Starr 2000.

mantic) perspectives. The bottom line of CSR has to be the question of the conditions for social cooperation for mutual advantage. Therefore, it is not only the question of what corporations should do, but also where the limits of their responsibilities are.

The paper aims at outlining the basic challenges in handling the prominent term CSR. In the first section, the basic challenges of CSR will be described, whereupon it is focused on the importance of empirical conditions. Following this, the challenges of CSR assignments will be discussed against the background of empirical conditions. This context provides the basis for the subsequent reasoning. In principle, CSR has to be incentive-compatible. Hence, the foundation has been laid by which CSR can be conceptualized in line with the idea of social cooperation for mutual advantage. The paper ends with a short final remark.

2 Basic Challenges in the Handling of Corporate Social Responsibility – The Importance of Empirical Conditions

The claims and critiques addressed to corporations in the name of responsibility have considerably gained in intensity within the recent years. On the one hand, this is a reaction to a number of corporate misconducts, such as the corruption scandal at Siemens, the Volkswagen bribe affair, or Enron's bankruptcy. On the other hand, this development expresses the wish for enhanced social participation of current and future corporate profits. The latter occurs, for instance, when the reduction of jobs is declared as being irresponsible.⁶

In the face of the criticism and the numerous requests addressed to corporations, it is appropriate to ask for business' responsibility. However, the question for CSR has to be asked in an adequate manner, which means to start from a proper problem exposition.⁷ The precondition of a suitable question is the analysis of basic correlations. In other words, a "therapy" is successful only if it is based on an all-embracing, problem-specific "diagnosis". If conclusions and design recommendations are deduced from an inappropriate problem exposition, contra-intentional effects can occur, whereby the condition of social cooperation is changing for the worse. This problem is, amongst others, known from the discussion and also from the realization of the normative concept of social justice, in whose name political actions – culminating in socialism – have often been justified. Those political actions have often led to the opposite of a liberal and solidary society.⁸

A number of corporate activities do not comply with normative beliefs of society. Corporations are often criticized for (too) low social and ecological standards, for price increases, or the dismissal of employees. Nevertheless, it has to be questioned whether such activities can be declared per se as irresponsible, and hence, be attributed as negative to corporations.

The question is justified when considering the fact that no one will truly be against peace, sustainability or against full employment. Although such aims find a general consensus, it is

⁶ Criticism is especially then passed on corporations, when they reduce jobs despite making good profits.

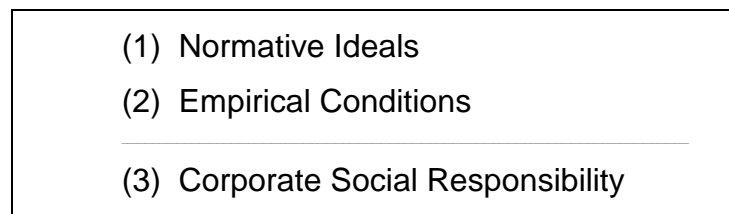
⁷ The definition of the problem codetermines the quality as well as the explanatory power of the conclusions (see for this Hayek, e.g. 1933/1991 or 1955/1967).

⁸ See in this context also the works of Hayek 1976.

to be recognized that they cannot always be attained in reality.⁹ The reason for the phenomenon that consensus is not enough lies in underlying empirical conditions, such as the laws of nature, climate conditions, or the finiteness of resources, but also in the self-interest of the individual¹⁰, institutions, or institutional arrangements such as competition.

The discussion about CSR is determined by the challenge – as is ethics in general – to consider these empirical conditions in order to comprise the relevant CSR-realm. It would be problematic if only that content would be understood as CSR which corresponds to social ideal conceptions, but which is not obtainable in reality. Those claims and critiques addressed to corporations which are superficial and which are based solely on moral ideals threaten to have a lasting negative effect on the conditions of social cooperation for mutual benefit.

When CSR is conceptualized in this way, it can be understood as the emphasis of normative ideals under the conditions of modern society. This can be illustrated as follows:



This scheme points out that the responsibility of corporations (3) can not only be deduced from normative ideals (1), such as solidarity and justice, or pharmaceutical full supply.¹¹ In order to implement CSR (3) as a concept rich in content for the praxis, and as socially worthy, a methodically controlled combination of normative ideals (1) and empirical conditions (2) is required.

In the next section, an essential implication following this interplay is discussed: the importance of incentive-compatibility of CSR.

3 The Problem of Insufficiently Justified Assignments of Responsibilities

Often the public discussion of CSR focuses on the question of *what* corporations should do in the name of responsibility. Corporations should safeguard employment, raise working and social standards, they should engage in social projects, fight against poverty, and so forth. The World Business Council for Sustainable Development, as an example for extensive demands on corporations, defines CSR as follows: "Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development

⁹ For this phenomenon see also Olson 1965, Hardin 1968, who focuses on underlying incentives.

¹⁰ It is beyond all question that the human being is a moral subject, gifted with dignity and freedom. However, the human being is also an empirical creature, preconditioned by biological, social, and further conditions; viz. the human being reacts on incentives. On principle, the human being is free, but only within the limits of the respective situation.

¹¹ However, it is also insufficient to solely deduce the responsibility of corporations (3) from empirical conditions (2) such as competitive pressure or return-on-investment objectives.

while improving the quality of life of the workforce and their families as well as of the local community and society at large." (Holme/Watts 2002, p. 8)

At large, there is no lack of proposals on what corporations should do. The question why corporations should do so, on the contrary, is not frequently posed. In many cases, the responsibility of corporations is solely justified by the fact that corporations, due to their resource facilities, their power, and similar categories, are able to assume responsibility. Hence, responsibility is assigned to corporations, because it is presumed that corporations always have the opportunity *to take* responsibility. However, such an assignation causes different problems:

(1) It is focused on a statically desirable status, but it is not considered which consequences arise in the long run. Due to the complexity and the numerous interdependencies, there is the risk that in the name of CSR requests are articulated whose realization can have desired effects indeed in the short run, but which could contribute to the erosion of the *conditions* of long-term social cooperation.

(2) Unintended consequences of individual actions cannot be systematically considered, especially because side effects are not focused on.¹² Modern society is, however, characterized by the fact that actions due to institutional *conditions* lead to socially desirable, but unintended effects. Since these effects are not considered, the social function of institutions, especially the function of the market economy system, cannot be born in mind.

(3) As a consequence, institutional conditions are omitted in the problem analysis, although they constitute central elements of social problems, viz. of moral conflicts. The result is a separation of responsibility and its corresponding underlying moral perceptions from prevalent institutional *conditions*.

(4) The question of the (legitimate) interests of corporations, which are assigned to assume responsibility, fades far into the background. The assignation of responsibility is merely justified by the argument that actors are able, due to their specific characteristics and features, to assume responsibility for the dissolving of social problems. According to that, individual *conditions* of those actors to whom responsibility is assigned remain unconsidered, and also the question of long-term consequences for the actors held responsible is not accounted for.

In summary, the problem lies in the insufficient consideration of actually existing *empirical conditions*. When responsibility is assigned without a resistant justification, this effects a reduction of complexity, whereby social interests shall be advanced ostensibly, but in the long run one has to fear opposite effects. This is related to a rescheduling of the market economy's competition. Besides, it is not taken into account that corporations are never able to meet all demands addressed to them, because the costs cannot be compensated by the profits. However, profits are an essential precondition for the continuance of corporations.

At this stage of argumentation it can already be concluded that CSR can only then be fruitful for social cooperation for mutual advantage when the empirical conditions of modern society are adequately accounted for. The compatibility with incentives is of central relevance. Its underlying interrelations are discussed in the following section.

¹² For the importance of unintended effects in modern society see for instance Beck 1994/1996, Merton 1938; in the context of the discussion about CSR see for instance Heidbrink 2003, especially p. 30 ff.

4 CSR and Incentive Compatibility

Compatibility of incentives means that nobody can be forced on behalf of morality to act against their well understood self-interests.¹³ In the context discussed here this means that CSR cannot be opposed to the realization of profits. As main actors of market economy, corporations compete with each other and cannot afford to accept competitive disadvantages in the name of responsibility. Taking over responsibility which goes at the expense of competitiveness can lead to the ruin of the corporation acting in such a manner.

The assignation of responsibility has thus always to be measured by the degree to which it can be justified with the interest of the actor assigned. Now it has to be asked which implications arise for CSR. At first sight it seems that corporations in concrete situations often have a very limited interest to assume responsibility. For example, in praxis this is reflected in cases of corruption, illicit employment, defraud of taxes and so forth. For a single corporation, there are often incentives to behave irresponsibly in order to gain individual (short term) benefits at third party expenses.¹⁴ In the light of such actions there are not only a few voices that understand CSR as the subordination or the limitation of the realization of profits.

However, it has to be considered that in the individualistic and liberal society undesired actions can never be completely prevented. This is exactly the reason why we have to ask how these circumstances shall be handled meaningfully. Based on the existence of dilemmatic interaction structures and the underlying logic of interaction, it seems to be advisable to locate the refusal of (taking over) responsibility not generally in the self-interest, but in the logic of the situation.¹⁵ It does not mean that corporations can uncritically refrain from taking over responsibility in every case. In fact, it is in the enlightened self-interest of the corporation to include the consequences arising from their actions into their decisional processes. This means that it is possible that corporations refuse to assume responsibility, but just *at the price of the consequences resulting from the refusal*. Such consequences could mean legal procedures or a massive loss of reputation. The question of incentive compatibility thus includes those effects which might arise from an action. CSR has to be understood not as referring to a point of time, but as *referring to a space of time*.

The extension to the perspective of a space of time is of essential importance for CSR. By including the effects of actions on future conditions of action, the investment characteristic of the assumption of responsibility is displayed. The relation between actions and future conditions of actions can be described schematically as follows:¹⁶

Conditions of Action_{t1} → Actions_{t1} → Result of Action_{t1} → Conditions of Action_{t2}

¹³ It has to be pointed out that in this paper a broad understanding of the term of incentive is used. Here, incentive also comprises social incentives such as social standing, a good sentiment, individual identity and so forth (see Homann/Suchanek 2005, S. 53 ff.).

¹⁴ This statement has to be understood in a highly differentiated way in order to consider the socially desirable competition for performance as well.

¹⁵ For the underlying methodology see Homann 1994/2002, Homann/Suchanek 2005, p. 140 ff.

¹⁶ For the scheme see e.g. Homann/Suchanek 2005, p. 73, Suchanek 2007, p. 45 f., 70 ff.

Actions are never carried out independently from their context, but they always depend on the given conditions of action. The conditions of action define action opportunities, viz. the relevant alternatives of actions. Action alternatives are, however, not deterministic, but are, within limits, configurable: *Every action does not only lead to one consequence of action, but it also influences future conditions of action and thus also the relevant alternatives in the future.* For corporations, this means that they can improve their future conditions of action by their own actions; however, they can also worsen them.

By introducing the time dimension, corporations gain new incentives in interactions, since now not only the improvement of single actions is taken into account. The improvement of sequences of actions is now considered, more precisely the improvement of principally indefinite games.¹⁷ It is founded in the enlightened self-interest of corporations to act in such a way that their actions are beneficial with their long-term conditions of actions. This perspective explains that the assumption of responsibility is located as a matter of principle in the self-interest of corporations, and that it does not categorically oppose the self-interest.

The assumption of CSR can be understood as an investment in the future conditions of action, and thus, as an investment into the individual ability to cooperate. The investment is manifested in specific actions as well as in their abandonment. The assumption of CSR is – like every investment – linked with opportunity costs. The term investment emphasizes that the purpose is not to make sacrifices. Investments are marked by an abdication of today's consumption, but their meaning lies in the generation of potential future returns. It is these future returns and their preconditions that are the central focus of CSR. This makes it possible to talk about enlightened profit maximization without having to sub- or superordinate it to the claim of CSR. The moral dimension of responsibility is brought to bear by the fact that this investment does not only refer to the own benefit, but it also integrates the reciprocal future benefit: the social cooperation for *mutual advantage*.¹⁸

This very reciprocal betterment is the starting point from which the responsibility of corporations can be specified.

5 Corporate Social Responsibility as an Investment in Social Cooperation for Mutual Advantage

In general, it can be formulated that corporations exist in society, due to the fact that they contribute to social cooperation for mutual benefit. When corporations fulfill this condition, they likewise fulfill the condition of their license-to-operate. The management of the preconditions for the license-to-operate can be understood as the corporations' CSR task.

The challenge in the discussion about CSR is that the contribution of corporations to the social cooperation for mutual advantage has to be understood in the interplay with unintended effects. Corporations offer goods and services, because the market economy system offers incentives to do so. Market economy operates – under the precondition of appropriate

¹⁷ The assumption of the time openness can be substantiated by the mode of operation of institutions. Institutions are designed to structure the future and simultaneously to leave the future open (cf. Suchanek/Waldkirch 1999).

rules of the game – according to Adam Smith’s invisible hand. Corporations foster social interests by pursuing their realization of profits: “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” (Smith 1776/1937, p. 13)

However, it would be narrow-minded to assume that corporations fulfill their responsibility solely by maximization of profits. „The Social Responsibility of Business is to Increase Its Profits” (Friedman 1970) applies only to the neoclassical paradigm and its corresponding model theory suppositions. It has to be emphasized that Friedman’s perspective is entirely correct within his model world. The problem of Friedman’s approach is the one-sidedness; there is not only the possibility of a false understanding of responsibility but also of a false understanding of profit maximization. In reality, there are possibilities for irresponsible achievements of profits.

The possibility to gain profits in an irresponsible way exists due to incomplete contracts,¹⁹ respectively incomplete institutions. Within the market economy system, corporations always have a scope of action which they can utilize either in a socially desirable or in a socially undesirable manner. However, it is everything else but trivial to judge which actions are socially desirable. The problem of defining socially desirable actions is traced back to the problem of distinguishing between inevitable actions in the market economy and the abuse of scopes of action.²⁰ A differentiation has to be made between the levels of rules of the game and the play within the rules; moreover, its associated conditions of incentives have to be considered.²¹

The basic difficulties in the differentiation between socially desirable and undesirable actions with regard to CSR are enforced, because CSR tends to be understood as the expression of an intended social contribution. In consequence, the responsibility of corporations can hardly be understood other than as the *immediate* achievement of socially positive results. This means, in reverse, that the social desirability of corporations is questioned as soon as entrepreneurial decisions directly involve negative effects. This abets a perception which denies corporations their social desirability as soon as (1) their actions lead to the opposite of socially desirable results or (2) socially desirable results are not realized.

It is a part of corporate routine, however, that corporations (1) take such decisions which are not always *immediately* socially desirable in the *concrete* case and that (2) decisions are not taken systematically with the intention to pursue socially desirable results.²² The second statement has to be understood against the background that the motivation of corporate decisions lies systematically in the realization of profits. Corporations indeed accommodate

¹⁸ Eventually, this is the economic reformulation of the golden rule which can be found in nearly all religions and ethics in different forms and which can be understood as a basic norm. For the form of the golden rule as it is used here, see also Suchanek 2008.

¹⁹ „In reality it is usually impossible to lay down each party’s obligations completely and unambiguously in advance, and so most actual contracts are seriously incomplete.” (Hart/Holmström 1987, p. 148) For the discussion of incomplete contracts see also Hart/Moore 1988, Hart/Moore 1999, Maskin/Tirole 1999,

²⁰ The challenge is centred in Lin-Hi 2009.

²¹ For the distinction between rules of the game and the play within the rules see e.g. Brennan/Buchanan 1985.

²² Nonetheless, corporations exist which explicitly deal with the solution of social problems and which merely aim at having a cost-covering provision of “solutions for problems”. Because this paper follows a systematic argumentation, such corporations can be treated as special cases.

the demands of society, and likewise, always offer solutions to problems, but only insofar as it agrees with their realization of profits, viz. in a market-oriented manner. Explicitly, this becomes obvious corporations of the pharmaceutical industry. For many diseases in developing countries, these corporations do not provide (affordable) medicines. Furthermore, it is only within limits researched on active pharmaceutical ingredients for life-threatening, but rare diseases.²³ The decisions taken by pharmaceutical corporations depend on the sales potentials of their products, viz. on the solvency, and thus precisely not on the need of their consumers²⁴ per se.

In the market economy system, corporations are bound to make decisions which are – *taken by themselves* – sometimes socially undesirable, e.g. the suspension of staff, the relocation of business, shut-down of production lines or increase of prices. A perspective which immediately links the responsibility of corporations to concrete socially desirable actions leads to a semantic problem. It is getting more and more difficult to explain in a *socially comprehensible* manner, why the effects that have been generated by corporations and that are perceived as socially undesirable cannot be attributed as per se negative to corporations and why they can sometimes be even socially desirable in the long-term perspective.²⁵ It is then that the danger exists that members of society oppose, to the best of their knowledge, corporations and their actions, despite of their possible social desirability. To prevent misunderstandings, it has to be emphasized that a number of corporate decisions can be negatively assigned to corporations and that these decisions constitute irresponsibilities. But the point is that irresponsibilities cannot be deduced solely from the results.

In the view of this, it seems sensible to concretize CSR as a reversed concept. Then, the responsibility of corporations is not to injure the *eligible* interests of third parties.²⁶ Such a formulation provides the notion that corporations do not have the responsibility of doing good in an intended way, but they have the responsibility to prevent evil, e.g. disregarding human rights, environmental pollution, corruption or illegal price-rigging. The challenge for the management is to transform the costs in the form of a short-term abandonment of profits into value-creating investments.²⁷

The purpose of value-creating investments is related to the abovementioned link between actions and future conditions of actions. A short-term abandonment of profits at the expenses of third parties becomes an investment, if by doing so conditions of action are established by which the corporation is able to gain future profits. Hence, the concept of CSR considers the development and the maintenance of conditions which are essential for a *long-term* social cooperation for mutual advantage or which facilitate it respectively. Due to this function,

²³ For the specific CSR challenges of pharmaceutical companies see Suchanek/Lin-Hi 2007.

²⁴ The sheer fact that it is lifeworldly strange to speak of diseased people as “customers” already provides a hint for a basic problem: it is the pooling of lifeworldly and market economy logics.

²⁵ One might think of the incentive effects of patents which are a condition for investments in innovations and social advancement. The temporal monopole leads to higher prices for a certain space of time (for the period of the patent protection). Whereas higher prices as such are socially undesirable, the social advancement is socially desirable. However, it would not be reasonable to solely consider the undesirable aspects, because due to the neglect of sequences of actions, the underlying incentive problems cannot be accounted for. Hence, it is necessary to consider the “bigger game” in order to understand the links adequately.

²⁶ Eligible interests can be concretized by a contract theory approach. The starting point is the relation between corporations and society which is perceived along the distinction between the level of rules of the game and the play within the game. For this conception see Lin-Hi 2009.

²⁷ Cf. also Suchanek/Lin-Hi 2008.

such conditions can be perceived as *assets*, and responsible actions become individually compatible to incentives.²⁸

In order to enhance CSR to an added value, viz. in order to gain incentive compatibility, it needs a professional management, especially because a naïve acceptance of responsibility can endanger the corporate competitiveness. Such a management encompasses also the identification of further assets which are systematically linked to freedom and responsibility. These assets are, for instance, integrity, reputation or credibility. CSR, if understood in this way, does not necessarily mean to act against their interests, but to pursue the own interests in such a manner that third parties are not aggrieved and that the eligible expectations of cooperation partners are met. For this, it is necessary to commit oneself to certain implicit or explicit rules and values and, furthermore, to safeguard their consistent implementation.

The assets focused on above function to that effect that a corporation is perceived as a good partner, with whom others like doing business. *Mutas mutandis*, they foster the corporation's ability to cooperate. Due to the possibility of closing contracts in a more uncomplicated way, the responsible corporation is able to find cooperation partners such as customers, suppliers, employees, investors and so forth, much easier. This is because cooperation partners can act on the assumption that the responsible corporation does not only focus on their interests, but also on mutual gains. Moreover, the responsible cooperation is able to decrease transaction costs because of the capability for more open contracts. Therefore, the corporation has to demonstrate that their stakeholders can trust on the consideration of their eligible interests. It is assigned to a corporation with integrity that they do not act opportunistically, but in terms of a sustainable cooperation for mutual benefit.

Basically, the organization of CSR is a challenging task. Besides a good and especially foresighted management it needs the ability to communicate credibly the responsibility of decisions. Since corporations are perceived as one entity,²⁹ it is imperative to organize an appropriate behavior of all actors involved. One has to bear in mind that the management of assets necessary for this purpose has to be literally organized by adequate institutional rules and structures. The value of (immaterial) assets – and therewith the option of a bettered cooperation ability – is also determined by the extent to which these assets can be used as a deposit in interactions. If this is the case, the corporation has something to lose and thus an incentive exists to behave responsibly.

6 Final Remark

„We strive for the best we can attain within the scope the world allows” (Rawls 1996, p. 88) – in the end, the quotation means nothing else than the orientation towards reality. This was the issue of this paper. The orientation towards reality is inevitable, if CSR is to be made operable for the sustainable social cooperation for mutual benefit. Corporations constitute a social asset which has to be carefully treated. This very treatment presupposes a sufficient knowledge about basic relations in the complex world.

²⁸ It has to be added that incentive compatibility is not always given. This is the case when the rules of the game only insufficiently channel the actions of the market actors involved.

²⁹ Cf. also Waldkirch 2002.

At present, especially the concept of CSR is endangered to be discussed in public – by all means in a well-meant manner – in a way which leads to the undermining of its purpose. In order to prevent this, a matter-of-fact discussion is required. Only such a discussion can lay the foundations for a firm establishment of the responsibility of corporations. The present paper aimed at contributing to this specification.

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