



VARIETIES OF THE SOCIALLY RESPONSIBLE BUSINESS

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In this essay, I advance our understanding on the role of business as an agent of world benefit by outlining five basic models that describe the causal mechanisms through which the goals and operations of business can be reoriented from a focus on efficiency and toward world betterment. The essay suggests, therefore, that the concept of the socially responsible business is not a unitary concept but is in fact a collection of at least five separate causal models through which the goals and operations of business can be transformed. The transformation of business from its traditional to a new role comes by modifying the incentives of various actors—sometimes business managers, sometimes investors and sometimes consumers—and it takes place by modifying our understanding of the concept of the efficient businesses and efficient markets. This analysis enhances our ability to evaluate and operationalize the concept of the socially responsible business by understanding the forces that are leading this change and the prerequisites that are necessary to keeping those forces in motion.

We hear a great deal today about the socially responsible business—the business that responds to its stakeholders as well as its stockholders, the business that can help address social problems, the business that does well by doing good, the business that is an agent of world benefit, the business that can serve the bottom of the pyramid (e.g. Hart, 2005; Prahalad, 2004; Center for Business as an Agent of World Benefit, 2005; Margolis & Walsh, 2003; Jackson &

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Nelson, 2004). But what, exactly, does the concept of the socially responsible business mean and what changes does it assume or foreshadow?

In this essay, I argue that the concept of the socially responsible business is not a unitary concept but is, in fact, a collection of analytically distinct concepts collected under a single tent. The single tent, of course, is the idea that traditional business attitudes toward value creation can be modified to help address social issues, breaking business out of its focus on efficiency (stockholder) values¹ and reorienting business toward a broader perspective that would also encompass non-efficiency (stakeholder or social) values (Freeman, 1994). As apt as this generalized depiction is, my claim is that within this single tent several causal mechanisms explain how such a change can be structured and realized—some depend on changing the orientation of managers, some on the orientation of stockholders, some on the orientation of consumers, and some on the collective orientation of more than one of these groups. My follow-up claim is that to evaluate and influence the concept of the socially responsible business, we need to carefully disaggregate the generalized concept of the socially responsible business into different models that account for different ways through which the shift in the role of business can be understood.

To develop these points, I outline five analytical models through which we can understand the evolving nature of business as an agent of social change and its relationship to society and government. These five models seek to uncover and explore the causal mechanisms that will induce businesses to address non-efficiency social values at the same time that they respect and honor their responsibilities to stockholders. By making clear the variety of forces that are at work to influence business in the direction of world betterment, we can better understand, evaluate, and facilitate the movement toward the socially responsible corporation. By focusing on the causal mechanisms through which the value-orientation of business might be refocused, we can begin to understand why and how the socially responsible business might come about and then trace through the implications of these changes for public policy and managerial sciences.

Accordingly, the analysis in this essay can benefit all constituencies that have an interest in the concept of the socially responsible business. The social activist who would like to make business more socially responsible can use these models of relevant causal mechanisms to craft strategy and apply pressure or resources where they are likely to do the most good. The cynic who wants to understand whether there is substance behind the hype can use these models to assess whether the movement toward a socially responsible business is working and, if so, where credit should be given. The social protestor who would like to aim her protests at principles, not personality, can transform the anger and nihilism of protest into the productive labor of effective pressure. The scholar who must come to grips with the concept of the socially responsible business can use these models to understand the role of leadership, management, organizational behavior, and technology on the various ways in which traditional paradigms are being, or might be, transformed. And the government official or public policy wonk who wants to know how to harness the socially responsible business for the public good can understand where public pressure and public resources might best be leveraged.

The promise of the socially responsible business is great, with significant academic and practical implications. To the extent that business can be harnessed for social good, business's

¹ The conventional emphasis on stockholder and efficiency values comes in various forms, emphasizing that the social responsibility of business is to increase profits (Friedman, 1970), to maximize the value of the firm (Jensen, 2000), and to comply with the implicit agency relationship between owners and managers that makes up corporate governance (Easterbrook & Fishel, 1991; Jensen & Meckling, 1976).

impact on social problems will be significant, even staggering. Because business has broad access to capital, ingenuity, logistics, and manpower, any successful attempt to harness these resources could substantially confront problems of disease, poverty, isolation, and illiteracy. But it is not just social issues that will be affected; the impact on business itself could be significant. Business already confronts change from the two massive (and interrelated) social phenomenon of our time—globalization (the broader spatial plane on which business and society operates; see also Bhagwati, 2004; Friedman, 1999) and the digital revolution (the easy disaggregation, reaggregation, and dissemination of knowledge; e.g. Friedman, 2005). If business is to confront these challenges while also reorienting its mission from efficiency values to broader social values, the impact on business would be monumental.

Moreover, if the move to the socially responsible business is for real, it is an organic change of paradigmatic dimensions, affecting everything. If it is for real, our understanding of the art of management must change. So too must our understanding of the relationship between society and business, as well as our understanding of the role of government vis-a vis business and markets. Our theories of the firm—whether driven by economic, law, or managerial science—must be revised.² So too must our theories of development, our theories of community, and our theories of market failure. In short, understanding the concept of the socially beneficial business is crucial to all aspects of our understanding of business and its role in society.

ANALYTICAL APPROACH

I approach this project not from the perspective of an expert in managerial sciences (for my teaching home is in a law school, not a management school) but from my interest in the public policy implications of business behavior. My curiosity in this aspect of business behavior was sparked in conjunction with a course that I teach in Global Economic Issues in the Executive Doctorate in Management Program at the Weatherhead School, where I began to explore with my students the global implications of various models of business behavior. My approach is analytical, not empirical, and it is grounded in general institutional analysis rather than specifically in the analysis of business behavior. As I was reading the major works concerning socially responsible businesses, I began to see that much of the literature conflates incentives that are quite distinct—for example, that sometimes a change in the focus of business depends on changing stockholder incentives while at other times it depends on changing management incentives. As I reviewed individual cases in which businesses are thought to have become socially responsible, I began to see the basic models emerging from my analysis. This essay presents the results of that reflection to date.

I first outline the foundational model that guides our understanding of the relationship between business and society—the stockholder model (Friedman, 1970; Jensen & Meckling, 1976). I start with this familiar model because all models of the socially responsible business are variations on the variables captured in the foundational model. The stockholder model gives primacy to the interests of stockholders, but also identifies and fixes a role (albeit a parsimonious one) for the predominant players affected by business—managers, consumers, and stakeholders. My unit of analysis is therefore the decision made by the players in the foundational model, for those decisions influence what a business does and therefore influence the values served by

² See e.g., models based a resource-based view of the firm (Wernerfelt, 1984), or on a strategic planning perspective (Anderson, 1982), or behavioral theory (Cyert & March, 1963).

business. I examine those decisions to determine what forces influence those decisions, and therefore to determine how changes in those forces might influence business behavior. As is well known, the basic model focuses all business incentives on creating stockholder value—that is, enhancing efficiency. Under this model, business has an important but focused social role.

I then show how modifying one or more of the variables in the basic model changes the incentives that businesses face. Once the incentives vary, business behavior varies and business begins to internalize a wider range of values (wider than merely efficiency values) and to vary both the ends to be achieved and the means used to reach those ends. A summary of the way in which the models vary the relevant variables is contained in Table 1.

Table 1: Models of Social Business

	Basic Model: Efficiency Driven	Model 1: Management Discretion	Model 2: Reframing Issues	Model 3: Broaden Stockholder Goals	Model 4: Broaden Consumer Goals	Model 5: Broaden Definition of Efficiency
Stockholders	Drive System; Maximize Enterprise Value	No Longer in Charge	Same as Basic Model	Same as Basic Model	Same as Basic Model	Same as Basic Model
Consumers	Enterprise Rewarded for Creating Consumer Value	Same; but with some Decrease in Value	Same as Basic Model	Same as Basic Model	Define Consumer Value More Broadly	Same as Basic Model
Managers	Agents for Stockholders	Exercise Discretion as to Goals	Help Stockholders see Broader Context	Same as Basic Model	Same as Basic Model	Same as Basic Model but Broader Definition of Efficiencies
Wealth-Producing Stakeholders	Reward for Contribution to Wealth	Same but with Some Decrease in Value	Same as Basic Model	Same as Basic Model	Same as Basic Model	Same as Basic Model
Other Stakeholders	No Role	Beneficiaries of Broader Goals	Beneficiaries of Broader Goals	Beneficiaries of Broader Goals	Beneficiaries of Broader Goals	Beneficiaries of Broader Goals

The first model, for example, posits that business managers have the discretion to choose goals or means that move the business toward social values other than efficiency, and explains how managers will be influenced to do so. The second model outlines the possibility that managers can reorient the concept of efficiency to take into account long-term rather than short term interests of the stockholders. The third model probes the possibility that stockholder interests could be redefined to take into account values other than the generation of wealth. The fourth model examines the possible role of consumers in making decisions that reflect not only their own narrow interest in price and quality, but also the welfare of the stakeholders of a business. Finally, the fifth model examines the possibility that by evaluating the concept of efficiency managers could promote stockholder interest while also promoting stakeholder interests. Together, these five models offer a systematic way of thinking about the forces that are likely to change the incentives that determine how a business defines and meet its goals.

By systematizing how we think about the socially responsible business we can better understand and evaluate the concept itself. Within each model, we can begin to see the necessary conditions that animate the model. For example, shareholders can play a transformative role behind the socially responsible business; if investors would invest only in companies that follow socially responsible positions, the goals of business would shift to reflect investor preferences. If we understand why shareholders incorporate the welfare of others in the investment decisions they make, we can begin to see the forces that are a prerequisite for that change. By articulating the conditions that are necessary or assumptive conditions of the model, we can begin to assess in what circumstances the model is likely to be a realistic predictor of business behavior and what institutional mechanisms may be important in sustaining the dynamics predicted by the model. The models therefore allow us to begin to assess actions that are likely to advance or detract from the socially responsible business, which gives the models predictive, evaluative, and action-oriented power.

The models sometimes appear to overlap, for a single result may be the product of changes in two or more of the variables that underlie the foundational model. My presentation points out some of the circumstances where the borders between the models are likely to be malleable. And as our understanding of the movement to the socially responsible business increases, we may well see that additional models emerge, either from combinations of these models or in response to different forms of incentives. I hope that this initial attempt to identify and segregate different causal mechanisms for change will enhance our understanding of the movement toward the socially responsible business.

I. THE FOUNDATIONAL, STOCKHOLDER MODEL

The foundational model around which I organize the analysis is, of course, the stockholder model (Friedman, 1970; Jensen, 2000; Easterbrook & Fishel, 1991; Jensen & Meckling, 1976). Under this model, stockholders are the only stakeholders who matter ultimately, for the only goal of business is to advance the interests of stockholder-owners. The interests of other stakeholders—employees, communities, or environmental interests—are relevant only to the extent that satisfying their interests is necessary to advance stockholder interests. When the interest of stakeholders diverges from the interests of stockholders, the stockholders always win. Low wages that are consistent with a stockholder-desired level of effort are better than high wages. Externalizing costs that would otherwise be borne by the stockholders—that is, free riding on costs borne by others—is better than internalizing the costs. Social costs in terms of promoting community values are relevant only if they create stockholder value.

Under this model, stockholders determine the goals of the business; managers do not choose or mediate among goals. The goal is clear: to maximize whatever values the stockholder-owners want to be maximized. The manager is not to choose the goals of the business but only to choose the best means of reaching the goals set by the stockholder-owners. Managers are agents; owners are the principals. Accordingly, managers have no “decision-space” with respect to goals and only technical “decision-space” with respect to the means of reaching those goals. They are to choose the best means of reaching the stated goal and are subject to criticism and reprimand if they choose the wrong or ineffective means (or if they choose a means that really reaches an independent, non-stockholder-directed goal).

Because it is generally assumed that owners want to increase the long run value of their business, it is generally assumed that the only goal of managers is to increase the long run value of the owner's investments. This (as we shall see) is not a necessary attribute of the model, for owners could desire goals other than to increase the value of their investment, but it is a realistic assumption that comports well with the fact that investors often define their interests in terms of what will make themselves better off, without regard to what will make other people better off. When investors are not "other regarding," then it makes sense to understand their interests in terms of the long run value of their investments and to assume that the goal of the managers is to maximize that value.

Business value changes as the environment changes and as managers react to the business environment. Accordingly, business value has both a long-run and a short-run component (Jacobs, 1992). Sometimes value is preserved over the long run only by spending money, and therefore decreasing value for those who want a quick return. Theoretically, stockholders also get to choose whether they are interested in short-run gains or long-run gains, and they get to choose whether short run sacrifices in value seem to make sense for the long run. But these are really two different types of decisions. Owners decide what time horizon matters to them—which essentially is an issue of how much risk they want to take at any given time (given their other circumstances)—and they also decide how best to maximize value in the time-horizon that is important to them. The first is a value choice; the second a technical choice. And owners need not be agreed on the relevant time horizon. Some investors will want a quick fix to get money for their kid's college; others will want long term returns consistent with their retirement plans.

Within this model, business will clearly "do good" while doing well. Businesses bring great satisfaction to consumers and (in a competitive market) greatly increase consumer surplus (the amount of consumer benefit for which consumers do not have to pay). Businesses employ and train people, build communities, conserve resources, provide important social identity, spread information and knowledge, make charitable donations, and lobby for progressive, socially conscious policies. In these ways, businesses serve stakeholders other than the stockholders—but always with a caveat. Businesses advance broad social betterment and stakeholder welfare only if doing so also increases benefits to stockholders. The stakeholder benefits are constrained by the fact that the benefits must be perceived to be a means to increase stockholder value. The stakeholder benefits are collateral, not direct, benefits; only direct stockholder benefits matter.

Accordingly, a business may give charitable contributions but must justify them with reference to some real or perceived increase in stockholder value (Godfrey, 2005). A business can provide higher wages or health care benefits, but must justify them in terms of attracting, retaining or motivating human resources to increase stockholder value. A business can lobby for cleaner water, but must justify that expense by connecting it to the value of the cleaner water in generating stockholder value.

Although this model allows business plenty of room to "do good" while doing well, the model confines the role of business to a limited sphere, and sharply delineates the lines between business and government. Put simply, business is to increase the size of the pie; government is to decide how to slice and redistribute pieces of pie (hopefully in a way that does not decrease the size of the pie). Business is to concentrate on efficiency—getting the most value out of life's limited resources. Government is to concentrate on values beyond efficiency—equality, equity, and non-business sources of community. Under this view, the business of business is to make money; the business of government is to tax that money and spend it on public goods. Business is to use markets to solve the social problems of who gets what, when and where. Government is

to intervene when markets fail or when the collective believes that people's rights and needs should not be rationed by having people bid on them with dollar-votes.

In short, this model presents business as a powerful, but focused, force for social good. In the sphere in which business clearly intersects and reinforces social value—the sphere of allocating resources efficiently—business is unsurpassed when markets function without failure. However, the role that this model assigns to business is limited by the assumptions on which the model is based. When markets fail to achieve efficiency, or when society thinks in terms of objectives that cannot be advanced through efficiency values—that is, when society thinks of objectives in terms of communitarian values—the role of business under the prevailing model diverges from social values. And sometimes people define their interests in terms of the interests of others—that they are willing to sacrifice their money so that other can have more, that they are willing to sacrifice their prestige so that others can have more, and that they are willing to sacrifice their own leisure so that others can have more. When that occurs, the self-interest that is built into the foundation model of business diverges from the social interest as defined by people who think in a less self-interested way.

II. VARIATION MODELS

I have highlighted the central features of the foundational model so that we might understand the concept of the socially responsible business in terms of a set of variations on that model. This allows us to understand the forces that will change the incentives that businesses face, and thus to understand the forces that will cause business to pursue a wider social agenda. This focus on the forces of change allows us to track, evaluate, and promote the evolution of socially responsible businesses. Each variation involves an examination of the role of various “players” in this model—stockholders, managers, consumers, and stakeholders—so that we can understand how changes in the decisions they make will influence business behavior.

Variation 1: Managerial Discretion—Social Norms Rewarding Managers

As already mentioned, the foundational model of business behavior assumes that managers are simply agents of stockholders and are forced, by the market, by law, or by a sense of obligation, to align their decisional behavior with the interests of stockholders. Under the model, managers are not independent decision-makers but function simply as proxies for stockholder interests. As theoretically sound as this assumption is, in practice managers are likely to have a measure of discretion in the decisions they make, both as to the ends they serve and as to the means they choose to serve those ends (Ghoshal, 2005; Dalton, Daily, Ellstrand, & Johnson, 1998). Market failures in the investor market often drive a wedge between stockholder and managerial interests and allow the manager some “decision-space” in how the manager behaves. Because investors may not have effective access to information for evaluating managerial decisions, and may not have uniform reactions to the information they do have, it may be difficult for investors as a group to oversee management decisions.

Given this managerial decision-space, one model of the socially responsible business relies on managers to use their decisional space to direct the business toward non-efficiency, non-wealth-creating goals. Managers may, for example, make decisions that increase worker benefits in order to yield to the manager the psychic value of employee approbation or community standing, quite apart from believing that this will increase employee productivity or otherwise

generate stockholder value.³ Consistent with this model, one aspect of the socially responsible business appears to be a largely hortatory dialogue that is intended to influence how managers get rewarded—and therefore make decisions—even without any explicit changes in incentives or redefinitions of stockholder interest. If it becomes important for a manager to show how she “does good,” and if she has the decision-space to “do good,” then she will work to do good.

The poster child for this model of the socially responsible business is the United Nation’s Global Compact for Business.⁴ Under this model, Kofi Annan is the catalyst for an organized and visible public conversation that invites corporate managers to vow to do good (along certain specified measures), with the promise of certain reputation rewards for businesses that can demonstrate that they have lived up to their promises. To some extent, the public approbation that comes to businesses that can plausibly claim to act in accordance with the Global Compact inures to the benefit of stockholders, and is therefore consistent with the foundational model.⁵ But one must also suspect that some of the reward for compliance with the Global Compact goes to business managers not stockholders. Managerial decisions may reflect the manager’s personal responses to the challenges set forth by civil society, with the Secretary General using the moral suasion of his office to sanctify the implicit partnership between managers and civil society. Business responds to these initiatives because business managers get psychic and reputational rewards for their decisions (quite apart from building stockholder value or the reputation value of the firm).⁶

Rather than depending on finding a match between stockholder value and stakeholder value, the causal force behind this model depends on business managers being able to exploit the divergence between stockholder interests and manager prerogatives.⁷ That is because the

³ It is possible, of course, that this form of psychic reward to the manager is a part of the manager’s compensation, that the compensation is necessary to induce the manager to invest herself fully on behalf of the stockholders, and that the decisions that the manager makes are thus in the interest of stockholders. However, if stockholders are not given the choice between direct monetary rewards for the managers and these kinds of psychic rewards—which they would not be given if market failures separate the interests of managers from the interests of stockholders—it is hard to argue that all rewards to the managers are in fact rewards to the stockholders.

⁴ www.unglobalcompact.org. The Center for Business as an Agent of World Betterment at Case Western Reserve is teaming up with the UN Global Compact and the Academy of Management to advance our understanding of the impact of the socially responsible business on management education and practice. <http://www.bawbglobalforum.org>.

⁵ In practice, of course, it is never clear whether responses to the challenges of civil society are driven by the interests of managers or the interests of stockholders, and business decisions might, in fact, be driven by both. Moreover, as pointed out in the next model, managers have influence over how stockholders understand their interest and can use that influence to change how stockholders define their interests. This influence can be used either to allow stockholders to understand their own interest really are or to believe (incorrectly) that what is in management interest is also in their interest. Despite the blurring of the distinctions in practice, in order to understand and evaluate the socially responsible business we must be prepared to confront the key distinctions suggested by this model—that management interest may be different and independent from stockholder interest, that management influences stockholder interests, and that sometimes that influence is used for the benefit of stockholders and sometimes for the benefit of managers. Different incentives drive managers and stockholders and the socially responsible business will differ depending on which incentives are really being influenced.

⁶ Although it may be difficult to distinguish in practice between reputational value that flows to the managers and reputational value that flows to the corporation and its stockholders, analytically, the two represent distinct and different incentive structures. A corporation and its stockholders may profit from a good image if that enhances consumer or stockholder loyalty (Fombrun, 1996). The role of the manager in that instance is simply to recognize and capitalize on the impact of a good reputation on stockholder value. The causal mechanism described in the text suggests that managers may themselves profit when their personal reputation increases, even if the value of the company is not also enhanced. The distinction is important because if managers are independent from stockholders in their decision-making then enhancing their reputational interests may be enough to change the social behavior of the corporation.

⁷ This distinction may have practical importance. Those who are skeptical about the real impact and benefits of the Global Compact may believe that the Compact functions simply as a public relations program to make the public think that business is changing, but without any real change (See, e.g., the protests to the United Nations Global Compact principles, at <http://www.globalpolicy.org/reform/business/2004/0623countersummit.htm>). This view probably derives from the notion that business interests can never get very far away from stockholder interests, so that a promise to “do better” is simply a public relations ploy to generate good publicity for the business. However, if the relevant causal mechanism is that managers want their personal prestige to be improved—even at the expense of some stockholder value—then one

rewards from this kind of norm formation go (by definition, given the way that I have set it up) to the managers and not the stockholders. The driving force behind this model does not depend on improving stockholder value, for the posited relationship is between managers and civil society, with managers, not stockholders, being rewarded by civil society for “doing good”. The rewards might come in the form of praise at public forums from prestigious officials, honored places at the head table, opportunities to speak, and the avoidance of criticism by civil society. Moreover, the rewards to managers need not be external. Managers might exploit the decision-space they have in order to satisfy a personal sense of satisfaction when they use their power to help others. This movement could have a profound impact on how managers are taught and how they conceive of their role in society.

The effectiveness of this model of the socially responsible business depends primarily on business managers exploiting the decision-space they have to act independently of the interests of stockholders. It depends secondarily on forces that motivate the business managers to exercise their decision-making discretion in the direction of the socially responsible corporation. I have suggested two such motivations. One is the internal satisfaction that the manager has in perceiving that she is “doing good.” This motivation depends on the philosophical make-up and character of the manager (and is therefore susceptible to influence when we can influence the characteristics that make up leadership character). The other is the external rewards that the manager values, a motivation that supposes an iterative conversation between civil society and managers, or between managers themselves, in which the kinds and nature of rewards that matter to managers are explored. This process moves forward with a mixture of both flattery (the carrot) or criticism (the stick).

Whether this is a plausible or sustainable causal basis for explaining why business would move from wealth creation to social-good creation depends on whether managers can maintain “decision space” to “do good” and whether the rewards that they receive for exercising their discretion in that direction continue to be attractive enough to influence the decisions in that direction. This causal model is therefore likely to be most successful as long as civil society remains organized and vigilant, and in those highly visible situations where reputational value is likely to be effective or (in less visible situations) where managers give themselves psychic rewards for doing good.

Variation 2: Managerial Discretion—Reframing From Short to Long Term Efficiency

The prior model was based on changing the way business managers understand their own interest (not their firm’s interest); the model depended on changing the way managers defined their personal interests, and it assumed that the redefinition would guide their decisions in a socially beneficial way. A second model also focuses on the role of managers but rests on a different way by which managerial decisions can be harnessed to move business in a socially responsible direction—namely, by taking a leadership role in changing the way investors perceive their interests. Managers have power over the flow of information to stockholders and the power to frame the issues for investors. To the extent that managers can convince investors that investments in social capital are in the investor’s interests, they can move the business toward socially responsible outcomes (Hart & Milstein, 2003).

could plausibly believe that their reputation depends on carrying out the commitments of the Global Compact, and we can view the Global Compact as a source of meaningful change.

Although this model has many incarnations, perhaps the most general incarnation is the decision of whether to focus on the business's short run value or long run value. By changing the time frame over which value is appraised, the business can incorporate broad social goals as wealth-creating, wealth-preserving goals and thus draw investor interests closer to broader social interest (Laszlo, 2003). When a business moves from short term to long-term self interests, it often comes to believe that the efficiency goals of the corporation include the protection of non-efficiency social values; when a business makes this connection, the business bases its decisions on a broader range of stakeholder interests than would be true if only short-term stockholder interests were taken into account.

We see this incarnation of the model at work in common discourse. One extreme version of this model underlies the argument that "doing good" is necessary to preserve the capitalist way of life.⁸ In a more nuanced way, the model underlies the argument that helping people get richer will induce them to buy more of a business's products (Prahalad, 2004).

The causal mechanism behind this model focuses on the role of managers but does not depend on influencing the manager's individual, personal interests. It depends, rather, on convincing managers of what the long term interests of stockholders are and then assuming that managers can find the tools to convince stockholders that they should accept this definition of their interest.⁹ The causal mechanism therefore does not depend on the kind of reward system that underlies the notion of norm formation described above—which we can consider to be a form of reputation norm building. The kind of collective action that is required in this case is to reframe the issues so that a manager understands her decision-space to encompass a broader range of considerations built around a longer time frame. This is a kind of intellectual norm building, in the sense that it requires opinion leaders to reframe the intellectual content of framework for assessing business success. As is true for all collective action, the more people or entities who do the reframing the more likely the reframing is to grow.

Sometimes the reframing is based only on argument and reason, in which event the reframing—and the movement of business toward broader social responsibility—is stable only so long as the arguments and reasons remain convincing. In other cases, the reframing can be built into institutional structures and thereby reinforced. As long as accounting systems count cutting down a tree as income, we will have an incentive to cut down trees. But if we reframe the issue and make the reframing permanent in institutional terms—perhaps by counting a cut tree as a depletion of an asset—we will think differently about how much to cut and how to replace the asset.¹⁰

⁸ Ryuzaburo Kabu, the honorary chairman of Canon, has made the point effectively: "Global corporations rely on educated workers, consumers with money to spend, a healthy natural environment, and peaceful existence between nations and ethnic groups....At this watershed period on history, it is in the interests of the world's most powerful corporations to work for the advancement of global peace and prosperity. To put it simply, global companies have no future if the earth has no future." To some extent, the matters that he refers to—education, the environment, aggregate demand and peace— have traditionally been understood, at least in the West, to be matters for government responsibility. Views like that expressed by Mr. Kabu may reflect the sense that governments are no longer able to provide these sorts of "public goods," perhaps because of democratic paralysis and the forces of globalization.

⁹ Clearly, the redefinition of stockholder interest from short term to long term value does not depend on what managers do. Stockholders can make the redefinition on their own (which, not surprisingly, is the focus of the next model). Moreover, the definition of the time-frame over which value will be determined is undoubtedly an iterative process between managers and investors. In this respect, the distinction between the models becomes hazy in real life. Nonetheless, in my view it is worth considering separately the role of managers and stockholders in the definition of value because managers approach the issue from a different perspective than stockholders. By presenting the models separately here I seek to capture that distinction.

¹⁰ Literature on the movement toward "full cost accounting" can be found at <http://www.epa.gov/epaoswer/non-hw/muncpl/fullcost/whatis.htm> and http://www.icmap.com.pk/a1_fca.pdf.

Variation 3: Stockholder Incentives—Broadening Stockholder's Value Norms

Norm-shifting of a different kind sometimes underlies the socially responsible business and provides the basis for the third model. In the foundational model of business behavior from which we are working, it is assumed that stockholders seek increases in the long run value of the business, and this assumption therefore leads the managers of the business to focus on that goal, to the exclusion of other social goals. This is not a necessary assumption. A separate causal mechanism is to convince stockholders that it is in their interest to invest in businesses that advance social values. This model focuses on the changing role of stockholders, and thus preserves the assumption that managers respond only to stockholder interests. Once stockholders change their goals from strictly wealth producing outcomes to outcomes that mix wealth production and social production, businesses that respond to stockholder values will naturally also engage in the creation of social value (Alinsky, 1969; Anderson, 1999). If, in other words, stockholders want to invest in businesses with well-paid workers, then businesses will pay their workers more.

Although the general model applies to all stockholders, individual stockholders rarely have the personal incentive or collective clout to implement successfully a strategy of social investment. Some individual stockholders may invest in socially-directed businesses as a matter of conscience, quite apart from what other stockholders do. But most investors will want their decision to have an impact, which implies that others must make similar, parallel decisions. In the absence of an organizing institution, stockholders make their decisions in isolation, with relatively rudimentary information, and without any assurance that their decisions will have the desired impact. Collective action among individual investors is therefore difficult because the organizing costs are so high, requiring a central organization to generate information, coordinate investment decisions, and insure that investors remain confident that the power of their decisions will be supplemented by like decisions of other investors. Aside from several faith based groups and similar organizations,¹¹ the collective action problems of individual investors are difficult to solve.

Collective action among investors is easier to arrange within the investment community—that is, within the relatively small group of people who handle large amounts of money for others. If the investment community were to define social investment as a norm that governs their decision-making, they could invest in companies that “do good,” thereby harnessing stockholder interest on behalf of the socially responsible business. To the extent that this occurs, the divergence between stockholder interest and stakeholder interest disappears, for then the stockholders are in charge and the managers are responding to stockholder's (redefined) interest in stakeholders.

The causal model built around the influence of the investment community depends on two mechanisms. First, the investment community must have the authority from the owners of the money they are investing to seek goals other than the increase in the long run value of the portfolio. Institutional investors are only agents for the owners of the money and unless they have the decisional space or direct authority to seek social goals other than the creation of wealth, they will not be able to induce a change in business decisions. Second, the investment community must find a way of resolving the difficulty of collective action within the community, for the

[http://taylorandfrancis.metapress.com/\(accbdmi5npyxco451madza55\)/app/home/contribution.asp?referrer=parent&backto=issue,5,9;journal,36,63;linkingpublicationresults,1:100638,1](http://taylorandfrancis.metapress.com/(accbdmi5npyxco451madza55)/app/home/contribution.asp?referrer=parent&backto=issue,5,9;journal,36,63;linkingpublicationresults,1:100638,1)

¹¹ For example, the Interfaith Center on Corporate Responsibility (ICCR) engages “over 150 companies through dialogues and shareholder resolutions on major social and environmental issues.” www.pcusa.org/mrti/ecupartners.htm.

success of any individual socially-driven investment strategy is likely to depend on similar decisions being made by other investors. The assumed norm of investing in wealth creation must be changed to a norm of investing in businesses that also base their decisions on other social indices. Here the causal model suggests that conversations within the investment community, organized by and around civil society, will convince money managers that they can get psychic rewards and avoid psychic pain if they incorporate “doing good” into their investment decisions. Collective action is possible because the number of players is relatively small, they see (and read about) each other frequently, and they create their own kind of reputation pecking order that drives behavior. If that reputational value induced money managers to shift large amounts of money to socially conscious business, their decisions could have an impact on business behavior.

This model has a chance of success only as long as money managers get consistent and regenerated psychic rewards for their efforts. Some institutional method of making the rewards permanent would help.

Variation 4: Changing Consumer Norms

In the foundational model that guides our understanding of the role of business in society, the interests of consumers and shareholders converge. Consumer interest serves as a proxy for stockholder interest, for the more a business satisfies consumer interests the more the business also satisfies stockholder interest. Consumer satisfaction gets translated into profits, which then satisfy stockholders. Consumers as stakeholders in the business are therefore not separate from stockholders; stockholders need to make sure that consumer interests are advanced, and advancing consumer interests enhances stockholder interests.

Under the foundational model, consumers are also thought to share the relative disinterest of stockholders in the welfare of other stakeholders. Consumers are thought to be interested only in the lowest price consistent with the quality they prefer, and are thought to be agnostic about the impact of their purchasing decisions on the welfare of the stakeholders of the businesses from which they are choosing. Consumer interest is thought to be only self-interest. Accordingly, consumers are thought to value stakeholder welfare only to the extent that doing so enhances the wealth generated by the business for stockholders. Under this view, consumers, like stockholders, want wages and benefits to be low unless higher wages make workers more productive. Consumers, like stockholders, want to externalize as many of the costs of production as they can. Consumers, like stockholders, (often) ignore the impact of business decisions on the community fabric or community values.

The assumption of the self-serving consumer, however, is not a necessary one, and when we change that assumption we have a different model. The fourth model I present therefore posits a change in the norms that affect consumer decisions about what to buy; rather than defining their own interest in terms of price and objective quality, consumers might define their own interest to include the welfare of the business’s stakeholders. To the extent that consumers begin to care about processes under which their products are made—that is, the human, environmental, and community impacts of that production—then they change their definition of quality and therefore their purchasing decisions.

It is obvious from casual observation that consumers are not motivated only by their perception of price and objective quality. This does not always have beneficial effect. Consumers sometimes avoid purchasing goods that would identify them with, or put them in contact with,

disfavored minorities, such as African-Americans. Discrimination would not exist if buyers were disinterested in the welfare (in this case, the negative welfare) of those who make or sell the goods, sometimes expressing that preference by giving up commercial opportunities from which they could otherwise benefit. Some consumers prefer domestic over foreign products, putting a premium on the origin of the goods that is not reflected in the objective quality of the goods. The assumption of the narrowly self-interested consumer that underlies the traditional model of business is not a necessary one.

But the power of the consumer can also be put to good use. In the context of the socially responsible business, when it is possible to induce consumers to pay a premium to reward stakeholders beyond the efficient level or to avoid imposing costs on stakeholders, the business will naturally make decisions that take stakeholders into account. Prominent examples of this include the sale of free trade coffee and the work of groups like Ten Thousand Villages or SERRV that facilitate distribution of crafts made by the poor.¹² Consumers are willing to pay a premium for free trade coffee not because it is objectively better but because they are told that the coffee provides a greater return to coffee farmers. Because they value a division of revenue to various factors of production that they perceive to be more fair than the division that would be generated by traditional markets, they move markets in a more socially rewarding direction. And consumers are sometimes willing to boycott desirable brand names in order to induce sellers to improve the social content of their products, as we have seen with boycotts of Nike and the Gap.

This model depends on a massive reorientation of consumer definitions of quality and self-interest, and therefore presents a massive collective action problem. The model is likely to be somewhat successful in niche markets—for famous brands and isolated groups of consumers—or where consumers feel a strong sense of identity and solidarity around a particular issue, but making the model more generalizable will require a different kind of collective action mechanism than we currently have. To be fully generalizable, the model requires a change in norms, requiring that consumers change the basis on which they make purchasing decisions, effectively moving decisions from narrow self-interest to a broader community interest. It requires that consumers, as consumers, incorporate in their interests some measure of the welfare of other people. This is likely to be an exceedingly difficult process.

Variation 5: Redefining Efficiency

The socially responsible business may also be founded on new understandings about what it means to be efficient. If companies become convinced that they can be more efficient (and thus serve stockholders better) by incorporating stakeholder welfare in the decisions they make, then their decisions will be both efficient and responsive to new understandings about how business can support broader social interests. At the simplest level, if business becomes convinced that employee relations programs enhance productivity by enhancing the welfare of employees, then the welfare of employees becomes a standard by which decisions are made, and the business moves to a broader notion of efficiency.

At first glance, this model seems not to be different from the foundational model. It does not depend on changing the incentives on stockholders, managers, or consumers. It depends only on a change in how those interests are perceived and implemented. If a business gives more benefits to workers to make them more efficient it is simply working through the standard notion

¹² www.villages.ca/home/content; <http://divine.serrv.org>.

that an efficient market will induce benefits to stakeholders whenever those decisions also benefit stockholders.

But what makes this model distinctive from the foundational model is the notion that efficiencies are not self-defining or easily grasped. Because markets are imperfect, business managers are not easily induced to do the efficient thing; market failures make it hard for managers to find efficiencies. Accordingly, new ways of looking at the world and new ways of identifying efficiencies can lead businesses in directions that are good for both stockholders and stakeholders. The key feature of this model, therefore, is to change the assumption that markets lead naturally to efficiency and to replace it with the notion that markets can be enhanced by overcoming barriers that keep managers from understanding the ways in which enhancing stakeholder value will also enhance stockholder value.

Thus, this model is based on the need to overcome some information impediment that makes it hard for managers to understand even what their stockholder's short-term interest is. This model is exemplified by the notion that there is a fortune at the bottom of the pyramid. That notion attacks the assumption that rich consumers are necessary to drive wealth creation; it suggests, instead, that wealth creation can come from serving those segments of society that have little individual wealth but a great deal of collective wealth (Prahalad, 2005). The central message here is that by challenging old assumptions managers and enterprises can find new wealth creating opportunities (Bornstein, 2004).

Here the model flows from the fact that corporate decision-makers are boundedly rational—they seek efficiency but do not always know how to get it. The model is therefore based on the notion that business people are blocked from seeing business opportunities, either because their mind-set accepts the notion that stakeholder interest is antithetical to stockholder interest, or because, for some reason, they are not processing well information about business opportunities. The successful implementation of the model therefore depends on getting managers information that allows them to see efficiencies and business opportunities where they exist. The kind of collective action that is required to implement this model is therefore to get decision-makers more information, and this can be done by civil society or by disseminating information about corporate opportunities and successes (Jackson & Nelson, 2004; Hart & Sharma, 2004; Hart, 2005; World Resources Institute, 1998). Demonstration projects are but one example. Important for making this model successful is an organized forum for exchanging information that is tailored to the self-interest of business decision-makers. The information must be disseminated in a way that increases the possibility of its acceptance and absorption (that is, the dissemination of the information must make clear its relevance to particular applications) and that allows implementation measures to be assessed to determine the causes of success or failure.

CONCLUSION

In this paper I have presented five different ways in which we might understand and evaluate the forces that are leading business to move from decisions that focus on wealth creation to decisions that incorporate broader social goals—and therefore to what I have called the socially responsible business. Whatever one's orientation toward the concept of the socially responsible business—whether supporter or skeptic, observer or executive, academic or practitioner, activist or defender of traditional conceptions—the analysis presented here should inform one's thought and guide one's positions with respect to the role of business and how it makes its decisions.

Because the causal forces that work to bring about the socially responsible business are different in each of the models, an understanding and appreciation of the models provides an organizing framework for confronting the concept of the socially responsible business in its variety of incarnations.

The common element of each of these models is that they modify one or more of the assumptions on which traditional models of business behavior and the role of business are based.

- The first model suggests that managers are somewhat independent of the stockholders and that we can induce managers to use their independence to make decisions that incorporate broader interests than just the wealth-creation interests of the stockholders.
- The second model suggests that business managers can help stockholders define their interests and that managers can be induced to use that role to induce stockholders to take into account a broader range of interests.
- The third model focuses directly on the possibility that stockholders can be influenced to invest in companies that move beyond stockholder wealth maximization to also take into account stakeholder wealth maximization.
- The fourth model turns on the possibility that consumers can broaden their own basis for making decisions, moving beyond their own interest in low price and high quality to also take into account the impact of their purchases on stakeholders.
- The fifth and final model explores the possibility that managers misperceive or misunderstand the efficiencies (and wealth) that could be achieved by certain decisions, and that managers could better serve stockholders (and stakeholders) if they could overcome the impediments that keep them from understanding how to create wealth by meeting social needs.

Taken together, these five models focus our attention on the forces that are likely to account for the socially responsible business, and they do so in a way that allows us to understand in what way the forces imply that different things are going on in each of the models. These models therefore provide analytical frameworks through which the phenomenon of the socially responsible business can be evaluated, augmented, and implemented.

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