

What to Do About Corporate Social Responsibility

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(This document was created from overhead transparencies used at the conference)

I. Firms and Society

Huge problems in our world



Firms = part of society

→ Have to help remedy these ills

- Corporate social responsibility

- Hunger
- Infectious diseases

Counter-arguments

: firms | no comparative advantage in pro-social behavior

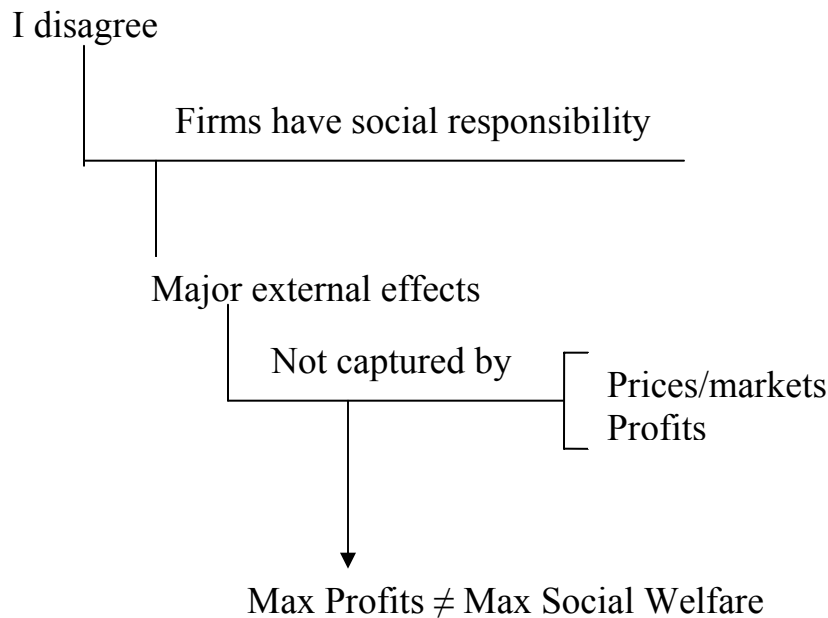
Create wealth

Advance social welfare by pursuing profit
[Adam Smith 1776]

There are better institutions to act pro-socially

Governments
NGOs

Red Cross
Churches



I will argue:

- take counterarguments seriously-otherwise naïve
- firm should act in a socially responsible way
 - Because of external effects
 - Because they are capable

Crucial question How to induce corporations to act pro-socially?

Three basic approaches:

1. Foster norms with decision-makers (CEO)
 - Instrument: exhortation
 - Main focus in theology and philosophy
2. Enforce social responsibility
 - Instrument: punishment
 - Main focus in law
3. Lower costs of social responsibility-activate existing norms
 - Instrument: institutional design
 - Main focus in political economy

Procedure

- Discussion strength/weakness of three basic approaches
 1. Foster norms
 2. Enforce

3. Lower costs

- Overall evaluation

1. Foster norms

- Strength

- Venerable tradition—Voluntaristic = attractive
- Two mechanisms:
 - a) Direct = raise intrinsic motivation in firms
 - Evidence

b) Indirect

= firms have incentive to act pro-socially

“Sell” virtuous reputation

- Consumers
- Shareholders
- Government
- Public

- Evidence

- Two major problems

- 1) Managers have little/no discretionary room-competition → losses
- 2) Self-serving use of discretionary room
 - a) Social responsibility interpreted to private advantage
 - b) No democratic legitimacy

2. Enforce Social Responsibility

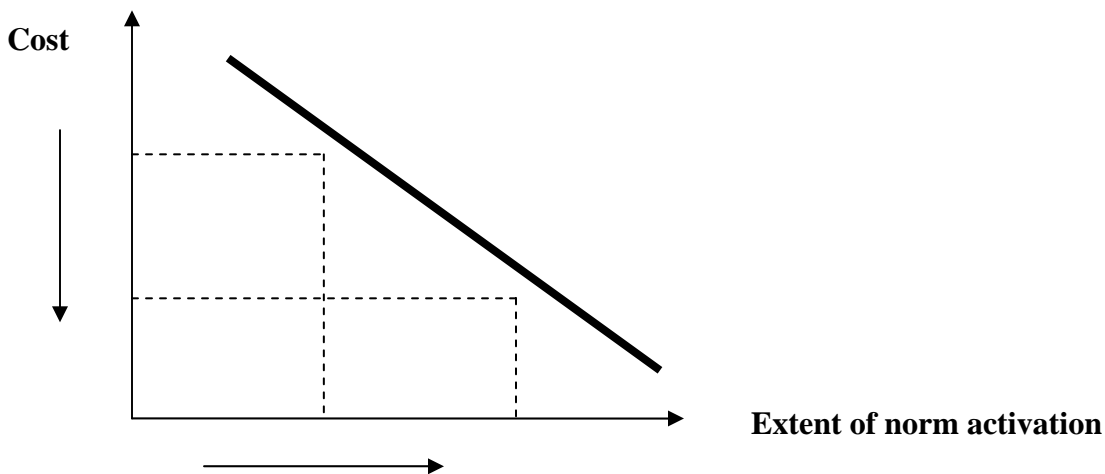
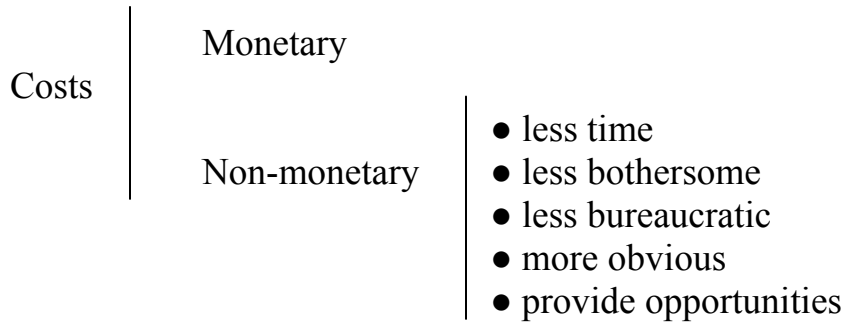
- Strength

- Can be well targeted (effective)
- If monetary punishment → generates public revenues

- Three major problems

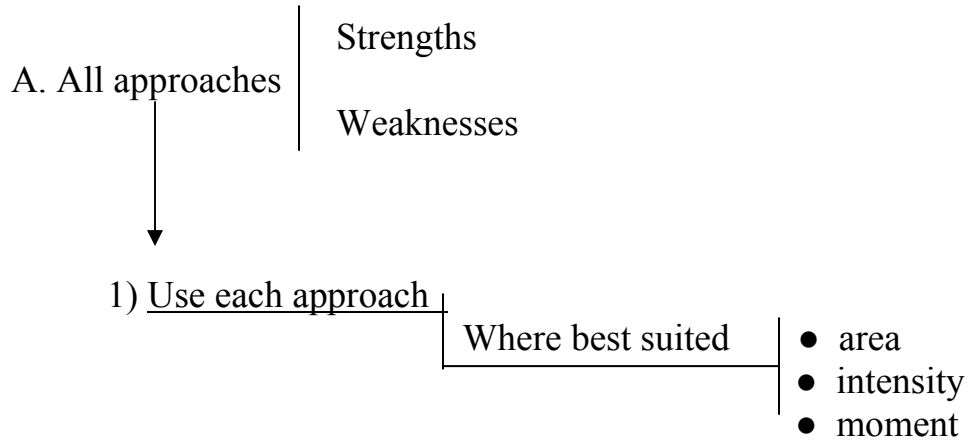
- 1) Fails to cover all aspects of social responsibility
 - a) Multi-targeted/fuzz targeted
 - b) New problems
- 2) Crowds out existing norms
 - a) Evidence
- 3) Activates efforts to evade (similar to tax evasion)
 - a) Enforcement weak where needed most: corrupt societies
 - b) Evidence

3. Reduce costs of socially responsible behaviour



- Evidence
 - 1) Basic economics
 - 2) Provide opportunities “importance of being asked: [helping Jews in WWII]”
- Three major problems
 - 1) Self-serving bias cannot be excluded
 - 2) Possibility of crowding-out:
 - Use of monetary incentives lower costs, may undermine norms
 - But: external intervention if “supportive”
→activates norms
 - 3) Costly
 - But: probably low

CONCLUSIONS



2) Mixture needed

B. More emphasis on LOWER COST of socially responsible behaviour

Two levels:

a) Establish institutions reducing costs of moral behaviour

-Churches

-Politics {

- Popular participation rights
- Decentralization

-Economy: “corporate governance”

- No performance wage for managers → fixed wage
- Co-determination, autonomy, self-determination

b) Policies

Make socially responsible behaviour → tax deductible
e.g. donations to humanitarian organizations

SUMMARY

Several ways to raise corporate social responsibility

Skeptical	1) Purely voluntaristic
	2) Enforcement
Optimistic	3) Reduce cost of social responsibility
	-Institutional design
	-Policy