USING FRIEDMAN TO UNDERSTAND THE RELATIONSHIP BETWEEN

MARKET COMPETITION AND CORPORATE SOCIAL PERFORMANCE

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ABSTRACT

The Corporate Social Performance (CSP) literature focuses on the relationship between financial performance and social performance of firms. Although the literature recognizes a positive relationship between these two ideas, it is not clear what role competition plays, since there is confusion in the literature about the theoretical relationships among these factors. Competition is expected to be an important factor because Friedman's writings on corporate social responsibility stated that firms have only one social responsibility, and that responsibility is conditioned on the nature of competition in the industry. This research extends the CSP literature by examining how competition affects CSP.

This study points out a reason for the confusion in the literature. It is that the CSP literature does not explicitly include in its theory and empirical analyses the role of incentives, as created by competition. Rather, CSP only takes into account the resources (i.e. financial performance) force, largely ignoring the role of competition as expressed by Friedman. Competition offers the incentives for firms to engage in social performance. Competition at the same time reduces profits depriving thus firms form the second major force, that is, necessary resources to invest in social performance. Thus, incentives and resources, as affected by competition, are limiting factors on each other.

I suggest that the difference between Freidman and CSP lies on the grounds of mere definition. Friedman's major argument was to promote free and open competition abiding to the legal and ethical rules of the society. This argument escaped the attention of CSP literature and it is an argument that can be used to actually bridge CSP and Friedman. I propose that CSP and Friedman are not two competing theories but they need one another in order to create a better and more complete theory of CSP.