

Public Abstract

First Name:Athanasios

Middle Name:G

Last Name:Chymis

Adviser's First Name:Harvey

Adviser's Last Name:James

Co-Adviser's First Name:Daniel

Co-Adviser's Last Name:Greening

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Title:USING FRIEDMAN TO UNDERSTAND THE RELATIONSHIP BETWEEN MARKET COMPETITION AND CORPORATE SOCIAL PERFORMANCE

Public discussions about the social responsibilities firms have increased in recent years. Scholars have examined the relationship between social and financial performance of the firms and suggest a positive relation between the two. However, these studies have largely ignored to role of competition. This study investigates the effect of market competition on Corporate Social Performance (CSP) and argues that competition offers the incentives for firms to invest on social performance. At the same time competition reduces firm profits and hence reduces the resources available to firms to engage in social responsible activities, producing a countervailing effect. Empirical analysis corroborates this argument by showing that social performance increases with competition but at a decreasing rate until it reaches a maximum and then it starts decreasing. Results show that dimensions of social performance related to firm products, the environment and community are related to competition. On the other hand, dimensions related to diversity and employees are not affected by competition. Also, results suggest the existence of strong industry effects.

Knowing how competition affects different aspects of social performance can provide valuable insights to policy-makers. Depending on the specific social dimension of CSP desired, in some industries competition should be increased, in other industries competition should be decreased. In cases where competition has no affect on CSP, policy-makers may need to legislate improvements.