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Instinctive Behaviour, Producer Surplus, and Corporate Social Responsibility

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INTRODUCTION

In a broader sense, CSR became an issue mainly in the recent years. The evolution of this phenomenon is largely to be credited to the neoliberalist era that began in the last quarter of the 20th century and continues to dominate the new millennium. Not surprisingly, the conceptual and operational definitions of CSR are subject to as many controversies and disappointments as is the outcome of neoliberalist economics manifested in looming threats to social, economic and environmental sustainability. The scope of this study is, however, only limited to addressing the issue of CSR. The analysis is carried out by adopting an inductive approach while probing into both interconnected aspects and disconnected separate currents of the phenomenon. The interconnectivity of CSR relates the capitalist paradigm with the individual/collective human behaviour. The disconnection on the other hand refers to specific real world issues with local and global contexts involving simultaneous but unequal capitalist development in the North and the South. The paper is divided into three parts. Part 1 reflects on the relationship between instinctive and ethical behaviour of the entrepreneurs. The former is driven by the motivational force of self-interest exhibited in efforts to accumulate producer surplus, while the latter demands social responsibility under the influence of intrinsic and/or extrinsic regulations. Part II presents a brief review of the literature on CSR, largely relating to the corporate sector in the North. Finally, Part III of the paper analyses the literature on CSR in the developing countries and highlights its recent origins in a world where Technical Barriers to Trade (TBTs) are increasingly underscoring the North-South divide in gains from economic globalisation.

I. ELEMENTS AND COMPOUND[1]

Human society happens to be an artificial construct evolved through a process of successive making and remaking of positive laws in the realm of both sociology and technology. The positive laws in sociology are the rules and regulation governing the edifice of human society at each level of existence. Before getting into different forms of positive laws, it is important to first understand their rationale which, in turn, requires the

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[1]The headings of Part I, II and III, metaphoric phrases befitting arguments, are borrowed from Braudel (1988), p. 280, 298 and 484 respectively.

understanding of biologically governed behavioural traits. At a broader level, the latter are recognised as instinctive behaviour with the survivalist instinct being strongest of all. It therefore follows that effort to remain the fittest, widely recognised as self-interest, happens to be a natural right of all creatures. That said, a vast majority of humankind also like to call themselves the supreme creature or the higher organism owing to another two natural endowments; namely, superior intellect and the ability to change the things for better or for worse. These two endowments and self-interest, the strongest of all instincts, together underscore the significance of positive laws of sociology which have always existed in every society, however small or big, developed or underdeveloped, ancient or modern. More explicitly, the positive laws in sociology provide a regulatory mechanism for human behaviour which is driven by both selfish and altruistic motives. The selfish motives come spontaneously and effortlessly with submission to dictates of the instinct. The altruistic motives on the other hand require relentless philosophising to help regulate instinctive impulses in a manner ensuring both survival and self-control, an enlightened resolution of paradoxical endowments, though widely considered and interpreted as self-sacrifice.

Positive laws of sociology merit an understanding both at the intrapersonal and interpersonal spheres. In the former case, it happens to be a system of self-regulation. The most reliable barometer for measuring the efficacy of each individual system is personal integrity. Although the intrapersonal positive laws, usually called principles and/or convictions, essentially happen to be intrinsic to a person, the social environment is the provider of major explanatory variables which determine the relativity of selfish and altruistic traits of an individual's character. Therefore, interpersonal variations in behavioural patterns are frequently a source of conflict in human society, warranting widely recognisable and/or generally applicable positive laws for conflict resolution. These laws represent a continuum of both social norms and governance structures including all prevalent forms of informal and formal laws of sociology respectively.

Social responsibility is therefore a phenomenon lying on the crossroad of intrapersonal and interpersonal spheres of the positive laws of sociology. Both logic and ethics vote in favour of socially responsible individual and collective human conduct: an altruistic act of one person/group serves the interest of the other and vice versa, while conduct blinded by self-interest would set in motion a collision course.[2] Unfortunately, the former case universally happens to be less prevalent in practice because not only the persuasive values for guidance of conduct are usually established without studying the motives and impulses, the regulatory rules also very often fail to take fuller account of the opportunity set, involving both options and constraints, of participants. This is as much true for CSR as it is for any other form of social responsibility, specifically in developing countries like Pakistan. The author agrees with the opinion of Pickford (1940) that in *practice, a normative science such as ethics must be inextricably bound up with purely realistic psychology* (p. 379). It must, however, be added that the normative science of CSR also must not overlook the context specific social physiology and social pathology since in this case one size does not fit all.

[2]Indeed, majority of the social problems are symptomatic of socially irresponsible behaviours manifested in the actions that are apparently advantageous to individuals/groups within a selfish, shortsighted view, but harmful to the long run collective interest of the society including the individuals/groups originally responsible for those actions [for developing further insight into the argument, see Hardin (1968)].

That said, what usually fits all is the *purely realistic psychology* of the economic agents, universally translated into self-interest. Each and every member of human family always remains an economic agent on the consumption side of the spectrum. Similarly, with the exception of those identified with unmanageable mental and physical disabilities, people also remain producers, in one way or the other, for better part of their lifetimes. Although economic theory is limited in its application only to the producers and consumer making exchange in the market, its limitations ought not make those outside the market lesser of consumers and producers. Theory, nonetheless, provides the analytical framework to develop the cognition of *purely realistic psychology* of economic agents translated into impulses and motives of the consumers and producers for utility maximisation and profit maximisation respectively. The most sought after form of the latter is economic profit making, while economic profit is the producer surplus after the revenue has been accounted for all costs including the opportunity cost of production.[3] In so far as CSR is considered to add to the short-run costs of the firm, it fails to convince the *purely realistic psychology* which usually fears the long-run as a dead end.[4]

II. WEIGHTS AND MEASURES

To begin with, CSR is essentially a concept providing ethical guidance to profit seeking private corporations operating in a market environment. The concept can't therefore be applied to government departments, non-profit private companies and/or to organisations functioning under socialist economic system.

The debate on CSR has emerged through a process spanning over the entire length of last century, but the phenomenon still remains a subject of intense controversy. *Therefore, management is hampered by the of lack of a paradigm which addresses both the "what" and the "how" of social corporate behaviour* [Murray and Montanari (1986), p. 815]. Indeed, social responsibility was not intelligible on the agenda of the corporate sector that largely evolved in 18th and 19th century, the centuries widely identified with the first liberalist era responsible for ferociously ruthless form of capitalism which ultimately invited the *Communist Manifesto*. In the next century, the innovative mantra of Ford assembly line and other technological developments doled out illusionary possibilities of unprecedented size of producer surplus. Unfortunately, the majority, driven by short-sighted self-interest, went headlong through successive short-runs of vertical and horizontal industrial expansion until most of them plunged into the long-run which is documented in the business archives under the unforgettable heading of *Great Depression*. The latter is a colossal jinni, once again bottled up in a huge corporate

[3]The area above the supply curve, between the competitive equilibrium price and the supply curve intercept, is called producer surplus. The term was introduced by Marshall (1925, p. 811) and, sometimes, it has been subject to controversy. For example, Mishan (1968) recommends *that the term "producer's surplus" be struck from the economist's vocabulary* (p. 1279). However, Mishan's elaborate analytical model failed to defy the concrete phenomenon of producer surplus which essentially exists in a producer's psyche even when not verifiable from firm's balance sheet. On a technical note, it is an empirically established theoretical construct that a monopoly, natural or legal, producing under favourable cost conditions may continue to have producer surplus even in the long-run. On the other extreme, a perfectly competitive market is usually perfect in an imperfect fashion, very often allowing some firms to make economic profit within an industry where, simultaneously, the sister firms might have been operating on or below their long-run optimum.

[4]The *dead end* here is the metaphoric adaptation of the famous saying by John Maynard Keynes that *in the long-run we all are dead.*

vessel which is now increasingly feared to breakdown anytime and release the monster to punish the humanity for collective sins of complacency. The Asian crisis of 1990s and ongoing financial melt down in North are the preambles of a saga which threatens to render the earlier *Great Depression* a tempest in the tea cup, given the *spaghetti bowl* of backward and forward linkages of today's corporate world.[5]

In the author's opinion, it is the insight into the *spaghetti bowl* which is behind the stockholder theory for business ethics. An analytical framework which considers CSR simply as a managerial obligation to maximise the financial returns to the stockholders [Bowie and Freeman (1992); Friedman (1962, 1997)].[6] The theory is pretty well justified, if the managers have the collectivist insight to seek after profit making rather than economic profit making.[7] That said, this insight usually fails to make a manager one of the highest paid CEO in the real corporate world where the market tends to produce monopolies which frequently happen to be coercive, if not *unnatural* and *illegal*; causing negative externalities and besetting market failure of a magnitude which is currently responsible for making US the champion of state managed economies; hence validating the argument that the private pursuit of profit simply cannot be relied upon to secure the common good [Evan and Freeman (1988)] and CSR ought to go beyond profit making [Backman (1975); Davis (1960)].

However, the domain lying outside the tangible parameter of profit is ridden with controversies. Moreover, it goes without saying that long-run perfectively competitive optimum of a firm, without committing deception or fraud, remains a prerequisite for corporate social responsiveness which, many argue, ought to be considered as the managers having a fiduciary duty not merely to the corporation's stockholders, but to the corporation's stakeholders. The latter include anyone who has a *stake in or claim on the firm* [Evan and Freeman (1988), p. 97] i.e., all those who can affect and are affected by the corporation. The literature on CSR widely considers stockholders, customers, employees, suppliers, community residents and the natural environment as primary stakeholders [Clarkson (1995); Starik (1995)]. Clarkson (1995) further incorporates into the panorama government and communities, the group of public stakeholders that provide infrastructure and market and whose laws and regulations, including taxes and other obligations, must be obeyed.

The vast canvass of stakeholders approach to CSR inevitably invites philosophical controversies. For example, Friedman (1962) maintains that managers

[5]The author has coined the term *Spaghetti Bowl* for backward and forward industrial linkages which are responsible for setting in motion a cumulative process of industrial growth both with a positive or a negative sign. The dread of a negative growth sign, especially in a world witnessing an ever increasing size of the *Spaghetti Bowl*, warrants that the times when growth is positive are monitored and regulated with an insight favouring caution over complacent euphoria.

[6]There is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud [Friedman (1962), p. 133)].

[7]In the microeconomic principles, profit making is a producer optimum where a firm covers all costs including the opportunity cost of production. While considering the assumptions of perfectly competitive industry (all firms being of equal size and efficiency, with unchanged techniques, some inelasticity in the supply of each factor, and an absence of external economies; [see, Mishan (1968), p. 1276] a firm may have the ability to make economic profit only in the short-run, while the long-run optimum only allows profit making with a break-even. The latter happens to be a necessary but not sufficient condition for any measure of CSR.

ought not accomplish benevolent goals without prior consent and due authorisation of the stockholders whose money is actually involved in altruistic transactions. Indeed, spending other people's money without their explicit consent will violate Kant's principle of persons having *absolute worth* [Kant (1804-1981), p. 37]; namely, that one who breaches an agreement with a party is treating the person/persons of that party merely as a means to her/his own ends rather than the other way around i.e. the other party being an end in itself. That said, the Kantian principle could be turned on its head while considering that every human being is entitled to be treated as an end in herself/ himself rather than merely as a means to some other end. Therefore, it can be morally justified to spend stockholders' money without their consent as long as it is done to promote the public interest [Donaldson (1982, 1989)]; and the firm's management has an obligation to *act in the interests of the stakeholders as their agent* [Evan and Freeman (1988), p. 103].

Finally, a large body of literature on CSR considers a corporate entity as a set of interdependent relationships among primary stakeholders [Chakravarthy (1986); Evan and Freeman (1988); Hill and Jones (1992); Kotter and Heskett (1992); Harrison and . John (1994); Donaldson and Preston (1995); Jones (1995); Greenley and Foxall (1996)]. Some of the authors also maintain that effective stakeholders management leads to financial performance[Kotter and Heskett (1992); Harrison and John (1994)]. Indeed, many empirical studies have been carried out to determine the relationship between CSR and financial performance. However, the researchers have largely failed to reach a consensus on this issue. For example, Arlow and Gannon (1982) reviewed seven empirical studies and concluded that *economic performance is not directly linked, in either a positive or negative fashion, to social responsiveness* (p. 240). Similar findings were reported by Kenneth, *et al.* (1985), whose study revealed that varying levels of corporate social orientation do not correlate with their performance differences.

III. STRENGTH OR WEAKNESS?

In practice, there are different definitions of CSR both within a country and between the countries. Indeed, it is still not an established term in developing countries like Pakistan; though very much a part of the popular vocabulary of global business executives and organisations. The author has made an effort to go through a vast body of CSR literature relating to both North and South. Unfortunately, in the latter case the phenomenon does not appear to have emerged through a spontaneous process reflecting both social consciousness and mobilisation, as it has been the case in the North where the CSR happens to be a synthesis born of the archives recording a demographic composition of enlightening one tenth of the people during the liberalist era of capitalist development; the remaining nine tenth served only as the material and means to that end.[8] On the contrary, the overabundant literature on CSR in decolonised South embarrassingly appears to be a recent corporate response to the foreign consumers and the World Trade Organisation (WTO). Indeed, TBTs played up on the WTO forum by the developed countries, though still part of the Doha Round stalemate, are virtually operational in various disguises since after the conclusion of the Uruguay Round in the 1990s.

[8]The rhetoric is borrowed from Dostoevsky's *Diary of a Writer for January 1876*, quoted in Dostoevsky (1873-1994), p. 727.

The argument in the foregoing is demonstratively supported by the relative age of the literature on CSR in developed and developing countries. The earliest study [Huxley (1945)] on CSR in the West introduces the social man, the phenomenon which was to replace the economic man of the age of liberalism. The latter, as mentioned earlier, invited the *Communist Manifesto*, but still ensured the triumph of the economic man by turning the tide of socialism to the autocratic Russian empire, until *Great Depression* broke out in the *capitalist citadels*, namely; the United States of America (US) and Europe.[9]

Huxley (1945) held that *when a big employer talks about his democratic right to individual freedom, meaning thereby a claim to socially irresponsible control over a huge industrial concern and over the lives of tens of thousands of human beings whom it happens to employ, he is talking in a dying language* (p.17). He considered *laisser-faire* a false abstraction which, in his opinion, had lost relevance it once possessed. Perhaps the first ever echo of stakeholders theory of CSR is recorded in the following passage:

> *But when Mr. Henry Ford, for instance, says that the principle of individual freedom gives him the right to do what he likes with his business, he is confusing the issue. He is now dealing with a large and powerful group, in which social relations ought to be the overruling consideration—relations of the management to the thousands of workmen employed, of the firm as a whole to the national economy, to the regional and local planning, and so on* (p. 20).

Author's argument can be rejected by the die-hards on the solid basis that Julian Huxley, a biologist by training, is neither known for a business researcher nor he wrote in a corporate journal. That said, the archives, unfortunately, do not end with Julian whose grandfather Thomas Henry Huxley, himself a writer, lived in the times when the US corporate sector thrived successively on slavery and convict labour. Similarly, it took a long struggle, spanned almost over a century, to eliminate child labour in Europe in 1920. It does not mean, however, that WTO rules on TBTs ought not to relate with CSR. The only problem is that not only the CSR literature on developing countries happens to have its genesis in TBTs, a large part of the literature is a vivid reflection of the same phenomena [see, for example, Blowfield (2003, 2004); Dolan and Opondo (2005); Schrage and Ewing (2005); Hussain (2004); Kaufman, *et al.* (2004); Nielsen (2004)].

Furthermore, the arguments of the CSR studies on developing countries are advanced with an apologetic tone rather than a self-assured rhythm. The earliest work referred in the literature on CSR in developing countries is by Visser and Macintosh (1998). The authors attempt to take pride in the religious tradition of Asia homing Hinduism, Buddhism, Islam, and Christianity. The ethical condemnation of usurious business practices by all these faiths is considered an example of CSR in the region dating back thousands of years. Similarly, Frynas (2006) quotes the 4th century BC Indian statesman and philosopher Kautilya who advocated the business practices based

[9]The author has always held the position that Keynesian economics was more of a an *antidote* for the looming threat of socialism than it was a cure for the *Great Depression.* Thus, the Marshall Plan to reconstruct Western Europe in the aftermath of World War II was a timely response to Europe's *dollar gap crisis* which otherwise might have been responsible for another *Animal Farm*, denying US all chances of world supremacy [for further support of the argument, [see, Khan (2008)].

on moral principles. In Far East Asia, Nelson (2004) gives the credit for CSR to the Buddhist traditions of the region. This naïve approach to CSR in Asia also finds its counterpart in Latin America. Vives (2006) reported, after surveying over 1,300 small and medium-sized enterprises in the region, that the religious beliefs of people in Latin America are one of the major motivations for CSR, while Logsdon, *et al.* (2006) relate the phenomenon to the pre-Hispanic cultural traditions of community self-help and solidarity.

Not only the religious cultural and traditional appreciation of CSR in developing countries is a late appearance in the literature, coinciding with the erection of TBTs in the post-Uruguay Round era, the argument analysed in the foregoing is clearly out of context while considering that origin of CSR lies in the controversies of capitalist expansion during the last century. The author is again tempted to refer to Huxley (1945) who, in spite of his deficit of the relevant expertise, encompassed both the contemporary rationale for CSR and its and cultural parallel in Europe:

> *Our old order contains two principles which, derived from very different historical sources, have now combined to deadlock progress. One is the liberal principle of economic individualism and the sacredness of profit motive; the other is the conservative principle of class privilege based on property and on social position. In a society based on these principles, social services are considered a mixture of charity and of Palliatives designed to patch up defects in the system. For the most part, the individual human being or the groups that go to make up the nation are tied together by impersonal bonds such as the economic motives, not by a living framework of rights and duties. Consumers, being unorganised and without the force of profit motive behind them, find their interests neglected as against those of producers and distributors* (p. 18).

The upshot is that CSR happens to be a Western term where it is mainly linked with big firms, the firms whose activities are visibly present for public rating. Moreover, with the advent of neoliberalist era CSR has lost the status that the phenomenon once held in the developed countries' academic circles of business management.[10] The criteria for evaluating the globally most admired 10 companies, reported in the *Fortune* magazine, is a case in point.[11]

In the developing countries on the other hand the largest number of businesses still takes the form of sole proprietorship or partnership. As a matter of fact, developing countries, even when considered as one entity, poorly compare with US and Japan alone who, by the end of 1980s, together accounted for 70 percent of total global capitalisation [Becker, *et al.* (1990)]. This is evident from the fact that, by the end of 1980s, India and

[10]Indeed, the Western literature on CSR owes its origins to an implicit paradigm that emerged from the cold war between socialist and capitalist blocks. Hence it is all but a coincidence that the largest body of Western CSR literature appeared in the years before the triumphant hegemony of neoliberalists, recorded in the *Washington Consensus* on the Thatcherite and Reaganite economic agenda [see, for example, Bauer (1972); Moskowitz (1972, 1975); Dierkes and Bauer (1973); Abt (1974); Anshen, (1974); Linowes (1974); Sethi (1974); Davis and Blomstrom (1975); Lerbinger (1975); Bowman and Haire (1975); Folger and Nutt (1975); Heinze (1976); Holmes (1977); Keim (1978); Ingram (1978)].

[11]The criteria includes in order of appearance innovativeness, quality of management, employees' talent, financial soundness, use of corporate assets, long-term investment value, social responsibility, quality of products, globalness.

Pakistan ranked 85th and 92nd in the world league table of corporate size, with average company size of US$19.1 and US$6.6 million respectively. These measures poorly compare with Japan who ranked 13th in the same table with average company size of US$911.3 million [Standard and Poors (2002), p. 27]. Table 1 in the following provides three broad measures for comparison of the corporate sector of Japan with four major South Asian countries at the end of 1999.

Table 1

Stock Exchange Market: South Asia and Japan (1999)

Country	No. of Listed Companies	Market Capitalisation US$ Billion	Market Capitalisation (% of GDP)	Average Company Size US$ Million	Turnover US$ Billion
Bangladesh	211	0.9	1.9	4.01	0.8
India	5863	185	41.5	31.5	279
Pakistan	765	7	11.9	9.09	21
Sri Lanka	239	1.6	10.1	6.6	0.2
Japan	2470	4547	104.6	1841	1849

Source: Standard and Poors (2002).

The GDP measure of market capitalisation shows in Table 1 that the corporate sector in Japan, the second largest economy of the world, is much more influential than the corporate sector in India, leave alone Pakistan or any other country in South Asia. Although India appears to have an edge over Japan in terms of the number of corporation registered on the stock exchange market, her average company size is much small than that of Japan. However, both India and Pakistan have shown progress in average company size compared to the end of 1980s. That said, the decade of 1990s was a period of cut throat global competition where not only the new markets were emerging, the players already in the market were also strengthening their strongholds, as is evident by the average size of Japanese companies which, compared to their size at end of 1980s, were more than twice bigger at the end of 1999. Finally, a very high turnover rate in Pakistan, compared to other four countries listed in Table 1, invites some heart searching by those who believe that speculative investment is one of the most reliable barometers for determining socially responsible performance of the corporate sector. More specifically, the foul play of inside trading, if goes undetected, is sometimes responsible for high turnover rate. Indeed, both these issues ought to be fundamental to any measure of CSR in emerging markets.

Table 2 provides more recent information on the relative significance of corporate sector in South Asia and two largest economies of the world, US and Japan. India ranks 13th in terms of the absolute size of market capitalisation and also fares pretty well while considering the GDP measure. However, it still has to go a long way to match the two largest economies of the world on the per capita measure of market capitalisation. Pakistan with a rank at 51 is much below India also on the per capita account of market capitalisation, while faring a little less poorly on the GDP measure.

The figures listed in Table 1 and Table 2 are representations of the developing countries' effort to catch up with the global capitalist development. Baskin (2006) studied three generic indicators of CSR on the data for 127 leading firms from 21 emerging

Table 2

Market Capitalisation in South Asia: International Comparisons

Country	Market Capitalisation in 2005*					
	US$ Billion		US$ Per Capita		Per US$ 1,000 of GDP	
Bangladesh	4	*87*	21	*109*	51	*104*
India	819	*13*	505	*81*	686	*39*
Pakistan	46	*51*	295	*87*	415	*51*
Sri Lanka	8	*73*	292	*88*	244	*72*
Japan	4,737	*2*	37,070	*18*	1,045	*25*
United States	16,998	*1*	57,346	*7*	1,369	*15*

Source: Nation Master, accessed on November 16, 2008.

*Italic figures represent the country rank in the league table for each of the three separate measures of market capitalisation.

markets across Asia, Africa, Latin America, and Central and Eastern Europe. The findings reveal that firms representing the emerging markets have a respectable representation in the Dow Jones Sustainability Index and show rising levels of take-up of the Global Reporting Initiative and ISO 14001. The author, however, identifies that competitive advantage in international markets remains one of the key drivers for CSR in Central and Eastern Europe and Asia. Similar conclusions are recorded by Araya (2006) whose survey of top 250 companies in Latin America revealed that businesses with an international sales orientation were almost five times more likely to report on CSR than companies that sold products regionally or locally.

Finally, a sizeable part of market capitalisation in South accounts for foreign direct investment and standardisation imposed by multinationals, striving to achieve consistency among their global subsidiaries and operations, is one of the major drivers behind formal practices of CSR in recipient countries. The findings of Asia study by Chapple and Moon (2005) suggest that multinational companies are more likely to adopt CSR than those operating solely in their home country. However, the authors also pointed out that *the profile of multinationals CSR tends to reflect the profile of the country of operation rather than the country of origin* (p. 415).

IV. CONCLUSION

The normative science of CSR must not tailor a straight jacket for the context specific economic physiology and social pathology. The phenomenon did not evolve in its own right even in the Western corporate world which, after failing the stockholders in the 1930s, had to extend its social accountability matrix to the inclusion of stakeholders in an atmosphere charged with the revolutionary hype. In the developing countries on the other hand, CSR is a recent arrival. The available literature on the subject shows that CSR is being warmly courted by part of the corporate sector having direct stakes in WTO measures under Non-agricultural Manufacturing Access (NAMA). The global trading interests of the business community in countries like Pakistan warrant appeasement of foreign consumers by giving in to TBTs which are still not binding in the backdrop of Doha Round stalemate. Not only the CSR rhetoric is inconsistent with the reality check in the South, its proclaimed targets appear to create serious distortions involving suboptimal choices which manifestly compromise the image of domestic consumer in favour of the consumer in the West. More importantly, in the presence of the Bastille erected by their agricultural subsidies, CSR backdoor in developing countries also conveniently spares the West from organising inconvenient Rounds of trade talks for getting the TBTs through.

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