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An Economic Perspective on Small Business Social Responsibility

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ABSTRACT *An economic perspective on small business social responsibility* applies economic theory to the analysis of the role of business in society. The objective is to carve a place for the concept *business social responsibility* - BSR in economics given that some economists have opposed it. In this article the researchers delve into economic theory to explain the workings of the market forces to determine the extent to which the so called *invisible hand* helps society solve its economic problem and when it fails to do so. A detailed literature review was conducted. Based on the insights gained from the literature analysis, they conclude that the concept of BSR arises out of the failure of the *invisible hand* to entirely solve society's economic problem of scarcity through efficient production and distribution. Thus, BSR has a firm place in normative economics.

INTRODUCTION

An economic perspective on small business social responsibility explores the place of the concept of BSR in economics. While civil society organizations trumpet the need for businesses to consider social and environmental objectives alongside their profit motive, hard core neoclassical economists (Friedman 1970; Lantos 2002; Coelho et al. 2003; Crouch 2006; Karnani 2010) insist that profit motive alone should drive firm behaviour. To such economists, society is better off when firms strictly pursue only profit maximization objective. In other words, the only responsibility of businesses is to make profits. This position appears premised on Adam Simth's (1776) notion that the wealth of nations grow when economic agents pursue their self-interest they invariably promote the cause of society. From this position, BSR does not seem to have a place in economics.

In this article the researchers delve into economic theory to understand the conditions under which the market forces – the so called *invisible hand* is able to help society solve its economic problem and when it fails to do so. Based on this failure, the researchers link BSR to normative economics. The discussion begins with defining BSR. Thereafter, the various conceptions and classifications of BSR is explored. Following this, the workings of the "invisible hand" (market forces) are examined to determine the extent to which it helps society solve its economic problem and when it fails to do so.

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Objectives

The overall objective of this paper is to position BSR in economic theory. Supplementary objectives are:

1. To explore the economic conditions under which BSR may be necessary;
2. To understand how the social and environmental dimensions of BSR hurt or help the profit motive of the firm;
3. To identify the role players in BSR;
4. To bring to the fore the types of BSR as pertains in the literature; and
5. To determine which BSR type(s) is/are easily associated with small businesses.

METHODOLOGY

This is a conceptual paper in which the researchers adopt a reflective stance by interrogating the normative and empirical literature to offer an economic perspective on the idiosyncrasies of BSR. Based on the insights gained from the literature analysis, they draw conclusions. This stance is consistent with interpretivist reasoning in the social sciences.

OBSERVATIONS

What is BSR?

Stating what exactly BSR (better known as corporate social responsibility - *CSR*) is no easy task because of its numerous and varied conceptions (Chughtai and Azeem 2013). According to Carroll and Shabana (2010), Dahlsrud (2006) identified as many as 37 definitions of BSR for the period 1980 to 2003. For the purpose of this paper, the researchers adopt Dzansi and Pretorius's (2009) definition which appears to capture the general view of what BSR is all about. According to Dzansi and Pretorius (2009), BSR is: *"A firm's commitment to operating in an economically sustainable manner while at the same time recognising the interests of its other stakeholders (customers, employees, business partners, local communities, society at large) over and above what the law prescribes"*. From this perspective, BSR is mainly about: voluntary service to society in excess of legal requirement; behaviour in response to social, environmental and economic concerns; ethical values; and stakeholder expectations (Barnea and Rubin 2010; Carroll and Shabana 2010; Yusuf et al. 2013). Having defined BSR it is equally important to comprehend what exactly constitutes BSR at least for the purpose of this study.

Nature of BSR

Although the earlier works of Carroll (1979) and Wood (1991) have shaped and still shape BSR enquiries, numerous conceptualisations of BSR exist. For example, the United Nations Industrial Development Organization (UNIDO) (2002) segments BSR into four parts namely *accountability focus* (shareholders versus stakeholders debate); *strategic business case* – (short term profit versus overall strategic vision of the firm); *level of engagement* (legal compliance versus value creation for society); and *degree of influence* (span of activities). Waldman et al. (2006) conceptualize BSR to be composed of three dimensions, namely: shareholders/owners; stakeholders; and the community. Chughtai and Azeem (2013) identify five dimensions namely environmentalism; social concerns; economic or shareholder concerns; stakeholder concerns; and voluntariness. Dzansi and Pretorius (2009) conceptualise BSR for SMMEs to include community, customer, and employee dimensions. In the researchers' view, these conceptualisations are meant to serve particular purposes. For instance, Dzansi and Pretorius (2009) make it clear that their framework is meant to specifically guide research into SMME social responsibility research in the rural African context hence they exclude environmental issue that they claim are not so relevant to small business. In addition, it seems that conceptualisations depend on the adopted theoretical framework. Again, Dzansi and Pretorius (2009) make it clear that their framework is based on the stakeholder theory of the firm.

Although there are many theoretical basis for conceptualising BSR, Garriga and Mele (2004) provide a four-way classification of BSR theories that is very useful for this study. According to Garriga and Mele (2004), *instrumental theories* view a firm as an instrument for wealth creation hence only recognize a firm's economic role in society. That is, the sole responsibility of business is to make profits. Secondly, *political theories* acknowledge the social power of the firm to the extent that it takes up some social duties. The third, *integrative theories* argue that business depends on society for its existence and therefore ought to integrate social concerns into its objectives. Finally, *ethical theories* espouse an altruistic relationship between business and society. According to this perspective, firms are expected to adopt an ethical approach and accept social responsibilities as an ethical obligation because right is right (Garriga and Mele 2004).

Another useful way of classifying BSR is according to type. Fox (2005), Reinhardt et al. (2008) and Dzansi and Pretorius (2009) agree that BSR can be typified as *voluntary*, *involuntary*, and *silent*. V*oluntary BSR* is when a firm, conscious of its social, environmental, and economic responsibilities makes the effort to integrate these into its operations and strategy (Fox 2005; Reinhardt et al. 2008; Dhaliwal et al. 2011) and sets its own BSR standards, targets and activities based on stakeholder concerns. This means self-regulation (Dzansi and Pretorius 2009). *Involuntary BSR* occurs when economic exigencies of the market force the firm to engage in BSR. Here, firms engage in BSR in order to retain business (UNIDO 2002; IISD 2004; Fox 2005; Young 2010). According to UNIDO (2004), involuntary BSR tends to be associated with

SMMEs who (1) have vertical (supply chain) relationships with large transnational corporations, (2) independently service international markets and (3) service domestic markets or national value chains. In these scenarios, it is the business environment rather than the overall social environment that imposes BSR on the firm (UNIDO 2004). As researchers and BSR authors have discovered, *silent* BSR occurs especially among SMMEs when the firm based on the moral conviction of its owner-manager exhibits a socially responsible behaviour (UNIDO 2002, 2006; Fox 2005; Dzansi and Pretorius 2009). This type of BSR is common among SMMEs in developing countries (UNIDO 2008).

Whose Business is BSR?

Dentchev and Heene (2003) opine that while sustainability requires that economic welfare, social equity and environmental preservation be simultaneously integrated into business processes, it is inappropriate to impute full responsibility to businesses for all negative social and environmental occurrences. That would in Dentchev and Heene's (2003) view amount to undermining the role that other actors play in influencing the productive activities of businesses. Thus, Dentchev and Heene (2003) declare, "Responsibilities (social, environmental, and economic) should be shared between the organization and its stakeholders". This shared responsibility notwithstanding, Dentchev and Heene (2003) argue that amidst resource constraints and conflicting stakeholder interests, firms should prioritize how they respond to stakeholder expectations.

Should Firms Internalize or Externalize BSR?

Another tricky dilemma is choosing between internalizing and externalizing costs and benefits of BSR. From the perspective of neo-liberal economics where self rather than common-interest drives the profit motive of firms, businesses have every reason to minimize their costs while maximizing their benefits.

However, the BSR agenda calls for internalization of costs and externalization of benefits. As Jenkins (2009) puts it "CSR must not be an externality, but should be incorporated and integrated into every element of the business." The internalization versus externalization debate introduces tension between the firm's quest to use its limited resources to pursue its self-interest at the micro level and its desire to be socially responsible to its stakeholders at the macro level. UNIDO (2008) aptly describes this dilemma as follows:

"On the one hand, entrepreneurs fear that if they respond to social and environmental requirements, the costs they incur doing this will lead to them losing their competitive edge in international markets. On the other hand, they are aware that if they do not meet these requirements, they will not be in a position to maintain their access to foreign markets or to gain new clients."

Clearly, BSR agenda is one that calls on businesses to eschew individualistic tendencies and be sensitive to the plight of wider society in the conduct of economic activities. Eschewing individualism however implies firms being encouraged not to act in isolation. So far, whether or not a firm will engage in BSR has purely been an individual affair based on voluntary self-regulation. However, confronted with the sincerity problems of firms in general as manifested in several business scandals, BSR conduct could be characterized by tokenism if not outright deceit.

This brings in the role of public policy. The responsibility that BSR imposes on firms – firms should internalize all their costs while they externalize some of their benefits – is a macro-level responsibility which, unfortunately, continues to be prosecuted by the micro-level efforts of individual firms. Meehan et al. (2006) and Lepoutre et al. (2007) recognize the macro implications of BSR. As a result, they call on government to ensure a 'level playing field' for all businesses as far as the 'boundary spanning social problems' are concerned and/or the firms themselves should form strong business networks to address these problems. However, business networks may also be susceptible to their own free-rider problems.

Dentchev and Heene (2003) hold the view that BSR has systemic, holistic, dynamic and cognitive implications that makes it a concept that imposes responsibilities on all stakeholders (macro-level) and not on businesses only (micro-level). Swift and Zadek (2002), UNIDO (2002, 2006), and Jenkins (2009) also have variously stressed the need for 'clustering/networking' and 'collaboration' to strengthen the business case of BSR at both micro and macro levels. The foregoing may be the clarion call for public policy to move BSR from the realm of micro-level benevolence of individual firms to the macro-level pragmatism of nations that seek to achieve sustainable development.

Enter *Positive* and *Normative* Economics

Economic theory is generally partitioned into *positive* and *normative* (Mongin 2006; Davis 2013; Rogojan and Serban-Oprescu 2013). In analysing what actually happens in the world (positive economics), the assumption is that individuals are consistently pursuing their chosen objectives. This allows prediction of various features of behaviour. On the other hand, when explaining what ought to happen (normative or welfare economics), there is an assumed ethical objective (Williams and Bryan 2007; Davis 2013).

The main commonality between normative and positive economics can be seen in terms of decision making. Whichever problem (positive or normative) one considers, the formal approach remains *optimization subject to constraint* (Lundgren 2011). In other words, economic decision making boils down to "making the best of things" regardless of whether one tackles the problem from positive or normative economics angle.

Differences between positive and normative economics can be seen from the way they impact on public policy. Whereas positive economics is aimed at discovering facts relevant to public policy, the overriding objective of normative economics centres on helping draw policy conclusions from facts (Hodgson 2008; Wight 2013). That is, facts must help determine how good a public policy has been.

To argue that a policy is good depends on two elements namely: positive analysis and a value judgment. Positive analysis deals with the measurable or observable outcomes of policy while value judgment deals with the desirability of the consequences of policy based on some ethical considerations (Williams and Bryan 2007; Hodgson 2008; Wight 2013). These consequences are normally reflected in the effects of policy on resource allocation/distribution.

Determining the effects of policy is the realm of positive economics (Gilead 2013). Friedman (1953) aptly summarized positive economics as "a body of tentatively accepted generalizations about economic phenomena that can be used to predict the consequences of changes in circumstances". However, merely knowing the consequences of a policy is not a sufficient condition for determining its desirability in society. Rather, a second stage of analysis that addresses the ethical or normative expectations of society is required (Gilead 2013; Wight 2013). This stage involves the evaluation of the value judgement of each individual. But value judgements are only perceptions and as such subjective. That is, value judgement cannot be proven to be right or wrong by facts or evidence. People's disagreements about the desirability of policies therefore hinge more on the differences in their conceptions of the effects of policies than the differences in their values (Maki 2003; Gul and Pesendorfer 2007).

It is therefore not surprising that Gilead (2013) sees positive economics as a necessary condition and normative economics a sufficient condition for policy analysis. That is, while normative economics can be relied upon to give public policy a human touch, it of necessity has to depend on the predictive power of positive economics for the expected outcomes.

Normative economics seeks to answer three questions namely: (i) How should a particular society's resources ideally be used, and what social organization (capitalism, socialism, and mixed economy) is best for bringing this allocation about? (ii) How can we tell whether any change we make is for the better? (iii) What would be the properties of an acceptable welfare function? Examined carefully, these questions seem to emanate from society's fundamental economic problem.

The Fundamental Economic Problem

As is well known, the fundamental economic problem facing society is limited/scarce resources relative to needs. This scarcity problem calls for judicious use of resources. This economic problem is normally expressed in two questions. The first is how should factors of production be allocated for the production of goods and services? The second is, how can/should the resultant goods and services be distributed in a way that maximizes society's welfare? Solving these puzzles has been problematic for three main reasons. Firstly, production is limited by factor endowments. Secondly, production capacity at any given time is limited by available technology. Last but not the least, how much utility an individual derives from the consumption of a combination of products is limited by one's taste (Farmer and Geanakoplos 2008; Campbell 2013). Adam Smith in his book *The Wealth of Nations* claimed that the "invisible hand" solves the two puzzles referred to above better than any deliberate intervention.

The "Invisible Hand"

Adam Smith is widely credited for introducing the term "invisible hand" to explain what causes individuals to pursue their self-interest and in so doing end up promoting the interest of others (Offer 2012; Campbell 2013). Economists have since refined the concept to explain the workings of the market economy. The theorem of the invisible hand expressed in the words of Santos (2009) goes like this: "In perfect market conditions, economic agents pursuing their own self-interest will lead the economy to a Pareto optimal outcome in which resources are put to the best possible use and individuals will consume the services they most value".

In other words, under ideal conditions, a laissez-faire economy or a market economy efficiently uses resources. The ideal conditions under perfect competition are: (i) no externalities; (ii) no uncertainty and; (iii) social justice and strong property rights in the ownership of factors of production. A violation of any of these conditions leads to market failure.

In fact, the theorem of the invisible hand suggests that any regulation - that is, if economic agents were to be told how to pursue their self-interest, and they comply, things would get worse rather than better (Farmer and Geanakoplos 2008).

Market Failure

Thus, the invisible hand operates under the assumptions that there will be perfect competition; no externalities; and social justice in the ownership of factors of production. However, these ideal conditions do not always exist in reality. For example, the existence of non-perfect competitive market structures such as monopoly, oligopoly, and cartels show that the so-called free market cannot always be efficient. In terms of social justice in factor ownership, there may be some injustice in the way certain factor owners acquired property and this raises ethical questions around distributive equity. Further, the fact that property rights are not easily enforceable on certain goods (public goods for instance) raises further questions about social justice in factor ownership (Galushko and Gray 2013). It is under these conditions of inefficiency and inequity that the market sometimes fails. This paper places emphasis on *externalities* and *public goods* as these two types of market failures appear to provide a more obvious link between BSR and economic theory through the stakeholder theory and the shareholder perspective. Explicitly put, market failure is the situation where the price system fails to capture all the costs and/or benefits of a market transaction (Kotchen 2013).

Externalities

Externalities occur whenever the activities of one economic agent have a physical or technological effect on the production or consumption possibilities of another economic agent in ways that are not reflected in market transactions. This happens as follows. An externality imputes private costs and benefits to economic agents that choose through the price system to consume or produce a good or service. Secondly, social costs and benefits accrue to other economic agents who have not chosen to consume or produce. In this way, externalities make prices lose their signalling significance since externalities are not reflected in market prices. As a result, prices provide misleading information for an efficient allocation of resources (Klick 2009; Santos 2009; Medema 2013). Notably, an externality can inflict positive or negative effect on economic agents regardless of the choices they make (Crouch 2006; Santos 2009; Kotchen 2013). Externalities can be broadly categorised as (i) consumption externalities, and (ii) production externalities (Liu and Turnovsky 2005). A consumption externality occurs when the consumption decision of an agent impacts indirectly on other agents (Liu and Turnovosky 2005; Galushko and Gray 2013).

Public Goods and Resource Allocation

According to Ott and Turnovsky (2005), Croson (2007), Kotchen (2009), Braun (2013), and

Bennett et al. (2013), public goods have certain peculiar characteristics that make it impossible for the price system to allocate resources efficiently for their production and consumption. These characteristics are: (i) non-rival consumption or collective consumption or indivisibility of benefits and (ii) non- exclusion. It must be noted that a public good does not necessarily refer to a good provided by government.

Non-rival Consumption

A good is said to be non-rival in consumption when at a given level of production it provides benefits to an entire group of people in a way that does not diminish the benefits to anyone (Dioniso and Gordo 2006; Kotchen 2009; Schmid et al. 2012). That is, "if a good is consumed by one person, it does not reduce the amount available to others" (Schmid et al. 2012). This characteristic makes it impossible for a public good to present a rationing problem that will necessitate the "invisible hand" or the price system to do its job. On the contrary, most economic goods are *rival* in consumption. That is, the consumption of one good by a person reduces the quantity available to others. In such a case, consumption is *rival* because there will be a problem deciding how much of the good should be allocated to competing (rival) consumers. The price system resolves this problem by ensuring that the individual who places a higher value (pays a higher price) is allocated a larger quantity of the good (Altrichter 2007).

Non-exclusion

Non-exclusion means that it is technically impossible or prohibitively costly to restrict the benefits of a public good to a specific group of individuals who pay for them, so, the benefits are available to all regardless of whether or not they pay for them (Sanghavi and Hajek 2007; Kotchen 2009; Schmid et al. 2012; Banzhaf et al. 2013). Non-rival consumption and non-exclusion have to occur simultaneously for a good to fit the definition of a public good. When a good is non-rival in consumption yet it is possible to exclude some people from its consumption at a moderate cost such as in cable television, such a good is not a public good (Dioniso and Gordo 2006; Banzhaf et al. 2013).

Public goods create distortions in the price system because once they are produced even people who have not paid for them enjoy them as it is not feasible to exclude non-payers (Altrichter 2007; Wash 2013). This creates a *free-rider problem* – where one who chooses not to participate in the funding of a good yet enjoys its benefits because it is not feasible to exclude him/her (Sanghavi and Hajek 2007; Cervikarslan 2013).

It is often difficult for private producers to provide public goods since they cannot easily collect money for producing the good and thus cover their costs (Sanghavi and Hajek 2007; Banzhaf et al. 2013). This is contrary to the situation of private goods where consumption is *rival* and non-payers can be excluded from consumption by the market system. This provides another instance for market failure.

Satisficing Behaviour of Firms

All firms are made up of a 'coalition' of interest groups – *stakeholders* (such as managers, workers, shareholders, suppliers, customers, and financiers) that have conflicting goals and which must be harmonized if a firm is to survive talk less of making profit (Waldman et al. 2006; Klick 2009; Evans and Sawyer 2010; Karaibrahimoglu 2010). This situation clearly calls for what in economics parlance is known as, *satisficing* behaviour whereby a firm aims at meeting the expectations of all different stakeholders (Reinhardt et al. 2008; Jamali 2008). The reason for focusing on all stakeholders is simply that by entirely focusing on only profit maximization (for only shareholders) by for example payment of low wages the firm could be perceived as exploitative. Malar (2008) sums up that, "when firms save on expenses and add to their profits, they are guilty of unethical practice".

Simon (1955) pointed out that profit maximization will not always be the outcome of the decisions that managers of firms take because managers of firm are not all-knowing. That is, managers often lack "global rationality" (Papi 2012; Guth 2013). As a result, the choices managers make sometimes result in discrepancies between expected outcomes and reality (Simon 1955; Sniedovich 2012). This means that no matter how well-intentioned the manager may be, decisions made may be based on limited cognitive abilities or "bounded rationality" as Simon

(1955) calls and this can lead to it outcomes that are far removed from the profit objective that the manager set out to achieve.

Mariss (1963) pointed out that under conditions of less than perfect competition, profit maximization is not the most sensible thing to do more so when the decision-taker (manager) is not directly the profit-receiver (owner). Under such a condition, it is reasonable to expect that profits will not necessarily be the sole goal. The fact is, like all human beings, managers can reasonably be expected to value their own interest. Not surprisingly, BSR from the stakeholder perspective has been attacked as a violation of managers' fiduciary responsibility to their shareholders (Friedman 1970; Lantos 2002; Coelho et al. 2003; Crouch 2006; Kitzmueller 2008; Karnani 2010).

DISCUSSION

This article examines BSR from an economic perspective so as to demarcate a domain for it in economics (both positive and normative economics). The impression gathered from the literature is that, in terms of positive economics, BSR is more of a macro issue than a micro one even though it has all this while been based on the micro level voluntary behaviour of individual firms.

At the micro level, where firms are in constant competition with each other the natural tendency to outdo each other in profit maximization through an aggressive pursuit of self-interest is rife. Individualism rather than co-operation becomes the dominant feature of the micro economy (Lange and Fenwick 2008; Karnani 2010). At that level, the big picture is not the preoccupation of the firm and the position of the neo-classical economists that firms have no business pursuing any other goals apart from profit seems justified. Indeed, Reinhardt et al. (2008) assert that: "evidence on sacrificing profits in the social interest is lacking... Instead [firms] engage in a more limited – but more profitable – set of socially beneficial activities that contributes to their financial goals". In furtherance of this view, Karnani (2010) states that:

"*in cases where private profits and public interests are aligned, the idea of corporate social responsibility is irrelevant: companies that simply do everything they can to boost profits will end up increasing social welfare. In circumstances in which profits and social welfare are in direct opposition, an appeal to corporate social responsibility will almost always be ineffective, because executives are unlikely to act voluntarily in the public interest and against shareholder interests*".

Besides, while the majority of studies that have investigated the link between BSR and organizational financial performance have, in the main, found a positive relationship between these two variables, the strength of the relationship has largely been weak, and in some cases the direction has even been negative (see, for instance, Margolis and Walsh 2003; Goll and Rashid 2004; Van Beurden and Gossling 2008; Tarabella and Burchi 2013).

Microeconomics is essentially about the maximizing behaviour of individuals and firms who are rational and will do everything to minimize their costs and maximize their benefits. On the contrary, BSR requires firms to internalize all their costs and externalize some of their benefits. The expected BSR behaviour of the firm therefore appears to be in conflict with the maximizing behaviour that the micro economy imposes on firms. Therefore, BSR does not seem to fit well into microeconomics and hence the issue that the neo-liberalists have with it appears justified.

The business case that is made for BSR at the micro level – firms can achieve added value and competitive advantage through realizing and maximizing the opportunities presented by BSR – is one that requires a change in mind-set and how the entire economic system is organized. Otherwise, narrow profit-seeking motive will continue to be the prime driver of firm behaviour which is in sharp contrast to BSR behaviour.

If there appears to be some conflict between BSR and microeconomics, the same cannot be said about its relationship with macroeconomics. For, at that level there appears to be complete harmony.

The macro level business case of BSR requires nations to recognize the role of BSR in the broader competitive environment of nations and take proactive steps to exploit the opportunities that it offers rather than confining it to the discretionary actions of individual firms in the micro economy (Swift and Zadek 2002; UNIDO 2006). In a world economic order where BSR is gaining ascendancy, the potential for BSR requirements to impose a non-tariff barrier on non-compliant nations is very real and this further strengthens the macro level business case of BSR as far as international trade is concerned.

The responsibility that BSR imposes on firms – firms should internalize all their costs while they externalize some of their benefits – is a macro-level responsibility which ought to be exercised by nations rather than individual firms. It is the responsibility of government to ensure a ‘level playing field’ for all businesses.

Besides, BSR has systemic, holistic, dynamic and cognitive implications that make it a concept that imposes responsibilities on all stakeholders at the macro-level and not only on firms at the micro-level. Therefore, there appears to be the need for a public policy to move the BSR concept from the domain of discretionary efforts of individual firms that are predisposed to pursuing their self-interest to the macro level where nations seek to attain competitive advantage and sustainable development in a global economy.

One cannot talk about sustainable development today without talking about sustainable business practice. Today, as far as sustainable business practice is concerned, stakeholder management stands out. Today’s competitive business environment makes it imperative for a firm not to jeopardise long-term success by neglecting stakeholders such as employees, customers, government, society and the environment play in its very existence. This is because neglecting certain key stakeholders would ultimately affect the bottom line of the firm (Du et al. 2007; Dzansi and Pretorius 2009; Kim et al. 2010; Akanbi and Ofoegbu 2012) and can do irreparable damage to society and the environment (Malar 2008). This implies that market forces and stakeholders act in their respective ways to correct or even punish firms that neglect their stakeholders’ concerns. Thus, market forces serve as a self-correcting cure for the insensitivity that a firm shows to its stakeholders.

On the other hand, when the effect of the neglect of other stakeholders is beyond the control of the market, (that is, the market has failed) irreparable damage can be done to society and the environment. In such a situation, it will not be far-fetched to use BSR intervention to cure the problem. From this perspective, BSR can be said to arise out of the failure of the market to adequately solve society’s problem. Put differently, the existence of the concept of BSR is an indication that self-interest pursued in an unfettered manner defeats the very essence of the free market that it seeks to promote. This is because firms so obsessed with profit maximization most often tend to adopt methods that lead to inefficiency. Thus, whereas the theorem of the ‘invisible hand’ seems to suggest that any form of regulation of the market may make things worse rather than better, this may not necessarily be the case. Rather, it seems the unintentional negative externalities that have been associated with firms that strictly pursue self-interest only have contributed to the ascendancy that the concept of BSR has gained. The emergence of BSR can therefore be seen as society’s acknowledgement of market failure hence the need for some form of regulation. Indeed, Kotchen and Moon (2012) have defined BSR as *“a program of actions to reduce externalized costs or to avoid distributional conflicts”* while the United Nations Economic Commission for Europe (UNECE 2004) regards BSR as a negotiated relationship between the state and the market – an *embedded liberalism* which recognizes that the goals of efficiency and equity make it imperative for markets to also seek non-governmental corporate self-regulation.

CONCLUSION

As far as positive economics is concerned, it can be concluded that BSR tends to conflict with the narrow profit-seeking motive of firms in microeconomics. Even where businesses buy into the virtues of BSR, they are confronted with the *prisoners’ dilemma* in which case they cannot trust the extent to which their competitors will be sincere in being BSR-compliant and therefore they themselves will resort to tokenism as far as the practice of BSR is concerned. However, in macroeconomics the place of BSR appears to be unequivocal as the responsibilities that BSR imposes on stakeholders requires collective effort rather than individual effort.

In terms of normative economics, BSR seems to fit in perfectly well as both are concerned with ethical expectations of society. As normative economics is concerned with societal welfare, so does BSR focus on social and environmental welfare matters even as businesses pursue their economic objectives. Society’s economic problem as captured in normative economics is expressed in the following two questions:

i. How should factors be allocated among products; and
ii. How should the products be distributed among the different citizens?

Inherent in the two questions is the condition of efficiency in production, consumption, and product-mix as well as that of equity in the ownership of factors of production and distribution of income. It is assumed that the free market is the best organizational arrangement that will ensure that scarce resources are employed efficiently to produce and distribute goods equitably among the different citizens in the economy in a way that society's welfare can be maximized and thus solve society's economic problem. However, it is clear that the free market does not fully answer the questions posed by society's economic problem as a result of the market failure attributable to public goods and externalities, for instance. This is because under such circumstances, the efficiency conditions of the market are violated when externalities and public goods fail to submit themselves to the price signalling principles of the free market. Coupled with the lack of social justice in income distribution, it becomes clear that the "invisible hand" does not necessarily solve society's economic problem better than any deliberate intervention. BSR therefore, seeks to provide some answers to the normative questions that the free market does not fully answer. BSR is therefore society's acknowledgement of the failure of the free market and the need for some form of regulation or intervention in the market.

Under the efficiency conditions of the market an assumption of perfect competition is made. Perfect competition implies that profit maximization is compulsory if the firm is to survive. However, it is established that the market is not always (if at all) perfect, and under conditions of less than perfect competition, profit maximization is rarely compulsory. Therefore, in situations where the decision-taker is not directly the profit receiver as tends to be the situation in large firms, profits need not necessarily represent even one dimension of motivation. The presence of a "coalition" of interest groups such as managers, workers, shareholders, suppliers, customers, and financiers whose members have conflicting goals that must be harmonized coupled with the bounded rationality constraint that decision-makers face naturally puts the firm on a path of satisficing behaviour where the firm attempts to meet the expectations of the different stakeholders rather than committing itself entirely to profit maximization. Therefore, under less than perfect competition conditions which are the norm in reality, firms tend to pursue goals other than profit maximization. This is in sharp contrast to the neo-liberalist argument that firms have no business pursuing other goals apart from profit maximization. The satisficing behaviour of the firm is a pointer to the fact that firms might naturally be predisposed towards finding a middle ground for satisfying the conflicting needs of their stakeholders.

The literature reveals three types of BSR, that is, voluntary, involuntary and silent BSR. While voluntary BSR tends to be associated with large firms the other two are normally attributed to SMMEs. Indeed, silent BSR is a form of voluntary BSR except that the firm performs it unconsciously whereas voluntary BSR is conscious. There also appears to be a relationship between silent BSR and the satisficing behaviour of the firm in the sense that both of them seem to arise from the natural predisposition of managers to satisfy stakeholders without necessarily having a BSR mind-set.

BSR has been shown to be multidimensional and appears to require the intervention of public policy to make it a prerequisite for all firms. This buttresses the point that the responsibility for BSR ought to be a collective one rather than an individual issue. Thus there is appreciation of the macro nature of BSR and the fact that individual firms when left alone to exercise their discretion, tend to conform to the demands of the market rather than the prescriptions of BSR. This is because the fundamental principle underlying the free market is cost minimization and benefits maximization whereas BSR seems to suggest that firms should internalize all their costs and externalize some of their benefits. This contradiction at the micro level is what makes a public policy necessary. It is the researchers' view that voluntary self-regulation alone cannot resolve the conflict as firms cannot trust the sincerity of each other by virtue of the principle of the prisoners' dilemma.

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