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Corporate social responsibility and the shareholder primacy paradigm

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INTRODUCTION

Recent years have witnessed an explosion in the attention paid to the notion of corporate social responsibility (CSR), the idea that corporations have an obligation to consider the impact of their decisions on a broad set of stakeholders that extends well beyond their investors. Such social concerns are by no means new; they were matters for corporate boardroom and top management discussions long before Milton Friedman published his famous editorial on the social responsibility of business.[1] Nonetheless, for at least the past decade and since the passing of the Global Financial Crisis, CSR advocates have more vigorously pursued their mission of incorporating social concerns within the purview of corporate decision-making.

But why so much corporate attention to social matters now? Three possibilities come to mind. First, the urgency of social concerns and the perceived ability of and expectation that corporations will do something about them have increased over time as public companies have become steadily larger and their reach more global. Climate change is the prototype of a social issue whose urgency and scope continue to grow over time. Second is the possibility that, although the social concerns themselves have not changed much over time, individual preferences have changed and various stakeholders have become more sensitive to those concerns than before. A third possibility is that, although social concerns tend to arise from negative "externalities" that most economists assume are best managed through government regulation, growing or widespread skepticism about the ability of government institutions to address these concerns in cost-effective ways could lead to increased demand for corporate investment in addressing social challenges.

Regardless of the reason for the increased attention to CSR, it is almost invariably accompanied by calls for rethinking the idea of shareholder primacy in the corporate objective function. In this article, I address the question of whether the increased focus on CSR requires a paradigm shift away from the traditional shareholder primacy model toward one that gives more voice to stakeholders. My short answer to this question is no, and for three main reasons:

First, the increased focus on CSR has virtually nothing to do with the factors that led to the establishment of shareholder primacy as the dominant paradigm. The theory of shareholder primacy which is a cornerstone of modern corporate finance arose as an efficient solution to "contracting" problems faced by corporations that have a diverse set of stakeholders, each of which often has different preferences about what and how certain corporate decisions get made.[2] Such contracting problems—which have long been, and will always be, with us—are likely to become even more intractable with the rising demand for CSR. Which leads to the suggestion: if we thought that shareholder primacy was part of an efficient organizational structure before the ascent of CSR, it may well be even more critical to corporate sustainability and success in the future.

Second, to the extent there is demand for CSR from investors and other stakeholders, market forces work to ensure that such demand is met even when shareholder primacy is an essential

[1] Friedman, Milton. 1970. "A Friedman Doctrine: The Social Responsibility of Business is to Increase its Profits." *The New York Times Magazine*.

[2] As described further below, many of these ideas about optimal organizational structure were developed by the late Michael Jensen and his co-author Eugene Fama in a pair of articles published in the *Journal of Law and Economics* in 1983.

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element of the corporate objective function. Such market forces take the form of consumer demand, employee preferences, and even investor preferences that lead public companies to devote time and capital to CSR initiatives as part of an overall objective of maximizing the wealth of their stockholders.

Third, and perhaps most importantly, a widespread corporate movement away from shareholder primacy toward a model dedicated to, say, stakeholder primacy is likely to produce "agency" and other contracting costs that exceed any CSR benefits to investors and other stakeholders.

THE ROOTS OF THE SHAREHOLDER PRIMACY PARADIGM

The idea of shareholder primacy is rooted in the contracting framework of corporations that was developed by people like Michael Jensen and William Meckling in their seminal study published in the *Journal of Financial Economics*, as well as a pair of papers published by Jensen and Eugene Fama in the *Journal of Law and Economics*.[3] These finance scholars view the corporation as a legal fiction that is best represented as "a nexus of contracts" among customers and all the different "factors of production," including suppliers of labor and capital and other stakeholders, that affect, and in turn are affected by, the corporation.

Given this view of the firm, how companies end up being organized and structured is seen as the outcome of a competitive process in which all kinds of commercial enterprises, from sole proprietorships to global multinationals, attempt to supply the products demanded by customers at the lowest possible prices while covering all the costs incurred. Among such costs are those involved in managing the contracts among all the different parties to the firm.

The contracting structure that emerges from what amounts to a society-wide process of negotiation ends up specifying two things: (1) the payoffs to all stakeholders—that is, who gets what and when; and (2) the distribution of "decision rights"—who gets to make what decisions inside the firm. The goal of this process is to find and implement the contractual set-up that enables the firm to compete most effectively in the marketplace. And barring the case of externalities (which we take up later), the conclusion of most economists and (free-market) policymakers is that such competition ends up leading to the socially optimal use of the resources—notably, people and capital—involved.

How does such a process lead to shareholder primacy as the dominant paradigm? Corporations, as already noted, are best viewed as temporary, or at least finite-lived, associations among many different stakeholder groups—customers, suppliers, creditors, labor, communities, stockholders—with economic interests in and claims on the firm. In a widely cited paper published in 1960 titled "The Problem of Social Cost," Nobel laureate Ronald Coase showed that when the writing and enforcement of contracts are assumed to be costless, the optimal decision rule in such a situation is to aim to maximize the *combined welfare* of *all* the major stakeholder groups. Having identified the corporate objective as maximizing the size of the aggregate payoffs (or the "total pie," if you will) that can be divided among them, the function of the contracts is then the most efficient distribution of the resulting wealth among the various stakeholders—and by "most efficient" we mean the one that leads most predictably to the highest collective outcome.[4]

In practice, of course, contracts are neither costless to write nor to enforce. And what is particularly important in the context of a corporation is that the various stakeholders have a potentially broad range of (often conflicting) preferences about corporate decisions, and the associated size and risk of the resulting payoffs. For example, whereas lower-level employees are likely to favor low-risk operating policies that reduce the probability of job losses (even those with lower expected returns), well-diversified shareholders may well favor higher-risk policies with higher expected returns. Faced with such a wide set of stakeholders with different interests and preferences, large organizations would find it very costly indeed to try to accommodate this range of preferences by writing separate, highly customized contracts (although some of this no doubt goes on in some companies).

But the bottom line is that the public corporate organizational form that prevails in most developed economies today can and should be viewed as the solution to this contracting problem—a solution that has evolved, and continues to evolve, over time to maximize the productive output of the corporate form while minimizing the contracting costs inherent in it.

The dominant form of today's public corporation has three important features worth noting in this context. First, most stakeholders that are also factors of production (notably, employees and suppliers, as well as creditors) have contracts that specify *fixed* promised payoffs or incentive payoffs that are tied to very specific performance outcomes and metrics. However, the fact that most such contracts have fixed promised payoffs does not mean that the payoffs are without risk. Each of these parties effectively assumes some risk that is tied to the priority structure of the payoffs and that is reflected in the size of the fixed promised payoff. So, for example, because creditors are paid only after employees' claims are taken care of, the promised payment to creditors includes a "premium" to compensate them for the risk of default on their payments.

Second, after the claims of all the other stakeholders have been satisfied, the remaining, or residual, risk of the corporation is borne by one set of stakeholders—the shareholders—who have contracted to receive the net cash flows, those that remain after all other claimants to those cash flows have received their promised payment.

Third, decision rights are vested in shareholders, the parties who bear the residual risk. Moreover, because these decision rights are exercised by the corporation's top executive team acting as agents of the shareholders, corporate boards have evolved as a governance mechanism that monitors the behavior of these agents to ensure their decisions are made in the best interest of shareholders.

[3] See Jensen, Michael C., and William H. Meckling. 1976. "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure." *Journal of Financial Economics* 3: 306–360; Fama, Eugene F., and Michael C. Jensen. 1983. "Separation of Ownership and Control." *Journal of Law and Economics* 26: 301–25; Fama, Eugene F., and Michael C. Jensen. 1983. "Agency Problems and Residual Claims." *Journal of Law and Economics* 26: 327–49.

[4] See Coase, Ronald H. 1960. "The Problem of Social Cost." *Journal of Law and Economics* 3: 1–44.

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Understood in these terms, then, shareholder primacy represents a competitive solution to the problem of maximizing the collective stakeholder welfare in a way that minimizes the various contracting costs associated with so doing. There is nothing that forces corporations to be organized this way. Other possible forms of business organization that have long been, and can still be, observed in the United States and elsewhere are private partnerships owned and managed by their main capital providers, mutual organizations owned and run by their largest customers (most notably in the insurance industry), and *cooperatives*, like the local Agway, in which the big investment and distribution decisions are made by boards representing and composed entirely of local customers and employees.

But, again, the fact that the public corporation has come to dominate commercial activity in all of the world's developed economies suggests that it has been found to be the most economically efficient for most large-scale business enterprise.

And this brings us to one important, and widespread, misconception about shareholder primacy and the corporate form of organization—namely, that the interests of stakeholders other than the stockholders are routinely ignored or taken for granted. The reality, as we have just seen, is that such stakeholder groups explicitly contract for their payoff *upfront*, in most cases ensuring their senior-most priority among corporate distributions. And so whatever controversy continues to surround the corporate treatment of its non-investor stakeholders, the controversy is ultimately about not the existence, but the adequacy, of those payoffs they have already contracted for.

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How do these distinctive features of the public corporation—fixed, high-priority payoffs to stakeholders, and residual risk bearing and decision-making by shareholders (and boards)—work to make the resulting organizational form the most efficient? The work of Fama and Jensen cited earlier offers several insights. First, by allowing for most of the risk of the company to be borne by shareholders, this structure makes possible specialization and efficiencies in risk-bearing by effectively ensuring that the people who supply the bulk of the savings for corporate capital investment are not the same ones making the organization-specific commitments that are required of and made by, say, the company's employees or suppliers. Precisely because a company's shareholders can more effectively diversify their personal risk than can its managers or employees, it will generally turn out to be more efficient to have them bear the residual risk of the firm.

Second, by limiting the risks faced by most corporate stakeholders, the costs associated with writing and monitoring (and, when necessary, modifying) the firm's contracts with those stakeholders (say, in response to changes in those risks) are kept to a minimum.

Third, these lower contracting costs both increase the company's net cash flows and, in so doing, contribute to corporate staying power by enabling companies to deliver their products at lower prices (while providing higher shareholder returns and collective payoffs to non-investor stakeholders) than would otherwise be possible.

SHOULD THE EFFICIENT ORGANIZATIONAL STRUCTURE OF THE FIRM CHANGE AS CSR PREFERENCES EVOLVE?

But now let us turn to the main subject of this paper: If investors' preferences are now reflecting today's greater demand for CSR, does this change anything about the efficient contractual structure of the firm? To address that question, it is useful to start by considering the possible effects of CSR policies on corporate decision-making and shareholders.

Some policies that fall under the CSR umbrella arguably can be expected to increase the present value of corporate net cash flows and therefore the value of shareholders' claims. For example, think about sustainable production processes (e.g., free-range chickens) for which there is high consumer demand. To the extent consumers are willing to pay a premium price that exceeds the marginal costs of providing that sustainable production process, it is clearly in the interests of shareholders to adopt such a policy.

A second possibility, however, is CSR policies that reduce the present value of the firm's net cash flows while failing to improve the welfare of any of the firm's stakeholders. For example, some commentators have argued that the recent climate disclosure rules promulgated by the Securities and Exchange Commission (SEC) impose significant costs on companies and their shareholders without any offsetting benefits in limiting climate change.[5]

A third category of CSR policies includes those that are arguably the most interesting from a public policy standpoint: those that are expected to reduce the present value of corporate net cash flows while increasing the welfare of some stakeholders—and possibly even some shareholders themselves. Such cases involve a sacrifice, or tradeoff, of shareholder for stakeholder value for some allegedly greater social good. But the question is, which party gets to make that decision, and how do they justify it to the shareholders who are being asked to make the sacrifice? An example of this type of CSR policy might be green energy solutions that raise the company's overall cost of production.

With these categories in mind, the question then becomes whether an objective function such as stakeholder primacy would do a better job than the traditional shareholder primacy of sorting among these different CSR policies.

In considering such a question, perhaps the biggest challenge stems from the potential for large differences in preferences *among stakeholders themselves* with respect to CSR policies. In other words, if we start with the idea that shareholder primacy is the most efficient organizational design for minimizing contracting costs, some of which stem from disagreements among diverse stakeholders, the case for shareholder primacy is only strengthened when we introduce another dimension—namely, the CSR policies themselves—where stakeholder preferences might diverge. As stated memorably by Michael Jensen,

> *[W]hereas value maximization provides corporate managers with a single objective, stakeholder theory directs corporate managers to serve many masters. And to paraphrase the old adage, when there are many*

[5] See, for example, "The SEC's Misguided Climate Disclosure Rule Proposal." *Banking and Financial Services Policy Report* 41(10) (2022): 1–9.

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masters, all end up being shortchanged. Without the clarity of mission provided by a single-valued objective function, companies embracing stakeholder theory will experience managerial confusion, conflict, inefficiency, and perhaps even competitive failure.[6]

ARE STAKEHOLDER PREFERENCES IGNORED UNDER SHAREHOLDER PRIMACY?

Although I have already suggested that increased demand for CSR does not alter the conclusion that shareholder primacy is part of an efficient organizational contracting structure, it is important to note that this does not mean that stakeholder preferences for CSR are simply ignored. In fact, quite the contrary. Such preferences are directly captured and reflected in the fixed payoffs, or market prices, that stakeholders contract for when negotiating with the firm. In this sense, even under shareholder primacy, market forces can be seen as pushing companies to meet stakeholder demands for CSR.

Customers. Let us start with the case of product markets and how they reflect the preferences of consumers. A company's customers have often shown themselves willing to pay price premiums for products made by companies that adopt what consumers view as more socially responsible policies. In a recent survey of its consumers, Whole Foods found that nearly two-thirds of millennials view transparency in food sourcing as informing their food purchases. Expressing a commitment to work more plant-based and unprocessed foods into their diet, and to consider the effects of these choices on the environment, millennials also indicated their willingness to pay more for "high-quality" foods.[7] If this price premium is large enough, a company like Whole Foods is more than willing to meet this particular CSR demand, with the expectation in so doing of maximizing its own long-run shareholder and firm value.

Employees. In the case of labor markets, employees demand higher wages to work for companies they view as less socially responsible—or alternatively, they willingly accept lower wages to work for companies that are better aligned with their CSR goals. One often cited example is Patagonia, where employees are notoriously low-paid, but nonetheless appear happy to work for a company whose mission includes doing good for the planet. Similarly, Tesla and SpaceX are known to have employee pay that is low relative to tech industry standards, but nonetheless have employees with high rates of job satisfaction who describe their work as "highly meaningful."[8]

Suppliers. Companies choose suppliers based on the perceived consistency of the supplier's CSR policies with their own, which in turn is likely to influence the contractual terms of the supplier arrangement. For example, Apple routinely discusses the responsibility of its suppliers and provides its shareholders with a regular progress report of their CSR activities that includes how CSR influences its supplier relationships.[9] In its 2023 progress report, Apple states

> *Before we engage with a new supplier, we work to understand how they do business and the standards they have in place. Our responsible procurement process not only considers a prospective supplier's ability to meet our high-quality standards, but also our strict requirements for labor and human rights, health and safety, environmental stewardship, management systems, and ethics.*[10]

As another example, the shoe manufacturer Allbirds requires its suppliers to adhere to a "Supplier Code of Conduct" that specifies the company's social and environmental standards.[11] All of the company's Tier 1 suppliers are enrolled in its Social Audit and Environmental Programs, and the firm's stated goal is to have 100% of its Tier 2 suppliers in the programs as well.

Communities. Communities generally make any subsidies they offer corporations contingent on socially responsible policies by the corporation. For example, Tesla received a subsidy of at least 1 billion euros from the German government in 2021 to construct a battery cell factory in Berlin. The government chose to subsidize Tesla to support its production of electric vehicle batteries and help reduce German imports from Chinese suppliers, who were deemed to be less socially responsible, and to support the shift away from fossil fuels.[12]

Shareholders. Even shareholders themselves might be willing to accept lower returns in exchange for certain CSR policies. A number of different academic models suggest the possibility that sufficient investor demand for CSR could increase the market value of companies perceived to be socially responsible, effectively reducing the companies' cost of equity capital. Consistent with this possibility, recent academic studies provide evidence of an association between higher CSR and lower costs of equity capital that is accomplished through a tilting of the investor base.[13]

The bottom line, then, is that under an organizational design that features shareholder primacy as its objective function, companies will continue to respond to stakeholder demands for CSR that are reflected in the prices at which they contract with the firm. And as long as the costs to the firm of supplying that CSR are lower than the benefits—in the form of higher product prices, lower employee costs, better and more lucrative supplier arrangements, greater community subsidies, and lower costs of capital—CSR policies are likely to benefit shareholders, too.

BUT WHAT ABOUT EXTERNALITIES?

Up to this point, I have argued that market forces operating by means of and within the corporate contracting structure led public

[6] Jensen, Michael C. 2001. "Value Maximization, Stakeholder Theory, and the Corporate Objective Function." *Journal of Applied Corporate Finance* 14(3): 8–21.

[7] See "Whole Foods Survey: Millennials still spend more for quality." (Whole Foods survey: Millennials still spend more for quality | Grocery Dive)

[8] See "Why Millennials Want to Work for Elon Musk, even if the Pay Sucks." (Why Millennials Want to Work for Elon Musk, Even If the Pay Sucks | Inc.com).

[9] Supply Chain Innovation - Apple.

[10] "People and Environment in our Supply Chain." Apple 2023 Annual Progress Report.

[11] See "How We Operate." (https://www.allbirds.com/pages/how-we-operate).

[12] See "Tesla Set for at least 1 Billion Euros in German Subsidies." (Tesla set for at least 1 billion euros in German subsidies - Business Insider | Reuters)

[13] See Gillan, Stuart L., Andrew Koch, and Laura T. Starks. 2021. "Firms and Social Responsibility: A Review of ESG and CSR Research in Corporate Finance." *Journal of Corporate Finance* 66, https://doi.org/10.1016/j.jcorpfin.2021.101889.

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companies to supply CSR policies that are valued and, in some cases, fully expected and demanded by their stakeholders. But what about CSR for which there is no clear stakeholder demand from within the firm? A reasonable critique of my argument to this point is that not all of the costs and benefits of CSR-related activities are realized (or "internalized") by the firm and its internal stakeholders. To the extent that a company's stream of profits and the value of its stock reflect the costs, but do not capture all projected CSR benefits, firms will tend to invest less in CSR and, therefore, could be imposing net costs on society that reduce general social welfare.

The most prominent and commonly cited example of this type of negative economic externality is damage to the environment through, say, pollution generated by a firm's manufacturing process. Because companies bear the full cost of limiting this pollution but share the benefits with society, a policy of maximizing shareholder value will lead them to pollute more than what society would deem to be the optimal level.

Economists have long recognized that government regulators are generally in the best position to address these types of economic externalities and, in so doing, find the socially most efficient position. However, as noted earlier, the increased demand for corporate action, or CSR, could be interpreted as a byproduct of a general view that governments have not been particularly effective in addressing these externalities. To the extent that is the case, corporate management could be justified in taking a more stakeholder-oriented point of view in which the social impact of corporate policies becomes an explicit part of the corporate objective function.

But, again, there is a major obstacle to implementing this solution without first securing some kind of general mandate from shareholders—namely the difficulty of taking a purely stakeholder-driven approach to environmental challenges arising from the sheer variety of stakeholders' preferences themselves with respect to individual CSR policies. As the French "yellow vest" protests might suggest, there are likely to be limits to employees' willingness to make economic sacrifices for larger social benefits, especially those not expected to materialize in the near future. Put differently, if a company imposes externalities on society when the maximization of shareholder wealth is the objective function, it is probably at least as likely to do so under a stakeholder primacy regime.

Box Inset: **The True Origins of the VW Emissions Problem**. As discussed by Charles Elson in this journal, the Volkswagen emissions testing scandal was justified by its top management and controlling shareholders primarily as a means of maximizing VW's market share and so providing ever-expanding employment opportunities for German workers. In so doing, the VW case provides a powerful example in which excess pollution, though possibly beneficial to stockholders, actually tends to be looked on even more favorably by other internal stakeholder groups that include organized labor, suppliers, and even the German provincial government of Saxony (also a 20% holder of VW's stock). As a result, companies that are run in the interests of internal stakeholders are equally—indeed perhaps more—likely to impose costs associated with negative externalities on society than those with a single-minded dedication to long-run value maximization. End Box Inset

WHY CAN'T THE PROVISION OF CSR POLICIES JUST BE DELEGATED TO CORPORATE MANAGERS?

If we cannot count on government regulators to address problems of externalities effectively, and a general stakeholder primacy approach is no better than shareholder primacy in providing the socially optimal CSR policies, what about the possibility that companies simply delegate this role to corporate managers? Such delegation would be broadly consistent with current practices in which managers are already afforded considerable discretion in choosing corporate policies for the purpose of maximizing shareholder wealth. Under this alternative, CEOs would essentially be CSR central planners who, under the business judgment rule, would be granted wide latitude in choosing policies that meet some vaguely specified target of social responsibility.

Again, however, it is difficult to see how this would work. Delegating to individuals decisions that have already proven too complicated and costly to address through voluntary contracting does not seem at all promising or workable. CEOs are chosen for their specialized expertise in how to produce products demanded by consumers at the lowest price—not for their experience or wisdom in identifying or formulating effective social policy or adjudicating tradeoffs among different stakeholder groups. These are tough decisions even for law-givers and -makers, and to entrust them to corporate managers is a prescription, as Jensen pointed out, for organizational confusion.

And as Tom Gosling demonstrates in the immediately preceding article about the Walgreens-Boots living wage campaign, asking corporate CEOs to ignore or override labor market pricing when determining what constitutes a "living wage" for the majority of their employees is an invitation to misrule and competitive failure. Such arrogation by top corporate executives of functions normally provided by labor and other factor markets would greatly expand the scope for agency conflicts—or, arguably, open a veritable Pandora's box of them—in which corporate managers would be tempted to use their discretion to make decisions that while making their own lives easier, end up hurting their shareholders and other stakeholders.

Financial economists, to be sure, have long recognized the potential for conflicts of interest to arise in situations in which agents are performing tasks on behalf of principals. In their seminal article—by far the most cited in the corporate finance literature—Michael Jensen and William Meckling applied the theory of agency costs to the specific setting of the modern public corporation in which there is typically a clear separation between ownership and control of the firm.[14] One of the article's key

[14] See Jensen, Michael C., and William H. Meckling. 1976. "Theory of the Firm: Managerial Behavior, Agency Costs, and Ownership Structure." *Journal of Financial Economics* 3: 306–60.

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insights is that the value lost from agency conflicts of interest and incentives between corporate executives and their shareholders can be limited through the monitoring of executive behavior by corporate boards and, if and when necessary, active outside investors. But the effectiveness of such monitoring is also bound to be limited in large part because the specialized expertise of managers makes it difficult for board members to be able to identify self-interested, value-reducing behavior on the part of managers. The limits of this monitoring will only become more evident when the scope of managerial discretion is enlarged to include the adoption of socially responsible policies and attempts to "balance" their aims with those of long-run value-maximization.

SUMMARY AND CONCLUSIONS

My bottom line, then, is that it is difficult to make a compelling case for departing from shareholder primacy as an essential element of the corporate objective function. Nonetheless, as demand for corporate social responsibility grows, companies that seek to enhance shareholder value will be prompted to supply CSR policies by the prices at which they contract with other stakeholders. In a world in which consumers volunteer to pay more for products produced in more socially responsible ways and employees demand higher wages to work for companies viewed as less socially responsible, well-thought-out CSR policies have the potential to contribute to the corporate bottom line. Much the same arguments apply to corporate policies vis a vis other stakeholders like suppliers and communities. In the end, as demand for CSR grows, companies aiming to maximize shareholder wealth will find themselves adopting and implementing more CSR policies.

To be sure, this should not be taken to imply that the market incentives to supply CSR policies will necessarily result in the socially optimal amount of CSR policies. After all, as I noted earlier, the pursuit of shareholder wealth maximization will continue to produce some corporate externalities such as adverse environmental impacts. And to the extent that regulatory solutions continue to prove inadequate, there will still be residual net costs to society.

But as I have also pointed out, any pronounced shift away from long-run value maximization is unlikely to improve either the state of the environment or the general economy. Neither increased experimentation with stakeholder capitalism nor granting top executives more leeway in enacting social policy is likely to leave shareholders and the other stakeholders that constitute today's largest corporations collectively better off.

Just as investors care about the risk and return characteristics of their portfolios more than they care about the risks and returns of the individual stocks that make up the portfolio, the aggregate supply of CSR by public (and private) companies should be more important than the supply by individual firms. For that reason, we should also neither expect (nor insist that) the supply of CSR policies by corporations follow a "one-size-fits-all" approach. To the extent that companies continue to respond to market signals (as they have in the past), they will keep supplying CSR policies whose benefits (in the form of higher product prices, or reductions in labor or capital costs) exceed the costs. Some companies are almost certain to have a comparative advantage in supplying CSR policies, if only because their costs of providing such policies and the associated public goods are significantly lower. Similarly, on the demand side, not all stakeholders have the same demand for CSR policies. For example, not all consumers care about sustainable production processes. Accordingly, we would expect those companies that can deliver CSR policies at the lowest cost to specialize in the provision of such policies—while stakeholders with the strongest preferences for CSR policies (and willingness to pay a premium for them) will tend to gravitate toward, and so benefit and help sustain, the companies supplying the public goods associated with such policies.

KEYWORDS
corporate social, responsibility, shareholder primacy

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