

# Drucker on the Bounded Goodness of Corporate Social Responsibility

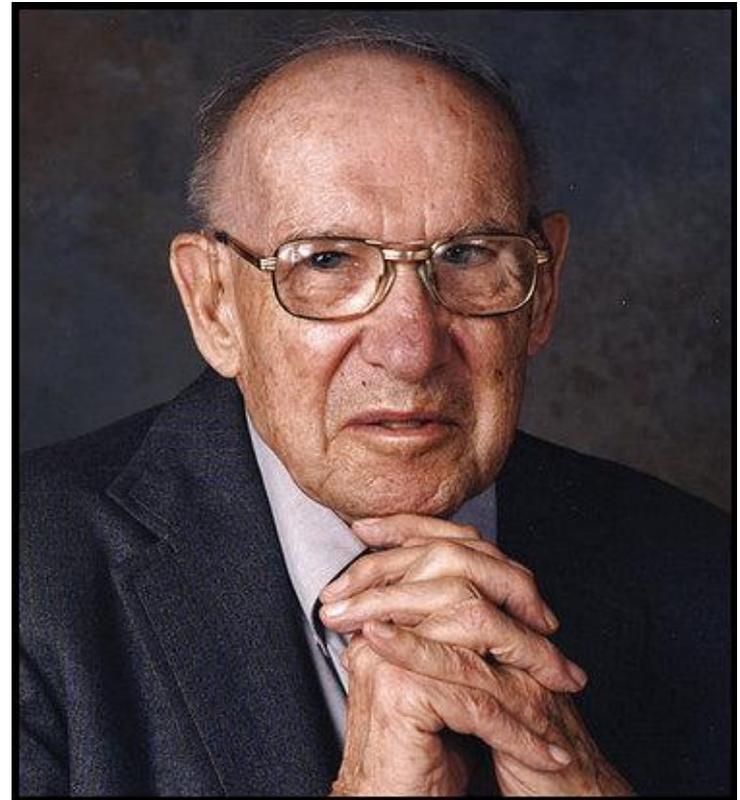
N. Craig Smith

INSEAD Chair in Ethics & Social Responsibility

# Outline

---

- ◆ Drucker on CSR
- ◆ Drucker's CSR principles
  - Social impacts vs. social problems
  - Implications today
- ◆ Drucker on the limits of CSR
- ◆ The challenge of “bounded goodness”
  - How much is enough?



Peter Drucker, 1909-2005

# Drucker on CSR

# Drucker's Writing on CSR

---

- ◆ *Concept of the Corporation* (1946)
- ◆ *The Practice of Management* (1955)
- ◆ *Management: tasks, responsibilities, practices* (1973)
- ◆ “The New Meaning of Corporate Social Responsibility,” *California Management Review* (1984)
- ◆ *Management Challenges for the 21<sup>st</sup> Century* (1999)

# Drucker's Belief in CSR

---

- ◆ “.... society is not just the environment of the enterprise. Even the most private of business enterprise is an organ of society and serves a social function... the very nature of the modern business enterprise imposes responsibilities on the manager.”

Drucker, *The Practice of Management* (1955), p. 375

# Drucker's Belief in CSR

---

- ◆ “... what is most important is that management realize that it must consider the impact of every business policy and business action upon society. It has to consider whether the action is likely to promote the public good, to advance the basic beliefs of our society, to contribute to its stability, strength and harmony.”

Drucker, *The Practice of Management* (1955), p. 382

# Drucker's Writing on CSR

---

- ◆ *Concept of the Corporation* (1946)
- ◆ *The Practice of Management* (1955)
- ◆ *Management: tasks, responsibilities, practices* (1973)
- ◆ “The New Meaning of Corporate Social Responsibility,” *California Management Review* (1984)
- ◆ *Management Challenges for the 21<sup>st</sup> Century* (1999)

# Drucker's CSR Principles

# CSR as a Management Task

---

- ◆ “Social impacts and social responsibilities have to be managed.” (1973, p. 325)
- ◆ Shift from an expectation that business minimize its impacts on society to one where business was expected to “produce the good society.”
- ◆ “The relevant questions are: ‘Can business tackle these huge problems? How? Should business tackle them?’” (1973, p. 319).

# Milton Friedman on CSR (1970)

---

- ◆ Social responsibility is a fundamentally subversive doctrine in a free society
- ◆ 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.

# CSR Cannot be Evaded

---

- ◆ “[But] ... social responsibility cannot be evaded. It is not only that the public demands it... [and] that society needs it... in modern society there is no other leadership group but managers. If [they]... do not take responsibility for the common good, no one else can or will. Government is no longer capable... managers... whether they like it or not—indeed whether they are competent or not—have to think through what responsibilities they can and should assume, in what areas, and for what objectives.”

Drucker, *Management*  
(1973), p. 325.

# Social Impacts vs. Social Problems

---

- ◆ Drucker differentiated between two types of social responsibilities: those to do with social impacts or what business does *to* society and those to do with social problems or what business can do *for* society.

# Social Impacts vs. Social Problems

---

- ◆ “One is responsible for one’s impacts, whether they are intended or not. This is the first rule. There is no doubt regarding management’s responsibility for the social impacts of its organization... Because one is responsible for one’s impacts, one minimizes them.”
- ◆ *versus* social problems, the “dysfunctions of society.”

Drucker, *Management* (1974), p. 325 & p. 337

# What To Do With Social Impacts

---

- ◆ Identify and address if not eliminate undesirable social impacts of business activities
- ◆ If they cannot be turned into profitable business opportunities, seek a regulatory solution (industry self-regulation or government regulation) that creates an optimal trade-off for all involved.

# What To Do With Social Problems

---

- ◆ “... it is the function of business... to satisfy a social need and at the same time serve their institution, by making resolution of a social problem into a business opportunity.” (1973, p. 337)
- ◆ Not all social problems can be solved this way...
- ◆ Drucker asserted that they are still management’s problems because “healthy businesses require a healthy, or at least functioning, society.” (1973, p. 341).

How Much is Enough?

# How Much is Enough?

---

- ◆ Firms making major commitments to CR must still make trade-offs
- ◆ E.g., Nike
  - Contract suppliers employing over 650,000 people in more than 800 factories in 50 countries

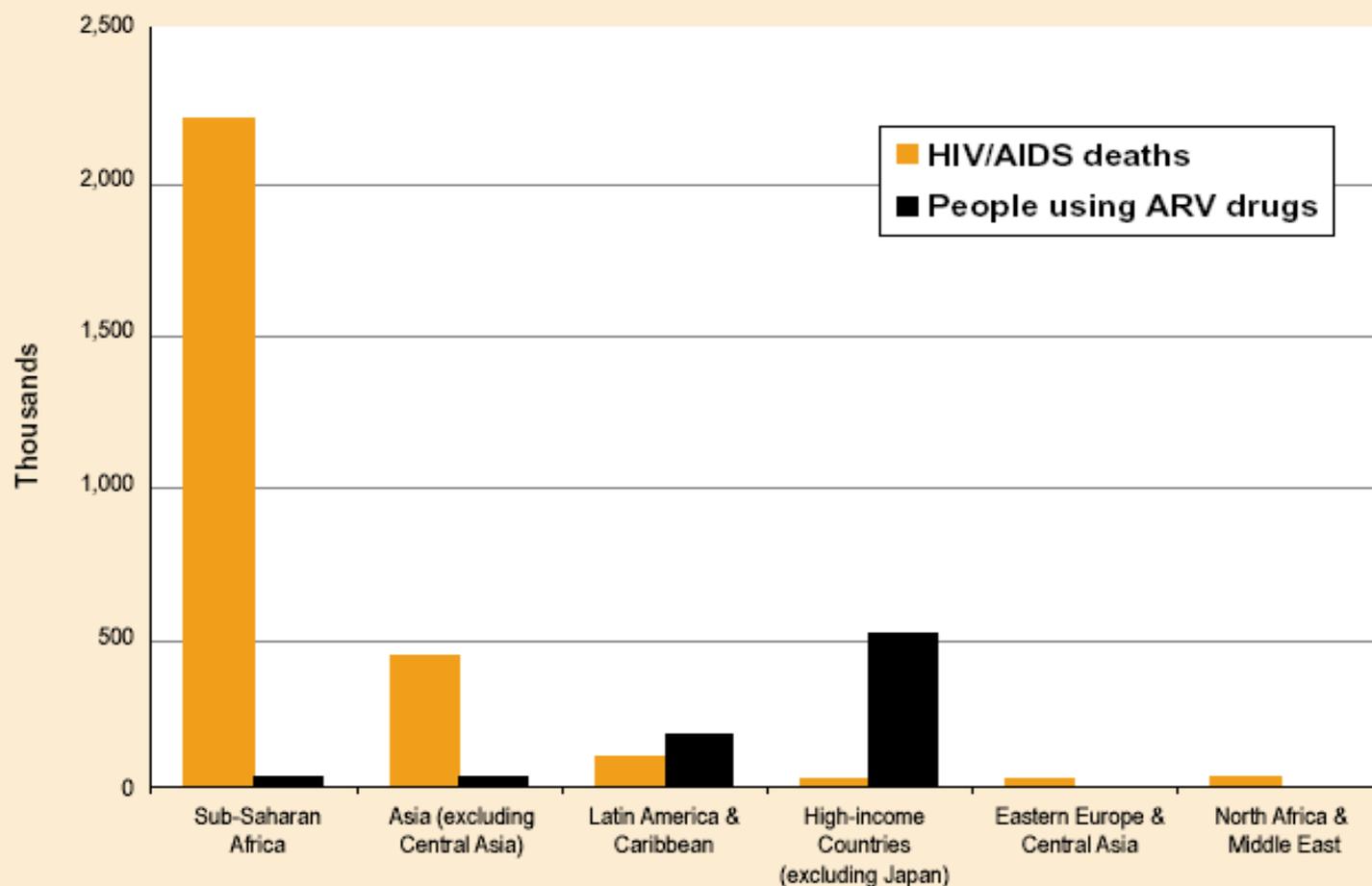
# How Much is Enough?

---



(Product)<sup>RED</sup>

## HIV/AIDS deaths in 2001 and number of people using antiretroviral drugs by end 2001: by region



Source: WHO/UNAIDS, 2002

# ARV Treatment in 2002 (UNAIDS)

---

	<b>IN NEED OF TREATMENT</b>	<b>RECEIVED TREATMENT</b>
Latin America and the Caribbean	370,000	196,000
North Africa and Middle East	7,000	3,000
Eastern Europe and Central Asia	80,000	7,000
Asia Pacific	1,000,000	43,000
Sub-Saharan Africa	4,100,000	50,000

# Price is an Obstacle to Access

---

“The poor have no consumer power, so the market has failed them. I’m tired of the logic that says: ‘He who can’t pay dies’.”

James Orbinski, Medecins sans Frontieres, 2000

“The pharmaceutical industry today sells 80% of its products to 20% of the world's population. I don't want to be the CEO of a company that only caters to the rich... I want those medicines in the hands of many more people who need them.”

Jean-Pierre Garnier, GlaxoSmithKline, 2001

# Limits of Social Responsibility

---

- ◆ “The institution’s performance of its specific mission is also society’s first need and interest... Managers need to be able to think through the limits on social responsibility set by their duty to the performance capacity of the enterprises in their charge.”

Drucker, *Management* (1973), p. 343-344

- ◆ “The first ‘social responsibility’ of business is then to make enough profit to cover the costs of the future. If this ‘social responsibility’ is not met, no other ‘social responsibility’ can be met.”

Drucker, “The New Meaning of Corporate Social Responsibility,”  
*California Management Review*, 1984

# Limits of Social Responsibility

---

- ◆ “It is futile to argue, as Milton Friedman... that a business has only one responsibility: economic performance. Economic responsibility is the *first* responsibility of a business... Economic performance is the base without which a business cannot discharge any other responsibilities... But economic performance is not the *only* responsibility of a business.”

Drucker, “The New Society of Organizations,”  
*Harvard Business Review*, 1992

# Drucker's "Bounded Goodness"

---

- ◆ Social impacts or social problems?
  - Identify and address/eliminate undesirable social impacts of business activities
  - Less requirement to act for social problems and constrained by...

Smith, "Bounded Goodness,"  
Journal of Academy of  
Marketing Science, 2008

# Drucker's "Bounded Goodness"

---

- ◆ Requirement to act on social problems is constrained by...
  - Corporate purpose
    - Company's first responsibility is to its primary purpose
  - Regulatory intervention
    - The possibility of regulatory intervention
  - Corporate competency
    - How capable of action?
  - Corporate authority
    - Not usurping government authority