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Bounded Goodness: Marketing Implications of Drucker on Corporate Responsibility

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BOUNDED GOODNESS: MARKETING IMPLICATIONS OF DRUCKER ON CORPORATE RESPONSIBILITY

by
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Abstract

Drucker's immense contribution to the thinking and practice of management extends to social responsibility in business. This work goes back over sixty years but remains relevant today—notwithstanding the impacts of globalization and the greater interconnectedness of business and society—and not least to marketing. Given trends in marketing research and practice as well as the importance of paying tribute to Drucker and preserving his legacy, this paper examines the implications of Drucker's CSR "principles" for marketing practice. As well as revealing their significance, it also considers Drucker's views on the limits of social responsibility, referred to here as "bounded goodness". It examines how Drucker's thinking informs the challenging question of "how much is enough?" in relation to corporate responsibility issues such as food marketing and obesity, availability of AIDS drugs in Africa, and supply chains and labor rights.

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It should come as no surprise that the immense contribution of Peter Drucker's writing to the thinking and practice of management extends to social responsibility in business. What is surprising, perhaps, is that his writing on this topic goes back more than half a century (e.g., Drucker 1955) and consistently endorsed the idea of corporate social responsibility (CSR), long before it became fashionable. Hardly a follower of fashion, Drucker wrote incisively on its philosophical underpinnings as well as the social responsibility issues of the day, expressing a belief in CSR that was often in sharp contrast to the zealously dismissive views of other contemporary thought leaders such as Milton Friedman (1962, 1970), Alfred Sloan or marketing's own Theodore Levitt (1958).

The significance of Drucker's work in this area goes beyond his early identification of the social responsibilities of business. It still has currency today and the underlying principles may well prove more timeless than some of his other writing. Drucker is particularly insightful in relation to marketing (Day 1990) and his work on CSR as it relates to marketing is no exception. However, he also exposes a more widely sensed uncertainty about the scope of CSR—especially now, given demands for social responsibility in the context of globalization and the challenges posed by climate change. A fundamental question posed for business nowadays is how much is enough? Hence the purpose of this paper is to examine the implications of Drucker's CSR "principles" for marketing practice today. As well as revealing their relevance it also considers Drucker's views on the limits of social responsibility, referred to here as "bounded goodness".

Social responsibility of business is not a new idea, as Drucker (1974) recognised.[1] It has been traced back at least as far as the paternalistic capitalists of the nineteenth century (Smith 2003). However, it has never been more prominent on the corporate agenda than it is today. This is evidenced, for example, in the dramatic growth in corporate social and environmental reporting (KPMG 2005) and its frequent inclusion as a key topic in high profile meetings such as the World Economic Forum or the Clinton Global Initiative. A 2005 McKinsey survey found that "Business executives across the world overwhelmingly believe that corporations should balance their obligation to shareholders with explicit contributions to the broader public good" (*McKinsey Quarterly* 2006, p. 33). While a cover story in *BusinessWeek* reported many examples of how companies are rising to the challenge (Engardio 2007). Marketing is increasingly involved, be it in the development of new eco-friendly products or new markets (e.g., at the 'bottom of the pyramid' in developing countries) and in relation to a range of issues, from fair trade to sweatshop labor in the supply chain.

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[1] Drucker generally referred to "social responsibility" and "corporate social responsibility" in his writing. These terms remain in use today but various other terms are also used, such as "corporate responsibility" (because it doesn't appear to preclude environmental impacts), "corporate citizenship" (a term preferred by U.S. corporations, but often used largely in relation to philanthropic activities), "sustainable development" (a term seen to better capture environmental considerations and thus favored by resource extraction companies) and the "triple bottom line" (the idea of giving attention to a nominal social and environmental as well as economic bottom line). This article mostly retains Drucker's language and the abbreviation CSR and uses the term corporate responsibility in reference to more contemporary thinking on corporate social and environmental responsibilities.

Until quite recently, marketing researchers gave relatively modest attention to CSR and most notably in the sixties and seventies, such as Andreasen's (1975) work on the disadvantaged consumer, empirical studies of socially responsible consumers (e.g., Miller and Sturdivant 1977), and more general analyses of the relevance of CSR to marketing (e.g., Patterson 1966; Webster 1974). Research in this area has increased substantially in the last few years (e.g., Bhattacharya, Smith and Vogel 2004; Ellen, Webb and Mohr 2006; Klein and Dawar 2004; Maignan & Ferrell 2004). In the interim, cause-related marketing received considerable attention, from Varadarajan and Menon's (1988) seminal piece on, but this topic has more to do with corporate philanthropy than CSR. Likewise, social marketing (e.g., Andreasen 1995), while concerned with the use of marketing to address social issues, is not CSR. In some cases, writers in marketing still appear to mistake philanthropy and corporate social initiatives for corporate social responsibility (see Kotler and Lee 2005).

Marketing practitioners also have tended to give little attention to CSR in the past, if not dismiss it (Curtis 2006; Gidengil 1977; Robin and Reidenbach 1987). However, this too is changing, as marketing is increasingly involved in social responsibility issues, if not found in the firing line for social responsibility failings (e.g., obesity and advertising) and marketing budgets are diverted to CSR campaigns. More positively, marketers are responding to consumers' CSR concerns (Bhattacharya and Sen 2004) and are increasingly developing products, brands and marketing communications that reflect company and product commitment to CSR (e.g., Wal-Mart, BP) and in some cases are centered on a social responsibility proposition (e.g., Toyota Prius, the Co-operative Bank).

Given these trends in marketing research and practice as well as the importance of paying tribute to Drucker and preserving his legacy, it is especially timely to consider the relevance of his work on corporate responsibility to marketing. First, we review Drucker's writing on CSR to identify what can be considered CSR "principles." These principles are applied to common CSR issues in marketing, demonstrating their usefulness to marketing practitioners today. We then look at Drucker's writing on the limits of CSR, explaining his position on bounded goodness while showing that it presents marketers and business generally with a conundrum. We conclude by suggesting there is no easy answer to the question 'How much is enough?' when applied to CSR. Nonetheless, Drucker has helped us better frame this problem and his thinking will no doubt continue to stimulate further debate on marketing and corporate responsibility.

DRUCKER'S BELIEF IN SOCIAL RESPONSIBILITY

Drucker has consistently affirmed his belief in social responsibility in business (and other institutions). In *The Practice of Management* (1955), having concluded his penultimate chapter by observing that integrity will always be central to what it means to be a manager, Drucker devotes his concluding chapter to the responsibilities of management. He writes, "[But] 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 (p. 375)." Later, he observes (p. 382):

> [But] 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's earliest writing also affirms this view of the social purpose of business and, through his examination of the grounds for corporate legitimacy, the social responsibilities of management. His first two books in English, *The End of Economic Man* (originally published 1939) and *The Future of Industrial Man* (originally published 1942) together assert that "economic performance and social responsibility must be considered in establishing business purpose" (Flaherty 1999, p. 46).

Concept of the Corporation (1993a, first published 1946), Drucker's hugely influential study of General Motors (and informed by the two previous books), has been credited with establishing management as a field of research and practice (Flaherty 1999). It was embraced by many companies and their leaders, including Ford, but rejected by GM's top executives. Drucker (1993a, p. 305) explains in his 1983 epilogue that the most fundamental issue in contention was that the book treated the big business corporation as "affected with the public interest." He describes how GM was among the first large American companies to accept responsibility for the impact of its activities on society; for example, it introduced and held supervisors responsible for a "zero accidents" policy inside its plants, while it staggered work hours to reduce traffic jams outside. However, Sloan and other GM executives "objected to anything that would give the corporation rights, authority, and responsibility beyond its economic function" (p. 306), an argument still occasionally played back today by critics of corporate social responsibility (e.g., *Economist* 2005a). He continues (p. 306):

> They therefore rejected out of hand the suggestion… that their company concern itself with what we would now call "social responsibility"… They knew that there is no such word as "responsibility" in the political dictionary. The concept is "responsibility *and* authority" … authority without responsibility is tyranny, and responsibility without authority is impotence.

As well as questioning whether GM had legitimate authority to assume social responsibilities, GM executives also questioned whether they had the competence—two important critiques of CSR that Drucker revisited in his later works (as we discuss below). For these reasons, they considered the book "anti-GM, anti-business, and indeed subversive" (p. 307) and Drucker's description led in part to Sloan writing his classic account in 1964, *My Years with General Motors*.

Writing in 1983, Drucker (1993a, p. 310) observed: "We know today that GM's position is inadequate, no matter how strong its logic." He concluded that GM's problems of the intervening years were attributable at least in part to a failure to address its societal relationships and responsibilities. He cited employee relations policies that resulted in unprecedented product quality problems and the campaign against GM for improved product safety initiated by Ralph Nader with the publication of his 1965 book, *Unsafe at Any Speed*. GM's decision to hire private investigators to spy on Nader led to a legal settlement that funded Nader's future campaigning for consumer rights, further harmed GM's reputation and contributed to enactment of restrictive product safety legislation—as well as a classic illustration of the "business case" for corporate social responsibility. Drucker believed that GM had, by 1983, realized the validity of his concept of the corporation and adopted more appropriate approaches to its business, but felt that it would remain in a defensive position for years to come.

Management, Drucker's (1974, originally published 1973) 800-page treatise on the tasks, responsibilities and practices of management, contained five chapters in an entire section on social impacts and social responsibilities (and no doubt the increased attention reflected the social turmoil of the time, that was a response in part to the Vietnam War and Watergate). Here, Drucker expounded on the ideas originally presented in one chapter in his 1955 book and they provide the basis for the "principles" described in the next section. However, his arguments are largely the same and his belief in social responsibilities. He wrote (1974, p. 312):

> The quality of life is the third major task area for management. Managements… are responsible for their by-products, that is the impacts of their legitimate activities on people and on the physical and social environment. They are increasingly expected to anticipate and resolve social problems.

Drucker's later writing remained consistent with these beliefs. In some cases, he addressed social responsibility directly (e.g., Drucker 1984, 1992, 1993b), in other cases more indirectly by describing his humanistic conception of management and his concern for the social role and responsibilities of business, as in his last (1999) book, *Management Challenges for the 21st Century*.[2]

[2] While there are various compilations of his work, Drucker's own (2001) collection of sixty years of writing on management, *The Essential Drucker*, contains a chapter on social impacts and social problems that is an edited version of the five chapters in *Management* (1974).

DRUCKER'S CSR "PRINCIPLES"

The Meaning of Social Responsibility

While Drucker was in some respects more provocative in his discussion of social responsibility in *Concept of the Corporation* (first published 1946), eliciting his CSR principles here will rely on his detailed treatment in *Management* (first published 1973), together with some of his later refinements (e.g., Drucker 1984). His starting point was to observe that until the sixties, discussion of social responsibility was generally concerned not with "the social responsibility of business, but with the social responsibility of businessmen" (1974, p. 314), especially their contributions to the community. The shift in emphasis (arguably anticipated in Drucker's earlier work) was to "what business should or might *do* to tackle and solve problems of society" (p. 314). He attributed this shift not to the development of an anti-business attitude but to heightened expectations as a result of the success of business in improving quality of life and growing doubt in the ability of government to solve social problems. He writes in ways that resonate today in relation to climate change, for example (p. 319):

> [Managers] command the resources of society. But they also command the competence. It is, therefore, only logical that they are expected to take the leadership role and take responsibility for major social problems and major social issues.

Drucker (1974, p. 319) identified a shift from an expectation that business minimize its impacts on society to one where business was expected to "produce the good society." This required new thinking and new action and could not be left to public relations, which Drucker considered an adjunct to marketing: "The relevant questions are: 'Can business tackle these huge problems? How? Should business tackle them?' These are not questions which public relations is equipped to handle" (p. 319). The example Drucker gives is of the problems of American inner city ghettos. Today, it might be the "bottom of the pyramid" in developing countries or AIDS in Africa. Drucker's point still holds. While companies are criticized for rhetoric over substance—if not faced with a backlash (Ellen, Webb and Mohr 2006)—the requirement is for new thinking and new action (e.g., Prahalad and Hammond 2002; Vachani and Smith 2004).

Drucker was less concerned by problems of corporate irresponsibility, greed and incompetence. He didn't doubt they existed, he simply saw the solution as relatively straightforward: "set forth standards of conduct and hold business to them" (1974, p. 320). The scale of recent business misconduct, exemplified by Enron, WorldCom, and too many others to mention (Sorkin and Bayot 2005), calls this perspective into question, or at least the idea that there is a readily workable solution. Some suggest that a misplaced reliance on the law holding business to standards of conduct contributed to the ethics failings reported in the early 2000s.[3] It is certainly the case that recent attention by business to CSR is in part inspired by diminished public trust in business, following repeated stories of ethics scandals at leading companies. Nonetheless, while Drucker appears to understate the challenges associated with business misconduct, he was correct in suggesting that it is particularly difficult to determine what business should do to more proactively address social problems, especially those not directly related to its legitimate business activities. Indeed, he offers 'cautionary tales' of good intentions gone wrong that are familiar today.

The Case for Social Responsibility

While companies clearly can get it wrong this doesn't mean they shouldn't try or, indeed, that they should reject the calls for action on social responsibility as misplaced. Particularly compelling for many businesspeople in the seventies—and remaining so for not an insignificant minority today—were the ideas of Milton Friedman (1962, 1970).[4] He wrote (1962, p. 133) of socially responsibility as a fundamentally subversive doctrine, saying: "there

[3] In contrast to his endorsement of social responsibility in business, Drucker expressed doubts about business ethics, This has been traced to his experience of the Arbeitsfreude movement in Nazi Germany (Schwartz 1998).

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."

Drucker (1974) accepted Friedman's argument that business as an economic institution should stick to its task and that there was a risk that social responsibility could undermine economic performance and thus society. He also shared Friedman's concern that social responsibility could entail managers usurping power in areas where they had no legitimate authority (managers are not elected and could become engaged in activities that are more properly the role of government). However, he chided Friedman for rejecting social responsibility and while accepting Friedman's concerns, said (p. 325):

> [But] it is also clear that 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 (1974, p. 325, emphasis in the original) was forthright in asserting that social responsibility is a management task: "*Social impacts and social responsibilities have to be managed*." Arguably, this proposal has proved less evident in business practice than some of Drucker's other ideas. However, it is increasingly expressed today, drawing especially on the corporate responsibility implications for business of globalization (Bonini, Mendonca and Oppenheim 2006; PricewaterhouseCoopers 2007).

Responsibility for Social Impacts

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 go beyond the specific contribution the company

[4] The 2005 McKinsey survey, mentioned earlier, found "one in six agrees with the thesis, famously advanced by Nobel Laureate Milton Friedman, that high returns should be a corporation's sole focus" (*McKinsey Quarterly* 2006, p. 34).

exists to make, such as providing needed products and services. They are often unintended but inescapable by-products of business as part of and serving society. Drucker (1974, pp. 327-328) was clear about the responsibility of business for its social impacts:

> 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.

Drucker's (1974, p. 330) view on minimizing impacts extended to those that are ostensibly beneficial: "if an activity is not integral to the institution's purpose and mission, it is to be considered as a social impact and as undesirable." This might preclude many activities that few would question today, such as the employee volunteering programs championed by Timberland, for example. However, they have demonstrated business benefits (e.g., team-building). Perhaps Drucker would have argued that they are integral to the company's purpose.

Drucker noted that it is difficult to determine social impacts. It is also difficult to be certain about their relevance to the core activities of the company. Drucker would likely have been more skeptical of seemingly beneficial social impacts to the extent that they are unrelated to the business. Today, stakeholder engagement is a widely-regarded tool for identifying and assessing relevant social impacts (Partridge, Jackson, Wheeler, and Zohar 2005).

Drucker advised that, once identified, social impacts are best eliminated. The ideal approach, he suggested, is to convert the impact into a profitable business opportunity. Drucker offered Du Pont's Industrial Toxicity Laboratory as an example and Du Pont also provides a more recent example in its successful and highly profitable development of CFC-free agents (e.g., for use in automotive air conditioning systems) well in advance of any regulatory requirement.

Seeking Regulation to Minimize Competitive Disadvantage

Drucker acknowledged that business often has a knee-jerk reaction opposed to any regulation of its activities. He questioned this response in relation to social impacts of business. As he wrote (1974, p. 334):

> Whenever an impact cannot be eliminated without an increase in cost, it becomes incumbent upon management to think ahead and work out the regulation which is most likely to solve the problem at the minimum cost and with the greatest benefit to public and business alike… [and] work at getting the right regulation enacted.

Eliminating social impacts that cannot be turned into business opportunities essentially means that the costs associated with externalities become internalized as business costs (consider, for example, the use of currently more costly biodegradable or recyclable packaging). Drucker argued that the company is put at a competitive disadvantage unless its competitors do the same and so it should seek regulation to 'level the playing field'.

Moreover, Drucker argued that shunning this responsibility—with advocates of regulation discouraged from rocking the boat—could well lead to a crisis and scandal with regulation introduced rapidly and in a heavy-handed way that overly constrains business. Drucker cited by way of example the impact of the Thalidomide scandal on legislation governing drug safety and testing. A prominent current example is the Sarbanes-Oxley legislation introduced in 2002 in response to accounting scandals, which included measures the industry had resisted for years and, now enacted, is widely criticized as adding unnecessarily to business costs and reducing the international competitiveness of U.S. companies (*Economist* 2006).

As Drucker observed (1974, p. 336), there is an optimal trade-off in the costs and benefits involved: "Beyond a certain level elimination of an impact costs more in money or in energy, in resources or in lives, than the attainable benefit." These trade-offs, he argued, are likely to be better understood within the industry than externally, but while the public might be sympathetic prior to any scandal, such sympathy evaporates when evidence emerges of an industry's disregard for its social impacts. Although Drucker doesn't make the point explicitly, it is clear that this argument extends to industry self-regulation. Thus we see industry initiatives around marketing issues as diverse as privacy on the internet, the advertising of foods implicated in obesity, and product placement in movies and computer games. The principle is clear: identify and address if not eliminate undesirable social impacts of business activities and, 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.

Responsibility for Addressing Social Problems

Drucker (1974, p. 337) differentiated between social impacts of the business itself and social problems, the "dysfunctions of society." He viewed (p. 337) social problems as sources of opportunity: "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." Not all social problems can be solved this way, however. Drucker referred (p. 341) to the "degenerative diseases" of society (e.g., American racial problems) and asserted that they are management's problems because "healthy businesses require a healthy, or at least functioning, society." The starting point, he said, is to establish if workable solutions have been identified by other institutions. Ultimately, this line of thinking raises the question of the extent to which business should address social problems that do not arise as a result of the social impacts of business and do not represent business opportunities. Drucker suggested that business has responsibilities in relation to these social problems, but there are limits to social responsibility. So, for example, how far should marketers go to develop products with reduced (or eliminated) greenhouse gas emissions in manufacture, distribution and consumption? As well as raising the question of how far marketers should go, this example also illustrates the possible difficulty in differentiating between social impacts and social problems. Climate change is a social problem but there are company-specific impacts, close to negligible for some firms, but huge for others, such as utilities.

In his later writing on social responsibility, Drucker essentially returned to the principles laid out in *Management*, but with a slight shift in emphasis. "The New Meaning of Corporate Social Responsibility" (Drucker 1984, p. 59) built on his belief that there are economic opportunities in social problems and noted that in "discussion of the 'social responsibility of business' it is assumed… that making a profit is fundamentally incompatible with 'social responsibility'." He predicted (p. 59) that "it will become increasingly important to stress that business can discharge its 'social responsibilities' only if it converts them into 'self-interest', that is, into business opportunities." His exemplar was Julius Rosenwald, whose innovation of the county farm agent system turned mail order company Sears Roebuck into America's first national retailer while developing the skills, knowledge and productivity of U.S. farmers. A modern day example might be General Electric's efforts to address climate change by identifying profitable business opportunities for its multi-billion dollar Ecomagination initiative (Engardio 2007).

APPLYING DRUCKER'S CSR PRINCIPLES TO MARKETING

Drucker's assertion of social responsibility as a major task of management clearly applies to marketing managers and in specific ways relative to core marketing activities. Marketers typically have responsibility for company impacts on an array of stakeholders, but especially customers. In some industries, such as healthcare, this is made paramount. For example, the opening line of Johnson and Johnson's famous Credo states: "We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services."[5]

In some cases, the industry itself raises profound issues of marketing's responsibility to its customers, as in the marketing of "sin" products (Davidson 2003). Many other examples of marketing's responsibility for its social impacts can be found across a range of marketing activities and industries, such as the following:

- *Product safety and product recalls.* Marketers have a responsibility for product safety and to recall unsafe products. This is evident in the recent recall of exploding Sony laptop batteries (Nakamoto and Nuttall 2006). Safety-related recalls are generally a legal requirement. However, regulations are often inadequate in ensuring satisfactory recall response rates (Smith, Thomas and Quelch 1996). This is illustrated by the death of children due to recalled products that remain in use, such as Danny Keysar, who died trapped in the "V" of the folded rails of his Playskool crib, a product that had been recalled five years earlier (Felcher 2001).
- *Obesity and advertising.* Masterfoods (brands include Mars and Snickers) announced a global ban on advertising of all its core products to children under 12 in the light of evidence linking advertising to obesity. Coca Cola also has a global ban on advertising sodas to children under 12 (Wiggins 2007).
- *Market selection and targeting of vulnerable consumers.* Concern has been expressed in the past over the marketing of high octane malt liquors to poor inner-city residents, "alcopops" to teens, and, most recently, energy drinks to young children (Brenkert 1998; Sebor 2006; Smith and Cooper-Martin 1997).

These examples clearly reflect what Drucker had in mind in referring to social impacts. They are responsibilities arising from what marketers do *to* their customers—and there is a long history of questioning these impacts (e.g., Farmer 1967; Packard 1957). Marketing also has impacts on other organizational stakeholders (Maignan and Ferrell 2004). The impact on other stakeholders might be through customers in the first instance, such as encouraging recycling or responsible consumption of products such as alcohol and thereby reducing

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[5] Source: www.jnj.com/our_company/our_credo/index.htm (Accessed February 6th, 2007.)

negative impacts on others. Or it might be more indirect, such as branding communications that increase employee identification with the organization through sustainability positioning (Sen, Bhattacharya, and Korschun 2006) or suppliers obliged to meet labor rights requirements that are intended to protect the brand and company reputation as well as their workers (e.g., Wal-Mart; see Fishman 2006).

More challenging are marketing's social responsibilities arising from social problems. In some cases, these problems are relevant to customers and can become influences on their purchase and consumption decisions (Bhattacharya and Sen 2004). This is evident, for example, with fair trade products, where consumers' purchase decisions reflect a concern for the farmers producing products such as coffee or tea. These examples of ethical consumerism are consistent with Drucker's (1984) view that social problems can be converted into profitable business opportunities—as well as his more fundamental assertion that the purpose of a business is "to create a customer" (Drucker 1955, p. 35). Examples increasingly abound, such as eco-friendly products like the Toyota Prius, the hybrid gas-electric vehicle that has sold around one million units worldwide since introduction in 1997 and is expected to sell 250,000 units in the coming year alone (Engardio 2007).

What if the consumer doesn't care? An interesting test case is the "(RED)" brand, launched by rock star Bono in February 2006. The focal issue is the major social problem of AIDS in Africa, responsible for more than two million potentially preventable deaths a year. (RED) is an innovative combination of umbrella social-cause marketing and ingredient branding. It extends the long-standing idea of cause-related marketing (Varadarajan and Menon 1988) to a family of brands under the (RED) umbrella, including American Express, the Gap, Motorola, Converse, Armani, and Apple. The brands and products involved are not especially relevant to the social problem other than through their (RED) branding. A proportion of profits from sales of the (RED) branded products offered by these companies goes towards the Global Fund—over $10 m. by September 2006 used to buy drugs for AIDS victims in Rwanda and Swaziland.[6] However, the jury is out on whether it will succeed (Beattie 2007). (RED) as a corporate response to the problem of AIDS in Africa is up against the limits of corporate responsibility.

DRUCKER'S BOUNDED GOODNESS

The first limitation to social responsibility Drucker identified (1974, pp. 343-344) is the requirement to fulfil the organization's primary social function:

> 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 (1974) suggested that to jeopardize performance capacity is irresponsibility and managers need to know the minimum profitability necessary for the business to sustain the activities required to realize its mission. Thus Drucker (1984, p. 62) wrote: "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." As he explained (1984 p. 62), "Decaying businesses in a decaying economy are unlikely to be good neighbors, good employers or 'socially responsible' in any way." Drucker (1974) asserted that a business must do well to do good and offered examples of companies that got into trouble because they assumed social responsibilities which could not be supported economically. Later, Drucker (1984) stressed the importance of turning social problems into economic opportunities.

To put into context Drucker's view on the relative importance of company profitability and social responsibility, it is important to first be clear on the type of social responsibility under consideration. Drucker rightly differentiated between social impacts (of the company on society) and social problems, ascribing a greater obligation to attend to the former. Second, Drucker (1992, p. 99, emphasis in original) rejected profit maximization: "It

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[6] Source: www.joinred.com/ (Accessed January 19th, 2007.)

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." In this way, while Drucker clearly agreed with Friedman on the importance of economic performance as a necessary condition for survival of the business, he didn't subscribe to Friedman's view of the supreme importance of profit maximization.

His first limitation is relatively straightforward in relation to social problems which the firm has not caused. What Drucker left unclear is how this limitation applies in relation to social impacts that he has earlier established *are* the company's responsibility and must be minimized if not eliminated. Must these social impacts be minimized regardless of the impact on company economic performance? Or do we take Drucker to mean that these responsibilities are to be managed only to the point that profitability permits? For instance, would it allow an apparel company sourcing clothing from suppliers using sweatshop labor to continue to do so if alternative suppliers known not to violate labor rights are more expensive and going to these suppliers would reduce profitability to below the estimated minimum required? To speculate, perhaps where company survival is at stake, a case-by-case approach is demanded, requiring an assessment of the specific social impact (how egregious are the sweatshop labor conditions?).

Drucker identified two further limitations: the limits of competence and authority. He wrote (1974, p. 345): "To take on tasks for which one lacks competence is irresponsible behaviour. It is also cruel. It raises expectations which will then be disappointed." Here he was at one with Friedman (1962). However, he approached the problem of determining competence differently; not by restricting the company only to that which it is clearly competent to do but by starting with where the company would be incompetent. Thus, even in areas where in many respects business is out of its depth--his example is training hard core unemployed minorities--it is possible to take on specific partial tasks that start to address the bigger problem. Thus Marriott's Pathways Program, a successful welfare-to-work initiative started by the hotel chain in 1990, is run in partnership with organizations able to provide the elements Marriott cannot.[7]

Drucker (1974, p. 350) asserted that the limitation of authority is a key constraint and wrote that, "Demands for social responsibility which… usurp authority are to be resisted." However, he was clearly referring only to responsibility in relation to social problems; social impacts are the result of an exercise of authority (thus responsibility follows). He asserted (1974, p. 347) that to "assume social responsibility… always means to claim authority." He cautioned (p. 348) that one should ask when business is faced with social demands: "Does business have the authority and should it have it?" Again he was aligned with Friedman (1962; also Levitt 1958), suggesting that Friedman's position is the only consistent position in a free society, but he rejected it as untenable when faced with desperate social problems. Later, Drucker (1992) anticipated that society would increasingly look to business to tackle social ills. However, he still cautioned against business taking on responsibilities that would undercut its primary purpose or where it lacked competence.

To summarize, Drucker urged action by business on both its social impacts and on social problems, but did identify limits to social responsibility. In answer to the question 'when to say no?' Drucker (1974, pp. 350-351), suggested demands for social responsibility in response to *social problems* be resisted when this would impair the performance capability of the business, exceed its competence, and when it would usurp legitimate authority (e.g., of government) or would involve illegitimate authority.

[7] See Center for Workforce Preparation, *Welfare to Work: An Economic Boost* at: www.dol.gov/cfbci/tlc/docs/BusinessPartnershipsLibrary (Accessed February 5th, 2007.)

HOW MUCH IS ENOUGH?

Business and society are now far more interconnected than in Drucker's day. He wrote of companies as largely private enterprises but few big corporations at least can afford to lie low today and not engage with society. This is aptly illustrated by ExxonMobil's recent about face on climate change and attention to corporate responsibility since the departure of former CEO Lee Raymond (*Economist* 2005b).[8] The social contract between business and society has changed and more is expected of corporations than ever before (Bonini, Mendonca and Oppenheim 2006).

Moreover, corporate responsibility has gone global since Drucker's contributions on the topic. No longer is the agenda limited to the regional or even national problems of the communities in which a company is based, such as we find in the examples of social responsibility discussed by Drucker (e.g., American inner city ghettos). Today, the global scope of the typical multinational enterprise means that the world's problems are placed at its door. Globalization has substantially increased both the pressure on companies to address corporate responsibility and the range of issues to which they must give attention, as recognized, for example, in a global survey of over 1,000 CEOs by PricewaterhouseCoopers (2007, p. 43):

> The idea that responsible business is good business is not new… However, the observations from CEOs in this year's survey on the need to reorientate their business around this principle reflect the fact that globalization, coupled with continuing distrust of the business community in many parts of the world, makes responsible business even more of a priority.

It is increasingly claimed that business must be a force for good in the face of massive global challenges, evident in the Millennium Development Goals in particular.[9] Business is not responsible for causing most of the challenges associated with extreme poverty and

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8 For information on Exxonmobil's corporate responsibility activities today, see: http://www.exxonmobil.com/Corporate/community.aspx (Accessed 20th November 2007.)

9 For further information on the Millennium Development Goals, see: http://www.devinfo.info/mdginfo2007/ (Accessed 20th November 2007.)

hunger, child mortality, climate change, and HIV/AIDS. However, just as Drucker (1974) argued regarding social problems American society faced in the seventies, it is claimed today that business has a responsibility to help fix many of these problems and, indeed, may be the *only* institution capable of addressing some of them to any significant extent (Globally Responsible Leadership Initiative 2005). This is not to suggest that business can or should act alone. But it highlights a fundamental challenge at the core of Drucker's thinking on corporate responsibility—and business practice today—how much can society reasonably expect of business?

Flaherty (1999, pp. 38-39) concluded that "throughout his career Drucker wrestled with the dilemma of balancing the requirements of corporate economic performance with societal demands, recognizing that either alternative taken to an extreme could threaten the viability of both an autonomous corporation and a free society." Globalisation has brought many opportunities for business, particularly in the form of new market opportunities, but as business has become more global it has been confronted with far more demands that it address social and environmental problems, many of which are not of its making. What should it do in response to these demands? How much is enough?

For instance, with demand for oil outstripping supply and ever more compelling evidence of climate change, oil companies face increasing problems of human rights and political activism in places where oil can be found, while also having to explore alternative energy sources that are many times more expensive than environmentally-problematic carbon fuels. Pharmaceutical companies are being asked to cut the cost of essential medicines for developing countries, such as antiretrovirals for AIDS victims, while also facing growing downward pressure on pricing in the developed world. While millions around the world go hungry, food companies are being blamed for the alarming rise in obesity in developed countries (and many LDCs) and yet consumers are mostly free to choose dietetic alternatives to unhealthy products—and more exercise.

As Drucker discussed (1974, 1993a), a frequent response by business is that attention to such social and environmental problems is inconsistent with the purpose of business, typically defined narrowly and in purely financial terms, such as the maximization of shareholder value. Drucker clearly rejected this argument out of hand. Flaherty (1999, p. 66), writing of Drucker's disagreements with Sloan, observed that Drucker "argued that fulfilling the corporation's economic task was the corporation's dominant social responsibility but not the sole one. Whether management liked it or not, there was an inescapable accountability to the quality of life."

In certain respects, Drucker was proved right in his dispute with Sloan and his critique of GM. Its failure to meet societal expectations and obligations led to its loss of public esteem and, more generally, its lack of attention to so-called noneconomic factors contributed to its lacklustre long-term economic performance (Drucker 1993a; Flaherty 1999). Similarly, to take a contemporary example, Wal-Mart's failure to consider its social and environmental impacts until quite recently is said to have impaired its financial performance—lowering its market capitalization by $16 billion—and has led to initiatives ranging from sourcing sustainably farmed fish to promoting energy efficient light bulbs (Engadio 2007; Fishman 2006).

In practice, for many companies today, shareholder value maximization is considered an unrealistic mantra. This is obvious with firms that espouse a social purpose, such as Stonyfield Farm, Tom's of Maine or the Body Shop. But for firms such as Rio Tinto, Shell and BP, it has become evident in the last decade that they must operate in ways that fulfil perceived societal and environmental obligations and protect their "license to operate" (Smith

2003). This argument increasingly extends beyond the resource-extraction industries to other global businesses (Bonini, Mendonca and Oppenheim 2006; Smith 2003).

Sometimes the response by business to today's social and environmental challenges is to say that they are not its problem and, even where it is to blame, it is the job of government to address them via regulation. This response is consistent with Drucker's view on the role of regulation to address social impacts and his concerns about corporate legitimacy and business usurping the authority of government. However, this response often carries far less weight in the global context (aside from the fact that Drucker still urged action in the face of major social problems). Globalisation continues apace, but global regulation has fallen well behind. Global business cannot look to national governments for regulation on many of the issues that cross national borders. For example, consider child workers and other manifestations of sweatshop labor found in developing countries supplying clothing to the developed world. As Nike found, it is difficult to argue that this is not the problem of the firms sourcing the clothing (Zadek 2004). Government action to prevent abuse of factory workers is often nonexistent in many textile-exporting countries.

Nike initially argued that it couldn't be responsible for the actions of independent contractors supplying its sneakers, despite documented evidence of abuse of factory workers (Zadek 2004). Extensive criticism followed, including a consumer boycott. Nike's response, not least given the threat to its brand and corporate reputation, was to accept that, in the words of Phil Knight, "good shoes come from good factories and good factories have good labor relations." It put in place a major monitoring program intended to cover the 650,000 workers in the factories that supply its products. Yet it is still left with the challenge of how much is enough? How much should Nike invest in monitoring the 800 factories of its independent suppliers in developing countries? This question is all the more pertinent in light of reports of fraudulent audits and supplier factories coached in how to pass inspection (Roberts and

Engardio 2006). At the extreme, to be fully certain of the integrity of its product, Nike could buy the factories that make the shoes and thus have control over labor standards. Is this what is called for?

GlaxoSmithKline (GSK) became the first major drug maker to sell its AIDS medicines at cost in 100 countries worldwide (Engardio 2007). With millions dying of AIDS in Africa alone, how much more should GSK do to increase access to its antiretrovirals (ARVs)? Should it price below cost? Should it give the drugs away? Should it invest in the healthcare infrastructure needed for drug delivery? Less than 1% of the 4.1 million HIV/AIDS victims in Africa in 2002 who required ARV treatment were receiving it (WHO 2003). Analysis by Vachani and Smith (2004, p. 132) suggested that while pharmaceutical companies could be criticized for not doing enough to create access to ARVs for AIDS victims in developing countries—many of whom have since died—there were limits to how much the companies could have done to maximize social welfare by getting drugs to all who needed them: “the economic costs would have been so high… running into billions of dollars, that multinationals alone could not reasonably have been expected to bear them.” This is aside from whether the drug companies could have addressed other obstacles to access, beyond price (such as inadequate healthcare infrastructure, lack of AIDS awareness, etc.).

Similarly, when it comes to obesity, how much more should food companies do to rein in marketing? Should advertising restrictions extend beyond children to adults? Should other forms of marketing communications and promotion be restricted? Should companies develop alternatives to unhealthy foods or programs to encourage exercise? How much should be spent?

The Bounded Goodness of CSR

How much is enough? Drucker’s CSR principles would suggest the following in relation to our obesity, AIDS, and sweatshop labor examples:

- *Social impacts or social problems?* Food companies certainly have a responsibility to act to eliminate the negative social impacts evident in their contributions to obesity in children if, indeed, obesity can be attributed (in part) to advertising. Arguably with both the Nike and GSK examples (and the food companies absent any effects of their marketing on obesity), the social issues described are what Drucker would term social problems rather than social impacts. It is not Nike's employees who are subject to labor rights abuses (though critics argued that Nike procurement practices put pressure on suppliers to cut corners) and GSK is not responsible for the limited healthcare budgets of developing countries that preclude purchase of ARVs at developed country 'market prices' (see Vachani and Smith 2004 for discussion of pharmaceutical pricing). In which case, the requirement to act is less or, at least, constrained by the following considerations.
- *Corporate purpose.* The company's first responsibility is to its primary purpose. Company action on social problems must not fundamentally undermine the company's economic health or detract from its social function. Here GSK's mission ("committed to improving the quality of human life by enabling people to do more, feel better and live longer") heightens the requirement for action on access. However, it is lessened by obligations to other customers (including possible future customers for whom it is developing new drugs and needs to invest in R&D). In contrast, Nike's purpose is less obviously linked to human welfare. However, its proximity and capacity to act on the issue might speak to greater rather than less involvement.
- *Regulatory intervention.* The global scope of the GSK and Nike examples reduce the possibility of regulatory intervention, though in the case of GSK, much has been done to improve access to ARVs in developing countries through initiatives involving governments, the WHO, the United Nations, NGOs and others.

- *Corporate competency.* Both Nike and GSK were capable of action. GSK was able to act on pricing, but also on related issues such as HIV/AIDS education, in partnership with NGOs (Vachani and Smith 2004). It would be far less competent to act on healthcare infrastructure shortcomings (e.g., getting doctors to remote rural areas). Nike likewise demonstrated that some level of monitoring was feasible. However, as a marketing company, with no expertise in manufacturing, it would be far less competent to take ownership of production facilities and thereby control labor standards.
- *Corporate authority.* It is difficult to argue that Nike's monitoring would be usurping government authority, though in some instances Nike's demands of factories might be at odds with government policy (in China, for example). Similarly, GSK lowering prices is unproblematic, but involvement in HIV/AIDS education might present difficulties in some countries because of religious and other beliefs.

Drucker's CSR principles clearly help, but adequate answers to this fundamental question of 'how much is enough?' may only be found on a case by case basis. The answers are also likely to change over time and vary from issue to issue and industry to industry. It is likely that there would have been far less requirement for the actions taken by Mars, Nike and GSK only ten years ago; for what is responsible and what is enough will in large part be dictated by social norms and pressures. It turned out that there was both a compelling moral and business case for GSK to lower the price of its AIDS drugs to a not-for-profit level in developing countries (Vachani and Smith 2004). The same argument applies to many other corporate responsibility issues. The expectations of employees, consumers, investors, local communities, NGOs and other stakeholders can quickly translate into pressure on the firm that can at minimum damage its reputation, if not harm sales and lower its share price. Maybe avoiding disincentives is not entirely what Drucker had in mind, but this is certainly consistent with the idea that addressing social responsibilities is in the economic self-interest of business. In contrast, positive examples are to be found in the growing interest in ethical consumerism, such as fair trade or (RED).

CONCLUSIONS

Peter Drucker is without doubt the William Shakespeare of business literature. Just as Shakespeare wrote prolifically and with profound insight on the human condition, Drucker's writing richly and extensively sheds immense light on business and other institutions and their management. His work in many respects remains as fresh and relevant today as it did decades ago. This is no less true of his writing on social responsibility as it relates to marketing. In some respects, his insights might be taken for granted and they are far from a complete understanding of social responsibility as it is conceived today. However, Drucker's distinction between social impacts and social problems, for example, remains a key consideration, and his three limits on CSR in response to social problems (performance of the firm's specific mission, competence and authority) still have validity even if they only provide a foundational understanding and don't provide a sufficient answer to the question, 'how much is enough?' Marketers would be well advised to heed Drucker's CSR principles as described here and, more fundamentally, his humanistic view of the business enterprise and their role within it.

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