Corporate Social Responsibility

- A Praxeological Assessment

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Executive Summary
The objective of this thesis is to clarify the social responsibilities of management in a multinational corporation. By applying teachings from the school of Austrian economics to the normative literature of corporate social responsibility (CSR) and CSR’s derivatives, it is determined how the various approaches will be interpreted from an economic perspective.

In order to attain a neutral position in the research, praxeology is used as the methodology for the report, since praxeology does not question the ends sought, but suggests the appropriate means to achieve those ends.

The theoretical framework is established by conceptualizing CSR as the form of ‘the pyramid of CSR’ combined with stakeholder theory and business ethics. The OECD Guidelines for Multinational Enterprises and the 10 principles of the UN Global Compact are subsequently presented for the purpose of illuminating the ‘expected standards’ that international organizations are putting on multinational corporations. Additionally, the concept of shared value as a derivative of CSR is presented as a possible framework for corporations to create congruence between business and society.

The findings of the report suggest serious inconsistencies in CSR and shared value, which imply that the frameworks are proposing standards, which are detrimental to their goal. Meanwhile, the school of Austrian economics provide insights of the necessity of respecting property rights and promoting the profit motive. If management in a multinational corporation works outside the interest of the owners of the corporation, it must necessarily infringe on the property of shareholders, and these actions can, ultimately, obscure the market system. Thus, the conclusion of the thesis will incentivize management in multinational corporations to increase their profits and respect property rights, since these two basic initiatives will contribute to the economic welfare of society; enhance social cooperation through specialization and the division of labor; secure efficient utilization of resources; diminish discrimination by external characteristics; and internalize externalities by refraining management from polluting activities.
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1. Introduction
The attention towards companies’ commitment to attain social responsibilities has increased significantly in past decades (Grant, 2010). The attention stems from, among other things, societal organizations, various organizational stakeholders, governmental institutions, international institutions, and has led to reporting on a national and a global scale concerning the impacts of companies’ activities in the environment, in which they operate.

The increasing attention towards CSR has led to an abundance of literature on the subject from various scholars attempting to ascribe responsibilities to companies. The literature ranges widely from CSR as a commitment to ensure human rights (Mayer, 2009); as a framework to ensure sustainable supply chain management through codes of conduct (Pedersen & Andersen, 2006); as a strategic opportunity to achieve a competitive advantage (Porter & Kramer, 2011); as a marketing opportunity and brand protection (Du et al., 2011); as green-washing (Lyon & Maxell, 2011); and finally, as a perversion, misdirecting the business from its initial role in society – as a profit-making entity (Friedman, 1970).

Due to the increasing attention from the public and the media towards the accountability of MNCs; the increasing amount of frameworks available to report how business is conducted; and the negative reputation, which can emerge from business activities deemed ‘poor’ by the public; many MNCs are now regarding CSR, in which-ever form, a necessary commitment in order to secure transparency and public acceptance.

Despite the blessings of CSR it has not been possible to provide causality between CSR commitment and profitability (Vallentin, 2011). Companies, however, feel the pressure to implement policies in accordance with national and international guidelines and emphasize the voluntary nature, in order to avoid the regulatory steps, which might become reality, if governmental bodies are not pleased with business conduct.

While officials in either business, governmental or international organizations have different ideologies concerning the role of business in society, these ideologies may not be appropriate for business conduct and they may even be contradictory in their attempt to attain their designated goal. In this sense, the Austrian school of economics relies heavily on laissez-faire capitalism, and the importance of identifying individual preferences as the ultimate factor, which changes the business conduct. Nonetheless, only few commentaries have been made from the Austrian school of
economics regarding corporate social responsibility. Friedrich A. Hayek (1960) supported Milton Friedman (1970) in his perception that the only responsibility of business is to increase its profits, and similarly one of the most prominent scholars of the Austrian school of economics, Ludwig Von Mises, suggested that “[t]he businessmen are not irresponsible tyrants. It is precisely the necessity of making profits and avoiding losses that gives to the consumers a firm hold over the entrepreneurs and forces them to comply to the wishes of the people” (Mises, 1974, pp. 135).

Subsequently, in the year of 2008, an article was published by Parth J. Shah encouraging a transition from CSR to ISR – from corporate social responsibility to individual social/self responsibility – by contemplating that “[t]he moral space for market actors is wider than that envisioned by Friedman or CSR advocates” (Shah, 2008, pp. 19), which explicitly distinguished the Austrian school of economics from the postulates of Friedman. Besides these contributions not much work has been done from the Austrian school of economics in the field of CSR. However, the appreciation of laissez-faire capitalism combined with the methodological individualism can provide great insights in a field, which is exactly supposed to protect individuals from being exploited or hurt by multinational corporations in their strive to make profits.

1.1 Problem Formulation
The introduction outlines the scope concerning the development and the reach of CSR, and the contributions which have been made from the Austrian school of economics regarding the subject. It is necessary to determine the legitimacy of CSR as a part of businesses’ decision-making process. If managerial decision-making diverting from operational activities is to be legitimized, it is important to understand the implications that these decisions will have. If a manager is to divert from shareholder expectations in order to satisfy stakeholders who are not directly linked to the company, these decisions should be carefully thought through, as they may have a negative impact on the company, its environment, and even the stakeholders, which these initiatives were set out to satisfy. This is not only a crucial consideration for management, but also for the guidelines expressed nationally and internationally. The Austrian school of economics should be addressed in order to explain some of these discrepancies and cast further light on CSR as one of the most important contemporary issues for management in multinational corporations.
The thesis will seek to answer the following research question:

*Considering the increasing attention towards CSR and its derivatives, combined with the teachings of the Austrian school of economics, what are the social responsibilities of management in a multinational corporation?*

In order to address the research question, the following sub-questions have been operationalized:

**1.2 Sub-questions**

1. Analyze the implications, which CSR and various CSR-initiatives have on business in the light of the Austrian school of economics.
2. Evaluate the potential of Shared Value as a plausible method of creating congruence between society and business.
2. Methodology

2.1 Theory of Science
This thesis will be guided by the methodology of the Austrian school of economics, praxeology. The cornerstone of the methodology is embedded in the action axiom, "Human action is purposeful behavior" (Mises, 1996, pp. 11). The concept of action, in this sense, is distinguishable from actions, which are deemed involuntary or not purposeful, as these actions belong to the field of psychology and not praxeology (Rothbard, 2009; Mises, 1996).

Praxeology is not to be perceived as a historical science, but a theoretical and systematic science (Mises, 1996). Its scope concerns human action, regardless of the environmental and individual circumstances of the particular acts (Mises, 1996).

2.1.1 Epistemology
Concerning the epistemological dilemma of acquiring knowledge (Heldbjerg, 2006), praxeology is closely linked to the school of Kantian philosophy, but goes one step further than appreciating the existence of true a priori synthetic propositions (Hoppe, 1995). According to Hans-Hermann Hoppe (1995) praxeology went one step further by applying the importance of recognizing that the truths of a priori synthetic propositions “are not simply categories of our mind, but that our mind is one of acting persons” (Hoppe, 1995, pp. 20). Thus, if it is conceived that it is through action that mind and reality make contact, true synthetic a priori propositions can be possible. The importance of recognizing synthetic a priori propositions as true lies in the possibility of diminishing the necessity of experience as the exclusive driver of establishing true knowledge (Mises, 1962). “Synthetic a priori propositions are those whose truth-value can be definitely established, even though in order to do so the means of formal logic are not sufficient (while, of course, necessary) and observations are unnecessary” (Hoppe, 1995, pp. 18).

The statements and propositions of praxeology are a priori, and not subject to verification or falsification based on experience and facts (Mises, 1996). Praxeology differs from the natural sciences, since praxeology is a deductive system, which must consider reasoning in its original form in order to be able to explain any phenomena. The role of praxeology and economics is not to determine whether some end is better than another, but to provide an understanding of to which degree specific means are appropriate in order to achieve specific ends (Mises, 1996). “The attempt to disprove the action axiom would itself be an action aimed at a goal, requiring means, excluding
other courses of action, incurring costs, subjecting the actor to the possibility of achieving or not achieving the desired goal and so leading to a profit or a loss” (Hoppe, 1995, pp. 24).

When human beings are involved as subjects in the social sciences, it is impossible to keep all variables constant, thus, controlled experiments are impossible, when the real world of human activity is confronted (Rothbard, 2011). Thus “economic propositions must fulfill two requirements: First, it must be possible to demonstrate that they are not derived from observational evidence, for observational evidence can only reveal things as they happen to be; there is nothing in it that would indicate why things must be the way they are. Instead, economic propositions must be shown to be grounded in reflective cognition, in our understanding of ourselves as knowing subjects. And secondly, this reflective understanding must yield certain propositions as self-evident material axioms” (Hoppe, 1995, pp. 61).

The method used when explaining economic phenomena has, thus, to be ultimately traced back to individual actions. If an explanation of what is happening in the marketplace is to be satisfactory, it has to be reducible to things that individual actors are doing (Murphy, 2010a).

2.2 Research Approach
The approach will rest on deductive logic, since deductive logic acknowledges a statement as true, if the premises for the statement are also true (Gordon, 2000). Deductive logic links to praxeology insofar as “[all] true economic propositions […] can be deduced by means of formal logic [since] all true economic theorems consist of (a) an understanding of the meaning of action, (b) a situation or situational change – assumed to be given or identified as being given – and described in terms of action-categories, and (c) a logical deduction of the consequences – again in terms of such categories – which are to result for an actor from this situation or situational change. […] Provided there is no flaw in the process of deduction, the conclusions which economic theorizing yields […] must be valid a priori” (Hoppe, 1995, 63-64). Thus, In order to establish valid argumentation, it is essential that the premises are presented truthfully or else, the conclusion cannot be true (Gordon, 2000). If the analysis is conducted correctly, and the premises are true, deductive reasoning will make it possible to determine, how managers should conduct business in order to fulfill a certain objective.

Furthermore, the thesis will operate strictly with qualitative measures. Economics can arrive at laws under the contention that ‘other things are equal’, but it would be absurd to numerically determine, how much one factor will impact another (Rothbard, 2011).
2.3 Thesis Design
The thesis will follow the procedure depicted in figure 1.

*Figure 1: Thesis Design*

2.3.1 Procedure

*The Theoretical Framework*
The theoretical framework will consist of a presentation of the 3 elements crucial to this thesis: Conceptualizing CSR, presenting shared value, and understanding the Austrian school of economics.

The conceptualization of CSR will consist of normative literature on the subject, such as Archie B. Carroll’s pyramid, combined with the main elements of stakeholder theory by Freeman *et al.*, and
normative literature on business ethics by Matten & Crane. Using these sources for conceptualizing CSR will secure a high degree of legitimacy, since the authors are respected scholars in their distinctive fields. Additionally, for the conceptualization of CSR, the UN Global Compact and the OECD Guidelines for Multinational Enterprises will be introduced in order to provide an insight of how companies on a broad scale are expected to conduct business internationally.

The presentation of shared value will be conducted exclusively by using Porter & Kramer’s setup, only minimally supplemented by a comment on shared value as a strategic approach to CSR. This will ensure that Porter & Kramer’s ideas are presented as they intended, and can help to provide understanding of how they want companies to conduct business nationally and internationally.

The Austrian school of economics will be presented by using the deductive logic outlined previously. By starting with the recognition of the action axiom, the presentation will be continuously build upon in order to understand, how individual preferences can be able to explain economic phenomena such as social cooperation, demand and supply curves, and profit and loss. Chiefly, the presentation will be conducted by referring to Ludwig von Mises and Murray N. Rothbard as these are some of the most prominent scholars within the Austrian tradition, however, more contemporary literature will also be included to provide a more nuanced explanation of the Austrian school of economics.

**The Analysis and the Evaluation**

The analysis of CSR will be conducted by chronologically applying the propositions from the Austrian school of economics to the various elements of CSR, most notably to the international principles and guidelines. In this section the propositions of the Austrian school will be continuously developed, yet, logically deducted from the starting point, which was outlined in the theoretical framework.

Similar to the analysis, the evaluation will also be conducted by chronologically applying the propositions from the Austrian school of economics to shared value; however, this section will also seek to answer the question about the concept of shared value’s ability to create congruence between business and society. The approach, in this case, will need to go beyond the findings in the analysis of CSR and also include elements such as competitive benefits and the inappropriateness of governmental interference with the market economy.
**The Discussion**
In the section of the discussion, some of the complications presented in the analysis and the evaluation will be illuminated further by introducing new elements, e.g. the necessity of profits and the internalization of externalities, which can contribute to the understanding of what the social responsibilities of management in a multinational corporation ought to be.

**The Conclusion**
Ultimately, the conclusion will be provided by initially outlining the findings from the two sub-questions, and then combine these findings with the elements covered in the discussion to illuminate the conclusive findings, hence, answer the research question.

Subsequently to the discussion, the section of further perspectives will provide interesting theoretical and practical alternatives to extend the research of the subject.

**2.4 Delimitations**
One of the most significant delimitations of this thesis lies in the cultural aspects, which are not included in the project. Certainly, expectations for multinational corporations’ behavior will vary greatly in different regions of the world; yet, the thesis will mainly consult the expectations, which can be applied to multinational corporations whose country of origin is in a western or developed country. This will also simplify the process of determining different expected standards for multinational corporations acting inside the OECD-countries and outside the OECD-countries.

Concerning the choice of guidelines, the OECD Guidelines for Multinational Enterprises and the UN Global Compact were chosen based on recommendations from the advisor connected to the thesis. Other guidelines or principles could have been included to give a more coherent impression of the expectations put on multinational corporations by international organizations.

Additionally, while one of the most cited economists opposing CSR-initiatives, Milton Friedman, will only be introduced as a peripheral source, since he does not belong to the Austrian school of economics, but the Chicago School, which oppose the Austrian school in, e.g., methodology and monetary politics. Yet, Friedman will be introduced concerning discrimination and minimum wage laws, because of his great insights on this subject.
The report assumes that all acting individuals are adults, since the undeveloped mind of an adolescent will cause disturbances in the findings. Extending on this, child labor or the abolishment of child labor will not be treated in this thesis, although it is an interesting subject.
3. Theoretical Framework
This section of the thesis will present the theories necessary to conduct the analysis and, subsequently, the discussion. The first part of the theoretical framework will be assigned to the conceptualization of corporate social responsibility combined with a presentation of selected international guidelines for business operations. The second part will explain the theory of shared value, while the third and final part of the theoretical framework will constitute a presentation of various statements from the Austrian school of economics.

3.1 CSR
In this section, CSR will be conceptualized by outlining the historic development of the concept of CSR; by presenting normative literature on CSR combined with business ethics and stakeholder theory; and by introducing the principles and guidelines proposed by the UN Global Compact and the OECD Principles for Multinational Enterprises.

3.1.1 Development of CSR
While writings on CSR can be traced back to the 1930s and the 1940s, the publication of Bowen’s book “Social Responsibilities of the Businessman” in the year of 1953 initiated the modern period of literature regarding CSR (Carroll, 1999). Social responsibility was considered to be an important concept, since the actions of the largest businesses would affect the lives of citizens in many ways, thus, Bowen enquired which obligations businessmen could be expected to undertake by the society at large (Carroll, 1999).

Subsequently, Davis (1960) considered social responsibility - in a managerial context - to be the actions of management, which are at least partially beyond the company’s short-term economic interest. In this sense, economically irrational decisions could have a positive impact on future profits, due to the socially responsible decisions made by businessmen. Davis (1960) believed that the level of social responsibility to be attained by the businessman depended on the level of power that the businessman possessed, hence, the role of the businessman is neither to focus solely on profits nor present the solutions for all difficulties in society, but to attain responsibility proportionally with the power vested in him and his organization.
These considerations added a new dimension to the concept of social responsibilities, because attention was now shifted towards the long-term profits that could be attained by acting in a socially responsible manner. Studies have later been performed to prove or disprove the correlation between corporate social responsibility and profits, but the results are unable to provide actual causality between CSR and profits (Vallentin, 2011).

In the beginning of the 1970s, Davis argued that CSR regards the activities in which the company integrates considerations beyond the economic, technical, and legal requirements (Carroll, 1999). In order to be socially responsible, according to Davis (1973), a company is obligated to evaluate the external effects of its decision-making process, so decisions will yield social benefits along with the traditional economic incentive.

In the early 1990s, Carroll drew the connection between CSR and stakeholder theory in an article in 1991 by stating that there is a natural fit between the two concepts, since, “the stakeholder concept [...] personalizes social or societal responsibilities by delineating the specific groups or persons business should consider in its CSR orientation and activities” (Carroll, 1991, pp. 43). Furthermore, he connected corporate citizenship to the philanthropic component of a theoretical framework he had constructed depicting CSR as a pyramid (Carroll, 1991). These considerations are still integral to the understanding and discussion of CSR today.

### 3.1.2 The Pyramid of Corporate Social Responsibility

The four-part model of CSR was introduced by Archie Carroll in 1979 (Crane & Matten, 2010) and altered in 1991 (Carroll, 1999). Carroll (1991) regarded the socially responsible corporation to be a firm, which attempted to make a profit, obeyed the law, was ethical, and was a good corporate citizen.
While Carroll stressed that business should not fulfill its responsibilities in sequential manner, but rather pursue to fulfill all responsibilities at all times, he did categorize the economic dimension of the pyramid as the base of which all other responsibilities rest (Carroll, 1999).

**Economic Responsibilities**

The economic responsibility is the pillar of the framework introduced by Carroll. In order to even attain other responsibilities, the company must be a functioning economic unit (Crane & Matten, 2010). This implies a consistent demand from customers of products or services supplied by the company. By meeting the demand of society, and profiting from this activity, the company can attain social roles on other dimensions (Carroll, 1979). Carroll emphasizes that the economic responsibility is required by society.

**Legal Responsibilities**

In addition to attaining a productive role in society, a company also has a legal responsibility by obeying the law and complying with regulations, which society has determined (Carroll, 1979). This implies that activities are consistent with the expectations set by government or state, and
products and services exceed minimal legal requirements (Carroll, 1991). Similar to the economic responsibility of a company, the legal responsibility is also required by society.

**Ethical Responsibilities**

In the normative literature of business ethics, the subject is defined as, "[...] the study of business situations, activities, and decisions where issues of right and wrong are addressed" (Crane & Matten, 2010, pp. 5). This definition refers to the moral considerations, which are included in the decision-making process. Crane & Matten (2010) illustrates ethics and law as two intersecting domains, where law is the institutionalized codification of proscriptions and regulations, while business ethics begin where the law ends.

**Figure 3: The Relationship Between Ethics and the Law**

According to Crane & Matten, business ethics have become an important subject due to the increasing globalization. When companies act in more than one country, their economic activities become deterritorialized, thus, reducing governmental power to restrain companies’ activities and constitute an appropriate legal framework (Crane & Matten, 2010). Globalization leads to an increasing demand for corporate accountability, since all stakeholders of the corporation are affected by the deterritorialization, leaving business ethics as an important tool for conducting business in multiple countries (Crane & Matten, 2010).
Contrary to the first two levels of responsibility, ethical responsibilities have not been codified into law and regulations by society, thus, ethical responsibilities can only be expected by society to be attained by a company (Carroll, 1979).

**Philanthropic Responsibilities**
The philanthropic responsibility was initially referred to as the discretionary responsibility, since Carroll considered it to be the voluntary actions, which were beyond the expectations from society. Since the introduction of Carroll’s pyramid, there has been much debate concerning the legitimacy of the philanthropic responsibility of business (Carroll & Schwartz, 2003). The main arguments have confronted the voluntary actions as essentially economically anchored, i.e., an action, which will benefit the company’s reputation, business environment, etc. (Carroll & Schwartz, 2003).

Simultaneously with the transition from discretionary to philanthropic responsibility, Carroll pinpointed that being a ‘good corporate citizen’ was a part of identifying business as embracing the 4th component of the pyramid (Carroll, 1991).

The literature of corporate citizenship has evolved greatly and depicts the role of business ranging from philanthropic initiatives to actively participating in political activities benefitting society as a whole (Crane & Matten, 2010). Regarding the pyramid formulated by Carroll, corporate citizenship should be noted as the active function of a corporation towards making contributions to society, which exceed the required and expected standards. Crane & Matten (2010) refer to this scope of corporate citizenship as ‘the limited view,’ since the motivation for attaining this role is primarily philanthropic and directed towards the main stakeholder groups of the company.

### 3.1.3 Stakeholder Theory and CSR
Carroll identified stakeholder theory as a coherent instrument to identify the stakeholders, which a company should consider in its decision-making process. Thus, stakeholder theory is compatible with CSR regarding the dilemma of which groups in society companies should be accountable for, and which roles the company should acquire (Matten & Crane, 2005).

Crane & Matten (2010, pp. 62) define a stakeholder as, “ [...] an individual or a group which either: is harmed by, or benefits from, the corporation; or whose rights can be violated, or have to be respected, by the corporation.” In the normative literature of stakeholder theory, Freeman et al.
(2010) distinguish between primary and secondary stakeholders. The primary group of stakeholders consists of financiers (shareholders, banks, etc.), employees, customers, suppliers, and communities (Freeman et al., 2010). The secondary group of stakeholders is identified as government, media, special interest groups, consumer advocate groups, and competitors (Freeman, et al., 2010).

The role of the manager is, according to Freeman et al. (2010), to create value for all stakeholders without making disruptive trade-offs, which could harm the individual stakeholder. Due to the differing interests in the company’s decision-making process, the objective of management, in accordance to the stakeholder approach, is to create congruence and identify sustainable solutions benefitting all stakeholders (Freeman et al., 2010). In extension of the conception of stakeholder legitimacy, Crane & Matten (2010) suggest that companies are obliged to allow stakeholders to take part in managerial decisions, which could substantially affect the welfare of these stakeholders. Thus, Crane & Matten advocate a sort of stakeholder democracy, which would allow stakeholders to influence and control corporate decisions.

3.1.4 Democratizing Corporations
Despite the voluntary nature of CSR, Vallentin & Murillo (2011) has pinpointed the emergence of governmental policies, in which government attains the role of promoting CSR as a positive business opportunity rather than a social obligation. Additionally, governments are “providing templates for development, networking and funding activities, and thus engaging in disciplinary efforts to affect and direct corporate mindsets. It is partaking in structuring the possible field of action that CSR constitutes and in this sense it is operating within the realm of corporate self-determination” (Vallentin & Murillo, 2011, pp. 11).

Due to globalization, a lack of ability to regulate or sanction MNCs from a national perspective is evolving, which implies a certain risk of a ‘democratic deficit’ (Scherer & Palazzo, 2011). Scherer & Palazzo characterizes the situation as a movement from liberal democracy towards deliberative democracy, where elected officials are experiencing decreasing regulation authority, and self-regulating companies are emerging. This post-national constellation requires a global governance initiative, which determines rules, procedures, and standards to be applied to MNCs’ business conduct (Scherer & Palazzo, 2011). The process of defining and implementing rules, which will apply to the conduct of MNCs, is a polycentric task, where governments, international institutions, NGOs, and business firms allocate knowledge and resources (Scherer & Palazzo, 2011).
activity of engaging in setting standards for business behavior on a global scale indicate that MNCs are acquiring a political role, thus, moving into the political sphere, where environmental and social challenges are addressed (Scherer & Palazzo, 2011).

3.1.5 International Guidelines
The attention towards social and environmental challenges has yielded a significant amount of various frameworks and guidelines for responsible business conduct. In collaboration with international organizations and with the approval of member states, the United Nations have developed ten principles, which enquire companies to respect human rights, labor standards, the environment, and anti-corruption (UN, 2012).

*The UN Global Compact 10 Principles*

1. Businesses should support and respect the protection of internationally proclaimed human rights.
2. Businesses should make sure that they are not complicit in human rights abuses.
3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
4. Businesses should eliminate all forms of forced and compulsory labor.
5. Businesses should effectively abolish child labor.
6. Businesses should eliminate the discrimination in respect of employment and occupation.
7. Businesses should support a precautionary approach to environmental challenges.
8. Businesses should undertake initiatives to promote greater environmental responsibility.
9. Businesses should encourage the development and diffusion of environmentally friendly technologies.
10. Businesses should work against corruption in all its forms, including extortion and bribery.

The first and second principle emphasize that businesses should attempt to promote the rule of law in the countries they operate in (UN, 2012). Elaborating on this, businesses are encouraged to ensure that their operations are in line with legal principles in the countries they operate in, and, when the national law is subpar of international standards, the companies should strive to meet international standards (UN, 2012). By respecting human rights, workers will be given fair remuneration for their work and this will increase productivity and loyalty to the employer, while
also attracting new recruits, who perceive social and environmental awareness an influential parameter when choosing an employer (UN, 2012).

Principles 3-6 focus on labor issues, in which the global compact underlines the inappropriateness of child and forced labor, since it undermines the opportunity to develop skills, human resources, and to educate children for the future labor markets (UN, 2012). Additionally, the principle concerning discrimination emphasizes that discrimination, among other things, can occur as a consequence of unequal recruitment, unequal remuneration, and an unbalanced distribution between leisure and work (UN, 2012). The differential treatment of people will be classified as discrimination if the treatment is not related to merit or job requirements, but personal characteristics such as race, color, gender, religion, age, etc.

Principles 7-9 approach the environmental challenges of businesses. One of the key elements of the principles are the importance of resource restoration, thus, businesses should be aware of the impact that their activities has on the environment in order to avoid environmental degradation (UN, 2012).

Finally, the 10th principle encourages the abolition of bribery as a necessary condition to avoid corruption and extortion (UN, 2012).

The OECD Guidelines for Multinational Enterprises
In addition to the UN Global Compact, it is worth mentioning the introduction of the OECD Guidelines for Multinational Enterprises, which is a pamphlet of recommendations for multinational enterprises operating in- and outside the OECD-countries to operate according to government policies, while also voluntarily attaining responsibilities within their scope of action (OECD, 2011).

While based on the same principles as the UN formulated Global Compact regarding human rights, labor rights, environmental considerations, and corruption, the guidelines introduced by the OECD also cover issues such as consumer interests, science & technology, competition, and taxation.

Most notable are the guidelines for competition and taxation formulated by the OECD. The guidelines regarding competition encourage businesses to refrain from price-fixing, bid rigging, establishing output restrictions or quotas, or share or divide markets. The OECD emphasizes that “the goal of competition policy is to contribute to overall welfare and economic growth by promoting market conditions in which the nature, quality, and price of goods and services are
determined by market forces” (OECD, 2011, pp. 58). The OECD refers to competition laws, which, among other things, prohibit anti-competitive agreements, the abuse of market power, hard-core cartels, and anti-competitive mergers and acquisitions.

Regarding the guidelines concerning taxation, the OECD encourages businesses to contribute to the public finances of host countries and “[to comply] with both the letter and the spirit of the tax laws and regulations of the countries in which they operate” (OECD, 2011, pp. 60). In this sense, the OECD advises that transfer pricing is conformed to the arm’s length principle, since this is particularly important for a good relationship between tax administrators and multinational enterprises and fundamental for good corporate citizenship.
3.2 Shared Value

The concept of shared value originated as a response to the, seemingly, increasing conflict between CSR-practices and business interests, and was proposed by Michael E. Porter and Mark R. Kramer in 2006. The main objective is to identify business and society as two cooperating units benefiting from each other’s advancement (Porter & Kramer, 2006). According to the developers of the concept of shared value, by perceiving business and society as mutually benefitting, the possibilities of achieving a competitive advantage, while strengthening societies at its core interests, are endless.

The main objection to CSR, presented by Porter & Kramer (2011), is the explicit nature of corporate social responsibility adopted by companies. The social concerns are not at the core of business strategy formulation, but simply reported and budgeted as an activity that inflicts certain costs in order to maintain a positive reputation.

In their article from 2011, Porter & Kramer identify 6 essential points, where shared value differs from the traditional thinking of corporate social responsibility.

*Figure 4: From Corporate Social Responsibility to Creating Shared Value*

Source: Porter & Kramer (2011, pp. 76)
3.2.1 Creating Shared Value
According to Porter & Kramer (2011) there are close links between the welfare of a society and the competitiveness of a company acting within a society. This linkage is illustrated by a company’s need for product demand, labor availability, and a supportive environment; while a society needs successful companies in order to provide products, jobs, and opportunities for citizens within the society. When companies solely focus on the industry-related competitive parameters, the importance of external effects on value chains are overlooked, and this narrow-mindedness has led to missed opportunities in meeting fundamental societal needs, which could have been the source of attaining a sustainable competitive advantage based on superior location, that is, a location which enhance productivity and foster innovative behavior (Porter & Kramer, 2011).

Porter & Kramer (2011) identify 3 different strategic propositions, which enable companies to generate economic value by creating societal value.

- Reconceive products and markets
- Redefine productivity in the value chain
- Build supportive industry clusters at the companies’ locations

Porter & Kramer perceive the propositions to be mutually benefitting, thus, an improvement in one area will generate strategic opportunities in the other areas.

Reconceive Products and Markets
By reconceiving products and markets, Porter & Kramer (2011) argue, that a company will be able to meet the increasing demand in advanced economies for products and services, which meet societal needs. The attention could be directed towards environmental and health concerns by abandoning the classic business idea of how to interpret and create demand for existing products which may not be beneficial for the company’s customer, or the customer’s customer.

Companies can also alter their products or services in order to meet demands in underserved markets, e.g., developing countries or disadvantaged communities (Porter & Kramer, 2011). This exploration of new markets will enable companies to increase their product reach to billions of people, which were not previously considered as viable customers. While providing new markets with products and services, the logistical learning, product development, and market exploration
could foster innovative business activities, which will also be applicable to the current segments or business activities of the companies.

**Redefine Productivity in the Value Chain**

According to Porter & Kramer (2011), the traditional conception that minimization of pollution leads to increasing operational costs is a fallacy. Shared value can be created if companies are able to identify the synergy between societal progress and productivity in the value chain. This requires that attention is shifted towards resource utilization, working conditions, public health, and how externalities affect business. From an operational perspective, the companies could be able to improve productivity, process efficiency, and product quality by enhancing resource utilization – all effects, which would increase profitability while also minimizing the environmental impact on the companies’ surroundings.

Another element in the redefinition of productivity in the value chain is the companies’ transformation from continuously attaining bargaining power over suppliers - in order to secure low prices - towards improving productivity in the suppliers’ operations (Porter & Kramer, 2011). This involves the willingness to share technology or provide financing, which could help the supplier improve the output and the quality of the supplier’s products, which will ensure a sustainable access for companies to the suppliers’ rapidly improving products (Porter & Kramer, 2011).

**Build Supportive Industry Clusters at the Companies’ Locations**

A supportive industry cluster can create a positive cycle of economic and social development results by improving the income and purchasing power of citizens and consumers in the area; securing reliable supplies from suppliers who strive towards continuously improving process efficiency and product quality (Porter & Kramer, 2011).

One of the main elements in building a supportive cluster, according to Porter & Kramer (2011), is the existence of fair and open markets, i.e., markets which are not monopolized, where workers are not exploited, and where suppliers receive fair prices.

The companies involved in building a supportive cluster should identify the individual capabilities of solving specific challenges which are crucial in order to advance the community where the companies operate (Porter & Kramer, 2011). These initiatives could range from logistical
complications to basic educational institutions, which need to be improved in order to fulfill the potential of the community.

### 3.2.2 Best Practices Revised by Shared Value

The ideal of Porter & Kramer is that shared value will become an integral part of strategy. The creation of shared value will at the lowest level secure company compliance with laws and ethical standards, while also representing a new perspective of understanding customers, the drivers of productivity, and the external influences on companies’ business activities. Shared value will, according to Porter & Kramer (2011), offer more sustainable efforts regarding corporate responsibility, than the practices which are embraced by the present school of corporate social responsibility. The reactive nature of companies’ CSR-strategies will be suppressed and replaced by proactive initiatives, which address socio-economic and environmental problems as opportunities instead of obstacles (Vallentin, 2011). These efforts will increase well-being in communities while benefitting companies in economic terms simultaneously (Porter & Kramer, 2011).

### 3.2.3 The Government’s Role in Promoting Shared Value

According to Porter & Kramer (2011) government intervention is necessary in order to secure well-functioning markets. Regulations are pinpointed as necessary in order to reduce the possibility of exploitative behavior by companies at the expense of societies. Regulations that increase shared value will, according to Porter & Kramer (2011), reduce the level of short-term profit maximization and encourage companies to include social objectives in their strategic decision-making process. Porter & Kramer (2011) highlight 5 essential characteristics for government regulation, which will enhance the level of shared value:

1. Set clear and measurable social goals
2. Set performance standards
3. Define phase-in periods
4. Formulate universal measurement and performance reporting systems
5. Secure efficient and timely reporting

The first characteristic, presented by Porter & Kramer (2011), involves a measurement, which requires qualitative and quantitative reporting, since it contains reporting on issues such as resource utilization (e.g., carbon-dioxide emissions and water consumption), health (e.g., health plans and
externalities), and safety (e.g., working conditions and employee safety). Additionally, Porter & Kramer (2011, pp. 74) propose that government, “where appropriate, [...] set prices for resources (such as water) that reflect true costs.”

While the performance standards are to be set by government, the initiated processes to attain these performance standards are still to be determined by companies. Meanwhile, the phase-in periods will determine the time available to companies to meet these standards, whether the standards be for a new product type, process, or other investments (Porter & Kramer, 2011).

The fourth and fifth characteristics are, according to Porter & Kramer (2011), essential in order to obtain a certain level of transparency in the data collected for measuring the performance of companies. This procedure would simplify the process of benchmarking and setting new performance standards.

Initially, even well-constructed regulation will be objected by companies, which are not open to the new mindset of shared value, however, “[a]s shared value principles become more widely accepted, [...] business and government will become more aligned on regulation in many areas.” (Porter & Kramer, 2011, pp. 74).

According to the developers of the idea of shared value, the wrong kind of regulation includes the coercion of companies to comply with particular practices and mandates the companies to meet a certain standard.
3.3 The Austrian School of Economics
In this section, the most basic elements of the Austrian school will be presented by illuminating the drivers of action, the law of marginal utility, the disutility of labor, the supply and demand curve, the division of labor, and profit & loss. All elements will be deduced from the base of praxeology: the fact that humans act.

3.3.1 Human Action
“Action is the employment of means for the attainment of ends” (Mises, 1996, pp. 13). Despite the active term of the word action, praxeology does not distinguish between persons who choose to engage in some activity versus persons who choose not to engage in some activity, since both decisions are determined as actions towards preferred ends (Mises, 1996). The reason for engaging in some activity, or not engaging in some activity, is based on the prospect of gaining satisfaction from that particular action, i.e., the action, which in the mind of the acting man will transfer him from a less satisfactory state to a more satisfactory state. As happiness can only be perceived by the individual, nobody can adequately determine what should make a fellow man happy, since these valuations will vary for different people at different points in time (Mises, 1996). The immediate reasons for uneasiness can stem from all aspects; whether egoistic or altruistic, the acting man will strive towards his ultimate goal regardless of his motivational factor, and praxeology will be indifferent to these goals (Mises, 1996).

“All action involves the employment of scarce means to attain the most valued ends” (Rothbard, 2009, pp. 17). The acting man has the choice of deploying his means towards various ends, and the ends chosen will be those, which he regards to be more important in the moment of choosing, while the less urgent wants will remain unsatisfied (Rothbard, 2009). In this sense, all action involves exchange since the acting man is willing to substitute one state of affairs with another under the impression that this transition will move him towards a more satisfactory state. When a less preferred state of a human is replaced by a preferred state, a profit is acquired, which is applied a certain value by the acting man (Rothbard, 2009). This value can only be perceived in the mind of the acting individual, thus, arranged in an ordinal scale compared to other alternatives available at the given moment of the action. Since the valuation is completely individual, it is hopeless to apply numerical values (cardinal scale) to the ends chosen, introducing the opportunity of calculating perceived happiness of other human beings (Mises, 1996). Instead, praxeology is concerned with psychic profit or psychic loss, which is the result of psychic revenue minus the psychic costs. While
an action might be attractive in monetary terms, its psychic costs could exceed the psychic revenue, thus, the actor will find the action to be unattractive, although it could make him better off in monetary terms (Rothbard, 2009). The actor will, at the point of a decision regarding a particular action, only act if he perceives the psychic revenue to be higher than the psychic costs, whether that is of purely altruistic, exclusively monetary or any other nature, these valuations can only be left to the acting man.

Time is a crucial factor for the action of man (Rothbard, 2009). Time is a scarce resource, and when a man employs means in order to attain some end, the action is time-consuming, and the end can only be reached in the future, thus, since time is scarce, it can only be directed towards achieving some ends, and leave other ends unsatisfied. Choosing between employing means towards various ends may, in this sense, be referred to as “economizing the means to serve the most desired ends” (Rothbard, 2009, pp. 6-7). Another crucial factor, in the framework of praxeology, is the uncertainty of the future (Rothbard, 2009). A person can only perceive the future satisfaction of some action and employ means in order to achieve this state, however, he cannot precisely predict natural phenomena nor can he predict the actions of other men adequately. As human choices are continuously changing due to shifting valuations and shifting means to arrive at various ends, all actions are to be considered speculation by individual judgment about how future events will develop (Rothbard, 2009).

3.3.2 The Law of Marginal utility

In praxeology, utility is equivalent to the importance attached to an object regarding its perceived ability to remove uneasiness (Mises, 1996). The law of marginal utility refers to the subjective use-value, and does not address the attributes of a certain unit; rather, it addresses “the well-being of a man as he himself sees it under the prevailing momentary state of his affairs” (Mises, 1996, pp. 125). The law of marginal utility is crucial to praxeological understanding. It is conditional for all human action that when one unit is added to a man’s stock, the utility of each added unit is decreasing, since a person will always divert means toward preferred ends, which removes the largest level of uneasiness (Rothbard, 2009). Thus, the person will regard the use-value of the preceding, yet equally serviceable, units higher, because these units are used for ends, which are recognized as more urgent or important to the individual. The unit, which attains the least important
end, is known as the marginal unit and “[t]he greater the supply of a good, the lower the marginal utility; the smaller the supply, the higher the marginal utility” (Rothbard, 2009, pp. 28).

3.3.3 The Disutility of Labor
“To work involves disutility” (Mises, 1996, pp. 132). An acting man will only work as far as he considers the return of the labor as higher than the decrease in satisfaction incurred by the limitation of leisure (Mises, 1996). In praxeology, leisure is considered an economic good, which is subject to the law of marginal utility; thus, for every additional unit of leisure acquired its perceived value will continuously decrease. Since time is a scarce resource it is evident that the more a man works, the less leisure he can enjoy (Rothbard, 2009). The acting man will seize to work, when he considers the utility of work to be unable to compensate for the disutility of leisure (Mises, 1996), likewise he will seize to work “when the marginal disutility of labor is greater than the marginal utility of the increased goods provided by the effort” (Rothbard, 2009, pp. 46). Due to the assumption of leisure as an economic good, it is possible to deduce that with the increasing consumption of leisure, work will be resumed when the marginal utility of leisure is lower than the marginal utility of the goods foregone (Rothbard, 2009).

3.3.4 Direct and Indirect Exchange
A direct exchange implies that each of the persons acting in the trade must directly want to use the good being acquired (Murphy, 2010b). A direct exchange can only occur as long as the goods to be traded are different units. It would be senseless to engage in trade if both seller and buyer possess identical units, but in different quantities. If such an exchange would occur, it would merely be considered a gift from one participant to another (Rothbard, 2009). In order for any voluntary exchange to take place, it is essential that the exchanged goods have different values for the parties involved in the exchange. Whether capital goods or consumers’ goods, present goods or future goods, the exchange will only take place if the actors perceive that the exchange will make them better off than they were prior to the exchange (Rothbard, 2009). Due to the law of marginal utility, the exchange of goods will find its equilibrium, when the marginal utility of the possessed good exceeds the marginal utility of the acquired good, thus, the exchange of goods will continue until one of the actors reaches a point, where further exchange would have a negative impact on their value scale (Rothbard, 2009).
Goods can be produced in order to attain use-value (direct) or exchange-value (indirect), depending on the specific characteristics applied to the good by the individual actor (Menger, 1976). Since the actor can only produce in order to consume his own product, or produce in order to satisfy wants of other consumers, it is evident that an unhampered market would be regulated by consumers only (Rothbard, 2009). Whether the produced good has greater value for use or exchange depends on the marginal utility, which the actor ascribes to the good – again, one of the most important determinants is the fluctuation of the units of supply available (Rothbard, 2009). As the supply of units increases, the marginal utility value will decrease - the direct use-value to the actor will, conceivably, decline - while it is likely that the value of the units as means of exchange will increase simultaneously.

The limitations of an economy restricted to direct exchange or barter are obvious, because the trading process will be limited to conditions, where it is necessary to find buyers for a particular good, and these buyers may not possess the good - or the combination of goods - for exchange, which is ultimately preferred by the seller (Murphy, 2010b). In a barter economy, there will only be performed direct exchanges between traders with one useful good for another, for the purpose of obtaining the direct use-value of the good. At the same time, the production of units which are very specific in its provision of services can be difficult to sell, hence, unattractive to produce, and this will result in rather primitive production and very limited specialization.

Indirect exchange can exterminate many of the difficulties, which are incurred under an economy restricted to direct exchange exclusively (Rothbard, 2009). By indirect exchange a commodity is being placed as a medium of exchange, thus, for an actor to acquire a good, he can trade his possessed good for the commodity, and then use the commodity to acquire the good he desires. This commodity will generally be found by exploring the marketability of various commodities and determining which commodity is most useful in indirect exchange. Then, this commodity will not only be valued for its direct use as a consumers’ good, but also for its use as a medium for indirect exchange. Characteristics, which will increase the marketability of a given commodity, are its divisibility, hence, when the commodity is divided, it loses little or no value; its demand by other market participants; its durability; and its transportability (Rothbard, 2009). When a commodity becomes a recognized medium of exchange used in general it transforms into money.
3.3.5 Demand and Supply
As individuals have different valuations of various commodities, supply and demand graphs are useful tools in order to understand the arrival at equilibrium prices (Murphy, 2010b). The law of demand states that, other things being equal, a lower price will make a consumer buy more or the same amount of a particular good or service (Murphy, 2010b). Similarly, the law of supply states that as the price for a good or a service increases on the market, the producers will offer a similar or a greater amount of units.

*Figure 5: Supply and Demand*

![Supply and Demand Diagram](image-url)

Source: Murphy (2010b) pp. 158

The intersection between the curves of supply and demand illustrates the equilibrium price. Any divergence from this point will either lead to a shortage or a surplus, i.e., buyers will want to buy more goods or services at a price below the equilibrium price, and producers will want to sell more products at any price above the equilibrium price.

It is important to emphasize that the movement towards equilibrium prices rarely terminates, since people’s subjective valuations continuously change and so does the supply of each good (Taylor, 1980). Thus, it is only possible to precisely determine equilibrium prices in an unchanging economy. In a world of contingency, the equilibrium will continuously shift, and the market will tend towards the new equilibrium. As the demand curve continuously shifts due to ever-changing valuations of a given commodity, the equilibrium for a particular good can only be representative for a fixed point in time (Rothbard, 2009). However, supply and demand curves are useful tools for
illustration. The essential task of an entrepreneur is to deploy resources into production according to his anticipation of future market conditions, and if he is successful, he will generate a psychic profit, while unsuccessful, he will experience a psychic loss (Rothbard, 2009).

3.3.6 The Division of Labor

“The greatest improvement in the productive powers of labor and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labor” (Smith, 1999, pp. 109).

When an actor engages himself into specialization of production with the intention to exchange his excessive stock of some good for other goods, this implies a division of labor and, according to Rothbard (2009, pp. 95), this specialization can occur as a consequence of three different factors, either exclusively or combined:

1. Differences in suitability and yield of the nature-given factors
2. Differences in given capital and consumers’ goods
3. Differences in skill and in the desirability of different types of labor

The division of labor increases output per unit of labor, since comparative advantages will be established as a result of the individual devotion to a particular task, which will enable the individual to acquire the greatest benefit, only restricted by the extent of the market (Mises, 1996). The exchange-value ascribed to a unit will increase simultaneously with the increasing number of links in the market, since the division of labor will be more widespread, generating further possibilities of exchange (Rothbard, 2009).

According to Rothbard (2009) it is through reason that society has originated, since man recognized the advantages and possibilities of interpersonal exchange and the division of labor – these cooperative features, regardless of the individual motives involved, benefitted not only the acting man in the market, but also other market participants.

One of the main characteristics of the division of labor is that it intensifies the inequalities in man (Mises, 1996). The inequality in man is exemplified by the different preferences of individual actors, which is necessary for any trade to be mutually beneficial, thus, due to the law of marginal utility, happen. The division of labor not only moves production towards appropriate geographical
areas, it also assigns specific tasks to different processes of production, encouraging specialization and development (Mises, 1996).

3.3.7 Profit & Loss

As production in the market economy can be initiated exclusively in order to exploit the goods for their use-value or their exchange-value, it is the emergence of profit and loss, which makes producers aware of the desirability of the goods for which they are currently undergoing production or initiating production (Mises, 1974). When entrepreneurs produce in order to attain the exchange-value of a commodity, they must produce in the cheapest and most efficient ways, if they want to satisfy the consumers in their industry without being outperformed by competitors.

The source to generate a profit through exchange is by combining the available factors of production in a particular way so the final good yields a higher value to the consumers than the factors apart from each other. “Thus profit and loss are generated by success or failure in adjusting the course of production activities to the most urgent demand of consumers. Once this adjustment is achieved, they disappear. The prices of the complementary factors of production reach a height at which total costs of production coincide with the price of the product” (Mises, 1974, pp. 109).

Since the demands of consumers are continuously changing due to technological improvements, shifting valuations, and innumerable contingencies, there will always be opportunities to combine the factors of production in a way to generate a profit. With the profit motive, the producer is compelled to produce the commodities, which are most urgently desired by consumers or which the producer perceives to be most urgently desired in the future (Mises, 1944). The success of the producer will depend on his ability to regard present prices as below the prices, which consumers are willing to pay for the commodity in the future. If the producer is able to anticipate the future conditions of the market more correctly than the present conception, which has formed the market prices, the producer will bid for the factors of production, which will yield a profit on the future market (Mises, 1974).

3.3.8 Summarizing the Austrian School of Economics

With the great variety in human skills and natural resources resulting in enormous advantages from the division of labor, the existence of money permits the splitting of production into minute
branches, each man selling his product for money and using money to buy the product that he desires (Rothbard, 2009, pp. 194). In an indirect economy with a common medium of exchange, the actors will try to attain the highest possible income. The investor will try to obtain the highest net return on his investment, and the laborer will sell his services for the highest compensation (Rothbard, 2009). Whether investing or working, the acting man will seek the opportunity, which he perceives to generate the greatest psychic revenue relative to costs, thus, monetary concerns can only be a partial, yet influential, parameter in the decision-making process of an individual.

By applying the law of marginal utility to the acting man’s strive for maximizing his psychic income, it is evident that an increase of exchangeable goods possessed would tend to increase the marginal utility of nonexchangeable goods. Thus, an increase in standard of living would enable the acting man to turn his attention towards more aesthetic goods, depending on how these goods are ranked on his value scale (Rothbard, 2009).
4. Analysis
The analysis consists of 2 parts. The first part will analyze corporate social responsibility, as presented in the theoretical framework, by applying the school of Austrian economics. The second part of the analysis will illuminate the implications of shared value and, based on the propositions of the Austrian school of economics, evaluate its potential as a tool to create congruence between society and business.

4.1 Corporate Social Responsibility and the Austrian School of Economics
Initially, it is necessary to determine, whether or not companies actually can have responsibilities. The main contention of praxeology is that all actions are performed by individuals. “A collective operates always through the intermediary of one or several individuals whose actions are related to the collective as the secondary source. It is the meaning which the acting individuals and all those who are touched by their action attribute to an action that determines its character (Mises, 1996, pp. 42). A company or any group consisting of individuals cannot exist independently from the actions performed by individuals, thus, a collective institution cannot exist apart of its individual actors, since only individuals can act (Rothbard, 2009).

In this sense, it is not possible for a corporation to attain responsibilities. Yet, the individual actors engaged in the company can direct their actions in order to attain responsibilities. The actions can then be attributed to the individual actors with the company functioning merely as a metaphor to simplify or aggregate the actions taken by individuals on behalf of the collective whole.

In the normative CSR-literature, the corporation is acknowledged as a legal citizen based on the notion that corporations can have formal ownership of property (Crane et al., 2004). This interpretation is to some degree supported by Hayek (1960), who contemplates that since shareholders of a corporation has a significant privilege by law in the form of limited liability, the corporation can be considered to be “a legal person capable of entering contract for which only the separate property of the corporation and not all the property of the owners [is] liable” and “it is for the law to say on what conditions this privilege is granted” (Hayek, 1960, pp. 232). However, regarding the attainment of corporate social responsibility, Hayek also pinpoints that management deviation from shareholder interest can transform a corporation from an institution “serving the expressed needs of individual men into [an institution] determining which ends the efforts of individual men should serve” (Hayek, 1960, pp. 231).
4.1.1 The Pyramid of CSR
Carroll (1991) depicts the dimensions of corporate social responsibility as a pyramid consisting of economic, legal, ethical, and philanthropic responsibilities. Carroll considers the economic and legal dimensions to be required by society, since economic viability and obeying the law is the frame for any company to operate in a society. First, the economic responsibility, the conception that a company must be viable in order to attain other roles on other dimensions, can be regarded as self-evident. However, the corporation is by definition a pooling of resources in order to achieve specific ends. The only way a company can earn monetary profits is through exchange. When trading with a customer, a business, or any other market participant, the exchange will only take place if both parties are better off than prior to the exchange, illustrated by the marginal utility value and the reverse preferences on individuals’ value scales. Thus, the mere act of exchanging provides society with goods or services, which they deem to increase psychic revenue relative to costs. In this sense, it can logically be assumed that the more profits a company earns, the more services it is providing to the society in which it engages in trade.

The legal dimension is, however, not as easily interpretative in establishing the connection between CSR and economic reasoning. While, Carroll argues that the legal dimension is required by society, he neglects to mention that the rule of law is not established by society, but, in most cases, a majority vote. Since the legislators are not, in most cases, elected unanimously, it can only be regarded as the law of the majority of a given demography. It is important to understand the impossibility of determining a universal common good, since the common good must have different meanings to different groups and individuals, “the will of the majority is the will of the majority and not the will of the people” (Schumpeter, 1976, pp. 272). The legal dimension can have massive negative impacts, which hurt both business and society, in terms of product and/or service availability. While the law is a necessary establishment to protect civil rights, the law is definitely not a guarantor of socially responsible behavior. It may contradict, restrict, and undermine the very essence of social cooperation. For instance, making a product or a service illegal by law would discourage consumption of the particular product or service. The only reason to apply a law against the consumption, production, or distribution of some product or service would be that this consumption was initially taking place, thus, the law interferes with the value scale of acting individuals, whether seller or buyer. In several cases, when corporations are obeying the law, it can
be harmful to a wide range of people, exemplified later by minimum wage laws, anti-discrimination laws, and tariffs.

The dimension of ethical responsibility implies business conduct, which exceeds the required expectations by society that have been formulated into law. For multinational corporations, this is where self-regulatory business practices come into play. In a post-national constellation the multinational corporation can act more or less independent from the national laws and regulations and selectively choose which business activities should be directed to certain geographical areas for legal privileges. In order to establish acceptance from societies in various countries and secure corporate accountability, some MNCs are voluntarily submitting to the international guidelines formulated by, e.g., UN Global Compact and the OECD Guidelines for Multinational Enterprises. By adhering to these guidelines, the MNCs can secure the obedience of national law, but also secure that business activities are performed without violations of human rights in countries, where the law is not explicitly formulated on these areas.

One of the ethical impacts of globalization that Crane & Matten (2010) address is the “[outsourcing of] production to developing countries in order to reduce costs in the global marketplace – this provides jobs, but also raises the potential for exploitation of employees through poor working conditions” (Crane & Matten, 2010, pp. 25). By referring to the Austrian school of economics, this is not a valid ethical dilemma. The laborer makes the decision as to whether or not he believes that the psychic revenue will exceed the costs, when accepting the job offer. The worker must value the job higher on the value scale as to other job opportunities or not taking the job, or else he would not accept. However, if developing countries have minimum wage laws in place, this could in fact lead to poor working conditions, yet, working conditions, which are acceptable to the job applicant given the monetary compensation. This would not necessarily be an ethical dilemma caused by globalization, rather, it would be an ethical dilemma created by governmental intervention in the free market.
Consider the demand and supply-curve for a particular type of work in figure 6. When a law demands that wages are above the market-clearing price for a certain type of labor, a surplus of available labor is incurred. This happens, because more laborers will want to work at the higher rate, than employers are willing to supply jobs for. When the laborers, whose productivity is below the minimum wage, apply for jobs, they will, conceivably, be willing to slack on other job attributes in order to achieve a higher wage rate than their productivity justifies (Murphy, 2010b). This could mean that they are willing to work longer shifts, denounce additional job benefits, or, most notably in this case, accept poorer working conditions.

The dimension of philanthropic responsibility is, according to Carroll (1991), the active function of a corporation to make contributions to society, which exceed the required and expected standards. However, who is making these contributions? Who is determining the projects, the institutions, or the voluntary contributions performed? When applying the Austrian conception that corporations cannot act without the individuals representing the organization, the individual(s) responsible must be established within the organization. When management, who is appointed by the owners, allocate resources towards philanthropic activities, the shareholders are not only withheld the monetary compensation associated with their investment in the corporation, but they are also denied the opportunity to seek their own, if any, philanthropic goals, which might have been exercised, if they had been given the full return of their investment.
Meanwhile, it is important to acknowledge that not all shareholders are investing in companies due to the expected monetary return of their investment. There are also aesthetic considerations, which enter the individual decision-making process, when choosing a corporation to invest in, thus, the shareholder might mainly be investing in the company, because of the philanthropic initiatives, which the company is pursuing. Additionally, if the company is worth less due to poor management decisions regarding philanthropic initiatives, then the company will be attractive for a takeover, where the management can be replaced and the profits reaped.

4.1.2 Moving Towards Stakeholder Democracy?
As stakeholder theory was presented in the theoretical framework, it aims to legitimize business conduct, which looks beyond the, presumably, narrow interest of the shareholders. While management has considerable liberty to initiate various activities, management is not free to use resources, which are not directly linked to the advancement of shareholders’ interests (Levy & Mitschow, 2009). Capitalism is based on the principle of property rights (Mises, 1944). If corporations adapt some type of ‘stakeholder democracy,’ where the stakeholders without shares are invited to determine or influence the course of a company with a legitimate vote, the very essence of ownership is diminished and replaced by the democratic ‘one man, one vote’ principle (Block, 2000). “[T]he capitalist system of production is an economic democracy in which every penny gives a right to vote” (Mises, 1944, pp. 20). Following this logic, it would be an aggression towards property to claim legitimacy in the decision-making process of a corporation without possessing any kind of ownership. Simply stating that a person has a stake in the business conduct of the operation does not allow him to invoke on the right to participate in strategic considerations performed by management. What would be the limits to this stake? While the primary and the secondary group of stakeholders were mentioned in the theoretical framework, how much more peripheral can a stakeholder be and still maintain a claim? The role of property rights is exactly to diminish this confusion and determine, who is the rightful owner of a property and that the owner may do, whatever the owner desires with the property as long as he does not infringe on the property of others. This principle of property rights applies, whether the subject is a person’s body, a 10-year-old’s lemonade stand, or a multinational corporation.
4.1.3 International Principles and Guidelines
The UN Global Compact and the OECD Guidelines for Multinational Enterprises both acknowledge the responsibility of corporations to support and respect the human rights formulated by the UN. In this sense, the UN Global Compact emphasizes the obligation to promote the rule of law. However, the rule of law implies that individual citizens are treated equally within their geographical presence. Is this what the UN is promoting with their 10 principles? Is this what the OECD is promoting with their guidelines? “For the rule of law to be effective it is more important that there should be a rule applied always without exceptions, than what this rule is. Often the content of the rule is indeed of minor importance, provided the same rule is universally enforced” (Hayek, 1944, pp. 83). While corporations embrace the Global Compact and governments support the OECD Guidelines, what are the implications, which these ‘rules’ infer?

Discrimination
The UN Global Compact defines discrimination as the differential treatment of individuals, which is not related to merit or job requirements, but personal characteristics such as race, color, religion, and gender, etc. (UN, 2012). Additionally, they pinpoint that discrimination can occur as a consequence of unequal remuneration, unequal recruitment, and an unbalanced distribution between leisure and work. If the principle of discrimination should be valid without being discriminatory by itself, it should apply equally to both buyer and seller. If the rule of law, promoted by the UN, is to be effective, the rule should always stand without exceptions, thus, the buyer (employer) should not be allowed to discriminate the seller (laborer) and vice versa. This would imply that the laborer who dislikes the potential employer for whatever reason should still be obligated by law to take the job offered (Block, 2010). This would be the logical conclusion following the outlines suggested by the UN Global Compact.

Treating people based on merits is no less a discriminatory act in itself, since “merit is only another characteristic on the basis of which people can discriminate against each other. Because merits of different types and varieties are statistically correlated with different groupings, including racial, preferences for people on this basis are not at all distinguishable, at least in effect, from choices made with respect to race or color” (Block, 2010, pp. 308).

Even the case for unequal remuneration is nonsensical as an indicator of discriminatory practices. Entrepreneurs perceive the value of individuals as regards to their productivity and future ability to
perform the tasks they are expected to. Productivity is not at all the only characteristic implied in
the remuneration of work, but “is a continuously changing phenomenon which varies with, for
example, education, intelligence, age, experience, presence or absence of complementary factors of
production, which can only be partially quantified, as well as with such factors as motivation and
determination, which are completely incapable of exact measurement” (Block, 2010, pp. 83). Based
on these characteristics, the employer will bid for labor, and if the employer is unable to accurately
perceive the value of a potential employee, he will either suffer a loss or, if generating a profit,
other entrepreneurs will be interested in bidding for the undervalued resource, in this case, the
services of the laborer.

Whatever the tastes that the employer possesses in the hiring process, if he is to discriminate of
factors, which are unrelated to job requirements, he will hurt himself in monetary terms (in the
absence of minimum wage laws, which would actually enable the discriminator to discriminate
without being monetarily sanctioned (Friedman & Friedman, 1990)). As also stated by the UN
Global Compact (2012), the pool of laborers will be reduced due to the discriminatory processes of
the employer, which will, other things being equal, drive up the prices for the labor in that specific
pool. However, the discriminatory practices of one employer, is the profit opportunity of another.
Hiring laborers from the discriminated pool of laborers will enable the profit-driven entrepreneur to
acquire labor at a lower price, reducing the costs of the company and the final product or service,
which will point towards higher profits. If consumers perceive the products to be identical on all
dimensions other than price, they will purchase the products of lower price, driving the
discriminating entrepreneur out of business (Block, 2010). Simultaneously, the value of the worker
will be determined by the marginal revenue product of his services. The wages for the discriminated
demographic group will be driven upwards as other entrepreneurs bid for their services in order to
attain their productivity relative to costs, thus, unequal payments will no less be obliterated on the
free market by the profit motive of entrepreneurs.

The third element, which should be emphasized concerning discrimination, is the principle
encouraging companies to ensure a balanced distribution between leisure and work, or more
precisely, to avoid an unbalanced distribution between leisure and work (UN, 2012). Considering
the marginal revenue product of the laborer and the disutility of labor, it seems unlikely that the
distribution of leisure and work can de facto be determined as balanced on a wider scale, thus, it will
be impossible to balance the distribution of work and leisure without discriminating against individual preferences.

It is inconceivable that an employer will hire a laborer to work more hours than the laborer’s productivity can satisfy. If the employer decides to explore that opportunity, he would experience not only a loss, due to fatigue of the laborer causing decreasing productivity, but he will also have to compensate, usually monetarily, for the leisure, which the laborer must give up to work the additional hours. When applying the law of marginal utility, each hour of leisure the laborer has to give up will be continuously dearer to him, thus, the employer must reimburse the laborer with higher wages in order to persuade him to work the extra hours.

In addition to obstructing the individual preferences of the employee by restricting the hours he can work for one company, the restriction will also lower the degree of specialization, if the laborer is forced to work elsewhere in order to satisfy the standard of living, he wants to enjoy. The laborer will, perceivably, choose to work primarily in the field where his productivity is greatest, since this will yield the highest monetary compensation, and secondarily in a field, where his skills will compensate him higher than the other, if any, opportunities open to him. The very restriction of his ability to perform the tasks, which will yield the greatest output to the laborer’s and the employer’s satisfaction, will reduce the level of specialization in the society, thus, obscuring the division of labor, which is one of the primary sources to economic development (Mises, 1996).

Labor Unions and Anti-Competitive Arrangements
It is curious how the international guidelines can encourage collective bargaining for workers, yet, simultaneously criticize the formation of cartels as an anti-competitive arrangement (OECD, 2011). Following the logic of the Austrian school of economics, it is evident that an individual acting in the market sphere is both a seller and a consumer. When a laborer supplies his service, he sells his labor for money. When a laborer buys a commodity as a consumer, he “sells” his money in exchange for the particular good, while the seller of the good “buys” the money. When sellers of a product or a service pool their resources in order to obtain favorable market conditions, this could be perceived as a cartel. Thus, must not a labor union be just as much a cartel as any conglomerate of businesses? Even a corporation could be perceived as a cartel as it is a gathering of individuals pooling their resources in order to gain a competitive advantage.
As with any other commodity on the market, the seller will strive towards receiving the highest price for his products or services, while the buyer will try to purchase the products or the services at the lowest price possible. This is also the case for labor, thus, the market will tend towards a natural equilibrium in the price of a particular type of labor (Mises, 1996). If labor unions are able to establish a fixed minimum wage, the amount of employed laborers in this particular profession will be lower than the demand would have been under natural market conditions, leading to unemployment:

*Figure 7: Unemployment*

![Diagram of supply and demand with unemployment](image)

Source: Murphy (2010b) pp. 263

*It is crucial to realize that [a] minimum wage law does not compel an employer to hire a low-skilled applicant. It simply makes it illegal to hire the applicant for less than the minimum wage* (Murphy, 2010b, pp. 263).

Given that the workers who are unable to satisfy the minimum wage must seek other professions, these professions will, as a result of the minimum wage established by labor unions, experience an increase in the supply of workers in their industry.
As depicted in figure 8, the increased supply of laborers will lower the price for their services, and while the quantity of jobs supplied may increase, it is at the expense of the existing workers in the industry. When a labor union disrupts one area with price fixing or other initiatives, it affects workers’ bargaining position in industries where workers’ competences are similar – usually in low-skilled industries.

**Anti-competitive Arrangements**

Another curious aspect concerning the promotion of asserting anti-competitive initiatives by the OECD guidelines for multinational enterprises is the very notion that the nations promoting these principles are themselves engaging in anti-competitive arrangements. For instance, laws on copyrights and patents are monopolistic arrangements protected by governmental institutions severely limiting the scope for competition in various branches (Cole, 2001; Hayek, 1948).

However, the perhaps most influential driver of anti-competitive behavior, is the trade barriers established, in form of tariffs or quotas, by various nations to protect production within their countries. As noted earlier, specialization occurs as a consequence of one, two, or three different factors exclusively or combined (Rothbard, 2009, pp. 95):

1. *Differences in suitability and yield of the nature-given factors*
2. *Differences in given capital and consumers’ goods*
3. *Differences in skill and in the desirability of different types of labor*
Because of the great differences between regions on dimensions such as natural environment, history, and culture, the average output per person would be considerably higher, if different regions specialize in their comparative advantages, and exploit the exchange-value of their products by trading (Murphy, 2010b). Even so, trade barriers are still maintained or erected under the assumption that the protection of a particular industry is necessary, within a region or a country, since it would not be able to be competitive on the world market. It is true that the tariff or duty will protect production of the subsidized branch within the country, and also save jobs in the protected industry, which would have vanished if the trade barriers were lifted. Then who is damaged? The consumer will be hurt by not being able to buy the cheaper product from the more efficient producer and must now instead expend a greater amount of money on the purchased item. The higher price will cause the consumer to have less disposable income for other purposes, either the purchase of other products, which would benefit other industries within (or outside) the country, or money for saving, which would allow new entrepreneurs to engage in market activities. Moreover, the workers hired in the uncompetitive industry could, without a tariff, find employment in competitive industries, which will, conceivably, experience an increase in revenue due to the removal of an anti-competitive tariff (Hazlitt, 1952). The effects of the protectionist policies regarding tariffs and other obstacles for free movement of labor and goods are the interference with international division of labor, thereby lowering the productivity of labor (Mises, 2002).

The combination of free trade and the profit motive would employ capital and labor to localities, where conditions are most suitable for the specific types of production, and “even a country in which the conditions of production in every branch of industry are less favorable than they are in other countries need not fear that it will export less than it will import [since] even countries with relatively favorable conditions of production must find it advantageous to import from countries with comparatively unfavorable conditions of production those commodities that they would, to be sure, be better fitted to produce, but not so much better fitted as they are to produce other commodities in whose production they then specialize (Mises, 2002, pp. 132). These observations not only apply to nations, but can just as well be applied to households or businesses.
**Taxation**

The OECD guidelines for multinational enterprises encourage multinational corporations to comply with the tax laws within the countries they operate, and to conform transfer pricing to the arm’s length principle.

In general, taxation inevitably affects the actions and incentives from the individual subjected to the tax (Hazlitt, 1952). Whenever a corporation is subject to taxation, it will severely affect the policies of the corporation; it will not employ as many laborers as it would otherwise and it will cause a lag in the development and purchase of new machinery and better-equipped factories (Hazlitt, 1952). Simultaneously, consumers are worse off, since they are prevented from better and cheaper products, and real wages are kept down (Hazlitt, 1952). “The true crux of the taxation issue is to be seen in the paradox that the more taxes increase, the more they undermine the market economy and concomitantly the system of taxation itself. Thus the fact becomes manifest that ultimately the preservation of private property and confiscatory measures are incompatible” (Mises, 1996, pp. 741). Mises pinpoints the inherent fallacy of combining private ownership and taxation, since individuals will defer from accumulating capital and rather consume it, when the risk of confiscation exists.

A corporation will pay dividends to its owners, and the owners will pay taxes of the dividends received. This double-taxation discourages the owners to reap their earnings, and rather leave them in the corporation as ‘frozen investments’ (Rothbard, 2009). Since dividends protected from double-taxation could be allocated towards productive activities, which consumers perceived to be more urgent, the corporate tax significantly curtails the adjustment of the economy to dynamic changes in the market (Rothbard, 2009).

Taxation also has a critical impact on individual value scales, because the marginal utility of work will be diminishing proportionally with the level of taxation, while the marginal utility of leisure foregone is increasing simultaneously (Rothbard, 2009). Since taxes must be spent by government or disseminated into various activities, which the government finds attractive, the tax must necessarily divert the resources allocated by the market by bidding for the factors, which would be used in market activities, had it not been for the taxes imposed by the government.
Regarding transfer pricing, corporations would not be performing such activities, if it was not for the legislation of corporate taxes in the first place. The very existence of corporate taxes makes it necessary for companies to use resources for administrative activities, and diverts them from their core business capabilities. Additionally, it also requires a substantial governmental apparatus to control the payments of these taxes, requiring bureaucratic establishments, which continuously put excessive burdens on taxpayers – in addition to the taxes paid, taxpayers must also pay the wages of governmental bureaucrats. Both corporations and consumers would be better off, if corporate taxes were abolished. “Taxing profits is tantamount to taxing success in best serving the public. The only goal of all production activities is to employ the factors of production in such a way that they render the highest possible output. The smaller the input required for the production of an article becomes, the more of the scarce factors of production is left for the production of other articles” (Mises, 1974, pp. 21).

**Economics and the Environment**

The free market mechanism plays an important role in the conservation and the expansion of natural resources (Rothbard, 2002). While driven by the profit motive, the entrepreneur is fully aware that the depletion of a certain resource will restrain or abolish future profits from his resource. When a shortage for a certain resource is expected in the future, the producers of the resource will reduce production when prices are low, and increase production when they expect the prices to be higher. This trade-off is guided by the time-preference schedule, which can only be appreciated by the individual actor. “It is true that several particular resources have suffered, in the past and now, from depletion. But in each case the reason has not been the “capitalist greed”; on the contrary, the reason has been the failure of government to allow private property in the resource – in short, a failure to pursue the logic of private property rights far enough” (Rothbard, 2002, pp. 255).

In the case of air pollution, it is also the lack of respecting and protecting property rights, which is disincentivizing the entrepreneur from inventing the necessary technology to decrease or diminish air pollution (Rothbard, 2000).

**4.1.4 Part Conclusion**

Initially, it was contemplated that corporations cannot attain responsibilities apart from the individuals acting inside the organization, due to the praxeological nature that only individuals can
act, and that the characterization of their actions are interpreted in the context applied to the scope of their actions. While a corporation can be perceived as a legal citizen and attain formal ownership of property, this does not imply that it can act purposefully outside the scope of its actors. Thus, without owners, management, employees, or any other individual embedded in the corporation, the corporation would cease to exist.

By examining the pyramid of CSR with the praxeological paradigm, it was possible to determine the economic responsibility of business as the purposeful behavior by individuals to engage in trade in order to secure the viability of their operations. The very function of business in society is to establish social cooperation, and while the viability of a business, in Carroll’s words, might be perceived as required by society, the profits generated by business are an indicator of their contribution to economic welfare in society.

The legal dimension, however, proposed challenges outside the scope of business’ role in society. The confusion between what constitutes a society and a state seems to blur the lines of the legal dimension as an indicator of engaging in socially responsible activities. For instance, while it was emphasized that the required standards for business activities in a legal sense had been codified into law by society, it failed to address the differences between a majority vote and unanimously agreed legal standards. With the praxeological paradigm, it was possible to express the difficulties and the supremacy, which might occur, when law is operating beyond its limits of protecting universal civil rights.

By operating beyond the legal dimension and moving into the ethical dimension of the pyramid of social responsibility, business was, by Crane & Matten, encouraged to take responsibilities, which were beyond the scope of their narrow economic and legal interests. Avoiding ethical dilemmas were one of the issues addressed, however, by referring to the Austrian school of economics, the ethical dilemma of outsourcing production could be invalidated by pinpointing individual preferences and the constellation of the labor market.

When applying the Austrian school to the philanthropic dimension, it was pinpointed that, since management is appointed by owners, the engagement of making contributions outside the scope of shareholder interests would diminish the shareholders’ opportunity to seek philanthropic ends themselves, thus, could be considered as a violation of the property of shareholders. Additionally, no engagement on the philanthropic dimension is necessarily required as the profits generated by
engaging in voluntary exchange on the market can be a determinant of the contribution, which business contributes to society.

Another important element was the movement towards stakeholder democracy, which was opposed by exposing the indecisive nature of the concept of stakeholders, and highlighting the role of property rights, which is to diminish the confusion of ownership and determine, who is the rightful owner of a property and that the owner may do, whatever the owner desires with the property as long as he does not infringe on the property of others.

Most notably for multinational corporations determining the scope of their responsibilities was the illumination of the impact that international guidelines and principles could have on businesses operating in a post-national constellation. While it might be attractive to adhere to the principles or adopt the guidelines, it involves significant complications from an economic and a social perspective. Detrimental elements such as anti-discrimination laws and taxation policies make it difficult to establish what is in fact socially responsible behavior of a multinational corporation.
4.2 Evaluation of Shared Value

“Corporations are not responsible for all the world’s problems, nor do they have the resources to solve them all. Each company can identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain a competitive benefit” (Porter & Kramer, 2006, pp. 92). The statement of Porter & Kramer is closely related to the early ideas of corporate social responsibility identified by Davis (1960), who noted that the level of social responsibility to be attained by the businessman depended on the level of power that the businessman possessed, hence, the role of the businessman is neither to focus solely on profits nor present the solutions for all difficulties in society, but to attain responsibility proportionally with the power vested in him and his organization.

However, the basic ideas behind the framework of shared value are more explicit than the existing CSR-literature outlined, when describing the link between business and society. Porter & Kramer (2011) propose that businesses should reconceive products and markets, redefine productivity in the value chain, and build supportive industry clusters.

4.2.1 Reconceiving Products and Markets vs. Consumer Sovereignty

Porter & Kramer advocate that by reconceiving products and markets, a company will be able to meet the increasing demand in advanced economies for products and services, which meet societal needs. However, as explained previously, in an unhhampered market, production will only be initiated in order to attain the use-value or the exchange-value of the good produced, thus, the free market would ultimately be regulated by consumers (Menger, 1976; Rothbard, 2009). “In a free economy, in which wages, costs and prices are left to the free play of the competitive market, the prospect of profits decides what articles will be made, and in what quantities – and what articles will not be made at all. If there is no profit in making an article, it is a sign that the labor and capital devoted to its production are misdirected: the value of the resources that must be used up in making the article is greater than the value of the article itself. One function of profits, in brief, is to guide and channel the factors of production so as to apportion the relative output of thousands of different commodities in accordance with demand. [...] Free prices and free profits will maximize production and relieve shortages quicker than any other system” (Hazlitt, 1952, pp. 146-147). The very idea of an increasing demand in one area of business would drive existing and new entrepreneurs in the industry to invest, produce, sell and reinvest until the excessive profits of that particular market are balanced.
In addition to outlining the future demand in advanced societies, Porter & Kramer (2011) suggest that businesses’ attention could be directed towards environmental and health concerns by abandoning the classic business idea of how to interpret and create demand for existing products which may not be beneficial for the company’s customer, or the customer’s customer. A logical reflection from this statement could be that Porter & Kramer believe that the way to create congruence between society and business is by encouraging business to determine, which products are ‘good’ for the customers, and to restrict products from the customer, which business perceives as ‘bad.’ It is not the task of the businessman to be a guardian for his customers – the entrepreneur has to yield to the wishes of the consumers, or else he seizes to be in business (Mises, 1944). “He who is eager to earn, to acquire, and to hold wealth is under the necessity of serving the consumers. The profit motive is the means of making the public supreme. The better a man succeeds in supplying the consumers, the greater become his earnings. [...] Profit is the reward for the best fulfillment of some voluntarily assumed duties. It is the instrument that makes the masses supreme. [...] If the consumers do not buy the goods offered to them the businessman cannot recover the outlays made. He loses his money. If he fails to adjust his procedure to the wishes of the consumers he will very soon be [replaced by] other men who did better at satisfying the demand of the consumers” (Mises, 1944, pp. 20-88).

4.2.2 Redefine Productivity in the Value Chain
Regarding the redefinition of productivity in the value chain, Porter & Kramer emphasize that business attention should be shifted towards resource utilization, since this would improve productivity, process efficiency, and product quality. On the surface it seems logical to utilize resources as much as possible, but how does this differ from how companies operate today? Resource utilization is at the core of the market economy, where scarce resources are allocated towards the most efficient users of the resources, and the users, which are best able to meet the demand of consumers in society. Entrepreneurs who are unable to utilize resources efficiently will be outbid, since the ‘most capable’ entrepreneur will have a higher profit margin from the use of the resource, thus, he will be able to pay a higher price for the resource without suffering losses. The very existence of competition ensures that entrepreneurs constantly strive at providing quality goods to consumers at the lowest possible price (Murphy, 2010b).
Ironically, while promoting resource utilization, Porter & Kramer simultaneously call for businesses to stop exercising their bargaining power over suppliers, hence, limiting the competition between suppliers. Just as any other entrepreneur, when suppliers are not faced with competitive initiatives from other suppliers, the development of their products and processes will be retarded, as compared to a supplier subject to competition, who would necessarily have to improve continuously in order to stay in business and profit from his activities.

Ultimately, the lack of competition, given that the company somehow stays in business, will hurt the consumer, since he will not as rapidly be experiencing the developments in product quality, and the decreasing prices for the commodity, which he desires.

4.2.3 Building Supportive Industry Clusters
Inspired by the cluster of enterprises working with IT in Silicon Valley, flower cutting in Kenya, and diamond cutting in India, Porter & Kramer (2011) argue that enabling local cluster development will drive productivity, innovation, and competitiveness. These are some of the natural consequences of specialization and the division of labor, which were stated earlier by Rothbard as a consequence of 3 different factors either exclusively or combined: Differences in suitability and yield of the nature-given factors, differences in given capital and consumers’ goods, and differences in skill and in the desirability of different types of labor (Rothbard, 2009). While it might be unnatural to Porter & Kramer, clusters can only be established as the purposeful behavior of human beings to improve their situation or remove uneasiness. It is inconceivable that a viable cluster can simply be formed by the will of a company. Even so, to which degree should this cluster be established? How vertically integrated should the supply chain be?

Additionally, Porter & Kramer propose that “[a] key aspect of cluster building in developing and developed countries alike is the formation of open and transparent markets. In inefficient or monopolized markets where workers are exploited, where suppliers do not receive fair prices, and where price transparency is lacking, productivity suffers” (Porter & Kramer, 2011, pp. 73). First, when are workers exploited? Different employees will receive different wages based on their current and future productivity, and the wage will be set by the employer (Murphy, 2010b). Competition is the laborer’s safeguard for not being ‘underpaid.’ As previously mentioned, other entrepreneurs will bid for labor – or any other resource – and if the resource is undervalued, the price for the resource will be tending towards an equilibrium reflecting its contribution to
production. Secondly, there is no such thing as an unfair price for suppliers’ products, since an unfair price disincentivizes suppliers from engaging in trade.

The inefficiency and the monopolization, which Porter & Kramer address, cannot be a conflict between business and society; rather, it can only prevail as a result of governmental intervention. Corporatism can have a significant impact on this variable, yet, it is only by favors from governments they can achieve monopolization. Meanwhile, Porter & Kramer promote the role of government in cluster building: “The benefits of cluster building apply not only in emerging economies but also in advanced countries. North Carolina’s Research Triangle is a notable example of public and private collaboration that has created shared value by developing clusters in such areas as information technology and life sciences. That region, which has benefited from continued investment from both the private sector and local government, has experienced huge growth in employment, incomes, and company performance, and has fared better than most during the downturn” (Porter & Kramer, 2011, pp. 72).

It is curious how Porter & Kramer can stress inefficient markets as an obstacle for cluster building, yet, calling for public expenditures as a sustainable way to create shared value. Rothbard (2009) considers government subsidies to be transfer payments, acquired by political means, thus, confiscated through coercion. On the free market wealth can only be generated by voluntary exchange. With government subsidies, earnings can be disconnected from the market process and be distributed to activities, which would not be considered viable without government interaction (Rothbard, 2009). However, as subsidies can only be granted by taking wealth from others, it is permissible to state that “all cases of subsidy coercively penalize the efficient for the benefit of the inefficient [and] subsidies consequently prolong the life of inefficient firms at the expense of efficient ones, distort the productive system, and hamper the mobility of factors from less to more value-productive locations. They injure the market greatly and prevent the full satisfaction of consumer wants” (Rothbard, 2009, pp. 1255). Partnerships between corporations and government are set up to benefit the favored corporations and the government at the expense of competing businesses - if allowed - and the consumers (Rothbard, 2006).

4.2.4 Government’s Role in Promoting Shared Value
According to Porter & Kramer (2011) government intervention is necessary in order to secure well-functioning markets. Contrary, Mises states, “The market directs the individual’s activities into those channels in which he best serves the wants of his fellow men. There is in the operation of the
The market economy is the social system of the division of labor under private ownership of the means of production. Everybody acts on his own behalf; but everybody’s actions aim at the satisfaction of other people’s needs as well as at the satisfaction of his own. Everybody in acting serves his fellow citizens. Everybody, on the other hand, is served by his fellow citizens. […] The market process is entirely a resultant of human actions. Every market phenomenon can be traced back to definite choices of the members of the market society” (Mises, 1996, pp. 257-258).

Nonetheless, Porter & Kramer highlight 5 different characteristics for government regulation, which, they believe, will enhance the level of shared value. Meanwhile, the regulations proposed by Porter & Kramer will inevitably lead to a bureaucratic burden on companies subject to the reporting schemes. Additionally, all governmental regulation must absorb resources, which could otherwise have been used in the private sector. The burdens of these regulations are detrimental to the idea of avoiding monopolies, since the administrative burden and the bureaucratic expenditures will be a disincentive for new entrepreneurs and existing marginal entrepreneurs in a given industry.

Besides the regulative initiatives, Porter & Kramer (2011, pp. 74) propose that government, “where appropriate, […] set prices for resources (such as water) that reflect true costs.” First, it is necessary to examine the appropriateness of governmental price-interference. The primary function of the market is to direct production by allocating the factors of production into those channels, where they serve the most urgent needs of consumers (Mises, 1996). While the market price tends to equalize supply and demand, government price fixing will disturb the equilibrium and lead to shortages or surpluses depending on whether a maximum price or a minimum price is enforced (Mises, 1996).

When setting prices for resources, such as water, above the clearing level, the government limits the availability of the resources for direct use, and the use of the resources as a factor of production. When entrepreneurs and, ultimately, consumers have to pay the higher fixed prices for a commodity, they will not be able to use their, otherwise excessive purchasing power, on other ends. Thus, the intervention will inevitably lead to a disruption of the demand for other goods, which will now not be produced, due to the lower purchasing power.

A free market is perfectly capable of handling the scarcity of a resource like water. The price-mechanism ensures this. When higher market prices occur, rationing will be encouraged, and
competition for supplying the resource will increase. The entrepreneur will search for additional supply, will innovate in order to utilize the resource, or will find substitutes available to replace the function of the resource.

4.2.5 Part Conclusion
The concept of shared value offers no sustainable solution to establishing congruence between business and society. While shared value is more explicit in the formulation of the strategic approaches in order to create shared value than the traditional CSR-literature, its formulation is still vague and contains paradoxes, which are detrimental to the proposed goals of shared value.

Along with believing that they are reinventing capitalism, Porter & Kramer simultaneously propose what the future demand of consumers in develop economies is going to be, completely neglecting individual preferences and the uncertainty, which is inherent to any entrepreneurial conception of future markets. Proposing that business should refrain from their very function of meeting consumer demand and rather form the demand of consumers and restrict the availability of products, which business finds inappropriate, suggests a dangerous egalitarian role of business, where business is no longer the peasant of the consumer, but rather the guardian.

In their quest for creating congruence between business and society, Porter & Kramer managed to neglect the very essence of resource utilization: competition. By promoting the use of suppliers based on location and not efficiency, shared value offers a disruption of the development towards specialization and the division of labor, while simultaneously hurting business in general and, ultimately, the consumer.

Finally, Porter & Kramer’s call for collaboration between business and governmental institutions, either by investment or regulation, is not only misdirecting consumer wants, but favoring some inefficient business initiatives at the expense of efficient ones. If congruence between business and society is the aim, it is not purposeful to side with the state, and limit the social cooperation of the free market, by receiving subsidies or other privileges from a legislative institution.

Generally, Porter & Kramer seem more concerned about businesses’ goal of gaining governmental legitimacy rather than the legitimacy from society. Shared value is a possible framework to gain a competitive advantage, however, not by entrepreneurial ingenuity, but by restricting competition and disrupting markets. It is important to emphasize that it is the individual members of society,
who, by continuous interaction, make the decisions, which guide the allocation of resources into the specific activities that satisfy their most urgent desires.
5. Discussion
The analysis of CSR and the evaluation of shared value indicated a clear conflict with the Austrian school of economics, but how does the findings from the analysis provide a plausible answer concerning the social responsibility to be attained by management in a multinational corporation?

As praxeology is indifferent to the ends sought, but can only suggest the appropriate means to achieve those ends, it is evident that it can provide an objective assessment of the responsibilities that management are supposed to attain in a multinational corporation.

5.1 The Function of Profits
Since humans act and individual preferences continuously shift, it is obvious that under an economy subject to rapid technological innovation, the employment of the available resources must shift to the uses, which will satisfy the most urgent wants of consumers. “The objective of entrepreneurial activity in the market economy is to capitalize on opportunities to invest in factors of production at costs that are adequately lower than the revenues subsequently generated by productive activities. Those who are able to achieve this objective successfully receive money profits. The important result of profitable business operations is that resources are thereby diverted away from less desirable uses into uses that better suit the wishes of consumers. Profits, then, serve a vital social purpose. In a changing world there is always an opportunity to improve the way things are done. Improvements may take the form of more satisfying products and services or more efficient ways of generating presently preferred products and services” (Taylor, 1980, pp. 86). Monetary profits can only arise as a correction of the maladjustments in the economic system. The greater the discrepancy from the natural state of the market, the greater the profit to be acquired is by correcting it (Mises, 1974). If profits are to be curtailed by taxation or other means of interference, it seizes to function as a responsive mechanism satisfying the most urgent wants of the consumers.

5.2 The Democratic Deficit
Scherer & Palazzo (2011) warn about the risk of a ‘democratic deficit’ due to globalization, which obstructs the ability to regulate or sanction MNCs from a national perspective. However, with the interpretation of international guidelines and principles, this risk exists only insofar as it is possible for corporations to initiate activities, which are detrimental to the purpose of protecting property rights. A democratic deficit cannot per se be characterized as a danger as long as democracy can be
used as a mean of majority coercion. "It is when we come to the proposed measures of relief for the evils which have caught public attention that we reach the real subject which deserves our attention. As soon as A observes something which seems to him to be wrong, from which X is suffering, A talks it over with B, and A and B then propose to get a law passed to remedy the evil and help X. The law always proposes to determine what C shall do for X or, in the better case, what A, B and C shall do for X. [...] [C] is the victim of the reformer, social speculator and philanthropist” (Sumner, 1919, pp. 466). If law, whether codified by a national institution or outlined by an international assembly, imply the possibility of distributing wealth or granting special privileges of any kind, the law defeats its own purpose, since it will be open to corporatism, lobbyism, and, ultimately, corruption. Without a coherent legal framework, the democratic deficit is meaningless in the sense that democracy has already outplayed its role in establishing equal rights without suppressive means. In order to establish a true democratic principle, it is necessary to ensure that the population of its jurisdiction is treated equally, and is opposed to all prescriptive privileges, protection by law or force, which is granted to only a favored segment of the public (Hayek, 1948). “[The] whole justification of democracy rests on the fact that in course of time what is today the view of a small minority may become the majority view. [...] One of the most important questions on which political theory will have to discover and answer in the near future is that of finding a line of demarcation between the fields in which the majority views must be binding for all and the fields in which, on the contrary, the minority view ought to be allowed to prevail if it can produce results which better satisfy a demand of the public. [...] Where the interests of a particular branch of trade are concerned, the majority view will always be the reactionary, stationary view and the merit of competition is precisely that it gives the minority a chance to prevail. Where it can do so without any coercive powers, it ought always to have the right” (Hayek, 1948, pp. 29-30).

Meanwhile, governments are actively supporting the formulation of guidelines, which businesses are encouraged to follow. By illuminating the paradoxical effects of the UN Global Compact and the OECD guidelines for multinational enterprises, the questions remain: Is it responsible to adhere to principles, which are detrimental to the ends sought? Or would it then be responsible to break the law? As indicated, businesses can actually contribute to society, by breaking the rules, which states are enforcing or promoting. If the division of labor can be more widespread, and allow people to engage in the trades, where their marginal productivity are highest, can this be considered an aggression against society, when all market participants will be better off?
5.3 Ce Qu’on Voit et Ce Qu’on Ne Voit Pas
As early as the year of 1850 Frédéric Bastiat published an essay encouraging people to look beyond the immediate effects of some act, whether performed by an individual on his own behalf, on the behalf of government, or on behalf of any other organization (Bastiat, 2007). An example of the short-sightedness of a decision can be seen in the support of labor unions establishing a minimum wage law, which was addressed earlier. This will, in the short run, inevitably provide benefits to the workers, who can satisfy the productivity required to justify the minimum wage. However, it has serious effects on a wide range in the economic system. Given that the minimum wage is above the equilibrium price, which would otherwise prevail in the absence of the minimum wage, it is evident that it will hurt similar industries by increasing the supply of laborers available. Likewise, the employer in the regulated industry will be worse off, since he now has to pay more for a factor of production than he would otherwise. This could lead to discontinued production and a discouragement to new entrepreneurs, which would lower the supply of the commodity to the market and, if demand remains the same, this will cause an increase in price. The price increase will reduce the consumers’ disposable income, of those who choose to buy the product, leaving existing industries hurt and new industries might not even come into existence.

Regarding the philanthropic dimension of CSR, the charitable initiatives, which are outside the interests of the shareholders, can also be perceived as a contribution to a specific non-profit organization, which undoubtedly benefits from the contribution, however, the long run effects, the effects not immediately noticed by the transaction, will not be addressed. Simply put, the observer would state that the non-profit organization profited at the expense of the company’s shareholders. It is necessary, however, to look beyond this initial observation, and consider the effect, which this contribution can have on other dimensions. The shareholders are denied the yield of their investment. When profits are withdrawn from the natural circuit of the market, it interferes with the allocation of resources. The shareholders, who are driven by the monetary yield of their investment, will find it unattractive to reinvest in the company, and capital will flow out of the industry. Despite the profits incurred before the charitable contribution, the diminished return on investment would blur the signal from the market that consumers are currently interested in the particular type of product – a signal which, under normal circumstances, would incite investors to deploy more resources into the industry, benefitting consumers and the laborers in the industry.
5.4 Consumer Sovereignty

While it might seem like an absurdity based on the findings in the analysis, it may still be necessary to implement activities relating to CSR. Since consumers regulate the market, the corporations must also alter their operations in order to meet the demanded qualities from consumers. Not just in the form of the final good provided, but also the processes, which are used to produce the good. If consumers refrain from buying products from a company providing ‘poor’ working conditions or ‘unfair’ remuneration for its employees, either domestic or abroad, management in the corporation must alter operations in order to comply with the standards demanded by consumers.

Especially in the case of supply chain management, this has become abundantly clear for multinational corporations receiving bad publicity and experiencing consumer boycotts due to the revelation of poor working conditions. Most recently noted in the case of H&M providing poor working conditions and low wages for employees in Cambodia (DR, 2012). However, if corporations are expected to keep their supply chains ‘clean,’ how far into the supply chain can the company actually be engaged before the costs of supply chain management exceed the benefits? Based on the fact that all consumers’ goods must eventually come out of the mixing of labor and nature, the supply chain for something as simple as a pencil can become insurmountably long and complex (Read, 2008).

From a management perspective, it may be necessary to initiate activities, which are outside the scope of shareholder interests, but required if business is to withstand the pressure from various groups in the society, where the business is present. However, adhering to the pressures of various societal groups or institutions, does not indicate that the business is performing the tasks, which it is intended to do, rather, it obscures the demarcation between business as a separate establishment from governmental institutions. While governments and international institutions may be content with introducing various guidelines and principles, which are detrimental to their objective, this cannot imply the management’s responsibility to perform recklessly. The end sought may very well be the societal acceptance of business activities, but even business activities, which are outside the scope of societal acceptance, does not require justification as long as they are not interfering with the property rights of others.

If management abstains from implementing the regulations suggested by the international institutions and surrenders completely to the profit motive, the corporation must necessarily withdraw (or avoid) a massive bureaucratic burden and uneconomic activities. This will,
conceivably, provide society with a more responsive business, able to shift its activities toward the demand of consumers. Likewise, it will stimulate specialization and the division of labor, which will benefit not only consumers but also the laborers, engaged in particular trades.

5.5 Internalizing Externalities
If environmental preservation, proposed by the UN Global Compact as one of the components of acting in a socially responsible manner, is to be operative, an effective system must be implemented with the intention of internalizing externalities. If an effective legal system is not established, it will be impossible for the producer with relatively higher costs due to the attention towards the non-polluting production processes to compete on price with the producer with little attention towards the non-polluting production processes. “Even a public-spirited manufacturer would be forced to engage in pollution. If he alone invested in expensive smoke-prevention devices while his competitors invaded the property of their neighbors with dust particles, they would be able to undersell him and eventually drive him from business. [...] When people are allowed full title to property rights, they treat it as if they own it; that is, they tend to protect it. When property rights are unprotected, allowing others to violate them with impunity, they tend to do so” (Block, 1990, pp. 284-285).

To establish the laws efficiently will, however, be difficult especially in a post-national constellation, where MNCs are relatively free to pursue different locations for production activities. If some countries are slacking on their protection of property rights, polluting industries might find it more attractive to move their production to these countries instead of internalizing the costs they have on surroundings.

Likewise, when sanitation services, rivers, lakes, and oceans are not owned by individuals, but the public, it becomes more difficult to preserve these areas from pollution, since the degradation of these areas are collectivized and not subject to the individual interest of preserving one’s land (Block, 1990).

The fault of the degradation of the environment is not in the market economy, but in the inability of government to allow capitalism to function (Rothbard, 2000). If property rights were established and protected by law, the corporation owning the resources “would have every economic incentive [...] to develop techniques for increasing the resource and for enhancing its long-run productivity,
so that current annual production and the resource as a whole could both increase at the same

time” (Rothbard, 2000, pp. 184). When externalities are internalized, ecological and economic costs
will be inseparable, since the market economy would make sure that all costs are accounted for, so
no violations of private property will take place (Block, 1990).
6. Conclusion
In this section a comprehensive answer to the research question will be provided by initially outlining the findings of the sub-questions and, based on these findings and the discussion, ultimately answer the main research question:

*Considering the increasing attention towards CSR and its derivatives, combined with the teachings of the Austrian school of economics, what are the social responsibilities of management in a multinational corporation?*

In order to address the research question, the following sub-questions was operationalized:

1. Analyze the implications, which CSR and various CSR-initiatives have on business in the light of the Austrian school of economics.
2. Evaluate the potential of Shared Value as a plausible method of creating congruence between society and business.

### 6.1 Sub-question 1
*Analyze the implications, which CSR and various CSR-initiatives have on business in the light of the Austrian school of economics.*

The analysis was performed by applying the Austrian school of economics to the conceptualization of CSR and the outlined international principles and guidelines, and assessing the implications, which these frameworks would have.

The most integral difference between the Austrian school and the normative literature of CSR was in the assessment of a corporation as an operating mechanism or an organization, which cannot act without the individuals embedded in the organization. While legal citizenship was acknowledged by Hayek, this did not interfere with the praxeological fact that a corporation or any group of individuals cannot exist independently from the actions performed by individuals, thus, it is the meaning which individuals attribute to an action that determines its character.

Another curious element emerged in the analysis of the economic responsibility, in which Carroll perceived the viability of business to be required by society, while the Austrian school of economics
attributed the profits as the yardstick of how much, the corporation was contributing to the economic welfare of society.

An implication which could be the result of stakeholder engagement in corporate decision-making was interpreted as the diminishment of establishing proper boundaries for the extent of property rights. Thus, if a stakeholder without ownership was allowed to have a legitimate vote in corporate strategy formulation, this would interfere with the very essence of property rights, which are to determine the rightful owners of a given property and that the owners can do as they wish with their property, as long as they do not infringe on the property rights of others.

Finally, when assessing the implications of the international guidelines and principles, it became evident that these are actually detrimental to some of their perceived objectives. Especially discrimination issues and minimum wage laws would work against the very function of the rule of law and the market economy as the enabling mechanism for underprivileged individuals. Likewise, the OECD guidelines for multinational enterprises encouraged the assertion of anti-competitive agreements by multinational corporations. Yet, the countries involved in promoting the guidelines are themselves engaging in limiting competition through trade barriers and other protectionist policies, which, if abolished, could enhance social cooperation through specialization and the division of labor leaving market participants better off.

6.2 Sub-question 2
Evaluate the potential of Shared Value as a plausible method of creating congruence between society and business.

By introducing the framework of shared value Porter & Kramer attempted to provide a solution to the explicit treatment of CSR and instead making the creation of shared value a source to secure a competitive advantage while benefitting society at large. While Porter & Kramer formulated there ideas more explicitly than CSR, as conceptualized in this thesis, it failed to provide a plausible framework to create congruence between business and society. The ideas formulated by Porter & Kramer seemed borderline egalitarian, since they did not perceive the consumer as the sovereign actor on the market, rather, that corporations should avoid providing products to consumers, who would be perceived as ‘unhealthy.’ Simultaneously, Porter & Kramer ignored the function of the market as allocating resources toward the demand of consumers, and instead suggested that
companies should reconceive products and markets in order to meet the apparent increasing demand for products and services, which meet societal needs.

Porter & Kramer also managed to promote resource utilization and simultaneously, indirectly, call for less competition by encouraging corporations to stop exercising their bargaining power over suppliers. If society and business is to experience congruence, it cannot be through retarded processes towards the products wanted by consumers, and it cannot be by discriminating against suppliers on the basis of not allowing their competitiveness to be a part of the composition of the supply chain.

In an attempt to foster innovation, Porter & Kramer suggested that corporations enable local cluster building, and in this context highlighted the success of a public and private partnership in North Carolina. However, while a counterfactual, they fail to recognize what could have been, if not for the private public collaboration using resources and fall into the trap of ‘that which is seen, and that which is not seen.’ Congruence between business and society cannot possibly be an outcome of the confiscation of means from the population, which are distributed into activities, which are considered to be viable by the government, yet, not viable by private entrepreneurship alone.

Finally, Porter & Kramer encouraged government price-fixing, which will inevitably create shortages and surpluses, obscuring the equilibrium between supply and demand, and frustrating the consumers, who might forward their anger towards corporations – another detrimental solution if the framework of shared value is to create congruence between business and society.

6.3 Conclusive Findings
With the implications of CSR and its derivatives addressed, and the evaluation of the framework of shared value’s ability to create congruence between business and society, the conclusion can be drawn by referring to these findings and the contents of the discussion.

If management can be expected to attain any responsibilities, it must be responsibilities, which are in line with the expectations from shareholders. In this sense, the profit motive must be the main driver of management, when conducting business. A business’ contribution to society can be measured in the profits, which are incurred by participating in voluntary trade with market participants. High profits will signal that good products and services have been supplied to the consumers. Thus, if management adheres to the profit motive, they will increase the standard of
living in the areas in which they operate. When complying with the profit motive, management will not be able to succumb to discriminative behavior based on ethnical, religious, gender or other characteristics, since the profit motive must be indifferent to these characteristics, if management is to provide consumers with the best services and goods. Likewise, the profit motive will encourage management to stick to their abilities, fostering social cooperation through specialization and the division of labor. This will provide individuals with the opportunity to pursue their goals and will benefit all market participants. The profit motive will also secure efficient resource allocation, since resources will be allocated towards the ends, which consumers perceive to satisfy their most urgent needs.

Additionally and especially important when operating in multiple countries is the respect for property rights. The formulation of law can be somewhat unspecific in undeveloped countries; yet, management has an obligation to respect property rights even if this will cause an undesirable competitive situation in the region of operation. Inappropriate national law does not justify the infringement on individuals’ property. If property rights are properly protected, the market forces will secure the internalizing of externalities, which will decrease pollution and enhance resource utilization.

If management engages in any activities outside the scope of increasing profits and respecting property rights, they will be obscuring the market system, thus, reducing the standard of living in societies, which they have an interest in serving.

If management engages in public partnerships with local governments, they will obscure the resource allocation in the country, and infringe on the rights of taxpayers by taking the resources, which could have been devoted to preferred and efficient ends, and directing them towards inefficient and undesirable ends.

If management participates in any activities, such as lobbyism, which are supposed to guide government in granting special favors, privileges, or other beneficial agreements, the corporation will be performing corporatism, undermining the most important democratic principle – that everyone is equal under the rule of law. Even in countries where bribery is a common tool of business conduct, management’s engagement in such an activity will undermine the public and restrict competition, while simultaneously economically supporting a government, which are neglecting the rule of law.
If management adheres to the international guidelines and principles formulated by the OECD and the UN, they will legitimize the purposes of these supranational organizations, and stimulate the progress towards additional bureaucratic burdens.
7. Perspectives for Further Research
After conducting the research and outlining the responsibilities to be attained by management in a multinational corporation, this section will present further perspectives, which could be interesting for research in order to establish a more comprehensive framework for socially responsible management in a multinational corporation.

Alternative Methodology
It could be interesting to use a methodology different from praxeology to determine the social responsibilities of multinational corporations, since praxeology is strictly limited by methodological individualism and a priori statements. If a different research paradigm was used, it could establish the link between theory and practice by including empirical data, and use these data to outline the consumers’ perception of CSR, the corporation’s perception of CSR, and contribute to the understanding of how CSR can be used for marketing activities, operational activities, or similar. However, these findings would not be able to verify or falsify the findings in this thesis, since praxeology is exclusively concerned with human action and the appropriate means to attain certain ends.

CSR & Moral Hazard
Although moral hazard is a term usually used to illuminate government action as hazardous to morality (Paul, 2011), it could be interesting to investigate if, how, and to which degree, CSR contributes to moral hazard in the case of an agency contract, where “moral hazard can arise when an economic good is not effectively controlled by its owner (the “principal”) but by a different person called the “agent.” […] Informational asymmetries produce moral hazard in conjunction with this separation of ownership and control. The agent, who is fully informed about his own activities, has an incentive to act in his own material interest against the material interests of his less informed principal. Whenever the principal cannot effectively monitor the activities of his agent, therefore, the latter has an incentive to increase his own (monetary and psychic) income at the expense of the former (Hülsmann, 2008, pp. 2).
Consumers’ Perception of International Organizations – Can CSR be a Political Objective?
Since consumers are the only source of profits in a market based on voluntary exchange, how do they perceive international organizations such as the UN and the OECD? Likewise, how do they perceive the legitimacy of the state in the country of their origin? Since the state is, usually, the legislative institution and the only actor in society, which can coerce by law, does it legitimize the principles and guidelines proposed by the UN and the OECD as much as if it were the state itself that had formulated these outlines? Would they be more inclined to support frameworks for responsible business conduct, which were established voluntarily and without tax funds, than principles and guidelines, which were established by confiscating resources from the taxpayers?

Also, the design of CSR as a one-size-fits all objective declared by governmental institutions and supranational organizations will inevitably only regard the preferences of the policymakers as to how they perceive the preferences, which is held by society. This neglects individuality and limits the freedom of choice. Whenever governmental or supranational institutions shape a normative guideline of how companies should act, this view is legitimized not only by the media, but also the public, who regard these institutions as an authority and as a protector of their own best interests.

Working Conditions
It could be interesting to explore the perception that laborers have about the working conditions in undeveloped countries. Do they perceive the monetary compensation to outweigh the, if any, poor working conditions? Do they believe the minimum wage is protecting them or rather keeping them from seeking opportunities, which they would find more attractive?

Monetary Expansion
While the thesis addressed taxation and anti-competitive arrangements within national boundaries, it could be interesting to apply the element of state-initiated monetary expansion to the mix of mechanisms, which are hurting the market economy and the consumers. When obscuring the relationship between consumption and investments, how does this affect sustainable business conduct?
8. List of Literature


Crane, Andrew & Matten, Dirk (2010) Business Ethics. 3\textsuperscript{rd} edition, Oxford University Press.


