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Reconciling Corporate Citizenship and Competitive Strategy: Insights from Economic Theory

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ABSTRACT. Neoclassical and Austrian/evolutionary economic paradigms have different implications for integrating corporate social responsibility (corporate citizenship) and competitive strategy. Porter's ''Five Forces'' model implicitly rests on neoclassical theory of the firm and is not easily reconciled with corporate social responsibility. Resource-based models of competitive strategy do not explicitly embrace a particular economic paradigm, but to the extent their conceptualization rests on neoclassical assumptions such as imperfect factor markets and profits as rents, these models also imply a trade-off between competitive advantage and corporate social responsibility. Differences in Austrian/evolutionary economic model's assumptions about equilibrium, profits, and other economic concepts allow this paradigm to embrace alternative views of strategy such as the activities or dynamic capabilities views. These alternative views of strategy focus on learning and adaptation; they align more easily with corporate social responsibility. In practice this alignment comes about because social engagement facilitates the learning and adaptation that are a source of competitive advantage. Among the many business arguments for CSR such as improved employee morale/productivity or brand differentiation, this view prioritizes innovation.

KEY WORDS: corporate social responsibility, competitive strategy, incomplete markets, economic theory of the firm, neoclassical economics, Austrian/evolutionary economics

Aligning competitive strategy and corporate citizenship: context

Questions about the marriage of corporate social responsibility (CSR) and competitive strategy are widely discussed among practitioners and passionately argued in scholarly forums (Brooks, 2005; Longley, 2005; McWilliams and Siegel, 2006). Recent studies (Hillman and Keim, 2001; Husted and Salazar, 2006) find ''it is wiser for the firm to act strategically than to be coerced into making investments in corporate social responsibility.'' Porter and Kramer (2006) propose that ''if corporations were to analyze their prospects for social responsibility using the same framework that guides their core business choices, they would discover that CSR...can be a source of...competitive advantage.''

On the practitioner side, integrating social responsibility and competitive strategy helps earn CSR officers a place in discussions central to business operations. To align with corporate strategy, social contributions practitioners shift from arms-length models of checkbook philanthropy to emphasis on partnerships that align with the firm's core competencies and most strategically important stakeholders (Bruch and Walter, 2005; Hemphill, 2004). This involves a new filter for evaluating corporate social contributions and often means the corporation ceases supporting some of its traditional social partners in order to pursue more strategically aligned partnerships. Social contributions are monitored using performance metrics linked to the corporation's strategic goals (Epstein and Wisner, 2001; Zingales and Hockerts, 2003).

On the academic side, scholars debate the strategic value of CSR because neoclassical theories of firm performance do not easily reconcile social welfare with corporate success (Allinson, 2004; The Economist, 2005). CSR activities are justified, in the neoclassical economic view of the firm, if they contribute to, or at minimum, do not detract from profitability. This view underlies corporate

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exhortations to align CSR activities with corporate goals and core competencies and drives scholars' efforts to examine CSR activities' correlation to corporate financial performance. Yet studies examining the covariation of financial performance and investment in social responsibility return mixed results (Barnett, 2007; Brammer et al., 2005; Cardan and Darragh, 2004; Fishman et al., 2005; Orlitzky et al., 2003; Vogel, 2005). Vogel's (2005) survey of research cautions CSR proponents to make their financial case for CSR based on evidence that CSR does not *hurt* profitability. Even in this case a particular firms' calculations about the value of CSR investments based on the costs of CSR initiatives relative to anticipated value of the investment will probably lead to chronic under supply of CSR (Husted, 2005).

Underlying debatable empirical evidence about the correlation of CSR efforts with profitability is a theoretical quagmire lying at the intersection between economic models of competitive advantage and social welfare. Neither of the two predominant bodies of inquiry into competitive advantage, traditional "industry" analysis and organizational resource-based approaches, create much of an opening for CSR. Part of the problem is that, despite the "long....uneasy and ambiguous relationship [between] economists and students of strategic management" (Langlois, 2001: 163), both traditional industry analysis or "Five Forces" and Resource-Based Views (RBV) of strategy share important assumptions about the workings of firms and markets with neoclassical economists. In the neoclassical economic framework markets only function to maximize social welfare if they are free of market "imperfections," "flaws," or "failures" such as asymmetric information or externalities. At the same time and, somewhat ironically, strategic endeavors guided by models based in the neoclassical paradigm yield sustained competitive advantage only in markets that are imperfect.

Social welfare and competitive advantage in the neoclassical tradition: "five forces" approach

The neoclassical paradigm of economics provides a framework for understanding the allocation of scare resources among competing uses. Individuals maximize utility and firms maximize profits. Individual/firm choices to maximize utility or profits, even under "bounded" rationality, yield market equilibrium where supply intersects demand. Neoclassical theory of the firm "is something of a misnomer for a theory of the short-run behavior of markets" (Lockett and Thompson, 2001: 727). According to neoclassical equilibrium models of firm performance, markets are the "best" mechanisms that societies can adopt for allocating resources if they meet a specific set of assumptions. "Best" in this instance means offering the greatest good for the greatest number. In markets that meet these assumptions the firms' quest for profitability also maximizes social or "public" welfare. If markets do not meet these assumptions, profit-maximizing behavior by firms in these markets is not necessarily welfare-maximizing. Markets that do not meet these assumptions suffer from "market imperfections" and will not necessarily allocate resources in the way that produces the most benefit and the least cost for society.

Among a long list of criteria for perfect markets,[1] three critical ones are: perfect competition, 'complete' information and no externalities (Kreps, 2003; Salanie, 2000). In markets where competition is imperfect, information is asymmetrically distributed between buyer and seller or producer and consumer,[2] or externalities exist, firms' profit-maximizing behavior will not necessarily be social welfare enhancing. Problems associated with imperfect markets underlie common CSR issues such as pollution or consumer safety (Keim, 1978). In other words, market imperfections capture many of the economic phenomenons underlying the need for corporate social responsibility.

The problem of externalities provides many illustrations. An externality occurs when a cost or benefit associated with a market trade falls on parties not directly involved in the trade. Driving gasoline-fueled cars imposes a cost on society in the form of deteriorating air quality. It does not take much imagination to believe that gasoline is under priced given the external costs its sale and purchase create. As a government policy, social norms or industry self-regulation encourages internalization of those costs, gasoline's price will rise. This type of speculation pushed Toyota to put development and delivery of a hybrid fuel vehicle at the center of its

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strategy to become the world's number one auto manufacturer.

Asymmetric information, while a more complex category of market imperfections and source of social problems, also provides illustrations. Asymmetric information involves situations where information pertinent to valuing the good or service to be exchanged or contracted for is unevenly distributed between the buyer and seller. In other words, either the buyer or seller has more information relevant to the transaction than the party on the other side. Examples abound in health care and consumer goods. Ground beef or cosmetic surgery may be or under or overpriced depending on risks associated with aspects of quality difficult for the consumer to detect. Whole Foods recognized the market for food products sold along with information and warranties of food safety.

While market imperfections partly explain the need for CSR, they are also the source of competitive advantage in strategy frameworks, such as Porter's "Five Forces" model, based on neoclassical economic theories of the firm. In a world of neoclassical economic theory demarcated by equilibrium or partial equilibrium analysis, above average firm profits, or rents, derive from market imperfections. In other words (Mathews, 2006: 2), "strategic management implicitly, and sometimes explicitly, relies on a notion of market imperfection to underpin a conception of strategizing." The problem, if we want to align the practices of competitive strategy and corporate social contribution, is that, by definition in the neoclassical economic paradigm, imperfect markets do not maximize social welfare. In this basic sense firms cannot achieve sustained competitive advantage (SCA), the objective of competitive strategy, and contribute to maximum social welfare in the same market context. When firms are able to achieve above average profits, i.e., rents, the market is not maximizing social welfare. Where firms find rents in market imperfections, sometimes called market 'failures,' society finds need for government intervention or corporate social responsibility. At best it is a challenge to marry successful competitive strategy and corporate social responsibility within the conceptual framework of neoclassical economics. At worst it is simply not possible.

Porter's (1985) "Five Forces" or industry analysis model draws heavily from the neoclassical economic theory of the firm and particularly, the field of industrial organization (IO). Strategy teams following the "Five Forces" model frequently design policies that amount to creating or sustaining market imperfections such as barriers to entry, limited buyer and supplier power, or low rivalry. As Jacobsen (1992: 2) writes,

> [M]much of the current thinking about strategy management focuses on ways that firms can create imperfectly competitive product markets in order to obtain greater than normal profits. Porter defined the strategic objective of a business unit as to position itself in an industry where it can best defend itself against competitive forces, or at least influence them in its favor.

The problem from the perspective of corporate social responsibility or corporate citizenship is that Porter's framework for how to achieve sustained competitive advantage relies on perpetuation of market flaws. Lewin and Phelan (1999: 15) note a "curious normative ambiguity. While an economy characterized by large profits may, in some sense, be viewed as dynamic and desirable, the large profits, at the same time, signal gross inefficiencies."

The Porter view of competitive strategy and its inconsistency with social welfare underlies research (Amalric and Hauser, 2005; van de Ven and Jeurissen, 2005) exploring the notion that companies have more room for CSR activities the less competitive their industry or sector. Other scholars (McWilliams and Siegel, 2006) are very pessimistic about firms' ability to use CSR for competitive advantage even in monopolistic and oligopolistic industry settings. Reinhardt (1998) finds that CSR-based strategy only yields above average returns if the firm can prevent competitors from imitating the strategy. Theoretical studies (Hoppe and Lehman-Grube, 2001) show why competition erodes first mover advantages gained from CSR efforts.

Reconciling competitive advantage and social welfare seems to have been a part of the motivation for seeking an alternative approach to competitive strategy. One of the founders of the "Resource Based View" (RBV) of strategy, Barney (1991: 116) writes, "as applied by strategy theorists focusing on environmental determinants of firm performance, social welfare concerns were abandoned in favor of

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the creation of imperfectly competitive industries within which a particular firm could gain competitive advantage....At best this approach...ignores social welfare concerns. At worst...this approach focused on activities that firms can engage in that will almost certainly reduce social welfare....''

Social welfare and competitive advantage in neoclassical organizational economics/ new institutional economics: resource-based view

The assumptions required to justify the neoclassical approach – of perfect competition, symmetrical information, no externalities, and others, are unrealistic. Rumelt et al. (1991: 13) pull no punches when they observe, ''[T]hat such a theory, so obviously divorced from the most elementary conditions of real firms, should continue to be taught in most business schools as the 'theory of the firm' is a truly amazing victory of doctrine over reality.'' Efforts to square many of the basic tenants of the neoclassical framework such as the maximizing behavior of individuals and firms, conceptualization of the firm as a production function, and an equilibrium orientation, with the reality of firm operations, brought transaction cost economics, agency theory, and property rights into the field of management strategy. These ideas were given the appellation of ''organizational'' economics, ''new'' industrial organization or ''post-Coasian'' theory of the firm (Carroll and Teece, 1999; Kim and Mahoney, 2005). In this view, a firms' success owes to making the right choices between internalizing or externalizing aspects of the production process. Firms exist because they can lower transaction costs such as negotiating contracts by bringing production-related activities inside the firm. Coase (1937) explains that some parts of the production process will be governed/organized by the price system and others by hierarchy and contract inside the firm. Governance can be an important piece of the puzzle of sustained competitive advantage to the extent it helps secure inimitable resources.

These economic models put the strategic focus on assets of specific value to a particular firm that are secured via contracting and incentive design. In this way they dovetail closely with the RBV approach to competitive strategy (Foss and Foss, 2005; Lockett and Thompson, 2001). Sustained competitive advantage in the RBV comes from having superior resources; contracts and rights assignment are one way of trying to secure resources. Taking this line of argument one step further Foss and Foss (2005: 551) suggest that crucial resources that drive competitive advantage in the RBV ''can usefully be conceptualized as bundles of property rights to resource attributes.''

RBV departs a bit from traditional neoclassical theories of the firm, but these differences are a matter of degree rather than kind. Later offshoots of RBV such as the ''Knowledge-Based View'' (Kogut and Zander, 1992; Langlois, 2002), and the ''Dynamic Capabilities View'' (Teece et al., 1997) depart more than the original RBV from neoclassical economic assumptions. Just as Coase did not challenge dominant neoclassical price theory in developing transaction cost economics, RBV shares many neoclassical assumptions (Foss and Klein, 2005). Among these are the view of the firm as a production function motivated by equilibrium conditions and the related view of the firm as an optimizing ''agent'' who's most important issue is the allocation of existing resources.[3] While some later variants of RBV move away from this conceptualization of the firm, RBV still shares three crucial neoclassical economic assumptions with the ''Five Forces'' approach. These are the role of market imperfections in driving competitive advantage, a common approach to determining the source of profits and a relatively static view of resources as assets waiting to be uncovered rather being created. (Peteraf, 1993: 190).

The basic ''trick'' to strategic management in the RBV is securing superior resources that are hard for competitors to reproduce. The RBV of competitive advantage is, like Porter's ''Five Forces,'' a fairly static framework operating within an equilibrium view of markets and firm behavior (Jacobsen, 1992; McWilliams and Smart, 1993). Because strategic opportunities stem from available resource bundles, there is little in the theory drawing the strategic manager toward long-term thinking about evolution and change (Lockett and Thompson, 2001: 745). Coaseian economic analysis of the firm takes inputs (and outputs) of the firm's production process as given (Boudreaux and Holcombe, 1989: 153). RBV

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directs scholars and practitioners to look inside the firm, at order and organization of inputs. Inimitable combinations of resources drive competitive advantage. From an economic perspective this is still a neoclassical concept of competitive advantage because above average profits stem from market imperfections – in this case factor market imperfections.

Peteraf (1993) highlights the importance of limits to competition in resource markets as a necessary condition for sustained competitive advantage in the RBV. Generalizing about several different variants of the RBV, Lockett and Thompson (2005: 84) concludes, ''[T]he common theme that runs through all of these perspectives is the necessary condition that there are imperfections in resource markets if any position of competitive advantage is to be sustained.'' He also notes the contrast between the economics of RBV which focuses on imperfections in resource markets and the economics of Porter's ''Five Forces'' that focuses on imperfections in product markets.

Another area that highlights the common neoclassical heritage of RBV and ''Five Forces'' is the conceptualization of profits. Both models draw on neoclassical economics in viewing profits as rents. Rents are measured as the difference between what a firm's inputs cost or factors of production are paid and the opportunity cost or income given up by not having that input deployed in the next best alternative use. (Lewin and Phelan, 1999) This contrasts with the Austrian/evolutionary economic paradigm in which profits are income after all contractual factor payments and correspond to uncertainty – to ''riskiness that is not forecastable'' (Demsetz, 1988: 237; Mathews, 2006: 6).

A third commonality is the view of resources as assets waiting to be identified rather than capabilities that may be created. The neoclassical view of resources shared by ''Five Forces'' and RBV strategy is static compared with the more dynamic view of resources in the Austrian/evolutionary compatible view of strategy discussed below.

Emphasizing their compatibility, Foss (1996: 19) outlines complementarities between ''Five Forces'' or ''industry analysis'' and RBV. Foss contends that RBV adds a theory of the firm that moves beyond firm as black box production function and offers a more fine-grained competitor analysis. He suggests that ''Five Forces'' adds an understanding of the external environment absent in RBV. All the same, the two dominant strategy frameworks in the management literature, Porter's industry analysis and the RBV share characteristics stemming from common roots in neoclassical economics (Foss and Foss, 2000). The source of rents, or profits, is inefficiency in product or factor markets.

Employing an RBV of competitive strategy, CSR ''activities or attributes may be used as a differentiation strategy'' (Branco and Rodrigues, 2006; McWilliams and Siegel, 2001; McWilliams et al., 2006). Differentiation strategies could involve resource combinations designed to increase profits or reduce risk. (Husted, 2005) From an economic perspective this effort at marrying strategy and CSR runs into the same problem encountered in the effort to marry Five Forces approaches to CSR. Firms can only sustain competitive advantage based on CSR-related differentiation if they can prevent competitors from imitating their strategy. (Reinhardt, 1998) If markets are competitive, it is unlikely firms can prevent imitation, so sustained competitive advantage likely erodes. As in the case of ''Five Forces'' derived strategic action, the RBV of strategy also includes little scope for marrying sustained competitive advantage and maximum social welfare.

Social welfare and competitive advantage in the Austrian/evolutionary economic paradigm

Rumelt et al. (1991) suggested over a decade ago that economic models and reasoning might not be particularly useful in the future evolution of the strategic management field. The authors suggested that alternatives to the neoclassical economic paradigm might prove more fruitful in spurring breakthroughs in the study and practice of strategic management. The authors' (Rumelt et al., 1991: 23) write about an economic framework that ''breaks away from the assumptions of clear and obvious choice sets and correct understanding of consequences of making various choices.'' An important criterion of this economic framework for strategic management is its ability to incorporate trial and error learning. This paradigm differs from the neoclassical framework in its assumptions about key economic activities including an alternative conceptualization of the source and definition of profits.

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Reconceptualizing the source of profits in the neoclassical framework is necessary in order to broaden the scope for strategic CSR. The A/E paradigm breaks the neoclassical association of profits and sustained competitive advantage with market imperfections that limit social welfare.

Austrian and evolutionary (A/E) schools of economics (Boulding, 1981; Callahan, 2004; Dopfer, 2005; Horwitz, 2000; Mathews, 2006; Nelson and Winter, 1982) inform an alternative to neoclassical approaches to firm performance (Foss, 1997; Lewin and Phelan, 2000). In contrast to the neoclassical view, the A/E paradigm completely jettisons the notion of perfect markets that settle easily into efficient, social welfare-maximizing equilibriums. According to the A/E paradigm, economies are complex systems always in disequilibrium. Proponents of these alternative economic traditions use biology as their hard-science touchstone rather than Newtonian physics, as do the neoclassicists. Other scholars refer to this paradigm as the ''market process perspective'' (Foss and Foss, 2000). In Boulding's (1981) work on economies as evolutionary systems know-how is the counterpart to DNA and genetic information in biological evolution. One of the challenges of studying economies as evolutionary systems is the pace of change. It is feasible to derive fixed ''laws'' describing astronomical behavior because change is so slow. Biological change is faster, but still amenable to study via the scientific method. Social systems change much faster. The theory of cybernetics is also relevant to the study of economies and markets as complex, evolutionary systems (Wiener, 1954). An example of empirical studies in management and strategy that build more or less explicitly on the paradigm of A/E economics is Christiansen's (2003) work on innovation.

Austrian and evolutionary theories build on individuals and organizations in a process of search and learning, and adaptation, rather than utility maximization. Black (2003: 157) writes, ''Their theory substitutes continuous change for equilibrium. Causal links are nonlinear; results are partially planned and partially emergent...''

The main points of contrast between the neoclassical paradigm and the A/E paradigm's theories of the firm revolve around the role of equilibrium, characterization of the market and competition, the basis of competitive advantage and the treatment of innovation and entrepreneurship. The A/E paradigm emphasizes disequilibrium. It characterizes the market as a costly process of coordination and learning involving sequential adaptation rather than a costless price mechanism involving simultaneous adaptation. It depicts competition as discovery and the creation of new markets. As a tool, the ubiquitous neoclassical comparative static analysis of partial equilibrium will not shed much light on competition as a complex fluid process. Competitive advantage comes from firms' valuing actual and potential bundles of resources. A/E explicitly incorporates entrepreneurship and innovation as endogenous and driving new resource combinations, which contribute to competitive advantage. In contrast, in the neoclassical paradigm entrepreneurship and innovation are ancillary to the main depiction of market function (Foss and Mahnke, 2000; Jacobsen, 1992; Lewin, 2005).

Austrian and evolutionary strategic activity involves ownership of complex resources and knowledge of possible activity sets utilizing those complex resources. Strategies to obtain above average profits in the A/E view hinge on differences in beliefs about anticipated events that drive a ''wedge between ex ante appraisal and ex post realization'' of some revenues and costs (Lewin and Phelan, 1999: 14). The neoclassical and organizational economic view of profits contrasts with the A/E view where it is expectations of resource costs and values – ''different appraisals of the worth of resources'' that drives profits (Lewin and Phelan, 1999: 14). Lipman and Rumelt (2003: 1069) write, ''Strategy concerns the creation, evaluation, manipulation, administration and deployment of unpriced specialized scarce resource combinations....'' The trick to achieving comparative advantage is discovering the value of different combinations of complex resources. Lewin (2005: 34) writes, ''competition is an open-ended discovery process in which the earning of profits...are possible because the ex ante prices of resources turn out to be different from their ex post values.'' Competitive advantage comes from differential resources, activity sets and knowledge (Mathews, 2006). Knowledge is conceptualized as something that must be created through acts of entrepreneurship, more like 'discovery', rather than as objective snippets of information waiting to be uncovered (Horwitz, 2000). Key to competitive

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advantage and the associated above average profits are heterogeneous expectations about the value of resources, activity sets and routines. Comparative advantage and profit stems from ''those expectations that turn out to be correct'' (Phelan and Lewin, 2000: 69).

Mathews (2006) describes a firm with an ''idiosyncratic bundle of resources'' building a business project to test whether the opportunity presented in a perceived mismatch between prices and values ''is ready or not.'' Strategic choices are conjectures about markets that must be put to test. ''The recombination of resources, activities and linking routines within the firm'' and among firms in a network, ''is the implementation of strategic choice'' (Mathews, 2006: 23).

Strategy starts from search, testing and learning about a firm's resources/capabilities, how they might be deployed, and in what future context. As in RBV, successful firms identify and exploit opportunities but the difference is that the search terrain is much broader in the A/E paradigm (Locke, 2001: 744). In this view, competition is a discovery process in which beliefs about resource values are continuously falsified and reformed as consumer choices expand and other elements of the business environment change. There is a tendency toward equilibrium but actual equilibrium is very rare. Efficiency is not a requirement for competitive advantage. Sources of business success, imagination, for example, are not as easily observed and quantified as they are in ''Five Forces'' models. Furthermore, because the strategy model is about search and learning rather than optimization, the most optimal path to business success isn't necessarily followed. Competitive advantage comes through trial and error when perceptions are falsified. The main economic problem in this view is not resource allocation but effective adaptation to change (Foss, 1997) by ''making efficient use of knowledge which nobody can possess in its entirety.''

Disequilibrium prices play a role in strategy process in both paradigms. In the neoclassical paradigm prices must be informationally efficient in order to bring the market to its social welfare maximizing equilibrium. A/E jettisons the notion of equilibrium as a real phenomenon. Disequilibrium prices are socially beneficial because they provide information, although flawed, that (Horwitz, 2000) ''could not be made socially accessible through any other conceivable process.'' Prices are analogous to language. Through prices, markets ''communicate tacit information outside of natural language'' (Horwitz, 2000).

The A/E paradigm can encompass the activities-based view of strategy (Hunt, 2002), RBV and the dynamic capabilities perspective (Teece et al., 1997) – if and when these approaches to strategy are applied dynamically in disequilibrium (Mathews, 2006). The A/E-derived vision of firm strategy doesn't encapsulate those models of strategy if they are applied statically, abstracted from time (Bromily and Papenhausen, 2003).

The A/E theoretical tradition provides an understanding of firm performance in the context of imperfect markets that is not at odds with pursuing social welfare, as are approaches to strategy based on neoclassical theories of the firm. It suggests an approach to corporate strategy that more easily aligns with social responsibility than do the neoclassical-based approaches to strategy. CSR can improve the strategic process as defined by the A/E paradigm.

The practice of CSR and A/E derived strategy reinforce one another in two specific ways. In the A/E paradigm, strategy is similar, if not identical, to entrepreneurship or ''intra-preneurship.'' When CSR is oriented toward innovation and opportunity recognition it converges with competitive advantage defined as coming from innovation and opportunity recognition, as it is in the A/E paradigm. Elaborating on the real options approach as a framework for CSR investment Husted (2005) concludes, ''in the case of real options with direct benefits, CSR may act as a vehicle for innovation...'' While a focus on innovation does not necessarily guide CSR practice, it is increasingly seen as a cutting edge way to frame the business case for CSR. IBM, for example, recently changed the organizational location of its corporate citizenship function placing it the R&D division with reporting lines to C-level executives running through the head of R&D. A more well-known example within the CSR literature is the case of Hewlett Packard's iCommunities where HP's partnerships with rural governments and non-governmental organizations in India gave rise to product innovations such as a solar-powered camera (Dunn and Yamashita, 2003).

The second channel through which CSR and A/E grounded strategic process are mutually

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reinforcing involves strategy viewed as social engagement. The HP example illustrates this channel also. By focusing attention on social engagement, such as HPs collaboration with municipal governments, CSR can enhance/accelerate the learning and adaptation that are central to the strategy process in the A/E paradigm. Strategy scholars are beginning to explore the idea of strategy aligned with CSR through social engagement. Kantor (1999) describes how the social sector can be a ''beta-site'' for innovation and Hart and Sharma (2004) provides a roadmap for to ''engaging fringe stakeholders for competitive imagination.'' Ghemawat (2001) analyzes firms' ''social competency.'' In pointing to strategy that involves prioritizing new kinds of engagements in the social and political realm this view also dovetails with work on ''integrated'' strategy (Baron, 2001). Strategy as social engagement facilitates firms' learning about social and political circumstances, ''boundary conditions,'' possibly impacting the cost of resource bundles, activities and routines and the expected return on strategy implementation (Amalric and Hauser, 2005).

Conclusions: CSR as innovation and strategy as social engagement

The socio-economic problems associated with incomplete markets: externalities, information asymmetries, and compromised competition, motivate corporate social responsibility. Traditionally economists think about market flaws as a rationale for government intervention in the form of regulations, taxes and subsidies. Contemporary business school curricula introduce market inefficiencies as explanations for government regulation. In this view government is forcing corporations to supply CSR. But the conceptualization of strategy within the A/E economics paradigm has important implications for the voluntary supply of CSR by for-profit entities. This paper illustrates how Austrian or evolutionary economic theories of the firm point towards a new approach to competitive strategy more compatible with CSR than approaches resting on neoclassical equilibrium models of firm performance. From a managerial perspective, this approach involves two activities: aligning CSR with innovation and pursuing strategy through social engagement.

Several directions for future empirical research derive from this conceptual analysis. The analysis suggests that CSR activities tightly linked to innovation functions might be more financially fruitful than those oriented toward public relations, marketing, human resource management etc. For example, case studies of the relocation of CSR functions into R&D divisions in several major global companies could explore the anticipated and actual impact on: corporate strategy, competitive advantage and profitability. Larger-n studies might explore the relationship between the organizational location of CSR functions and the firm's competitive advantage, although implementation of CSR as innovation is so recent this type of study might be premature. Hart and Sharma's (2004) work on engaging future stakeholders in order to facilitate ''competitive imagination'' also suggests the potential of case studies that examine the influence of boundary spanning activities on strategic vision.

The analysis developed here compares and contrasts the implications of grounding competitive strategy in neoclassical and evolutionary/Austrian theories of the firm. Anchoring competitive strategy in the reality of imperfect/disequilibrium markets and Austrian/evolutionary theories of the firm helps overcome incompatibilities between competitive strategy and CSR evident in the neoclassical framework. The paradigm points to a vision of strategy as innovation that may be enhanced through social engagement. Strategy as social engagement and CSR as innovation, with economic foundations in the A/E paradigm, provides for a more harmonious marriage of business competition and social responsibility than afforded in the worldview of neoclassical economics.

Notes

[1] These criteria can be depicted in slightly different ways but an important additional criteria not listed here would be rational behavior by individuals and firms and their ability to identify their own utility. The unrealistic nature of one or more of these assumptions usually underlie scholars criticisms of neoclassical theories of the firm and their macroeconomic and social implications (Daly, 1997; Sen, 2002).

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[2] This is one of many possible types of incomplete information.

[3] There is a move toward ''path-dependency'' and away from the optimization perspective in later variants of RBV such as the Knowledge-Based View of competitive strategy.

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