Illustration 15.1
Competition by Doing the Right Thing

As we mentioned, many large corporations have, over the last decade or two, seemingly discovered social consciousness. We gave a few examples in the text. How many commercials have you seen in which the corporation promises to donate money to some worthy cause? Sometimes it appears that beer manufacturers are more interested in promoting responsible drinking than in selling more beer. Soft-drink companies beg customers not to litter.

Why this sudden change? If a miraculous conversion seems rather unlikely, firm managers must believe that, given the current social climate, doing good will be good for business. ***Newsweek*** reported that the public is now paying more attention to corporate behavior.* A Roper poll found that 52 percent of a sample of U.S. consumers said they would pay 10 percent more for a socially responsible product and 67 percent said that when they shopped they were concerned about a company's social performance. (Remember the problem with consumer interviews, discussed in Chapter 7.) Whether or not these consumers told the truth, many corporations have used their social consciousness to try to increase sales or to charge more for their products. Doing good has been used, though not admitted, as a way to increase profits.

Some oligopolies that sell a differentiated product to consumers have tried to improve their image by informing people about their socially responsible behavior. This type of nonprice competition has overtones of both advertising and product-quality competition. The advertising conveys an image of the product; using the product makes a statement about the user’s social responsibility. The image of corporate responsibility also is a way to change the quality of the product. The product is somehow “better” if it was produced in a socially responsible way.

We do not mean to imply that desirable behavior by corporations is solely motivated by profits, although ***Newsweek*** reported that some corporate observers were a bit skeptical about the motivations and about the long-term usefulness of such behavior, particularly as consumers’ incomes fall in a recession. One skeptical corporate observer was Alex Taylor III, writing in ***Fortune*** about a well-known company that is widely known for trying to “do good”: Ben & Jerry’s Ice Cream.† Mr. Taylor notes that Ben & Jerry's pays farmers extra to supply them with milk that is free of a certain growth hormone. He reports that this socially beneficial action cost $375,000 last year, even though there is no conclusive evidence that the hormone is bad for people. And he reports other social actions of the firm, some of which harmed the company and some of which may have benefited it.

Mr. Taylor ends the article by stating that Ben & Jerry claim that their principles give them a competitive advantage that ensures additional profits but they offer no supporting evidence. He notes that their stockholders are not likely to agree. After hitting a high of $32 in August 1992, Ben & Jerry's stock has been trading around $13, and the company was expected to lose money in the first quarter of 1997. "As for dividends, to date they have been spiritual."

Judging from their advertising and ad hoc evidence, oligopolies appear to be the firms that are most socially conscious. Clearly, perfect competitors would not tell consumers how much good they are doing. Because of homogeneous products, consumers wouldn't know whether they were buying from a socially conscious firm or not. A monopoly faces no good substitutes for its product and would not use this approach unless it was government-regulated and wanted to please the regulators. It would appear that, to a greater or lesser extent, many oligopolies undertake such activities as a market tactic to gain sales from competitors.

We end this illustration by noting the plight of a truly socially conscious firm owner who gains absolutely no economic benefit from his behavior. A California peach and grape orchard owner, David Mas Manumoto, told his story of "political correctness" in ***USA Today.***[‡] According to Mr. Manumoto, "[I] farm organically, utilizing farm practices that sustain the land and air. [My] peach and grape farm is part of a renewable, natural system. [My] peaches are part of the environmental solution, not part of the problem. They don't add to landfills, compost piles love their peelings, and the trees provide habitat for wildlife. My produce is 'made in the USA' and grown by a minority (I'm Japanese-American) who employs 90 percent minorities. . . . [I don't] use toxic pesticides."

But the only benefit for Mr. Manumoto is "knowing my peaches are grown with a raised consciousness." As he notes, "The problem is that you won't think about this when you squeeze or smell my peaches in the grocery store. You won't ask the produce manager where the peaches came from or how they were grown. But you'll buy lots of peaches this summer because they're cheap."

Mr. Manumoto is a perfect competitor in the peach market. He sums up the problem of perfect competitors beautifully: "A simple law of economics drives agriculture: For us growers, there are just too damn many peaches out there. . . . Supply and demand deals a crushing blow to political correctness."

A perfectly competitive market doesn't value social responsibility. As you saw in Chapter 12, profits are driven to a normal return. Competitors who use socially responsible production methods that add to their cost will be driven out of business if other competitors in the market use the least-cost method of production.

As Mr. Manumoto states, "You can't fault me for wanting to make a profit. I can't farm very long just on social consciousness. . . . Until political correctness is valued more highly, price will still be the primary consideration when consumers decide to buy my peaches. What I believe in won't add much value in the marketplace."

So what does all this illustrate about "correct behavior" in management decisions? Very little. If you manage an oligopoly selling a differentiated product to consumers, you may or may not benefit from doing good and letting consumers know about it. Some have, some haven't. About all we can conclude is that if you are like Mr. Manumoto and run a firm that is highly competitive, you probably won't benefit. Do it if you want to, but be aware of the costs.

*"Doing the Right Thing," ***Newsweek,*** Jan. 7, 1991.
[†]"Yo Ben! Yo Jerry! It's Just Ice Cream!" ***Fortune,*** Apr. 28, 1997.
[‡]"Politically Correct Peaches Confront Law of Supply and Demand," ***USA Today,*** July 2, 1991.