Corporate Social Responsibility and Strategic Relationship*

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Abstract

This paper analyzes the situation in which two competing firms introduce the corporate social responsibility (CSR). We focus on how introducing CSR affects the quantity competition in a market. We consider two type of corporate social responsibility. First is that firms a linear combination of its profit and consumer surplus into account. The other is that they maximize a linear combination of its profit and social welfare. We show that each firm actually exhibits the CSR when they pursue consumer surplus as CSR and simultaneously choose the level of CSR. The decisions about firms' CSR level are strategic substitutes. We also show that, in a sequential choice, leader (follower) more aggressively (passively) introduces CSR than one in a simultaneous choice. On the other hand, when firms pursue social welfare as CSR, we show that the decisions about firms' CSR level are strategic complement and both firms maximize only social welfare. We also show that leader maximizes its profit only while follower does the standard average of profit and social welfare in a sequential choice. This result leads a second-mover advantage in spite of the fact that firms actually choose quantities as strategic variables in a market.

Keyword: Corporate social responsibility, Cournot, Strategic substitutes, Strategic complement

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