

Corporate Law and Social Responsibility in American Firms

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Statutory and Case Law

U.S. corporate law permits, but does not require or forbid, corporate social responsibility

- ❖ some mild debate on this
- ❖ famous case involving automaker Henry Ford endorses a profit maximizing objective, but no legal requirement to do so
- ❖ “business judgment rule” affords corporate decisionmakers wide discretion outside the takeover context



Social Norms & Market Forces

- ❖ Prevalent social norm, supported by market forces, encouraging firms to put shareholder interests and profits first
- ❖ This is evolving, in part because of the “business case” for CSR
 - ❖ Studies increasingly show CSR breaks even or turns a profit
 - ❖ E.g., Eccles *et al.* (2014): sustainable firms “significantly outperform” comparable conventional firms
 - ❖ Previously Margolis *et al.* (2007): 58% no relationship between CSR and financial performance, 27% positive relationship, 2% negative

Dream, Requirement, or Opportunity?



- ❖ Efficiency and conservation, especially of energy, a win-win proposition
- ❖ McDonough & Braungart: eco-efficient “cradle to cradle” design
- ❖ Jensen: stakeholder-sensitive approach best for increasing the long-term value of the firm
- ❖ CSR an opportunity to do well by doing good



Questions?