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How political a company should become?

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Abstract

In his book "Exit, Voice and Loyalty,"¹ the American economist Albert O. Hirschman describes the reaction options to the decline of companies and states. Many companies, when given the choice, tend to opt for "exit." "Voice," on the other hand, plays a smaller role. Yet, as an expression of loyalty, it could build the core of corporate social responsibility.

Zusammenfassung

Der amerikanische Ökonom Albert O. Hirschman beschreibt in seinem Buch „Exit, Voice and Loyalty“ die Reaktionsmöglichkeiten auf den Niedergang von Unternehmen und Staaten. Viele Unternehmen, entscheiden sich, wenn sie die Wahl haben, für den „Exit“. „Voice“ spielt dagegen eine kleinere Rolle. Dabei könnte sie als Ausdruck von Loyalität der Kern von Corporate Social Responsibility sein.

¹ Hirschman, Albert O. (1970) *Exit, Voice and Loyalty*, Harvard: Harvard University Press.



Why companies prefer Exit to Voice

Hirschman classifies the exit option as a genuine economic reaction. A customer who is not satisfied with a service changes providers and uses market competition to secure his prosperity. At the same time, through his actions he communicates an important signal to the market participant who loses him as a customer. The losing provider must do better. This is the mechanism which drives an economy and, incidentally, is a very elegant way of resolving conflicts without open confrontation. "It is indirect - any recovery on the part of the declining firm comes by courtesy of the Invisible Hand, as an unintended by-product of the customer's decision to shift."²

For the mechanism to work, two types of customers are needed: Active, informed, price- or quality-conscious customers and inert or more generous customers. The active customers signal the defect, while the more inert ones allow the provider the opportunity to catch up.

"Voice" is categorized by Hirschman as a genuine political response. It lacks the elegance of the exit response. The opposition is direct, concrete, and confrontational. "It implies articulation of one's critical opinions rather than a private "secret" vote in the anonymity of a supermarket."³ "Voice" is defined as any form of dissent to achieve changes in the status quo. This can include a direct complaint to the provider but also the mobilization of public opinion. "Voice" tends to be more uncomfortable, but ultimately remains an expression of "Loyalty" because the connection to the provider remains.

Hirschman states that economists typically ignore the voice option, or else mistakenly underestimate its importance for economic decisions because of its assignment to the realm of political debate. In contrast, it must be stated today that in the social reality of Western industrial societies, "Voice" has become not only an important power factor but also an economic factor since the 1970s at the latest. "Voice" is thus today more than just the residual variable of "Exit." As the probability of success of the voice option increases, it is also more often preferred to the exit option. If the voice option is chosen even though the exit option is possible, this is an expression of loyalty.

Companies are not political actors. In a globalized world, the quality of the regulatory environment is comparable to the product quality of a market provider. If a potentially harmful product is offered, it is legitimate to avoid

² Hirschman, Albert O. (1970) *Exit, Voice and Loyalty*, Harvard: Harvard University Press, p. 16.

³ Hirschman, Albert O. (1970) *Exit, Voice and Loyalty*, Harvard: Harvard University Press, p. 16.



the damage by "Exit." "Voice" in this situation is the much riskier and ultimately then irresponsible choice.

Loyalty as the core of corporate social responsibility

But before the situation arises in which "Exit" becomes the only remaining choice, it is worth asking what responsibility companies themselves bear for this situation. Could they have contributed to a better situation through their "Voice"? Is "Voice" even part of their social responsibility?

Precisely because it tends to be the informed and agile companies that have the choice between "Exit" and "Voice," they have a special responsibility. After all, they have special knowledge that gives them a particularly qualified "Voice." Hirschman states: "As a result of loyalty, these potentially most influential customers and members will stay on longer than they would ordinarily, in the hope or, rather, reasoned expectation that improvement or reform can be achieved "from within". Thus loyalty, far from being irrational, can serve the socially useful purpose of preventing deterioration from becoming cumulative, as it so often does when there is no barrier to exit."⁴ This is the link to corporate social responsibility.

Business ethicist Martin van Broock criticizes the fact that the task of corporate social responsibility is often ascribed an additive character that goes beyond the core business and demands a contribution that goes beyond current standards. Regardless of possible reputational gains, this understanding of CSR bears a danger: it implicitly suggests an inadmissible antagonism that companies must do something "good" for society in addition to their actual business. "The core deficit is that under such a concept of responsibility, which is primarily focused on good deeds, relevant areas of conflict in corporate activity remain largely hidden."⁵ Van Broock suggests that an important part of corporate social responsibility consists of investing in the public understanding of the company's goal and the abstract framework conditions that are fundamental to it.⁶

⁴ Hirschman, Albert O. (1970) *Exit, Voice and Loyalty*, Harvard: Harvard University Press, S.77.

⁵ Van Broock, Martin (2012) *Spielzüge – Spielregeln – Spielverständnis*, Marburg: Metropolis Verlag, p. 223.

⁶ Van Broock, Martin (2012) *Spielzüge – Spielregeln – Spielverständnis*, Marburg: Metropolis Verlag, pp. 233.



Conclusion

A company is living up to its social responsibility if it does not refrain from speaking uncomfortable truths simply to avoid conflicts. Before the company makes use of its exit option, it would be desirable for society to have it choose the voice option. This must happen at an early stage and serve the abstract understanding of the necessary framework conditions. As a result this would mean a more determined involvement in political processes on the part of many companies.

The exit option remains legitimate and useful even with this approach. If companies leave, this is an important signal for politicians.



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