

# From Multifunctionality to Social Responsibility – A Paradigm Shift

W. Hediger<sup>1</sup>

**Abstract** - The double role of citizens as tax payers and consumers requires an integration of the governance and stakeholder perspectives in an intertemporal framework of total value maximisation and sustainable development. Moreover, the fact that some actors in a vertical market, such as the agri-food chain, can exercise bargaining power – which enables them to absorb tax money and resource rents – enforces the need of a broader system perspective. This must involve concern about the social responsibilities and performance of all actors along the value chain, and leads to the concept of CSR, which provides a useful framework for linking the issues of multifunctionality and sustainability in the agri-food system.

## INTRODUCTION

Multifunctionality and sustainability became guiding principles of agricultural policy since the late 1980s. The former refers to the fact that, beyond its primary function of supplying food and fibre, agriculture provides various benefits in the environmental and socio-economic realms. In addition, multifunctional agriculture has been propagated as a pathway to sustainable development (cf. Caron et al., 2008). This is based on an association of the various functions of agriculture to the social, economic and ecological dimensions of sustainable development. However, the epistemological foundations of the two concepts are different (Hediger and Knickel, 2009).

*Multifunctionality* is a characteristic of the production system. It is related to the economic principles of jointness in production and externalities (OECD, 2001). In contrast, *sustainability* is not restricted to agriculture and rural development. It is a normative principle that implies a continuous evaluation of trade-offs across the various system goals (Barbier, 1987).

Building on this background, the multiple roles of agriculture in our societies must be seen from an integrated perspective that aligns agricultural production with the entire agri-food chain and with citizens' concerns about the social and environmental impacts. In other words, the overall performance of all actors along the value chain – from the producers to the consumers – must be considered. This involves the concept of *corporate social responsibility* (CSR) that has a long tradition in the business ethics and management literature (cf. Carroll, 1999). It has gained much attention in the business

world and increasingly attracts economists (cf. Hediger, 2010; Kitzmüller and Shimsack, 2012).

Following the World Business Council for Sustainable development, CSR can be defined as *the commitment of business to contribute to sustainable economic development* (Holme and Watts, 2000). Accordingly, we investigate the use and adaptation of the CSR concept in dealing with market imperfections in the agri-food system and extend this perspective by linking the related challenges to the governance problem of corporate responsibility.

## MULTIFUNCTIONALITY, SUSTAINABILITY, AND CSR

The concepts of multifunctionality and sustainability emphasise the vulnerability of ecosystems and the multiple benefits that can be sustained through adequate resource management. Both have been adopted in various forms in the resource economics literature and translated into more general policy principles. But, they have different epistemological foundations within economic theory. On one side, multifunctionality involves welfare economic aspects associated with the positive and negative externalities and distribution effects of agricultural activities and policy. On the other side, sustainability is a capital-theoretic concept, which accordingly forms the basis for assessing agriculture's multifunctionality from a sustainable development perspective (Hediger and Knickel, 2009).

CSR is theoretically defined as a program of action where a firm's objective is to maximize its profits and, at the same time, to contribute to the improvement of social welfare (Beltratti, 2005). According to Heal (2005), this involves two important sources of market imperfection: *externalities* and *distributive fairness*. Those are generally regarded as major threats to a company's reputation and to corporate value in the long run. Accordingly, economists see the role of CSR as a means to anticipate and minimize conflicts between corporations and society, and as a means to improve corporate profits in the long-run and guard against reputational risks, while adding to social welfare.

## AGRICULTURAL POLICY AND THE AGRI-FOOD CHAIN IN THE LIGHT OF CORPORATE RESPONSIBILITY

On one side, the argument of agriculture's multifunctionality is used to justify government support to farmers, and to spend tax money for that purpose. On the other side, large food and retail companies and increasingly small and medium sized enterprises

<sup>1</sup> Werner Hediger, Center for Economic Policy Research, University of Applied Sciences, HTW Chur, Chur, Switzerland (werner.hediger@htwchur.ch).

face public expectations about socially and environmentally friendly production methods, and thus ways to minimize negative externalities. They are expected to do good to society and the environment beyond their primary task of providing marketable goods and services and generating income to their owners, and beyond what is required by the law (McWilliams and Siegel, 2001). Companies risk to loose reputation and financial performance, if they do not behave adequately. Therefore, retailers increasingly give this pressure to their suppliers and primary producers, who have to apply socially and environmentally sound production methods. Thus, farmers and other suppliers along the agri-food chain indirectly face the challenge of CSR.

An approach to getting farmers involved in CSR activities is the merchandising of attributes of a multifunctional agriculture through labels and price premiums, which consumers are willing to pay for products from socially and environmentally-friendly production. This goes in line with the OECD's (2005) recommendation to explore non-governmental options for the provision of agriculture's non-commodity outputs through the use of market mechanisms and the promotion of private transactions and voluntary approaches. It may result in higher market income to farmers, less government intervention and in a decrease of the associated budget position. Thus, farmers can be forced by private action to enhance the net social benefits of food production. Moreover, this can deliberate tax revenues for other purposes or help to reduce the overall tax burden, without making farmers worth off.

The double role of citizens as consumers and tax payers is an important issue of social responsibility that is generally neglected in the debates about agriculture's multifunctionality. On one side, the citizens are classical stakeholders who buy food products and face the externalities of agricultural activity. Yet, they do not in general have direct interaction with the farmers, but with retailers at the end of the agri-food chain. On the other side, citizens can, in a democratic system, directly or indirectly decide about government support to agriculture. To a certain extent, they have a similar role as shareholders in a corporate enterprise:

*Citizens "invest" tax money in the "corporation agri-food system". They have some rights to decide about the "(corporate) policy objectives", and can expect a return in form of "the multiple benefits from agriculture".*

This relates to the problem of corporate governance that results from the separation of investors (tax payers) and control (farmers, firm managers and government agencies), and which is complicated for two main reasons. First, we do not have a single enterprise with an integrated production system, as in the Walrasian model. Rather, we have a system with multiple separations of "ownership" and control in vertical markets. Second, some players in the agri-food chain may exercise market power and absorb tax money and resource rents. As a consequence, the distribution and allocation outcome (the multiple benefits from agriculture) may deviate from the intention behind the provision of public support.

## CONCLUSION

The vertical markets of the agri-food sector constitute a new field of application of the concept of corporate responsibility (CSR and governance), which can serve agricultural policy with a new framework for linking the concepts of multifunctionality and sustainable development in a coherent way. The concept of corporate (social) responsibility particularly provides an enhanced conceptual and analytical basis for the evaluation of the social performance of agriculture and the agri-food chain as a whole, while giving joint responsibility to the various actors along the agri-food chains. Thus, the concept of CSR is proposed to complement those of multifunctionality and sustainability, and to contribute to a more enlightened agricultural and food policy debate.

## REFERENCES

- Barbier, E.B. (1987). The Concept of Sustainable Economic Development. *Environmental Conservation* 14(2): 101-110.
- Beltratti, A. (2005). The Complementarity between Corporate Governance and Corporate Social Responsibility. *Geneva Papers on Risk and Insurance – Issues and Practice* 30(3): 373-386.
- Caron, P., Reig, E., Roep, D., Hediger, W., Le Cotty, T., Barthélemy, D., Hadynska, A., Hadynski, J., Oostindie, H. and Sabourin, E. (2008). Multifunctionality: refocusing a spreading, loose and fashionable concept for looking at sustainability? *International Journal of Agricultural Resources, Governance and Ecology* 7(4/5): 301-318.
- Heal, G. (2005). Corporate Social Responsibility: An Economic and Financial Framework. *Geneva Papers on Risk and Insurance – Issues and Practice* 30(3): 387-409.
- Hediger, W. (2010). Welfare and capital-theoretic foundations of corporate social responsibility and corporate sustainability. *Journal of Socio-Economics* 39(4): 518-526.
- Hediger, W. and Knickel, K. (2009). Multifunctionality and Sustainability of Agriculture and Rural Areas: A Welfare Economics Perspective. *Journal of Environmental Policy & Planning* 11(4): 291-313.
- Holme, R. and Watts, P. (2000). *Corporate social responsibility: making good business sense*. World Business Council for Sustainable Development, Conches-Geneva, Switzerland.
- Kitzmüller, M. and Shimshack, J. (2012). Economic Perspectives on Corporate Social Responsibility. *Journal of Economic Literature* 50(1): 51-84.
- McWilliams, A. and Siegel, D. (2001). Corporate Social Responsibility: A Theory of the Firm Perspective. *Academy of Management Review* 26(1): 117-127.
- OECD (2001). *Multifunctionality: towards an analytical framework*. Paris: OECD Publishing.
- OECD (2005). *Multifunctionality in Agriculture: What role for Private Initiatives?* Paris: OECD Publishing.