

COVALENCE ANALYST PAPERS

Defining CSR by analyzing counter-arguments

[Yoojung Shin](#), Yonsei University Seoul (South Korea), intern analyst, Covalence SA, 13 June 2006

I. Introduction and Objective of the Paper

As a growing movement, the concept that companies have an obligation to be sensitive to the needs of all stakeholders, the so called, 'Corporate Social Responsibility' (henceforth CSR) is not foreign anymore in the modern business world. However, depending on interpretations of the concept according to different cultures, business fields, or simply different points of view regarding the essence of a company as an economical party, no universal definition of CSR exists and significant room is left for arguments and criticisms against the concept. In the light of this, it is meaningful to consider some of the rising arguments and rebuttal cases which were often ignored in the shade of the growing attention to the concept in order to find a possible agreement. In this paper, first, a selection of arguments challenging the concept will be introduced and critically analyzed and then five specific business cases helping understand the practical application of the concept will be addressed.

II. Analysis of the Counter-arguments

1. *Businesses are owned by their shareholders – thus any money they spend on social responsibility is effectively theft from those shareholders who can, after all, decide for themselves if they want to donate to charitable causes.*

This is the voice of the laissez-faire 1980s mentality, still being strongly supported by advocates such as Elaine Sternberg. Sternberg argues that there is a human rights case against CSR, which is that a stakeholder approach to management deprives shareholders of their property rights. She states that the objectives sought by conventional views of social responsibility are absurd. Not all aspects of CSR are guilty of this, however. Sternberg states that ordinary decency, honesty and fairness should be expected of any corporation.

Comment: This is the most commonly voiced argument of those questioning the viability of CSR today. In order to reconcile this point of view with the concept of CSR, a new definition of the same is required. Acknowledging that we live in a world in which such thing as a 'free lunch' does not exist, CSR does not mean that a company should give away their money that rightfully belongs to the shareholders to charity just for the sake of it. Rather, the word 'Responsibility' can only work when one party causes something that demands an action to make up for it. Likewise, if a company is not guilty of any such action, then, in no link of responsibility can logically be drawn and thus it is not a company's 'Responsibility' to be philanthropic. Rather, it would be its free choice of doing so, provided of course, that meaningful reason exists. Such reasons for companies to be concerned about the external environment represented above as a charity work, as much as about their core business not as a responsibility but for their own (financial) good can be numerous. Therefore, by changing the definition of CSR slightly, and seeing it as a concept, by which a corporation manages its relationships with a variety of influential stakeholders, who can have a real influence on its operations, the business case becomes immediately apparent. CSR is about building relationships with customers, about attracting

and retaining talented staff, about managing risk, and about assuring reputation. Therefore, the word 'Responsibility' is actually misleadingly used in the classic definition of CSR, causing obvious confusion.

2. It is the responsibility of the politicians to deal with such issues. It is not the role of a corporation to get involved in social issues.

Business has traditionally been beyond morality and public policy. We will do what we're allowed to do. We expect governments to provide the legal framework that says what society will put up with.

Comment: Due to the on-going globalization, multinational companies and the non-governmental organizations have become to most powerful institutions, overtaking those tied to the jurisdiction of the nation state, foremost the national governments. Thus, it is convincing to say that multinational corporations have greater power and leverage to induce changes and achieve results than government institutions. Although this might be true, it does not explain why they should behave in such way. On the contrary, while companies often spend a considerable amount of time and money to influence policies affecting them or their area of interest, they usually do so in an attempt to raise their profits, rather than to help the government.

If CSR is simply about obeying the law and paying taxes, then perhaps the above statement is fair comment. If it is about managing risk and reputation, and investing in community resources on which you later depend –then the argument needs to be reconsidered.

3. Management has to concentrate on a company's core business and can not spend resources on CSR.

CSR might be a nice thing to think about for big, successful companies with spare resources at their disposal. For those fighting for survival however, it's a very different picture. You can't go spending money on unnecessary frills when you're laying people off and morale is rock bottom. And the odd bit of employee volunteering won't make any difference to our people when they feel cynical and negative about how the company operates.

Comment: CSR might make sense for a wider range of companies, if perceived not as extra work put on top of the core business but rather as a part it, which will contribute to the generation of future profits just like other investments do. Thus, the idea of neglecting CSR during times of hardship will have to be dealt with in the same way as cutting down on long term investments. From this point of view, this can only be a short term means of overcoming acute crisis, but can not be used as a long term cost cutting strategy, if sustainability should not be jeopardized.

Summary of arguments analysis: Most of the arguments above mainly stem from a misinterpretation of CSR. While CSR is not a *de jure* obligation of companies doing business according to applying laws, it is nevertheless a *de facto* obligation because of its long term significance for corporate success and as a tool of differentiation in the competitive game. Driven by this understanding, a win-win situation for the company and its stakeholders can evolve.

III. The business cases of CSR

In the following chapter, the above mentioned win-win situation from the companies' point of view will be explained by giving some examples affecting different aspects of the company.

Human Resources

A company's CSR activities can be an effective tool for recruitment and employee retention, particularly within the highly competitive graduate market. Newly graduates use a company's culture, welfare, image, and work environment as orientation when making their decision and the perception of these can be positively influenced by CSR activities. Besides CSR can play an essential role for employees who already joined the company by providing a pleasant work environment and motivating them through community work.

Risk Management

A good reputation and public perception is of capital value to most companies- especially to those dealing in consumer goods. While reputations often take decades to establish, they can be ruined quickly through incidents such environmental accidents or unsocial behavior. Therefore, building a genuine culture of acting responsible within a corporation, offsetting these risks, is of monetary value to the firm.

Brand Differentiation / Public Relations

In highly competitive sectors, on mostly saturated markets with an more or less identical offer, consumer look to CSR more and more when making their purchase decisions. Thus, being a CSR aware company, and also being perceived as such by the consumers can help a company differentiate itself and its products from the competition.

License to operate

Corporations are keen to avoid interference in their business through taxation or regulations. By taking meaningful voluntary steps they can persuade governments and the wider public that they are taking current issues like health and safety, diversity, or the environment serious and hereby mitigate other interest conflicts with the public sector.

Diverting Attention

Engagement in high-profile CSR programs can be used as drawing attention away from a company's existing reputation problems or bad image. British American Tobacco, for instance, regularly participates in and funds health initiatives and the petroleum giant BP has installed very visible wind-turbines on the roofs of some petrol stations in the UK.

IV. Conclusion

Regardless of some criticisms against the free market approach, capitalism has proven to be at the center of economic and social development over the past two hundred years and the improvement in health, longevity or decrease of infant mortality has been only made possible by economic advances. From a human resource point of view, in order to attract quality workers, it is necessary for companies to offer better pay and conditions, which leads to an overall rise in standards and to wealth creation. Additionally investment in less developed countries, which has been a frequent focus of media attention can be also conceived as the contribution to the welfare and opportunities for the economic growth.

In order to prohibit the widely-know side-effects of capitalism from corporations, however, it is not the solution to proclaim that it is their 'responsibility and obligation' to behave ethically and to care about the stakeholders but instead by giving them an 'incentive' to behave according to what customers, NGOs, environmentalists and employees want them to do. As this paper has shown, such incentives can be to making better profits and rewarding shareholders adequately by balancing the needs of all stakeholders.

Covalence SA, Av. Industrielle 1, 1227 Carouge, Geneva, Switzerland

tel: +41 (0)22 800 08 55 ; Fax: +41 (0)22 800 08 56

US Representative Office, 143 Dudley Street, Cambridge MA, 02140, USA, tel +(1) 617 429 4758

Scandinavian Rep.Office, Lokföraregatan 7C, 222 37, Lund, Sweden, Tel: 0046 (0) 46 14 97 15

<http://www.covalence.ch> / email info@covalence.ch