The Darkside of Corporate Social Responsibity – *Thinking out of the box*

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ABSTRACT

Corporate social responsibility (CSR) activities have been used to address consumers' social concerns, create a favorable corporate image, and develop a positive relationship with consumers and other stakeholders. A properly implemented CSR concept can bring along a variety of competitive advantages, such as enhanced access to capital and markets, increased sales and profits, operational cost savings, improved productivity and quality, efficient human resource base, improved brandimage and reputation, enhanced customer loyalty, better decision making and risk management processes. Positive response to CSR is only one side of the story. In the age of Enron and corporate scandals, CSR is becoming increasingly important in the corporate world. This is because Governments are fundamental actors in governance, but increasingly non-state actors from business and civil society are seen to play key roles. Ironically nobody is better positioned or has better capacity to play the lead role today than business itself. However, while some companies successfully changed their image by stressing their environmental and social initiatives, the same strategy has backfired for others. Existing research on CSR for firms has predominantly focused on positive aspects of CSR, overlooking the dark side of the same. The primary purpose of this research is to explore the negative side of CSR. This article explains why firms must refocus their CSR activities on this fundamental goal and provides a systematic process for bringing coherence and discipline to CSR strategies.

Keywords: *Business, CSR Strategies, Competitive Advantages, Corporate Scandals, Corporate Social Responsibility, Stakeholders.*

Introduction

Business has today emerged as one of the most powerful institutions on the earth. Some of the biggest companies in the world are in fact, bigger in size than some of the developing countries of the world. Globalization makes the world smaller, and business, worldwide, is expanding like never before. Companies are expanding their operations and crossing geographical boundaries. In the current scheme of things, business enterprises are no longer expected to play their traditional role of mere profit making enterprises. The ever-increasing role of civil society has started to put pressure on companies to act in an economically, socially and environmentally sustainable way. The companies are facing increased pressure for transparency and accountability, being placed on them by their employees, customers, shareholders, media and civil society. Business does not operate in isolation and there is today, an increased realization that not only can companies affect society at large, but they are also in a unique position to influence society and make positive impact.

Previously it was understood that "the social responsibility of business is to only increase its profits" and "**the business of business is business**". This represented an extreme view that the only social responsibility a law-abiding business has is to maximize profits for the shareholders, who were considered the only stakeholders for the company. However, time has given the term 'stakeholder' wider connotations. 'A stakeholder in an organization today is defined as any group or individual who can affect or is affected by the achievement of the organization's objectives.' Thus, the term stakeholder includes (apart from shareholders), but not limited to, customers, employees, suppliers, community, environment and society at large. These and a host of other such ideas have given rise to the concept of **CSR – Corporate Social Responsibility.** The concept of CSR goes beyond charity or philanthropy and requires the company to act beyond its legal obligations and to integrate social, environmental and ethical concerns into its business process. It means addressing the legal, ethical, commercial and other expectations that society has for business and making decisions that fairly balance the claims of all key stakeholders.

Corporate social responsibility over the years has developed from a simple form of heckwriting by companies to a complex set of principles that encompass nearly every interaction a company has with society. Corporate social responsibility encompasses not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance and addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm.

Why CSR matters more to business concerns?

A properly implemented CSR concept can bring along a variety of competitive advantages, such as enhanced access to capital and markets, increased sales and profits, operational cost savings, improved productivity and quality, efficient human resource base, improved brand image and reputation, enhanced customer loyalty, better decision making and risk management processes. It is noted that CSR is becoming more mainstream as forward-thinking companies embed sustainability into the core of their business operations to create shared value for business and society.

Communities are grappling with problems that are global in scope and structurally multifaceted. The business case for engaging in corporate social responsibility is clear and unmistakable. "More practically, CSR often represents the policies, practices and an initiative a company commits to in order to govern themselves with honesty and transparency and have a positive impact on social and environmental wellbeing. As consumers' awareness about global social issues continues to grow, so does the importance these customers place on CSR when choosing where to shop. But consumers aren't the only ones who are drawn to businesses that give back. A company's CSR strategy is a big factor in where today's top talent chooses to work.

The next generation of employees is seeking out employers that are focused on the triple bottom line: people, planet and revenue, coming out of the recession, corporate revenue has been getting stronger. Companies are encouraged to put that increased profit into programs that give straight back.

Although corporate social responsibility (CSR) has become increasingly important to a company's success, the relationship between CSR and corporate financial performance is equivocal. The point is further illustrated by the conflict between what a company says in public and in its dialogue with NGOs, compared to what it is saying behind closed doors when it is lobbying government or through industry mouthpieces like the International Chamber of Commerce or the Confederation of British Industry. That CSR is criticized as being a Public Relations stunt is unsurprising, bearing in mind that most CSR workers in companies sit in the communications and PR departments, and considering that the strategies of CSR - dialogue with NGOs, codes of conduct, social reports - were all designed and developed by PR companies.. The truth is that CSR has created a language shift, a re-brand and a new caring image, but no substance.

Then, what is going wrong? Where lies the problem?

Governments are a fundamental actor in governance, but increasingly non-state actors from business and civil society are seen to play key roles. Ironically nobody is better positioned or has better capacity to play the lead role today than business itself.

Most companies have long practiced some form of corporate social and environmental responsibility with the broad goal, simply, of contributing to the well-being of the communities and society they affect and on which they depend. But there is increasing pressure to dress up CSR as a business discipline and demand that every initiative deliver business results. That is asking too much of CSR and distracts from what must be its main goal: to align a company's social and environmental activities with its business purpose and values. If in doing so CSR activities mitigate risks, enhance reputation, and contribute to business results, that is all to the good. But for many CSR programs, those outcomes should be a spillover, not their reason for being. Without some form of CSR, even if it is just in the charity or philanthropic sense, a company will not be held in high regard amongst the conscious consumers in today's socially aware times and not be awarded its 'social license to operate'. Given it tends to be voluntary and self-regulated there is, however, no specific shape or form that CSR needs to take and companies are left to implement in a way that they feel is relevant for their specific stakeholders.

But is this always a good thing? Whilst there may be good intentions behind their actions, are they the correct ones to take? Do some companies do more harm than good as a result of their CSR?

Another complicated situation in terms of questionable CSR is when companies are controversial by their very nature. Alcohol, tobacco and arms and ammunition production firms for example, have robust and public CSR strategies. Some have a profit commitment to charity or percentage of turnover commitment to CSR – but by them striving towards higher profits and turnover they are causing more harm than good on a global scale and perhaps they feel it is justified if they have a CSR or charity commitment. Would it be right for a tobacco company to donate to a lung cancer charity or an ammunition company to donate to a war orphans charity? Thus, CSR is irrelevant if the actual business operations have inherent negative implications or are dishonest.

Then, Is CSR Unethical? The Fraud of Corporate Social Responsibility (CSR)

CSR is supposed to be win-win. The companies make profits and society benefits. But who really wins? If there is a benefit to society, which in many cases is doubtful, is this outweighed by losses to society in other areas of the company's operation and by gains the corporation is able to make as a result? CSR has ulterior motives. To take the example of simple corporate philanthropy, when corporations make donations to charity they are giving away their shareholders money, which they can only do if they see potential profit in it. This may be because they want to improve their image by associating themselves with a cause, to exploit a cheap vehicle for advertising, or to counter the claims of pressure groups, but there is always an underlying financial motive, so the company benefits more than the charity. This section explores how CSR diverts attention from real.

- **CSR sells.** By appealing to customers' consciences and desires CSR helps companies to build brand loyalty and develop a personal connection with their customers. Many corporate charity tie-ins gain companies access to target markets and the involvement of the charity gives the company's message much greater power. In the present media saturated culture, companies are looking for ever more innovative ways to get across their message, and CSR offers up many potential avenues, such as word of mouth or guerilla marketing, for subtly reaching consumers.

- **CSR also helps to green wash the company's image, to cover up negative impacts by saturating the media with positive images of the company's CSR credentials**. 'From Red Tape to Road Signs', CSR enables business to claim progress despite the lack of evidence of verifiable change.

- **There is a mistaken belief that being 'ethical' means being 'good' or 'nice'.** So if a corporation spends money on good causes, is it ethical? The unfortunate reality is that most companies see CSR as public relations and marketing. As a result, social issues are used as advertising campaigns. Some companies perform CSR out of their marketing budget. Some spend more *advertising their CSR*, than on the actual good causes. A few companies actually care about the issues in their advertisements. But with so many businesses partaking in Corporate Social Responsibility, the majority does not.

- **Not only is using serious world problems to sell products unethical, it desensitizes people to these problems.** Many will assume that since someone else is seemingly tackling these problems, nothing more needs to be done. Some will believe that purchasing products packaged with CSR imagery actually helps to solve the problems. Since almost every product now has a green leaf on the packaging, saving the environment requires nothing more than going shopping.

- **Another reason that shows CSR unethical is that it rarely is what it seems.** Companies make vague claims about 'empowering workers', 'a better world together' and 'helping local communities' without evidence or meaning. Many green-leaf-logo 'sustainability foundations' and 'stewardship councils' are actually set up by companies to whitewash and green wash their industries. Space and time doesn't really matter when it comes to unethical dealings with money.

- **One of the more creative methods is to use charitable trusts.** These trusts can be hired to comply with the mandatory CSR spending on paper. While these funds receive a cut of the funds, the money that is supposedly spent on CSR activities is funneled back into the company. A neat trick to fool the authorities, especially when there's no mechanism to audit these spends.

- While corporate using CSR for tangible returns is not wrong per se, the line where this becomes business dealing rather than a social responsibility is rather thin and prone to frequent redrawing. **Often, CSR funds are directed at ventures that are directly beneficial to the company, either in terms of increased profits (branding exercises, creating false goodwill among the public, etc.) or an exchange of favors – *a quid pro quo* exercise.** Using CSR for crony capitalism and rent seeking negates everything that it stands for.

- **Government officials and senior staff in Private sectors have been known to launder CSR money for their own benefits.** Justifiably, a lot of people were concerned that with the additional funds this kind of corruption would become even more rife, especially when senior management are beholden to their political bosses and have to resort to all kinds of measures to please them, willingly or otherwise. CSR funds then become an easy prey since there's little oversight on its spending and projects can be redesigned to make them seem extremely CSR-friendly. In reality, the money serves to fatten the coffers of the governing bodies and their management. Financial disclosures by these organizations are a rare occurrence, much like the Olympic gold medal.

- **A good example of funds being misdirected—rather than misused—is donations to the relief funds which happen to be considered as part of CSR.** While prima facie there is little to object about this, for many companies unwilling to devote the necessary time and investment in taking up actual CSR projects of their own, this is an easy loophole through which they can be on the right side of regulations without internalizing or exercising the true meaning of CSR.

Since much of the business case for CSR depends on corporations being seen to be socially responsible, CSR will continue to be little more than PR for as long as it is easier and cheaper to spin than to change. Corporations would not be so concerned about potential legal actions if they valued truth, transparency and accountability as much as they claim.

The Effects of Unethical Business Practices on Society

Loss of confidence One outcome of poor ethical and moral practices in business is a general loss of confidence and trust in businesses. Companies rely on their ability to maintain trust with stakeholders in order to maintain profitability over time. Even the appearance of immoral corporate behavior can affect the bottom line. A loss of trust can reduce customer loyalty and motivate customers to turn to competitors. Another important area of confidence is with investors. Unethical accounting practices may be easier to hide by companies and may be more prevalent than the obvious violations of CSR expectations. Chances are, many customers do not care. However, investors do care. The past two decades witnessed case after case of unethical corporate accounting practices.

Loss of resources A second effect of poor ethical and moral practices on the part of businesses is the loss of resources. The phony profits and inflated stock prices collapse over night leaving the shareholders to absorb the losses. Corporate frauds cost employees their jobs as well as jobs in other industries affected by the collapse of the scam. In some cases, as in the bailout of the banks the loss of resources was tax dollars.

New regulations A third effect of poor ethical and moral practices in business is the introduction of new regulations that apply to all companies. The accounting scandals in few unethical companies imposed strict accounting requirements on all publically held companies and made executives personally responsible for public accounting records.

Then, how to deal with this necessary evil?

CSR is a corporate reaction to public mistrust and calls for regulation But although many companies embrace this broad vision of CSR, they are hampered by poor coordination and a lack of logic connecting their various programs. CSR programs are often initiated and run in an uncoordinated way by a variety of internal managers, frequently without the active engagement of the CEO. To maximize their positive impact on the social and environmental systems in which they operate, companies must develop coherent CSR strategies. CSR Programs should function within existing business models to deliver social or environmental benefits in ways that support a company's operations across the value chain, often improving efficiency and effectiveness. Examples include sustainability initiatives that reduce resource use, waste, or emissions, which may in turn reduce costs; and investments in employee working conditions, health care, or education, which may enhance productivity, retention, and company reputation.

CSR Programs should create new forms of business specifically to address social or environmental challenges. Improved business performance is predicated on achieving social or environmental results.

Businesses must reconnect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center.

Can the consumer really change the situation?

Although corporations and government constantly refer to consumer power, consumers are often poorly informed and isolated; moreover, they have many vested interests in the system which means that their scrutiny is frequently limited to comparatively superficial issues. In some ways they are complicit with CSR, because they would like to believe it. Consumers' primary concerns are cost and convenience. Because of this, consumers are unlikely to act on social issues in the same way that enfranchised citizens would if called on to make democratic decisions about what a corporation should and should not be allowed to do. Many market-based solutions focus on the power of the consumer to create the necessary shift towards more sustainable markets. There is a place for choosing to buy products that contribute to local economies and avoid damaging environmental impacts. Firstly statistics suggest that consumers are not, in fact, consuming ethically, even when they are concerned about the social impact of products. The idea of ethical consumption also pre-supposes that consumers have access to unbiased information, but with millions spent by companies on advertising, much of the available information is heavily biased. Ethical CSR gives rise to the next major transformation of business thinking.

Conclusion

Unethical behavior may be easy and seem to offer benefits in the short run. However, a longterm picture will see that unethical behavior will eventually cost the company profits, customers, investors, and credibility. Gearing Up: From Corporate Responsibility to Good Governance and Scalable Solutions argues that a window of opportunity is opening up for corporations, through their corporate responsibility initiatives, to take on a governance role in achieving sustainable development. It is expected to see a shift from specific CSR projects to wider governance impacts and a change inthe relationships between government, business and civil society. The gap between the market and the community will be closed. The only question is how and in which direction... rollback, a shift away from globalization, is the more likely outcome unless we manage to strengthen the fabric of global community. Ironically nobody is better positioned or has better capacity to play the lead role today than business itself. The term 'corporate social innovation' has been coined to describe business practices aimed at 'supporting' sustainable development. Thus, all of us—the media, the public, corporate boards and CEOs themselves—should react to socially responsible behavior and posturing by raising our threat-level awareness in regards to future instances Especially if the worst offenders are those with the best intentions.

Corporate money doesn't solve problems, commitment does.

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