A Case against CSR Initiatives

Arjun Kathayat

College of Business Administration and Management, Columbia Southern University, Orange Beach, USA
Email: rjnkatrayat@hotmail.com, ohnscentre@gmail.com

Abstract

There is fuzzy information in the existing body of knowledge regarding what CSR is. CSR initiatives require extensive resources and investment from the organizations and their shareholders. But, interest in implementing CSR initiatives in the contemporary business world is ever-growing. Business leaders cherish CSR initiatives, and consumers also expect business organizations to do more for the greater good of societies and communities. Then again, shareholders may not appreciate the idea of investing wealth and resources in CSR initiatives if CSR initiatives fail to be a proven tool or strategy to enhance financial or organizational performance. The purpose of this article is to investigate the scholarly arguments against CSR initiatives in operations so that business organizations and shareholders can make informed decisions if they should invest resources and wealth in CSR initiatives. In other words, the article explores why business organizations or shareholders should not employ CSR initiatives in their operations for the sustainability and profitability of the organizations. Based on the systematic literature review, the study found that CSR initiatives did not always negatively impact financial or organizational performance. CSR initiatives and financial or organizational performance also had a neutral, mixed, or favorable relationship. The literature review results imply that organizations with CSR initiatives have a greater chance of attaining enhanced financial or organizational performance than those without CSR initiatives. It recommends further research on what percentage of operating costs or marketing costs organizations should invest in CSR initiatives to generate break-even or enhanced financial or organizational performance.

Keywords

CSR, CSR Initiatives, Organizational Performance, Financial Performance, Shareholders, Stakeholders

1. Introduction

Business organizations can play significant roles in enhancing the economic or
financial situations of the community and society (Ahmad et al., 2021; Ferrell et al., 2018; Zahra & Wright, 2015; Mason, 1959). In a circular economy (Mullins et al., 2020), corporate social responsibility (CSR) initiatives “supporting societal goals and sustainable developments” (Viererbl & Koch, 2022: p. 1) generally agreed to have a positive impact (Berber et al., 2021) on “all types of business organizations” (Ferrell et al., 2018: p. 7). Sarkar (2019) argues that “CSR should be considered as a vital part of the core business of a business entity” (p. 141) and “businesses are also responsible to society” (Dmytriyev et al., 2021: p. 1443). Furthermore, today’s business world may tend to appreciate CSR as a tool to attain sustainable development (Berber et al., 2021: p. 227; Magd & Karyamsetty, 2021) or crucial for sustainable growth for themselves (Hui, 2021). Also, organizations seem to be reevaluating their CSR initiatives in light of the unprecedented harm to the societies and international market caused by the pandemic of COVID-19 (Carroll, 2021). According to the 2019 CSR survey by American Family Life Assurance Company (AFLAC), “70% of the participants of the survey think large businesses have a special responsibility for helping to make the world a better place” (AFLAC, 2020: p. 7). The CSR survey completed during the pandemic of COVID-19 reveals that more business leaders (21%) feel large businesses are the most responsible for making the world a better place than American consumers (4%) (AFLAC, 2021: p. 10).

On the other hand, there is another school of thought that opines companies should not invest their resources in any initiatives that will not support the shared objectives of the organizations while crafting, executing, or implementing strategies to gain competitive advantages in the market (Thompson et al., 2018). Additionally, business organizations with or without CSR initiatives may experience a similar profit rate (McWilliams & Siegel, 2001; McWilliams et al., 2006). In that case, why bother to take risks to waste shareholders’ investment or the companies’ valuable resources on CSR initiatives?

Thus, there is contradictory knowledge in the existing literature about CSR and its potential impact on financial or organizational performance. In this regard, this paper has attempted to close or narrow down the gaps in the literature by making the case if the business organizations should or should not invest in CSR initiatives for higher performance. During the research, this study also has welcomed arguments from the opposite aisle so that debate can be fair, free from bias, or the author’s attachment with the article’s topic can have zero or negligible impact while concluding the study’s findings. Thus, there are eight sections, including the introduction, data collection, discussion, and the limitations of the study in the paper. The study briefly investigates how CSR has been characterized by past scholars and identifies the disadvantages and advantages of CSR initiatives and their impact on business organizations. Finally, it concludes why business organizations should or should not invest in CSR priorities and provides a couple of tips on utilizing the companies’ resources more thoughtfully to optimize their business performance.
The study’s main contribution is that it will provide readers, especially business leaders, organizations, and those who are curious, to explore if the investment in CSR initiatives is the right approach to enhance organizational performance. In addition, this study has recorded both scholarly views for and against CSR initiatives so that readers can make an educated decision while generating values for all stakeholders and optimizing the meaning of the investments.

The study’s main limitation is that it entirely relies upon third-party data and past research in the field and the author’s experience as a business professional and a concerned consumer-stakeholder.

2. Data Collection

The Discovery search engine and ProQuest through Columbia Southern University Online Library, Google Scholar, ResearchGate, and Academia were the major databases searched to collect the relevant data from the existing literature in business administration and management especially regarding CSR. CSR is a rapidly growing field, and for higher relevancy and reliability of data collected, the study chose to select the peer-reviewed journals published between 2000 to 2022. The major terms or phrases searched were “corporate social responsibility”, “CSR”, “CSR initiatives”, “financial performance”, “organizational performance” in the databases. The literature also included the views of prominent and earlier scholars, such asBerle (1931) and Dodd (1932), in CSR. The author retrieved the Berle (1931) and Dodd (1932) through the Columbia Southern University’s Online Library (ProQuest) database. In addition, academic textbooks by Ferrell et al. (2018), Thompson et al. (2018), and a paper copy of Mason (1959) were obtained and reviewed. During the literature revision, one of the primary focuses was to include more recent findings on the impact of CSR on organization performance. Still, the comparative study felt pertinent to mention a few major earlier findings by past scholars simultaneously. After the revision of literature, those not related to the core topic of the paper were sorted out with titles, and only the relevant literature was filed in the same group.

3. What Is Corporate Social Responsibility (CSR)?

According to Kotler and Lee (2005: p. 3), “corporate social initiatives are major activities undertaken by a corporation to support social causes and to fulfill commitments to corporate social responsibility”. Scholars were unable to provide a concise definition of corporate social responsibilities (Frederick, 1960) during the “awareness era” (1953-1967) and “issue era” (1968-1973) (Carroll, 2008: p. 25). CSR remains “a complex topic that is hard to define” (Viererbl & Koch, 2022: p. 2) during the “responsiveness era” (1974-2008) (Carroll, 2008: p. 25), too. “There are numerous unresolved issues on CSR, including defining CSR”, stated McWilliams et al. (2006: p. 8). It indicates unsettled definitions or confusion around the definition of CSR (Carroll, 2016; Dahlsrud, 2008) in academic research and public debate.
A few definitions of CSR, but not limited to are, including one(s) mentioned in Barauskaite and Streimikiene (2021: p. 280) and in the appendix of Dahlsrud (2008: pp. 7-11):

1) According to one of the seminal authors (Bowen, 2013: p. 6) in social responsibility, CSR “is the obligations of businessman to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (Carroll, 2008). According to Carroll (2008) and Dmytriyev et al. (2021: p. 1444), Bowen’s work on CSR has significantly impacted the understanding of CSR today.

2) CSR refers to “situations where the firm goes beyond compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (McWilliams et al., 2006: p. 1; McWilliams & Siegel, 2001).

3) CSR refers to “a commitment to improve community the well-being through discretionary business practices and contributions of corporate resources” (Kotler & Lee, 2005: p. 3).

4) CSR refers to “treating the stakeholders of the firm ethically or in a responsible manner” (Hopkins, 2003: p. 1).

A significant ideological battle between the two opposing factions called “the Berle-Dodd debate” lasted for about a century to make their case on CSR (Dmytriyev et al., 2021: p. 1444). With the journal article titled “corporate powers as powers in trust” published by Harvard Law Review Association in 1931, Berle claimed that businesses “should be judged in relation to the existing facts with a view toward discovering whether under all the circumstances the result fairly protects the interests of the shareholders” (p. 1074). On the contrary, Dodd (1932) argued that “businesses are not just mere aggregate of stockholders” (p. 1160) and managers are “trustees for an institution rather than attorneys for the stockholders” (p. 1160). In other words, Dodd (1932) claimed that businesses are “social institutions and promoted for public interest concerns” (Dmytriyev et al., 2021: p. 1443). But Berle’s followers, including the Nobel Prize laureate Milton Friedman, strongly disagreed with that notion (Dmytriyev et al., 2021). Friedman (1970) put forward the idea that “only people have responsibilities, a corporation is an artificial person and may have artificial responsibilities” (para. 2nd). Friedman (1970) clarified the only social responsibility of a business was to grow its profits by optimum utilization of resources, with greater transparency, higher ethical standard, and within the boundary of laws. But Ramanna (2020) outright rejected Friedman (1970), perhaps in the light of today’s “ruthless global market conditions” (Cosar et al., 2019: p. 1171), where some businesses do not hesitate to profit at the expense of others, including societies. Instead, Ramanna (2020) asserted, “the business of business is business, and so it should be” (p. 28).

4. Pros and Cons of CSR Initiatives

Though the environmental aspect of CSR in developing countries has not re-
ceived much attention (Ahmad et al., 2021) yet, the general idea of CSR is undoubtedly an ever-evolving and ever-growing business concept globally (Ahmad et al., 2021; Carroll & Shabana, 2010). But there are contradicting views on how business organizations benefit by practicing CSR in their daily transactions (Carroll & Shabana, 2010; Carroll, 2016; Tonello, 2011). Moreover, some may even debate that CSR is a costly business proposition (Ferrell et al., 2018).

In this section, this paper has highlighted several past research that claimed both disadvantages and advantages of CSR initiatives in the operations of business organizations.

4.1. A Few Disadvantages of CSR Initiatives Reported in the Published Peer-Reviewed Journals

Abaeian et al. (2019) performed a qualitative investigation of 22 Malaysian senior hotel managers in independent hotels to explore their perceived perception pertaining to CSR initiative. The study revealed that CSR was a complex business initiative that would promote “struggles and trade-offs between fulfilling business objectives, paying heed to personal ethical values and considering cultural norms when making decisions regarding the adoption of a range of environmental and social initiatives” (p. 2468).

Tanimoto (2019) completed a systematic literature review of multi-stakeholder CSR initiatives (MSI). The study noticed that “not all CSR activities of companies are effective and functional”, and “perfunctory responses, window dressing, and tokenism may be inevitable in CSR activities” (Tanimoto, 2019: p. 705). In addition, reporting on CSR initiatives may “lead to a lack of compatibility, as well as reliability and accuracy, of the data between companies (a matter of data integrity)” (p. 705). Tanimoto (2019) also notes that “company may have been disguising an excess debt caused by failure of business strategies like Toshiba with highly reputed governance system and CSR system” (p. 705). It means CSR initiatives, especially reporting, may become ineffective to avoid accounting fraud (Tanimoto, 2019). Furthermore, CSR initiatives cost resources, and “compliance would require considerable time and cost” (p. 708).

The study of international corporate governance systems, a company’s engagement in CSR, and their cost of financing (both equity and debt) “reveals that the link between CSR performance and the cost of equity is negative in a shareholder-oriented system” (Desender et al., 2020: p. 207).

Bozic et al.’s (2021) study on corporate communications managers of successful retail companies in Croatia and perceived relationship between CSR, reputation, and business performance “results show a positive relationship between CSR and corporate reputation, and a positive relationship between CSR and business performance” (Bozic et al., 2021: p. 281). But the study had limitations such as research sample selection and the smaller number of research participants.

The quantitative study of 136 German employees on how far identification
can explain the effect of CSR on employees shows “CSR significantly predict commitment and job satisfaction, but not Organizational Citizenship Behavior (OCB)” (Paruzel et al., 2020: p. 1).

Arlı et al.’s (2019) investigation of participants from the USA and Australia finds that “corporate hypocrisy and consumers’ skepticism significantly influences perceived CSR and corporate reputation” (p. 706). Furthermore, “CSR activities that are split by visible (e.g., directed at customers) and credible (e.g., directed at community) orientations may have negative effects, causing a persuasive perception that the organizations’ CSR motives are self-benefiting” (Arlı et al., 2019: p. 708).

Margolis and Walsh (2003) completed a systematic literature review of past published 127 journal articles between 1972 to 2002. Seven out of 109 articles with CSR as an independent variable concluded negative relations, 28 studies had non-significant relationships, and 20 reported mixed results. In other words, CSR initiatives had historical records of failing to protect the shareholders’ interests and guaranteeing positive organizational performance and additionally, Tanimoto’s (2019) study also had a similar finding recently. Those past 55 research (7 studies: negative, 28 studies: non-significant, 20 studies: mixed set of findings) expose that investing in CSR initiatives is waste, or at minimum, unproductively utilization of companies’ resources and shareholders’ investments.

4.2. A Few Advantages of CSR Initiatives Reported in the Published Peer-Reviewed Journals

Hmaittane et al. (2019) retrieved research data from four databases, including COMPUSTAT for financial and accounting data. The study completed the systematic analysis of past research of controversial industry sectors (alcohol, tobacco, gambling, military, firearms, nuclear power, oil and gas, cement, and biotechnology) from 1991 to 2012. The study observed that “CSR engagement significantly reduces the implied cost of equity capital (ICC) in all controversial industry sectors, taken as a group, as well as in each one of these sectors individually. This effect is more pronounced when the firm belongs to the alcohol and tobacco industry sectors” (Hmaittane et al., 2019: p. 635).

The study of international corporate governance systems, a company’s engagement in CSR, and their cost of financing (both equity and debt) also “reveals that the link between CSR performance and cost of equity is positive in a stakeholder-oriented system. Furthermore, the link between CSR performance and the cost of debt is negative for firms that are close to default in both systems” (Desender et al., 2020: p. 207).

Bacinello et al. (2020) retrieved data from 103 companies in Brazil to investigate the strategic influence of CSR’s economic, social, and environmental dimensions on the performance of small and medium-sized enterprises (SMEs). The study “indicated that SMEs could strategically use their resources and related capacities mainly for social and environmental issues, followed by the eco-
The economic dimension of CSR, as an opportunity to create value and generate advantage competitive with rivals. Additionally, these three dimensions of CSR, with emphasis on the social aspect, can also provide better levels of business performance (BP) in SMEs compared to competitors” (Bacinello et al., 2020: p. 1).

The study from the banking industry in Egypt “finds that CSR implementation is positively reflected in profit efficiency, regardless of the strategic commitment to implementing CSR and bank size” (Ibrahim et al., 2021: p. 1).

Hang et al. (2022) conducted a quantitative study of 259 valid participants from small and medium-sized (SMEs) manufacturing companies in Pakistan. The study revealed a significant and positive impact of CSR on organizational performance and enhancing the companies’ competitive advantages impacting the core business in the competitive market (Hang et al., 2022).

Margolis and Walsh (2003) completed a systematic literature review of past published 127 journal articles between 1972 to 2002. Seven out of 109 articles with CSR as an independent variable concluded negative relations, 28 studies had non-significant relationships, and 20 reported mixed results. In other words, CSR initiatives had historical records of failing to protect the shareholders’ interests and guaranteeing positive organizational performance and additionally, Tanimoto’s (2019) study also had a similar finding recently. Those past 55 research (7 studies: negative, 28 studies: non-significant, 20 studies: mixed set of findings) expose that investing in CSR initiatives is waste, or at minimum, unproductively utilization of companies’ resources and shareholders’ investments.

Margolis and Walsh (2003) performed a systematic analysis of past published 127 articles between 1972 to 2002 that had 109 journals with CSR as an independent variable. The careful analysis of those 109 articles showed that 54 articles had a positive relationship between CSR and financial performance. 22 of 127 journals that had treated CSR as an independent variable could predict financial performance. Sixteen journals showed a positive relationship between CSR and social performance (Margolis & Walsh, 2003). In other words, most CSR initiatives in those past research did establish positive performance and a positive relationship with organizational performance (Bozic et al., 2021).

Liu et al.’s (2021) quantitative study completed in China reveals that “social responsibility has a positive impact on service identity, the perception of consensus of interests, and customer extra-role behavior. A good sense of social responsibility can build a close relationship between the platform and consumers. In addition, the platform actively fulfilling its social responsibility can not only improve its functional value but also enhance its social value” (p. 10).

5. Discussion

Extending help when one can do so with an open arm and heart and seeking or accepting help when required from another has been part of human civilization since the existence of scriptures and the business world for centuries. The generous idea of helping each other truly inspires the world to build and grow into
a unique habitat and marketplace at the same time where societies and business organizations can coexist and play complementary roles for the sustainability and growth of one another. Of course, today’s documented ethical corporate code of conduct may not have a very long history, or at a minimum, can be traced back to the beginning of the industrial revolution. Still, the notion of business dealings between human beings or business organizations that specific values have influenced is undoubtedly not new. Then again, when the monopoly of particular business organizations is extreme, and against the greater good of the societies they profit from, the societies rebel against such malpractices and force the bad players to correct their practices or vanish from the market.

During the great depression of 1930, when some business organizations tried to enrich themselves and did not show organizational citizenship behaviors, the societies and the governments pushed back against them harder. When people felt the business organizations were not contributing enough for the societies and communities they operated in, and unfair trade practices dominated the global trade markets, the World Trade Organization (WTO) was formed to ensure all could benefit from the trades in 1995. It was considered to be the most extensive trade reform since WWII. When the stakeholders came to know about the behaviors of Enron in 2001, the business had to disappear from the marketplace. When the stakeholders were hurt due to the excessive greed in the market crash in 2008, they rebelled against such behaviors, and the US government had to come up with more stringent regulations to ensure the benefits of all stakeholders. Challenges such as poverty, sustainable development, climate change, COVID-19, and COVID-19 like pandemics, are too big to address for one individual business leader or business organization, or nation. For example, the United Nations (UN) initially thought it would eliminate poverty in the world by 2030. Still, the UN is highly unlikely to attain the goal it once thought would be possible to achieve. The millions of people worldwide have lost their livelihoods, and about 100 million additional people were forced below the extreme poverty line during the current pandemic of COVID-19. But there is hope; with resilience and collective efforts of business worlds and global societies, the contemporary world can tackle those challenges making the world safer and better not only for this generation but also for the generation that has yet to come.

For business organizations to have continuous business transactions and meet the demand of the goods and services on time, they need a constant flow of consumers and human capital from the societies. To enhance purchasing power and live a happier and more prosperous life comfortably, societies and communities need reliable employment and commodities supplied by the organizations. Some societies and nations, especially developing countries, are so far behind and below the poverty line that without the generous contributions from the business world, they may unlikely experience the life and world ever the way the rest of the world knows and have enjoyed.

Based on the various studies mentioned above in the sections of disadvantages
and advantages of CSR initiatives, CSR initiatives cannot be free from negative criticisms, even though Dodd’s (1932) followers may or may not like the findings of those studies. Besides, the relationship between social responsibility and financial performance of organizations appears to be negative (Babalola, 2012; Mentor, 2016; Selcuk & Kiymaz, 2017) or neutral (Guidry & Patten, 2010; Resmi et al., 2018; Menezes, 2019), despite a positive relationship between the variables declared by Ahmed et al. (2012), Kanwal et al. (2013), Zakari (2017), as shown in “Table 6—Review of research on the relationship between social responsibility and financial performance” in Barauskaite and Streimikiene (2021: p. 284). Thus, the study cannot state with the highest integrity if CSR is bad for business organizations and their performance without additional credible research data. Therefore, it will not be fair to note that CSR initiatives cannot benefit the organizations’ shared objectives or business performance. But the literature revisions completed by this study indeed reveal that the debate has not settled yet if CSR initiatives always have a favorable relationship with business performance in all types of industry sectors. Perhaps the debate does not even settle down without accepting the findings or views from both aisles. In other words, “both the defenders of neoclassical theory and the adherents of CSR are correct—business responsibilities to shareholders and to society” (Dmytriiev et al., 2021, p. 1444).

Additionally, it will be unjust to measure the true impact of CSR investments and CSR initiatives by just measuring how much more money they can manage to bring home for shareholders the way some past literature had done. The generous contributions in the current pandemic of COVID-19, drought in the African continent, and the recent hurricanes in North America are a few examples that reveal that business organizations can do and have been contributing effectively for the greater good of the global societies and sustainability. The stakeholders from the societies and communities appreciate those contributions from the business organizations. Appreciation from the stakeholders should be one more measuring tool to measure Organizations’ performance due to CSR initiatives. Such significant impact contributed by CSR initiatives of business organizations in the lives of millions and millions of people and societies worldwide can’t be ignored while measuring the performance of organizations.

6. Limitations

The study included around 62% of the peer-reviewed journals published within the last three years. About 11% of the studies cited were published between 2010 and 2016. Approximately 27% of the citations were published between 1931 to 2008. The study also contained two annual surveys on CSR completed by a third party. The conclusion derived in this study was entirely based on the literature reviewed mentioned in the reference pages and the author’s observation as a business professional in the Canadian market for about eleven years. Dur-
ing the research, the study did not seek expert views from business leaders and managers due to lack of adequate resources, time, and the ongoing pandemic of COVID-19. However, since the field of CSR is ever-evolving, future research can be done by involving the latest views of experts in CSR and business leaders and peer-reviewed journals published within the immediate five years from the day of the future research.

7. Conclusion

Though this paper primarily focused on making the case against the CSR initiatives for greater profitability and sustainability, as promised at the beginning of the research, it left the door open for alternative views for the discussions. It learned that CSR initiatives could negatively, positively, or even neutrally impact organizations’ operations during the research. Therefore, instead of prioritizing to create wealth or values for one specific stakeholder (shareholders only or only for communities/society), business organizations will be better off when they invest their resources to generate values for all stakeholders (Ferrell et al., 2018; Dmytryiev et al., 2021). But be mindful—“a multi-stakeholder initiative does not automatically ensure good performance” (Tanimoto, 2019: p. 713). It is a friendlier platform to enhance stakeholder participation in CSR initiatives and promote CSR standards at the workplace (Tanimoto, 2019). Though this study did not discover or contribute any new significant knowledge, its finding reinforced the existing body of knowledge in business administration and management, especially on CSR and the impact of CSR initiatives on organizational performance. This study will play an instrumental role to the readers, including business organizations and leaders, who can form an educated view on the significance of CSR investment and CSR initiatives in today’s business world and the generation of the business world and human civilization that has yet to come.

8. Recommendations

The concept of CSR is still complex in 2022. Contemporary and future scholars have a lot to uncover to settle the argument on CSR that began centuries ago. The scholars have not found a consensus around one specific definition of CSR, yet the good news is CSR can be considered as a “phenomenon” (Dahlsrud, 2008: p. 6). Hence, it is more significant “to understand how to manage the challenges within this phenomenon” (Dahlsrud, 2008: p. 6) to the business world. Also, this study posits that business organizations may benefit by researching what percentage of the operating costs businesses should invest in CSR initiatives to protect the interest of shareholders while generously investing resources for the greater good in the societies/communities. Another option to optimize companies’ resources is that business leaders may “identify their CSR activities and introduce into the marketing strategy” (Kim & Lee, 2019: p. 7). Thus, they may choose to evaluate the overall marketing strategies and investments in the marketing, or business leaders may separately appraise the impact of CSR with
the cost-benefit analysis (McWilliams & Seigel, 2001). Finally, the study encourages business organizations to craft CSR strategies that can defend the interests of all stakeholders and meet the expectations of the local and global community and society. Because an effective corporate strategy impacts the performance of business organizations (Omotayo et al., 2020; Thompson et al., 2018). As this debate on CSR initiatives relates to the world of business, can we not interpret the famous quote expressed by Martin Luther King Jr. in Montgomery, Alabama in 1957 as “The business organizations’ most persistent and urgent question is: What are they doing for all stakeholders?” The debate is still on.

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Conflicts of Interest

The author declares that he does not have any personal financial or relationship with other people or organizations that could inappropriately influence (bias) the work presented.

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