Corporate Social Responsibility and Profitability: A Positive Approach

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ABSTRACT: In this paper, our main goal is to provide a framework for analysing corporate social responsibility and to generate a well-structured way of thinking about CSR in a positive way which could be helpful to develop the strategic CSR and can benefit the business as well as the society. The paper intends to find positive correlation between CSR and profitability. This could inspire management to concentrate on business value and to take initiative about CSR by strategically integrating CSR to business policies. This will benefit both the shareholders and the stakeholders. Although to measure this reciprocal response is a challenging task, yet the paper holds an optimistic view, prepares a background for this and opens the path for further research. The paper suggests that corporate social responsibility and profitability are correlated.

KEY WORDS: Strategic CSR, profitability, correlated, business value.

RESEARCH METHODOLOGY
The paper is conceptual. The research methodology used here is descriptive and analytic. The secondary literature and data available in books, journals and on websites is extensively used.

INTRODUCTION: There has come a paradigm shift in approach to Corporate Social Responsibility (CSR). The study of CSR and its relation to corporate profits is growing. For a very long time there has been ‘conflict of interest’ between wealth maximization and the responsibility & accountability towards the welfare of the society at large. Hence, in the current environment, the research relating to corporate profitability entwined with Corporate Social responsibility, for any business organisation becomes important and interesting. It becomes imperative to understand the impact of CSR activities on the revenue of the concerned companies. The wide review of literature available on the topic, no doubt, shows mixed results. But, with the changing environment and requirement, most of the contemporary researchers have positive attitude toward relationship between CSR and profitability. The studies reveal that the degree of profit may vary from small to large but CSR activities, generally, do not have a negative effect on profitability. What is needed is the strategic enshrinement of CSR in almost all business operation, and care and precaution in its implementation. The zeal to adopt and implement these, need motivation and that motivation is related to profitability. The research has identified certain benefits for a business being socially responsible. Though, these benefits are still hard to quantify and measure, yet this cannot negate the positive correlation between the two. For a corporate’s responsible approach towards its employees and the society, profit is a must. An attempt has been made in this paper to discuss these issues. The topic can be discussed only after understanding the evolving concept of CSR.
Evolution of Theory :

i) Conflict between CSR and Profit: Profit oriented concept of business:

Initially the corporate world and associated people strictly supported the traditional role of profit-motivated activities and felt that CSR concern may affect the profit of the organisation. In 1919, in the case of Dodge v. Ford Motor Company, came the landmark judgment by the Supreme Court of the State of Michigan, USA. The court announced that the primary objective of a business is to earn profits and that a business is responsible neither to its employees nor to the community as a whole. In 1970, Friedman Milton wrote that fundamental goal of an organisation should be the maximization and intensification of profits by following the legal and ethical path. He extended the view that any form of activity that is a deviation from this is irresponsibility (Freidman, M., 1970).

ii) Drift towards blend of profit and societal needs

Gradually, came a shift on emphasis from strictly profit-motivated pursuits to greater social responsibility by business. After different kinds of cases where society and employees suffered a lot because of corporate negligence and irresponsibility, and after environment awakening, the theories revolving round only profit became obsolete and the new model developed by Peston and Carol was considered worth considering and propagating. This model was known as the 'corporate social performance' (CSP) framework. This laid equal emphasis on societal needs and the economic responsibilities of business (Carroll, A., 1979).

iii) Stakeholder Theory

In 1984, Freeman advocated stakeholder theory. He advanced the view that stakeholders may be a group or an individual who directly or indirectly can affect or gets affected by the activities and achievements of an organisation. Freeman strongly asserted that proper attention of the stakeholders’ interests is an inevitable requirement for the success of a firm and that management, along with caring for shareholders’ interests must pursue actions that are optimal for a wide range of stakeholders (Freeman (1984)). The stakeholder theory propounds the view that firms have relationships with many groups. The range of stakeholders is all inclusive: shareholders, employees, communities, investors, consumers, customers, suppliers, governments and the like. It emphasizes that it is impossible for an organization to grow sitting on an ivory tower and so concern for the stakeholders is an important aspect for flourishing of the business. This changed perception led to the integration of emerging responsibilities of a business: environmental and social with governance and the predominant profit motive. The stakeholder theory also laid emphasis on the inclusion of sustainability concept in the core business practices of a company. All this evolutionary thinking paved the way for the concept of Triple Bottom Line.

iv) Triple Bottom Line: The Triple Bottom Line theory refers to three Ps - Profit, People and Planet. Profit is the economic value an organization earns after subtracting the cost of all inputs, including the cost of the capital attached to it. People refers to a wide range of area and activities like fair and welfare business practices toward labour, the community
region where corporation operates its business. Planet encompasses within it sustainable environmental practices (Bhattacharya, 2011 and Gopal, 2010 - cited in Wikipedia.

**Figure 1**

**Integration**

**Figure 2** (figure No 3 in IBM Chart)[[6]]

Thus, the discussion and the above chart (www-935.ibm.com ) by IBM show that CSR, today, has become a wide concept and different companies are focusing their attention on different fields of CSR. All these are inter-connected. They sustain and are sustained by one
another. When different components of CSR are integrated and merged with corporate governance, they create corporate social value (CSV). The maximum benefit from the CSR opportunity can be availed when all activities become integrated into a single strategy, with leadership from the top managers and full engagement by employees, business partners and customers. This concept of CSV focuses more on an inclusive growth (Porter, E. Michael & Kramer Mark, 2011). CSV hints towards discovering such possibilities which would help solve some of the social challenges while meeting the fundamental objective of making profits at the same time, that is CSR models should be designed in such a way that are rewarding to the organisation as well as to the society simultaneously.

People related CSR refers to both - concern for people inside as well as for people outside the organisation. It assimilates into it Good Governance and stakeholders’ concern. Good Governance refers to transparency in managing the affairs of the employees and the organization. For example it makes the management accountable for employee issues and working conditions in the organisation. Stakeholder concern takes into consideration the responsibility of business towards the society at large. It is a wide area. It is about satisfying the needs of the society in particular and creating a favourable impact of the organization in general. Planet with reference to CSR is Environment Accountability. As most of the things of business are drawn from the environment, it must compensate for their use and also make efforts to minimize the negative effects caused by its operations on the environment. As environment is the property of all generation after generation and not of the selected economically privileged class. For growth of any business, society or country only economic and industrial development is not sufficient rather Sustainable Developments a component of CSR is the demand of the time. It involves taking into consideration the environmental and social factors, in addition to economic factors, while designing business strategies, operations and practices. It is essential, as economic growth cannot continue infinitely because of limited availability of natural resources. The most popular definition of sustainable development is the one provided by Brudland Commission, “It is progress that meets the needs of the present without compromising the ability of the future generations to meet their own needs.”

**Relationship Between CSR and Profitability**

The first question that arises is - Is it possible to run these CSR activities without money? Obviously No. So profit maximisation as the fundamental requirement of business cannot be ignored. What needs clarification is the dividing line between Profit and Greed. CSR supports profit not greed. Several recent scams – Satyam, King Fisher are examples of greed. A few other related questions are: Does CSR affect profitability adversely? how does CSR affect the bottom line? Does a corporation do well financially by doing good socially?

**Strategic CSR**

These queries led researchers to think of the concept of strategic CSR. This concept does not see profit making and social activities as two separate poles. Rather, it encourages the firms to integrate the concept of profit making while social needs by adopting strategic CSR. Norman & MacDonald emphasized that it is not sufficient for a firm to merely develop a report or code of conduct on ethics; rather it should focus on integrating these with the values
& beliefs of the organisation . Strategic CSR stresses on developing business models in conjunction with the social issues (Norman & MacDonald, 2004). Porter and Kramer have emphatically taken strategic CSR as the integration model of social activities and profitable business. The service to the society and profit making cannot be disjointed concepts. Integrating the social activities in the business practices is the essence of strategic CSR (Porter & Kramer, 2006). Strategic CSR identifies the co-existence of both the concepts. Social activities need not be performed at the cost of profit-making rather these two can be combined. Gradually, social scientists started thinking of social welfare activities along with profit and the new concept that was popularised was that there is no longer need to relate CSR with profit as it is a part of business strategy (Murthy K.V., 2007).

On the other hand taken in totality, CSR emerges as an ethical philosophy either adopted by corporations on their own or imposed upon them either by circumstances or by governments, to maximize the welfare of the society in which they operate. This can gain momentum if a close connection between CSR and profitability can be discovered and communicated.

ADVANTAGES: 1. Customer awakening and changed purchasing behaviour

88% of consumers said they were more likely to buy from a company that supports and engages in activities to improve society.”

Better Business Journey, UK Small Business Consortium

In the recent years there is an awakening among customers about CSR. “Mr. Haque’s new book, Betterness: Economics for Humans, provides a useful context in which these varied issues (impact of CSR on business) can be understood as part of the transformation from impersonal corporate giving to the “impact” of products and services on consumers’ lives – and, of course, the profits generated in the process. There is ample data to confirm this profit-generating potential. More than half the consumers surveyed by Havas want to reward responsible companies by buying their products. 53% would even pay a 10% premium for those products” (www.forbes.com)

This is a time when customers’ perceptions of companies and their consequent purchasing behaviours are fundamentally changing. And, no doubt, this will have a potential financial impact on business, “CSR is no longer viewed as just a regulatory or discretionary cost, but an investment that brings financial returns” (IBM). Their report says that “68 percent are now utilizing CSR as an opportunity and a platform for growth.” (IBM - P2)
2. **Energy Efficiency**: Another profitable form of CSR is energy efficiency. Many companies are working in this field by improving the efficiency of the production process; the pollution and costs are reduced. This also helps them differentiate their products in the market on the basis of their environmental and social impacts.

3. **Getting Shareholders**: With mounting figures of Initial Public Offers, and increasing numbers of companies struggling for making capital arrangements, the choice on the side of shareholders has unprecedentedly grown. Apart from looking up to the markets for profitable investment avenues, they also feel it imperative to check the social footing of the companies in which they are going to invest their hard-earned incomes and savings. Good CSR standing can prove beneficial for the company here.

4. **Employee Engagement**: Concern for employees is an inevitable part of good CSR strategy. This can prevent catastrophic situations of employees as was the case with King Fisher Employees. Further, it can help retaining good employees. Obviously, the better and happier the employee are, the better the performance and profit will be.
CSR as a strategic goal that brings in new revenues

As companies move from left to right on the value curve, greater returns are realized as CSR becomes more integrated into core business strategy.

5. Helps Differentiate their Brands and generate revenue

In current competitive environment the CSR can fetch profits by helping corporates differentiate their brands. A large number of research done by various organisations prove that business can do well by doing good. “Companies like IBM, HP, and Texas Instruments topped the charts for transparency and reported results. For starters, their sustainability initiatives have impressed consumers, the report suggests.

These sector-leading companies have pushed hard to highlight their greater focus on enhanced sustainable design, manufacturing, distribution, use, and end-of-use management. The message is, our products are socially responsible across a broad spectrum of consumer needs, beginning with the benign impact they have on the world in which they’re used.

In turn, that message rivets consumer attention on the products themselves and encourages the compelling supposition that responsibly manufactured products are simply better products.” (www.forbes.com) Several well-known companies like Tata, Arcelar Mittal and various FMCG companies have already proved that they can differentiate their brands, products, reputations and services if they involve themselves in welfare activities pertaining to society and environment in which they operate. The distinguishing feature, here, is that companies are practising Corporate Social Responsibility (CSR) in a well-planned and strategic manner that helps them earn significant returns to their business. “When aligned with business objectives, companies are beginning to see that CSR can bring competitive differentiation, permission to enter new markets, and favourable positioning in the talent wars” (IBM - P.3.) see Figure 4 (Figure 2 in IBM Document)
6. Beneficial Products and Services: The company can generate considerable revenues from innovative remediation products that bring solutions to various problems relating to environment, energy, or society at large. ‘Jake Backus, customer sustainability director at Coca-Cola says, “We are integrating more plant-based plastic into our products and are providing new equipment to our supply chain to do this. This has some start-up costs but we believe our investment will eventually yield a more sustainable supply chain. Over time there will be less volatility in pricing for plant-based plastic when compared with plastic made from petroleum. In 2009 we avoided the use of 85,000 tonnes of primary packaging resulting in estimated savings of $100m (£60m). In the same year, our water efficiency improvement avoided $19m in costs and our energy savings resulted in $28m savings.”(www.marketingweek.co.uk) Further, “Coke is buying new machinery for its producers of plastic bottles so they can make them from plant-based material rather than oil-based matter. The plant-based plastic is likely to be cheaper in the long run. Efforts already made by Coca-Cola in 2009 achieved $100m worth of savings because it cut down on packaging.”(www.marketingweek.co.uk)

7. Increase in Stock Price: An added advantage for public companies is that aggressive involvement in CSR activities can definitely assist organisations in getting registered in the FTSE4Good or Dow Jones Sustainability Indexes, or other similar national and international indices. This, by enhancing the company’s stock price, may bring profit to shareholders. The benefits “extend to stock value as well, as suggested by Harvard Business School data confirming that this new species of socially responsible company gets more favorable ratings from securities analysts”(www.forbes.com)

Conclusion

To sum up, the analysis and research yields encouraging results indicating a positive link between CSR and increased profits. No matter how you define CSR, it does add potential benefits to corporates. The impact of numerous corporate activities on customers, employees, shareholders, communities and the environment is wide and varied. Through Corporate Social Responsibility (CSR) organizations can take responsibility to serve the interests of society as well as to enhance their name and brand leading to their own profit. The more profit the more CSR and the more CSR the more profit seem to be the two sides of the same coin, provided proper care and precaution are taken in implementation. The relationship and response are mutual and reciprocal respectively. Therefore, corporate sector should feel its responsibility towards all the stakeholders and should share a part of its profit with the wide range of its stakeholders. This will make the place safe, healthy and comfortable even for the generations to come. When these activities are done in combination, CSR can become a dimension of a company’s successful competitive strategy. Done right, it offers a company improved relationships with all of its key constituents, more loyal customers, lower costs, higher revenues and an overall improvement of the business’ standing in society. A company’s most valuable asset is its ability to convert brand power into customer buying decisions and CSR can help do this. Thus, though the field still needs research, the analysis does show that strategic CSR may improve profits. Our analysis, though not conclusive, does suggest that CSR if motivated by profits can be more productive. Thus, the paper provides a platform for much-needed further research.
References


