Arguments against Corporate Social Responsibility

Sumaiyya Saleem, Amit Kumar & Adeeba Shahid

Abstract: The purpose of this study is to evaluate the arguments concerning corporate social responsibility (CSR). The two sides of the arguments are stakeholder theory and shareholder theory. Proponents of stakeholder theory support providing for the discretionary expectations of society. On the other hand, advocates of shareholder theory maintain that businesses should simply obey the law and maximize shareholder wealth. The conclusion of this study is that corporations should focus on legally maximizing shareholder wealth based on ethical principles.

Keywords: Corporate Social Responsibility, Stakeholders, Shareholders, profit maximization.

Introduction:

Corporations around the world are struggling with a new role, which is to meet the needs of the present generation without compromising the ability of the next generations to meet their own needs. Organizations are being called upon to take responsibility for the ways their operations impact societies and the natural environment. They are also being asked to apply sustainability principles to the ways in which they conduct their business. Sustainability refers to an organization’s activities, typically considered voluntary, that demonstrate the inclusion of social and environmental concerns in business operations and in interactions with stakeholders. It is no longer acceptable for a corporation to experience economic prosperity in isolation from those agents impacted by its actions. A firm must now focus its attention on both increasing its bottom line and being a good corporate citizen. Keeping abreast of global trends and remaining committed to financial obligations to deliver both private and public benefits have forced organizations to reshape their frameworks, rules, and business models. To understand and enhance current efforts, the most socially responsible organizations continue to revise their short- and long-term agendas, to stay ahead of rapidly changing challenges. In addition, a stark and complex shift has occurred in how organizations must understand themselves in relation to a wide variety of both local and global stakeholders. The quality of relationships that a company has with its employees and other key stakeholders—such as customers, investors, suppliers, public and governmental officials, activists, and communities—is crucial to its success, as is its ability to respond to competitive conditions and corporate social responsibility (CSR). These major transformations require national and global companies to approach their business in terms of sustainable development, and both individual and organizational leadership plays a major role in this change.

Literature review:

A general definition of sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development - WCED 1987). The National Sustainable Development Strategy of the Republic of Serbia, which was adopted in 2008 in acknowledgement of the importance of sustainable development, defines sustainable development as a “target-oriented, continuous, comprehensive and synergetic process with impacts on all aspects of life (economic, social, environmental and institutional) at all levels”. There are three key factors or pillars of sustainable development: economic (sustainable economic growth and economic and technological progress), social (sustainable social development based on social balance), and ecological (environmental protection accompanied by reasonable use of natural resources). In contemporary circumstances, sustainable development is an important strategic goal for businesses, whose behaviour should be focused on meeting societal needs, generating profit, creating jobs, investing in future business development, and the development of society (Knez-Riedl et al., 2006). Hence CSR should be investigated as a key prerequisite of sustainable development. It includes the systems theory concepts of ‘interdependence’ and ‘holism’ as the attributes linking its contents and supports them by the seven principles set out in ISO 26000 (ISO 2010).

As a main precondition of sustainable development, CSR is becoming increasingly
important in the operation of contemporary businesses. A key idea of CSR is that companies cannot be isolated from their environment, i.e., societal problems and needs (Golob et al. 2014), which implies obligations towards stakeholders. Generally, CSR concerns companies’ actions beyond their legal obligations towards society and the environment (Zenko et al. 2013). Zenko et al. (2013) found the following aspects of CSR to be crucial to modern business.

Historical concept of CSR:

The first key statement to specifically mention the social responsibility of business emanated from Harvard University. The business school dean, Donald David urged the incoming MBA class to perceive the responsibilities that were to be assumed by business leaders. These responsibilities consisted of going beyond the financial interests of shareholders and supporting social causes (Spector, 2008). Some other historical leaders in the CSR discussion were Levitt and Friedman. Levitt, in 1958, exhorted businesses to take heed of the dangers of social responsibility. Likewise, in the 1960s, Friedman warned about the negative consequences of social responsibility. Friedman offered a conservative, economic view of CSR. In a New York Times article, Friedman (1970/2002) asserted, “There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game” i.e any activity that detracted from this responsibility for profit maximization was in the eyes of Friedman, inefficient and bad for business; the idea of a social responsibility over and above that of profit maximization was not only counter-intuitive but wrong.

Modern concept of CSR:

Today, textbooks, magazines, journals, newspapers, websites, and books consistently mention CSR. An emphasis on CSR permeates higher education. One cannot open many business textbooks that do not flaunt the benefits of this exalted concept. CSR has become popular throughout the world. For instance, the Asia-Pacific CSR group was founded in July 2004. This group was founded to promote favorable environmental and human resource regulations across the region (Gautam & Singh, 2010). Businesses are increasingly implementing CSR policies. For example, many firms in the airline industry have incorporated CSR into their business structures. In recent decades the airline industry has been pressured into reducing their negative environmental effects. Consequently, airline firms are focusing on reducing emissions and aircraft noise (Cowper-Smith & de Grosbois, 2011). Reasons for firms implementing CSR include strategy, defense, and altruism. Many corporate executives believe that CSR creates a competitive advantage for firms, thus leading to greater market share. CSR can differentiate a company from its competitors by engendering consumer and employee goodwill (McWilliams & Siegel, 2001). CSR may also be used to preempt competitors from gaining an advantage. Once a firm in an industry has implemented CSR policies successfully, rival firms may be forced to engage in CSR as well. If they do not exercise CSR, these rival firms are in danger of losing consumer loyalty. On the other hand, some firms are involved in CSR simply because they believe it is the right thing to do. Regardless of the underlying reasons, CSR has become a commonly used term in the business arena (Lindgreen, Swaen, & Maon, 2009). N. Craig Smith (2003b), a former professor at Harvard Business School, argued that “The impression created overall is that the debate about CSR has shifted: it is no longer about whether to make substantial commitments to CSR, but how”.

Objective:

The basic objective of this paper is to discuss the Arguments against Corporate Social Responsibility

The simplest argument for social responsibility is that it is the right thing to do. Some of society’s problems have been created by corporations such as pollution and poverty-level wages. It is the ethical responsibility of business to correct these wrongs. Another point is that businesses have many of the resources needed for solving society’s problems and they should use them to do so. Another reason for companies to be socially responsible is that if businesses are not, then the government will create new regulations and establish fines against corporations. This has especially been the case for the pollution issue. If businesses police themselves, they can avoid government intervention. Finally, social responsibility can be profitable. It is possible for companies to prosper and build shareholder value by working to solve social problems. It can be a great way for a company to build positive public relations and attract top talent in the industry. Today, few people argue that corporate social responsibility is important. Instead, people argue
Stakeholder theory transfers the corporation’s focus should be operated to maximize their returns. Skeptics often claim that businesses should focus on profits and let the government or nonprofit organizations deal with social and environmental issues. The arguments concerning corporate social responsibility (CSR) are having two sides that are stakeholder theory and shareholder theory.

**Stakeholder Theory:**

On one side of the argument are those who believe in providing for society’s discretionary expectations. In addition to making a profit and obeying the law, a company should attempt to alleviate or solve social problems. This view is commonly advocated through stakeholder theory. This theory maintains that corporations should consider the effects of their actions upon the customers, suppliers, general public, employees, and others who have a stake or interest in the corporation (Jensen, 2002; Smith, 2003a; Freeman, Wicks, & Parmar, 2004; Lee, 2008; Schaefer, 2008). Supporters reason that by providing for the needs of stakeholders, corporations ensure their continued success. A renowned company that exhibits the stakeholder view is Johnson and Johnson. Their credo lists the corporation’s responsibilities in the following order: customers, employees, management, communities, and stockholders (Seglin, 2000/2002). Proponents of stakeholder theory maintain that increasing shareholder wealth is too myopic a view. According to stakeholder theory, increased CSR makes firms more attractive to consumers. Therefore, CSR should be undertaken by all firms.

**Problems with Stakeholder Theory**

1. **Denies Fiduciary Responsibility:** Stakeholder theory has some significant disadvantages. For instance, stakeholder theory runs directly counter to corporate governance. Since shareholders are owners of the firm, the firm should be operated to maximize their returns. Stakeholder theory transfers the corporation’s focus from shareholders to the needs of stakeholders. By implementing unprofitable CSR programs, firms are denying their fiduciary responsibility to shareholders.

2. **Oversimplification:** Society has numerous problems that have existed for many years such as poverty and pollution. If these problems were as simple to solve as stakeholder theory advocates maintain, they would have been remedied long ago by profit-seeking firms focused on benefiting society. Many businesses have discovered, however, that the pursuit of society’s welfare often leads to a reduction in profits. If managers pursued CSR activities that hampered profits they would likely be out of a job. The owners of a firm desire a return on their investment, and would likely fire a manager that purposely opposed this objective. Social problems are more complex than stakeholder theorist’s claim.

3. **Overregulation:** Another critical argument voiced against stakeholder theory is the overregulation argument. This argument maintains that the pursuit of CSR would lead to more rigorous environmental and social regulations for businesses across the world. These regulations would then make it more difficult for undeveloped nations to keep pace with developed nations.

   The implementation of CSR would likely cause significant disagreement among shareholders as well. Some of the shareholders would promote CSR. On the other hand, some shareholders would support the sole pursuit of profit. The firm considers closing the store to avoid harming shareholders. Stakeholder theory may suggest that the company leave the store open to continue to provide for the store’s employees and community. Shareholder theory proponents would propose that unless leaving the store open would maximize long-term shareholder wealth, it should be closed. Although stakeholder theory sounds reasonable, it may introduce more problems than it solves. It is practically impossible to serve the interests of each of the stakeholder groups simultaneously.

**Shareholder Theory:**

On the other side of the argument is shareholder theory proposes that the corporation should legally maximize long-term shareholder wealth (Jensen, 2002; Smith, 2003a; Schaefer, 2008). By providing a necessary product or service at a reasonable price, a business is benefiting society. In financial language, shareholder theory advocates that a firm should maximize the present value of all future cash flows (Danielson, Heck, & Shaffer, 008). It is unnecessary and unwise to
spend shareholder money for unprofitable social causes. The shareholders have made an investment and are dependent on the firm to provide them with a return. Steve Milloy, a mutual fund manager and critic of CSR, proclaimed the following: “Shareholders do not hire CEOs to be the U.N., to act like a government or to be a charity. They were hired to make money for shareholders. Business is society's wealth-creation machine” (as quoted in Weiss, Kirdahy, & Kneale, 2008, para. 5). Milloy’s argument is similar to the reasoning of Adam Smith and Milton Friedman. The business of business is to make money. By serving the needs of shareholders, businesses generate wealth that benefits society. If CSR initiatives increase the bottom line, then shareholder theory advocates recommend implementing such initiatives. However, using shareholder money in an unprofitable manner is wrong. No matter how noble the cause, it is inappropriate to be generous with another’s money. On the extreme end of shareholder theory are some scholars who believe that CSR should be abandoned altogether. Although they concede that CSR has increased global awareness of business ethics, the concept is no longer practical. For example, Freeman and Liedtka, professors at the University of Virginia’s Darden School of Business, argued that CSR has failed and should be forsaken. They claimed that CSR has not delivered on its promise to create the good society. Furthermore, they asserted that the concept of CSR promotes incompetence by prodding business managers to improve society’s shortcomings. According to Freeman and Liedtka, businessmen do not have sufficient expertise regarding individuals and communities to alleviate social problems (Freeman & Liedtka, 1991).

Problems with Shareholder Theory

1. **Externalities:** Shareholder theory is not without its shortcomings. In normal business transactions, externalities may occur. These externalities are costs or benefits to third parties in a business transaction. For example, an industrial firm is considering opening a plant in the United States. The proposed plant is known to emit a vast amount of pollutants that would seriously harm the environment and the health of citizens in close proximity. Although building the plant would provide benefits in the form of greater profitability, the construction would also result in negative externalities to the community. Therefore, increasing shareholder wealth does not always increase stakeholder welfare.

2. **Focus on Short-Term Profit Maximization:** Another argument voiced against shareholder theorists is that a focus on shareholder wealth encourages businesses to focus on short-term profit maximization. This is a misguided assumption. As mentioned earlier, the shareholder model is focused on long-term profit maximization (Danielson, Heck, & Shaffer, 2008).

3. **Just Treatment of Stakeholders:** Likewise, some claim that shareholder theory does not encourage businesses to treat their employees and other stakeholders justly. This argument has a simple counterargument. Just treatment of a company’s stakeholders is prerequisite for a successful business. The company that treats its employees poorly is probably going to have an uncommitted, weak workforce. As a result, such a company’s profits would suffer. Shareholder theory would not prevent firms from investing in financially beneficial activities (Smith, 2003a).

**Other arguments against CSR:**

1) Society has to pay the cost i.e. the cost of social responsibility.
2) Lack of social skills.
3) Business already has enough power therefore society should not take any steps which give it more power.
4) Lack of accountability; the businessmen have no direct accountability of people, therefore it is unwise to give businessmen responsibility for areas where they are not accountable.
5) Lack of board support; business involvement in social goals lack support from all group i.e. especially the board support, it will create so much friction among dissident parties that they cannot perform its social assignment.

**Conclusion:**

Corporate Social Responsibility can be profitable. It is possible for companies to prosper and build shareholder value by working to solve social problems. It can be a great way for a company to build positive public relations and attract top talent in the industry. The findings of this study indicate that the stakeholder and shareholder theories are both incomplete. Firms should maximize long-term shareholder wealth, but not at the expense of stakeholders and ethical guidelines. They should not deliberately harm stakeholders to make a profit, and they should not go out of their way to promote stakeholders’ interests if doing so does not increase shareholder wealth. Firms cannot be profitable in the long term if they have poor relations with their stakeholders. At the same time,
firms cannot meet all the needs of their stakeholders and remain profitable. Additionally, business decisions should be based on an objective ethical code of conduct. Government officials should not determine ethics. Shareholders, as individuals may freely give of their money to benefit society. Similarly, mission-driven firms, sole proprietorships, and partnerships are free to support social actions. However, using the money that shareholders have invested in a corporation to support unprofitable causes is clearly wrong. Therefore, businesses should make a profit, obey the law, act according to an ethical standard, and only pursue CSR activities that improve long-term shareholder wealth.

References