What is CSR and why Does it Matter for Companies? What are the Limitations and Current Issues around CSR?

Model Exam Answer

Corporate Social Responsibility (CSR) is a new management philosophy conceived in the early 1960s and became a widely accepted idea from the 1990s (Agudelo, Jóhannsdóttir and Davídsdóttir, 2019). The original notion behind this management philosophy involves an enlarged perspective around the normative roles of business in the society and the environment so that a large share of stakeholder needs are incorporated into business decisions (Hopkins, 2009). While CSR is now a standard practice in many organisations and sectors, the concept is by no means flawless. After overviewing the theoretical foundations of CSR, the essay evaluates the limitations and critiques of CSR in the 21st century.

To begin with, it is worthwhile to briefly compare the stakeholder and the shareholder models to understand business responsibilities beyond profit pursuit (Hopkins, 2009). As per the shareholder theory, firms' only duty is to maximise owners' utility (i.e., profit) by staying within the boundaries of the law and refraining from deception of any sort. This model is credited to Friedman (1970), although has been subsequently criticised for its overly narrow view of the complex ecosystem in which firms exist. Opponents of the shareholder theory suggested that the sole pursuit of profit often occurs at the very expense of other entities. Hence, in an ideal situation, business leaders and key decision-makers must consider the variety of impacts elicited by business conduct on stakeholders. Carroll (1991) is one of the seminal and most widely cited authors in CSR literature, and has been among the first scholars to operationalise CSR into a simple, yet still effective model. The CSR pyramid hierarchically orders the different types of responsibilities firms need to fulfil. These include the foundation of economic, legal, ethical and philanthropic responsibilities. Carroll's (1991) decision to position economic responsibilities of the firm marks the necessity of aligning CSR with business strategies instead of haphazardly supporting different charitable causes. The adherence to legal responsibilities is also quite self-explanatory: firms at all times must adhere to structures of the legal environment. Beyond these two levels, ethical and philanthropic responsibilities are far less defined. Principally, firms carry the obligation to act in a far manner and exhibit the characteristics of a good corporate citizen. In addition to Carroll's (1991) model of CSR, Elkington's (1994) Triple Bottom Line (TBL) framework is also worth mentioning as one of the key influencers of contemporary CSR thinking. Elkington (1994) also challenged the viability of an exclusive focus on profitability. The foundational idea behind the TBL framework involves a holistic view of company performance. Correspondingly, a firm can only be considered successful if the net economic, social and environmental impact is positive. A vastly profitable company in a polluting environment (e.g., extracting industry) once measured against the criteria of TBL may not indeed be as successful as it may have been deduced by merely consulting financial reports (Elkington, 1994).

In addition to the ethical arguments behind company motives to balance and respect discretionary stakeholder priorities, CSR may also be perceived as a business case (Vishwanathan et al., 2019). As noted earlier, CSR can only add to company performance if the CSR activities, in one way or another enhances company reputation and improves its public image. A company involved in responsible business decisions (e.g., using recycled packaging materials, sourcing raw materials from verified suppliers…etc.) could evoke positive sentiments in consumer markets. Moreover, by merely reviewing and adjusting company operations, there may be plenty of cost-saving opportunities, benefitting not just the firm but the environment as well. Consumers are becoming increasingly attuned to companies' social and environmental performance, and those brands capable of credibly demonstrating their sustainability achievements could effectively differentiate themselves in fiercely competitive markets (Chong, 2017). CSR has also been shown to engage employees and positively contribute to the company's employer brand in labour markets.

Despite the seemingly robust theoretical foundation behind CSR, some limitations remain. First and foremost, the seminal CSR authors (e.g., Carroll 1991 and Elkington 1994) all suggest a positive correlation between CSR and Company Financial Performance (CFP). However, empirical studies in the last five years have failed to conclusively prove positive correlations. In some instances, CSR indeed correlated with financial performance, although the vast majority of empirical papers have found only weak evidence and near-neutral correlations. Second to this, the theoretical building blocks of CSR do not allow for one single methodology of implementation (Aggarwal and Kadyan, 2011). Correspondingly, CSR is not standardised, and practices can widely vary from industry and industry, making any comparative analysis difficult if at all possible. Some legislations have introduced mandatory CSR mandatory disclosures. These disclosures in the best-case scenario could prompt corporations to critically audit operations and publish the findings. However, social reporting standards are far from being standardised, and due to unique industry and/or company circumstances, there is a recurring issue of not being able to objectively compare findings from last years (Aggarwal and Kadyan, 2011). The same issue applies to Elkington's (1994) TBL model. In theory, there is a clear rationale behind a more holistic evaluation of company performance. In practice, measuring businesses' environmental and social costs in quantitative terms is not always possible, and without standard metrics, major discrepancies in reported findings may occur (Aggarwal and Kadyan, 2011). Due to the lack of standardisation of CSR reporting, many firms have misused CSR to artificially improve company image by making unverifiable and inconclusive statements on strategic commitment towards the environment and societies. Through the practice of greenwashing, the selective presentation (i.e., cherry picking) of favourable measures and metrics can falsely represent the company as both socially and environmentally responsible, without any positive impact on affected stakeholders.

To conclude, CSR could be a strategic tool to link company and broader stakeholder interests. The theoretical models behind CSR all support a more focused company methodology of linking stakeholder and shareholder demands effectively. On the same note, CSR suffers from several limitations and conceptual ambiguities, mostly revolving around the objective measurement of CSR output. CSR, if properly implemented, can be the source of enhanced competitive advantage and improved public image for many firms.

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