Competitive Business & Corporate Social Responsibility (CSR) – Friend or Foe? *By Miriam Ekirapa Musaali Senior Legal Officer, CMA*

In today's business environment, CSR reporting has come to the fore front and gained prominence. Annual reports of Public Companies now report on non-financial key performance indicators as well as the financial key performance indicators. There is increasing pressure for businesses to go beyond what the law requires. In the United kingdom, the then Prime Minister, Tony Blair introduced the position of CSR Minister in order to move CSR up the list of priorities for Businesses. You may have grappled with the question of whether a competitive Business should engage in CSR, this article will highlight the place of CSR in a competitive business and the arguments for and against it.

CSR is a concept in which organizations consider the interests of society by taking responsibility for the impact of their activities on customers , suppliers, employees, shareholders, communities and other stakeholders, as well as the environment. Mallin (2007)[1] defines CSR as voluntary actions that a company may take in relation to the management of social, environmental and ethical issues. CSR is a component of the broader stakeholder views of corporate Governance which go beyond profit maximization and extend to issues relating to the obligation that companies have to their communities in all aspects of their operations. CSR requires that one goes beyond the requirements of the law to do over and above what the laws require. Mallin (2007) quoting Carroll (1979) [2]expounds on CSR by explaining that the business has a responsibility to produce goods that it sells at a profit, to abide by legal requirements, to do what is right and fair and to do what might be desired of companies in terms of supporting the local community and making charitable donations.

Arguments in favour of CSR include the improvement in perception of the company among its staff, and in the community, its role in building customer loyalty. Some have opined that a business benefits result from the company building a reputation for integrity and best practice. Mallin (2007) while discussing the stakeholder interests in a company Quotes the Organization For Economic Co-operation & Development (OECD 1998) report on ''Corporate Governance ; Improving Competitiveness and Access to Capital in Global markets '' which argues that while the company's central mission is long term enhancement of shareholder value ,companies operate in a larger society with different societal pressures and expectations which may impact on the financial objective to some extent so that non financial objectives may need to be addressed as well.

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[1] Corporate Governance (second Edition) Christine A.Mallin

[2] Caroll,A.B (1979) '' A Three –dimensional Conceptual Model of corporate Social Performance '' Academy of Management Review ,No.4

No doubt the subject of CSR has been criticised. Some critics argue that for a company to engage in CSR is for it to forget about its fundamental role in business. The argument against CSR revolves around the company's purpose to maximize profits. Profit maximization is a responsibility to shareholders not the society at large. Opponents of CSR argue that CSR attempts to pre-empt the role of governments as a watchdog over multinational corporations. Critics of CSR have often pointed out the questionable motives for companies engaging in CSR.
For example, some critics question the involvement of companies that produce harmful products or environmentally hazardous products in CSR. It appears to some people that these companies are trying to distract the public from the dangers of their operations by doing acts of service in the community.

The impact of CSR on business has been widely debated Robert Reich[3] in his paper '' The Case against Corporate Social Responsibility '' argues, "… *for many years I have preached that social responsibility and profitability converge over the long term. That's because a firm that respects and values employees, the community, and the environment eventually earns the respect and gratitude of employees, the community, and the larger society – which eventually helps the bottom line. But I've never been able to prove this proposition nor find a study that confirms it.*"

Robert Reich (2008) also raises an interesting argument that investors do not punish companies that are notably lacking in social virtue. …"*Wall Street analysts and investment bankers concern themselves only with the bottom line, as do most of those whose retirement savings they manage..* "
He cites an example of tobacco companies that have no difficulty finding funding from companies that are eager to make a good return. His conclusion in this regard is that," *it seems more likely that investors don't know or care. They have instructed the managers of their pension or mutual funds to maximize the value of their savings, regardless.* ''

Robert Reich (2008) is of the opinion that …" *investors are interested in better corporate governance. But better governance makes a firm more responsive to its investors -- not to its employees, communities, or society as a whole.*"
So, what's Robert Reichs' take away for competitive business, CSR is good for society, it makes for good press, but there is no proof that it will bring a good return. From Robert Reichs' perspective therefore, it makes good sense for a company to focus on improving its corporate governance and not engage solely on CSR. This view has been supported by Mitchelle (2007)[4] who argues that the most likely way for proponents of CSR to achieve their goals is to recast their issues as issues of corporate governance. Mitchelle advocates for bringing CSR to the board room. He says, ''*Management that keeps its own house in order,*

[3] University of California ,Berkeley Goldman School of Public Policy ,''The Case against Corporate Social Responsibility''
[4] The Board as a path toward corporate social responsibility.

management that understands that running a successful and sustainable business requires it to behave in a manner that does not risk undermining its own legitimacy, is management that will run a corporation that, as a matter of course, will address most of the problems with which CSR is concerned. "

Companies should balance between reporting on corporate governance and reporting on CSR. Companies need to balance between giving shareholders a good return and paying attention to their CSR policy. At the end of the day, a company that has an excess of CSR at the expense of profit maximization will be the loser and investors will go wherever they can to get a better return.

Economists like Catherine J. Morrison Paul (2006) [5] advise that for a CSR action to be undertaken by a company, the benefits of engaging in this activity must offset the higher costs associated with the additional resources that must presumably be allocated for the firm to achieve CSR status. She goes on to say that Managers have to decide the amount of CSR expenditure that is economically justifiable and weigh the costs and benefits of CSR activities in the context of product and cost efficiency.

Now that the ayes and nays have had their say, is CSR a friend or foe in a competitive business? You be the judge.

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[5] Corporate Social Responsibility & Economic Performance