

Maximizing The Benefits Of Corporate Social Responsibility. How Companies Can Derive Benefits From Corporate Social Responsibility

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Abstract

Corporate Social Responsibility can be used as a business strategy by firms to improve many different areas of their business. Research has shown that, if implemented correctly, the benefits of CSR tend to outweigh the costs.

Keywords: Corporate social responsibility, benefits

Introduction

Corporate Social Responsibility (CSR) has recently been receiving a lot of attention by many companies looking to improve their businesses. There have been countless studies conducted to determine the costs and benefits of CSR, including Lin, Yang, and Liou's 2009 study of businesses in Taiwan and research conducted by Porter and Kramer (2006). Even with this information, some companies are hesitant to fully commit to CSR initiatives. These companies could be missing out on many opportunities, such as increased profitability, competitive advantage, and various long-term benefits.

Most companies are continually searching for ways to improve all aspects of their business. This can include profitability, competitive advantage, employee satisfaction, company reputation, and many other facets. There are many ways that each of these things can be individually improved but it is sometimes difficult for companies to improve one area without harming another. For instance, if a company tries to increase profitability by cutting corners and decreasing quality, their reputation will most likely suffer. By putting some time and effort into CSR, firms can expect their businesses to improve.

It can be very problematic for a company to focus on improving certain areas of their business while not taking into consideration the

consequences there could be to other areas of business. Companies need to look at the big picture in order to become successful although this can be difficult. There are only a few strategies that a company could implement that may be able to address most or all facets of their business.

Although the idea of Corporate Social Responsibility has been around for decades, it has been recently been gaining popularity as a strategy for management to use in order to improve the company as a whole. By properly implementing CSR, companies may be able to increase profitability, competitive advantage, employee satisfaction and their reputation. Many studies have shown that the benefits of engaging in Corporate Social Responsibility tend to far outweigh the costs.

In recent years, Corporate Social Responsibility has gained popularity among firms that are looking to improve many facets of their business. This can include increasing profitability, creating better competitive advantage, improving customer satisfaction, and improving company reputation. Unfortunately, many firms still have not realized the potential positive influence that CSR can have on their business. This can either stem from improper implementation of initiatives or hesitation to fully integrate CSR into their company because of costs.

Although many companies may believe that they are saving money by not implementing CSR initiatives, the opposite may actually be true. If a company's competitors are engaged in CSR, they may have a better reputation, higher employee satisfaction, and therefore higher profits. Companies without CSR are not able to keep up with their competitors and can incur higher costs these costs include poor reputation among customers which decreases revenue, higher costs due to employee turnover, and higher environmental costs.

In order to remain competitive, it is becoming essential that companies engage in CSR activities. By educating management of the benefits versus the costs of Corporate Social Responsibility, they will be better equipped to implement initiatives properly so that they will benefit the company as a whole. CSR education should also include how to involve employees so that they are aware of how their actions influence the company, the community, and the environment. By giving management and employees the tools to understand and engage in CSR, they are more likely to succeed and in turn, improve the company as whole.

Definition of CSR

The World Business Council for Sustainable Development defines Corporate Social Responsibility as “the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at

large” (Watts & Holme, 2000, p. 3). CSR has also been defined as a business strategy or management approach in which the company takes all stakeholders’ interests into account during the course of business (White, 2006). Although there is no single universally accepted definition, CSR essentially means companies acting for the benefit of others, while also improving their own business.

CSR as a Business Necessity

With all of the attention that CSR has garnered in recent years, it has become something of a business necessity. All else being equal, many customers will choose a company with CSR initiatives over one without when choosing whom to give their business to. Similarly, potential employees, especially recent college graduates, are looking to work for companies that are involved in CSR and seem to care about society and the environment. CSR may also attract more investors, which can result in increased capital and potential growth. Those companies without CSR may find that they are behind the curve and suffer from decreased competitive advantage (Carroll & Shabana, 2010)..

Objections to CSR

There are many reasons why companies may be hesitant to implement Corporate Social Responsibility into their firms. Some of the major objections include cost, time and effort of implementation, and lack of quantifiable benefits. It can be difficult for some companies to justify the costs of CSR when they do not know how to properly quantify the gains. Other issues arise when companies try to implement CSR initiatives, but do not fully understand how to derive benefits from them.

Costs

One of the first reasons companies cite for not engaging in CSR is the cost to do so. For many CSR activities, the initial costs can be seen by management as too high to even think about taking on, before even looking at potential benefits. Many companies hold onto the argument presented by Milton Friedman (1962) that a company’s sole responsibility is to maximize profits and that social issues should not be a concern of that company (Carroll & Shabana, 2010). By looking at the problem from this view, the costs associated with implementing CSR will only dilute profits for owners and shareholders. Many companies also view the cost of time and training as too extreme to make CSR activities worthwhile.

Unrealized Potential Benefits

Many companies fail to fully understand the potential benefits that could be generated by CSR. There has recently been a lot of research about the relationship between CSR and profitability, but there have been varying and inconclusive results (Lin, Yang, & Liou, 2009). Without having strong evidence that CSR engagement can increase profitability, some businesses are hesitant to begin such a venture. It can become quite complex when a company tries to put a dollar value on the potential benefits derived from CSR initiatives. This can lead to the view that since the benefits cannot easily be monetized, they do not add to profitability. Companies trying to value the benefits of CSR may need to look beyond dollar amount and take into consideration non-monetary, intangible benefits. Some researchers have found that by applying the Balanced Scorecard, companies can make decisions “based upon values and metrics that can be designed to support these long-term cognizant benefits” (Jena & Chowdhury, 2006).

Improper Implementation

Another reason why companies may be failing to see the benefits of CSR is due to improper implementation. If a company has tried to implement CSR initiatives in the past and has failed, they may be hesitant to try again. When a company’s business objectives do not align with their CSR activities, an increase in profitability is not likely and could even become a liability (Lin, Yang, & Liou, 2009). Lack of training or ineffectual training can also be a source of improper implementation. When managers and employees do not understand the objectives of CSR activities, it is difficult for them to align their actions towards those goals (Jena & Chowdhury, 2006). Without proper execution, it could be hard for companies to realize the potential benefits that CSR can provide.

Benefits of CSR

Companies that have effectively incorporated corporate social responsibility into their firms have been able to reap many benefits. Research has shown that CSR can have a positive effect on financial performance, competitive advantage, employee satisfaction and retention, and overall reputation (Carroll & Shabana, 2010). Other benefits of CSR can include various positive long-term effects as well as the creation of intangible assets. By aligning business objectives with CSR, companies can expect many benefits, both monetary and non-monetary (White, 2006).

For instance, Dhaliwal, Li, Tsang and Yang find direct benefits to Corporate Social Responsibility Reporting (2011). The find firms benefit from a lower cost of equity capital if they introduce Corporate Social Responsibility disclosures. The evidence is consistent with their predictions

that a reduction in the cost of equity capital motivates firms to publish stand-alone CSR reports. Furthermore, these firms are more likely to conduct equity offerings in the two years following the introduction of CSR reports (p. 61).

Financial Performance

Many companies have noted improved financial performance as a direct result from implementing CSR. Although it can be hard to determine the exact effect on financial performance, most researchers agree that the effect is a positive one (Carroll & Shabana, 2010). In a study on multiple Taiwanese companies, Lin, Yang & Liou 2009 found that socially responsible activities can “have a strong economic rationale in certain conditions of earning profit and serving society” (Lin, Yang, & Liou, 2009, p. 62). Improved financial performance can result from the positive effect that CSR has on efficiency within the company, which leads to decreased operating costs (Nurn & Tan, 2010). Although there seems to be a positive correlation between CSR and corporate financial performance, there are some inconsistencies within the current research (Weber, 2008). With time, more research will be done on this matter to determine the cause and effect relationship.

Competitive Advantage, Employee Satisfaction, and Reputation

Corporate Social Responsibility also seems to have a positive effect on competitive advantage, employee satisfaction and retention, and overall company reputation. By using CSR-driven product or market development, CSR can result in revenue increases from higher sales and market share (Weber, 2008). This increase in revenue and market share can lead to an increased competitive advantage over a company’s rivals. Research has shown that CSR can have a positive effect on employee satisfaction and retention (Weber, 2008). This can stem from better working environments, increased motivation from participation in CSR activities, and overall increased company reputation (Weber, 2008). CSR can also lead to better employee recruitment as potential employees view the company more favorably as a result of their socially responsible actions (Weber, 2008). CSR has also been shown to improve reputation and legitimacy in the eyes of customers, employees, and stakeholders (Carroll & Shabana, 2010). By engaging in corporate social responsibility, companies can experience a positive domino effect. With an improved reputation, more consumers will choose their products or services over competitors. Employees will also be more satisfied within their jobs, leading to improved efficiency and quality of work. With an increased market share, the company will experience a

greater competitive advantage. Many benefits that are derived from CSR are inter-connected and can multiply these positive effects.

Long-term Benefits

Continued research has shown that CSR has provided many long-term benefits (Carroll & Shabana, 2010). Many companies are beginning to believe that it is in their best interest to be socially responsible because “if business is to have a healthy climate in which to function in the future, it must take actions now that will ensure its long-term viability” (Carroll & Shabana, 2010, pp. 88-89). These long-term benefits can be both tangible and intangible. Long-term tangible benefits can include reduced costs and risks (Weber, 2008). By engaging in certain CSR activities, companies can decrease their impact on the environment and therefore reduce the risk of future environmental costs. Intangible benefits can include brand value, reputation, and trust and capacity to innovate (White, 2006). Although hard to quantify, intangibles can play a pivotal role in value creation (White, 2006). CSR can help companies achieve long-term sustainability through capital formation in terms of financial, human, and natural resources. This can also lead to long-term wealth creation. As Allen White stated, “the continuous evolution and enhancement of non-financial capital is not only a core purpose of business, but a prerequisite to its durability and vitality.” (Business Brief: Intangibles and CSR, 2006, p. 8)

Deriving Benefits from CSR

There are many factors that can inhibit a company from reaping the benefits of corporate social responsibility. If companies can overcome these obstacles, they may be able to secure a future for themselves. Following are a few ways that companies can ensure that their CSR activities are effective and benefit the company. These include initial proper implementation; communication, disclosure, and transparency; and employee education and engagement. By putting in the time and effort to implement CSR correctly, firms can obtain many of the benefits that were previously discussed.

Proper Implementation

When a firm first decides to implement one or more CSR activities, it is most important that they properly implement them. Researchers agree that in order for CSR implementation to be successful, the company’s business objectives must coincide with the CSR activities.

In their CSR implementation process, organizations must redefine their essential business objectives. These objectives must be aligned with the strategy of the company and have to be coherent with the change in organizational culture that CSR represents. The new attitude, forms and

perspectives should be the result of a deep internal reflection that will increase the core value of the firm (Souto, 2009).

If done correctly, CSR can be used as a business strategy, similar to research and development, to benefit the company. Although this may require significant initial costs, it should be considered a long-term investment into the company's future. As Porter and Kramer contend, "organizations that make the right choices and build focused, proactive, and integrated social initiatives in concert with their core strategies will increasingly distance themselves from the pack" (Porter & Kramer, 2006, p. 13).

Communication and Disclosure

Communication is also a key factor in successful CSR implementation. This involves communication with customers, employees, and stakeholders. Some recent studies have shown that awareness of CSR activities among internal and external stakeholders is usually low (Du, Bhattacharya, & Sen, 2010). This can result in lost opportunities to reap benefits that should be derived from strategic CSR activities. Another challenge is to decrease stakeholder skepticism about a company's CSR engagements (Du, Bhattacharya, & Sen, 2010). Disclosure and transparency can help to alleviate this skepticism. Two of the biggest questions that companies must ask themselves are what and where to communicate about their activities. This can require some time, research, and effort on the part of management to determine the correct message to portray and how to do so.

Employee Education and Engagement

The final factor that can help ensure a successful CSR venture is employee education and engagement. Through engagement and learning in CSR, firms can "develop new or better competencies, skills, and knowledge" (Nurn & Tan, 2010, p. 363). Higher levels of organizational learning, such as those competencies that are acquired internally through the CSR process, can also lead to increased efficiency and organizational commitment by employees (Nurn & Tan, 2010). By engaging and educating employees on why and how the company is investing in CSR, the company can expect benefits that include increased employee motivation, retention, and satisfaction.

Conclusion

There are many potential benefits that companies can derive by implementing CSR. This is not to be considered a fool-proof way for companies to improve themselves, though. Companies must put in the time

and effort to make sure that their business objectives align with their CSR initiatives. It is an ongoing process that needs to be continually monitored and adjusted based on the company and its environment. By doing this efficiently and effectively, firms may be able to see improvements in many different facets of their business that can lead to increased profitability and market share, among many other benefits.

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