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Corporate Social Responsibility as a Business Strategy

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Introduction

Corporate Social Responsibility (CSR) dates back to the early 1900s and has become common in modern business models. As incomes have risen worldwide, consumers have begun to demand more products that are produced by firms that engage in CSR and market their commitments to it.

This handout, which accompanies a webinar on "Corporate Social Responsibility as a Business Strategy", provides an overview of the economics of CSR and why businesses may want to engage in it. The webinar and handout are part of the *Virginia Sustainable Farms and Agribusiness Education Initiative* offered by Virginia Tech's Department of Agricultural and Applied Economics and Virginia Cooperative Extension. More information about the program is available at https://aaec.vt.edu/extension/va-sustainable-farms-agribusinesses.html.

What is Corporate Social Responsibility?

Although there are many commonly used definitions, almost all of them share a common component—the notion of "self-regulation" (Calveras et. al 2007).

Here are some specific definitions, as reviewed by Kitzmueller and Shimshack (2012):

"A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission 2002, 5)

"CSR is the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda, and society at large" (WBCSD)

"The fulfillment of responsibilities beyond those dictated by markets or laws" (McWilliams and Siegel, 2001)

"A consistent pattern, at the very least, of private firms doing more than they are required to do under applicable laws and regulations governing the environment, worker safety and health, and investments in the communities in which they operate" (Portney, 2005)

We offer a hybrid definition: CSR is when a firm voluntarily commits to behaving ethically and doing more than is required by markets or laws to contribute to social good.

What is the social good?

We generally define the social good as the well-being of the community. Some contributions to the social good support the well-being of individuals in the local, state, national, or global community. Other contributions benefit all members of the community. For example, safer food production or environmentally friendly initiatives. This broad definition allows firms to choose how they want to contribute to the social good.

Why bother with Corporate Social Responsibility?

Some business owners may want to undertake CSR practices because of strong moral or ethical reasons.

Portney (2008) discusses many ways that firms may use CSR to improve their bottom line. CSR may help firms:

- To obtain favor with consumers
  - Customers may feel better about buying your product
  - Ex. Jewelers avoiding "conflict diamonds"
- To promote employee loyalty and goodwill
  - Improves the quality and consistency
  - Ex. Paying higher wages to recruit better employees
- To support community goodwill
  - Invest in the betterment of the local community
  - Helps to maintain favor with local regulators
- To improve relations with regulators
  - Overcompliance can allow firms to influence future regulations
- To improve the public image of entire industries
  - Ex. Fresh produce industry commitments to food safety
- All of these reasons help firms improve the bottom line (Portney 2008, 263-265)

Can firms make more money by adopting Corporate Social Responsibility?

As discussed by Reinhardt et al. (2008), there are many circumstances when it is economically sustainable for firms to produce public or social goods:

- When regulatory constraints require it
- When social or public good can be generated at no additional cost
- When socially beneficial actions actually reduce costs
- When CSR will lead to a net increase in revenue
- When CSR will allow improved positioning or leverage in regulatory negotiations

In fact, Margolis et al. (2007) found that about 27% of firms engaging in CSR increase profits while only 2% decrease profits. But this should not be seen as evidence that CSR is definitely good for business.

Firms sometimes commit to short-term CSR activities that are unsustainable. Business owners or managers may misjudge the profitability of certain socially responsible actions. The fraction of customers who care about CSR is still small, and price matters more than anything else to most people, especially during a recession. As Reinhardt et al. (2008, 31) put it, "some firms will generate long-term profits from some socially responsible activities some of the time". Each business manager needs to make their own decisions about what strategies will work best for their business.

Some business owners and managers want to pursue CSR activities out of a sense of responsibility to the community or because they are interested in serving the greater good. Before engaging in "profit-sacrificing" CSR, ask yourself whether your proposed CSR activity is the best use of your funds and other resources. Would giving money to a local or national charity accomplish the same goals at a lower cost? Would it make more sense to invest one's time in profit-maximizing activities and then donating some of that profit to other organizations?

Conclusion

Consumer demand for corporate social responsibility and improved environmental practices is putting pressure on firms and governments to act. There are also advantages to CSR. Self-regulation and strategic overcompliance may help firms maintain favor with regulators. Intentional contributions to the social good benefit the local community. Maintaining favor with regulators and the community may improve the bottom line. However, firms must consider the financial viability and sustainability of these activities before engaging in them.

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