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Corporate Social Responsibility vs Profits

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ABSTRACT

The contemporary business landscape is marked by a fervent debate surrounding Corporate Social Responsibility (CSR) and the pursuit of profits. This paper delves into the intricacies of this dialogue, exploring the evolution and significance of CSR in the context of modern business practices. The central argument challenges the assertion that allocating a company's resources to causes beyond profit-making is inherently outrageous.

The paper unfolds in four sections: first, providing a comprehensive understanding of CSR, its definition, and its evolving role in the business world. Subsequently, it examines compelling arguments favoring the prioritization of Corporate Social Responsibility. These include considerations such as social impact, community engagement, and the ethical dimensions of business practices.

Conversely, the paper delves into arguments advocating for the prioritization of profitability, emphasizing the economic goals of corporations, responsibilities to shareholders, and the demands of a competitive business environment. Striking a balance between CSR and profitability is then explored, drawing insights from successful case studies and outlining the challenges and strategies involved in achieving this delicate equilibrium.

The concluding section reflects on the ongoing discourse, underscoring the complexity of contemporary business ethics. It asserts that businesses must not only navigate economic success but also proactively contribute to societal well-being. By harmonizing CSR initiatives with profitability, companies can achieve sustainable growth, enhance brand value, and make meaningful contributions to the communities they operate in. This paper, thus, contributes to the understanding of the evolving dynamics between Corporate Social Responsibility and profit maximization, challenging businesses to reassess their priorities in an era of heightened social consciousness.

Keywords: *Corporate Social Responsibility, Profits, Business Ethics, Sustainability, Social Impact.*

I. INTRODUCTION

Corporate social responsibility, sometimes known as CSR, has recently gained popularity among businesses. This refers to the practise of corporations "giving back" to society through

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initiatives that help those who are less fortunate. They could take the shape of outreach programmes that adopt villages, schools, etc. and donate money for their care while also promoting socially responsible business practises that benefit society. The phrase "the idea that the company's resources should be devoted to some cause other than making a profit is outrageous" is the subject of this article's analysis.

II. Understanding corporate social responsibility

- Defining CSR - **“the obligation of businesses for their effects on society.”** To truly fulfill their social responsibility, businesses “ought to establish a process that integrates social, environmental, ethical, human rights, and consumer considerations into their business operations and core strategies, in close collaboration with their stakeholders.”
- Triple Bottom Line Approach - CSR is a managerial concept where companies integrate social and environmental concerns into their business operations and interactions with stakeholders. CSR is generally seen as a way for a company to balance economic, environmental, and social imperatives (known as the Triple Bottom Line Approach), while simultaneously addressing the expectations of shareholders and stakeholders. [2]
- Position of CSR in India - India became the first nation to formally enforce corporate social responsibility on April 1, 2014. The new regulations under Section 135 of the Indian Companies Act require businesses with a specific level of turnover and profitability to contribute 2% of their average net profit over the previous three years to CSR.

Corporate Social Responsibility (CSR) is now widely embraced in India among shareholders as well as with a number of other social stakeholders. The phrase "CSR" has become de rigueur for Indian organizations. What happens to profits once they are produced is typically the focus of CSR. The importance of CSR in the corporate framework for sustainable development is recognized by larger organizations.

Businesses also view CSR as a strategy for socially and economically viable development, with a triple bottom line focus on economic, environmental, and social performance.

The phrase "Corporate Social Responsibility" (CSR) is widely used in India, despite the fact that it is closely related to other ideas and expressions like "business responsibility,"

[2] Understanding Corporate Social Responsibility – Definitions, Evolution & Strategic Importance, TriumphIAS, https://triumphias.com/blog/understanding-corporate-social-responsibility/#:~:text=Definition%20'A'%20characterizes%20CSR%20as,their%20business%20operations%20and%20core

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"sustainable development," "philanthropy," "sustainability," "corporate citizenship," "responsible business," "triple bottom line," "shared value," "value creation," "business ethics," "socio-economic responsibility," "bottom of the pyramid," "stakeholder management," and "corporate social performance."

According to observations, corporate social responsibility (CSR) for Indian companies refers to the commitment of businesses to support sustainable economic development by collaborating with employees, their families, the local community, experts, and the general public to improve lives in ways that are beneficial to business and its growth.

In India's public sector businesses, CSR is also seen as being closely related to the idea of sustainable economic development, which holds that businesses should base their decisions and actions not only on financial considerations but also on the short- and long-term social and environmental effects of their operations.

Businesses in India have shown sensitivity to societal issues and a commitment to conducting their primary operations in a socially responsible manner by taking the broader interests of the community and the environment into account.

- CSR & Companies Act, 2013 - The new concept of Corporate Social Responsibility has been introduced by the Companies Act, 2013. Under the erstwhile Companies Act, there was no concept of Corporate Social Responsibility.

The new concept of Corporate Social Responsibility has been introduced under section 135 of the Companies Act, 2013 and Companies (Corporate Social Responsibility) rules, 2014.

India is the first country in the world to introduce statutory Corporate Social Responsibility (CSR) through the new Companies Act, 2013. Prior to this landmark development, CSR was not a new concept in India and can be traced with historic pieces of evidence.

While doing web search about CSR and CSR policies apparently one feels that lot many things have been done in foreign countries and India has borrowed the concept from the foreign countries. But, the fact is that the concept of CSR has existed in ancient India and our ancient wisdom has framed a platform for CSR and the proud moment is such ancient wisdom has given direction to the corporate houses and industries. Our rich ancient knowledge and tradition is the very basis of modern corporate level CSR practices. The origin of CSR can be traced from our Upanishads, Puranas and Vedic literature like Ramayana, Mahabharata, and Bhagavad-gita.

As is common wisdom, Indian companies have been engaged in CSR/charity/philanthropy since time immemorial. Whether it was the factories investing in the communities around them to reduce dependence on a migratory workforce and for having happier families and hence happier employees, or businessmen giving back to their communities or causes near and dear to their hearts, or foundations building places of worship to bring communities together, or a whole host of other methods through which we had corporates giving back to the society in some shape or form. In most instances, these were treated as acts of charity or philanthropy, or the owners giving back to society.[3]

III. Arguments for prioritizing corporate social responsibility

CSR activities can help forge a stronger bond between employees and corporations, boost morale, and aid both employees and employers in feeling more connected to the world around them. Aside from the positive impacts to the planet, here are some additional reasons businesses pursue corporate social responsibility.

- Brand Recognition - According to a study published in the Journal of Consumer Psychology, consumers are more likely to act favorably toward a company that has acted to benefit its customers as opposed to companies that have demonstrated an ability to delivery quality products.[4] Customers are increasingly becoming more aware of the impacts companies can have on their community, and many now base purchasing decisions on the CSR aspect of a business. As a company engages more in CSR, it is more likely to receive favorable brand recognition.
- Investor Relations - In a study by Boston Consulting Group, companies that are considered leaders in environmental, social, or governance matters had an 11% valuation premium over their competitors.[5] For companies looking to get an edge and outperform the market, enacting CSR strategies tends to improve how investors feel about an organization and how they view the worth of the company.
- Employee Engagement - Another study by professionals from Texas A&M, Temple, and the University of Minnesota found that CSR-related aligning firms and employees serve as non-financial job benefits that strengthen employee retention.[6] Workers are more likely to stick around a company that they believe in. This in turn reduces

[3] Corporate Social Responsibility: Meaning, Evolution & Position In India, LawBhoomi, https://lawbhoomi.com/corporate-social-responsibility-meaning-evolution-and-position-in-india/#Historical_Backdrop_of_Corporate_Social_Responsibility
[4] Society for Consumer Psychology. "Good Guys Can Finish First: How Brand Reputation Affects Extension Evaluations, https://myscp.onlinelibrary.wiley.com/doi/10.1002/jcpy.1109
[5] Boston Consulting Group. "Your Supply Chain Needs a Sustainability Strategy, https://www.bcg.com/publications/2020/supply-chain-needs-sustainability-strategy
[6] Social Science Research Network. "Corporate Social Responsibility and Employee Retention, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4144689

employee turnover, disgruntled workers, and the total cost of a new employee.

- Risk Mitigation - By adhering to CSR practices, companies can mitigate risk by avoiding troubling situations. This includes preventing adverse activities such as discrimination against employee groups, disregard for natural resources, or unethical use of company funds. This type of activity is likely to lead to lawsuits, litigation, or legal proceedings that may harm the company financially or expose it to negative news headlines.[7]

IV. Arguments for prioritizing profitability

- Economic Growth, Innovation, and Wealth Creation - One of the core arguments in favor of prioritizing profit generation is the pivotal role businesses play in driving economic growth and innovation. Profits provide companies with the necessary capital to invest in research, development, and the creation of innovative products and services. These innovations not only benefit consumers but also contribute to the advancement of society at large. Companies that generate substantial profits can contribute to expanding industries, creating new markets, and fostering technological breakthroughs that have far-reaching positive impacts.
- Meeting Shareholder Expectations and Capital Accumulation - Businesses, especially publicly traded ones, have a fiduciary duty to their shareholders to maximize returns on their investments. Shareholders invest their funds with the anticipation of receiving dividends or seeing an increase in the value of their shares. Neglecting profit generation in favor of other objectives could lead to dissatisfaction among shareholders and hinder the company's ability to attract further investment. Accumulating capital through profits is essential for businesses to fund expansion, research, and strategic acquisitions that fuel future growth.
- Efficient Resource Allocation and Market Competitiveness - The pursuit of profits encourages businesses to allocate resources efficiently, ensuring that resources are utilized in ways that maximize returns. This efficient allocation translates to increased competitiveness in the marketplace. Competition fosters innovation and leads to the creation of higher-quality products and services at lower prices. Ultimately, consumers benefit from this dynamic, as they gain access to a wider array of choices that cater to

[7] Corporate Social Responsibility explained with examples, Investopedia, https://www.investopedia.com/terms/c/corp-social-responsibility.asp

their needs.[8]

- Government and Non-profit Roles in Societal Welfare - Advocates for the profit motive often point to the roles of governments and non-profit organizations in addressing societal welfare needs. Governments are equipped with the authority and resources to implement policies and programs that directly tackle social issues. Non-profit organizations are dedicated to specific causes and are often more nimble in responding to urgent needs. According to this perspective, businesses should focus on generating profits and paying taxes, which governments can then allocate to address societal challenges.
- While emphasizing profit maximization, proponents of this viewpoint do acknowledge the importance of ethical business practices and adhering to legal regulations. They contend that businesses can be responsible and contribute to society by operating within established legal frameworks while still pursuing their core objective of profitability.[9]

V. Striking a balance: integrating CSR and profitability & conclusion

A good financial performance results in good social performance as companies that are more profitable have more resources to invest in social activities. On the other way, greater investment in social activities attracts more and better resources, conscious consumers, and a higher reputation. [10]

Companies today consider reputation as a crucial asset that needs to be protected and safeguarded. Given that the contemporary investors are aware of the significance of social, environmental, and economic problems, a stronger focus on CSR makes the company more desirable to investments and ultimately leads to a higher financial performance. Additionally, some authors contend that businesses with stronger social performance receive higher investments.

A similar author came to the conclusion that making investments in CSR was crucial. Companies that do this do better financially, adding value for all of their shareholders as a result of more devoted customers and employees.

On the flip side, authors also emphasize how devoted staff and top management, combined with

[8] How can Companies balance Profits with Social Profitability, School of Business, https://business.gmu.edu/news/2021-12/how-can-companies-balance-profits-social-responsibility

[9] Corporate Social Responsibility: Balancing Profitability & Social Impact, https://english.newstracklive.com/news/corporate-social-responsibility-balancing-profitability-and-social-impact-emc-sc18-nu384-ta384-1286393-1.html

[10] Social Responsibility & Financial Performance, Corporate Social Responsibility, https://www.intechopen.com/chapters/73206

sustainable environmental management techniques, improve the firm's environmental performance, which in turn will favorably impact its competitive advantage.

Other authors, relying on the shareholder theory, contend that there is a negative correlation between CSR and financial performance because the corporate motto is "creating profit for the shareholder," which is incompatible with the higher costs associated with social responsibility activities. Additionally, the added expenses from social responsibility initiatives could reduce the company's ability to compete. According to this perspective, CSR initiatives have a detrimental effect on financial performance and hence lessen the advantages to shareholders.

We developed our conclusion as: businesses that pursue policies based on corporate social responsibility have better financial success than those that do not.[11]

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[11] *Ibid.*