CORPORATE SOCIAL RESPONSIBILITY. A MATTER OF ETHICS?

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Abstract: There is some confusion about the ethical framework of corporate social responsibility and corporate philanthropy. Optimists believe that CSR represents the ethical way to involve companies in community life and solve some of its problems. They hope that by allocating resources for actions that will ultimately have a positive impact on sales, the corporation becomes ethical unlike other companies that do not favor such actions. Our paper aims to provide more clarity on the issue of the ethical character of interested donations labeled as corporate social responsibility actions.

Keywords: strategic philanthropy, profit, corporate social responsibility, altruism, ethical awareness.

1. Introduction

The question I raise is to what extent is altruistic behavior possible in the case of corporations whose logic is to make profit. Is profit making a purely selfish action that is antithetical to the ideals of altruistic ethics? Can you pursue profit and at the same time give up part of it for causes that are totally independent of the growth of your business? If at the individual level this is possible, would it be possible at the corporate level as well? Such a change of mindset seems more like a religious conversion than an ethical proposal to be discussed on company boards. In a globalized world with multiple links and social implications related to markets, finance, raw materials labor, a world without borders in terms of pollution and environmental damage, it would be desirable for corporate social responsibility to be global and altruistic.

2. Criticism of CSR

One criticism of the CSR is that it is only apparently altruistic, companies being concerned about social problems just for publicity. Their real interest is to build a positive image using CSR tools in a way that is ethically questionable. This line of criticism extends Milton Friedman's (in)famous claim that the only social responsibility of a business is to maximize its shareholder profit: "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits." (Friedman, 1970). Corporate managers have neither competencies nor obligations in the field of social policies which are usually implemented by the government. Following that logic, the CSR actions that managers agree to finance seek to improve the image of companies and thus the public's perception. As the image is a redoubtable marketing element contributing to the increase of sales volume, the CSR policies represent only some camouflaged promotion techniques meant to increase, in a purely Friedmanian sense, the profit.

In their study *Washing Away Your Sins? Corporate Social Responsibility, Corporate Social Irresponsibility, and Firm Performance* (Kang, Germann, Grewal, 2016), Charles Kang, Frank Germann and Rajdeep Grewal, investigate the reasons that determine companies to implement CSR actions. The authors observe both the unethical behavior and the performance of 4,500 companies over 19 years to determine the reasons behind the CSR actions taken and the benefits obtained. The authors identify four such motivations. The first one is related to the performance and the amount of money that a company has at its disposal (the „slack resources mechanism”). When its revenue is high, the company can decide to use some of its money for social purposes. A second situation is when companies consider CSR actions as effective management practices (the „good management mechanism”). These companies consider CSR as a means to increase their reputation and reap the benefits later because a good image determine higher sales. The third case is the one in which companies engage in social programs to compensate for past reprehensible actions, irresponsability, accidents, immoral practices for which they have been found guilty (the”pennance mechanism”). These companies see CSR as a form of penance that they assume in order to redeem the harm done. The last instance identified by the authors is the one in which companies are socially active at the present time in order to insure themselves against possible future immoral behaviors and to diminish their impact, a kind future bonds (the „insurance mechanism”).

The conclusion of the study backed by the data gathered is that most companies fit into the second and third categories. They implement social measures considering them effective management practices and forms of penance for harmful and reprehensible behaviors. Thus, the alleged social responsibility is only a cold calculation by which the company decides to devise a good image or to redeem its image damaged by its irresponsible actions. The study of the three authors raises a big question mark over the existence of corporate ethics.

3. Ethical implications

The fact that a corporation can indirectly and unintentionally record financial gains from social actions is not itself immoral. But the strategically use of CSR as a marketing tool cannot be considered an ethical behavior (doing good for good’s sake, out of duty, by virtue, to increase happiness of most, etc). In this case, the social involvement is at most amoral or ethically neutral and reduced to promotional activities. We are talking about an investment in image leverage that translates into increased volume of sales. Of course, in this case the term *responsability* would be extremely innapropiate for these practices. The term *investment* would be more suitable, and the concept should be renamed Corporate Social Investment.

Combining profitable activities with social and charitable actions may be a risky undertaking. From a strictly economic point of view, there is a profitability limit up to which you can use the company's resources (time, money, energy) to generate profit through social actions. As Avishek et al. point out in their article *Corporate social responsibility and capital allocation efficiency* (Bhandari, Javakhadze, 2017), CSR actions imply the allocation of valuable resources (time, energy, money) that could be used to identify investment opportunities and to make efforts to grow the business. Concentrating on social actions can cause significant financial losses because companies no longer focus their full attention on investment strategies, thus reducing the overall performance of the corporation. On the other hand, as the two authors show, the CSR can be hijacked in the private interest of managers. They can pursue personal goals and obtain benefits through CSR tools and actions, paving the way for corruption in the private sector.

The question is to what extent a social action could be motivated both ethically and financially producing a social good and, at the same time, constituting an investment that would lead to further gains for the company (in image, customers, increased sales, etc.). Can these two aspects be mixed? The literature conveys the term *strategic philanthropy* to designate philanthropic actions that are designed to meet the company's mission, goals and values. An example of strategic philanthropy are the Ronald McDonald houses built by the company of the same name to accommodate the families of hospitalized children during their treatment. It is well known that children are the target audience for this fast-food chain, so both parties benefit from this sponsorship. (Kolb, 2018).

There is a link between strategically designed philanthropic initiatives and increased sales, a relationship that company managers are aware of. The philanthropic initiatives can strengthen the brand, increase consumer loyalty and make a significant contribution to improving the company's image. Lev, Petrovits and Radhakrishnan affirm that charities lead to increased sales and thus make an impact on profit. They show that there is a causal relationship between the two, ruling out the possibility of accidental associations. Sales increase more than the resources allocated to donations so CSR actions can be conceived as investments (Lev, Petrovits, Radhakrishnan, 2010). This is true for the companies with management of quality (the "organizational capital" factor). The authors believe that these expenditures should be considered investments in research and development, advertising or marketing campaigns. Also, companies that have the individuals rather than other companies or government as final customers benefit to a greater extent from the benefits of CSR because they are more sensitive to public perception.

There is a tension between economically motivated actions and those which are philanthropically triggered. The former are subject to the harsh logic of economic competition while the latter are based on altruism, empathy, care and charity. The nature of profit targeted actions is different from the nature of altruistic actions. To demand that a corporation programmatically finance philanthropic actions is like requesting an atheist to go to church. He can do it, but just for show and only if he has something to gain. Economic behaviors are guided by the values of performance, efficiency and profitability, and the principle that govern them is that of pursuing profit in a ruthless competitive environment. The law represents here the limit to which the decisions can be justified. Ethical behaviors are under a completely different constellation of values. They imply sacrifices, unpaid actions, financial disadvantages. They resort to a moral conscience. From an economic point of view, the application of ethical principles that go beyond the law represents an additional cost for the company. In this perspective, CSR is an ethical diguise for economic activities lacking any moral connotation. Much of the literature on CSR follows the same coordinates as the CSR itself with CSR becoming a buzzword in academia.

The legitimate question is to what extent can we talk about companies assuming a moral responsibility in their CSR activities. Some authors propose the use of the term social responsivity instead of social responsibility, designating the way in which corporations understand to respond to the pressures of the social environment, to the expectations of the communities in which they operate. Of course, responsibility is not the same thing as responsiveness because if the former is assumed internally by the subject by virtue of his moral conscience, the latter designates a calculated response to external pressures. To be responsible means to be accountable for your deeds, given that you are able to distinguish between good and evil. It also means not producing harm, refraining from inflicting pain and causing suffering. Moral responsability does not mean producing harm and then seeking to redeem it through social actions. It draws a much smaller and more constrained space for action than the one provided by law. From the study of Charles Kang et al. we see that most companies do not assume such a moral responsibility. Their CSR actions have rather the consistency of a barter from which they always win, like the trades between the native populations and the western colonizers.

Thus, CSR fails to become an ethical issue for several reasons.

Ethical responsibility is individual and not collective. Corporations are collective entities, Praise and blame cannot be applied to groups of people. Behind the strategic decisions of a corporation are individuals and groups of individuals. These decisions are the result of the collaboration of many people. But by its very legal status, a corporation is a different entity from the entities of the decision-makers. Legal punishment and moral blame usually fall on the corporation (which is a fiction) and not on the people involved. Blaming and holding a corporation accountable is like blaming a weapon for the crime that was used in.

The concept of stakeholder is meant to camouflage the roles of moral agent and victim of the action. By equalizing all the roles under a common name, it creates the illusion that everyone is on the same level, that all interests are converging, regardless of their place in relation to a company. The term creates the idea of an ideal world in which everyone's economic interests can be harmonized. This concept is meant more to hide than to clarify, putting on the same plane, for example, the interests of shareholders and the interests of employees and residents in the area where the company operates. To believe that their goals may be converging means to disregard socio-economic reality. For example, it is common practice for a firm to reduce its costs by relocating its productive activity to a country with a lower standard of living, lower average wages and more permissive labor laws dismissing employees who contributed to its success. Another practice is to seek to obtain raw materials at lower prices from countries in the political gray area, lacking democracy and rights for their citizens.

A corporation is a system that has been created for a specific purpose. Its environment is the free economic market and the functioning in this medium is similar to the fight of organisms for survival. The structure of a company (branches, sectors, departments) is established and shaped in order to achieve maximum efficiency. To what extent can such a system perfected for profit be used in other directions? We have seen that engaging in social work requires a considerable effort of time, energy and concentration.

The term corporate social responsibility is extremely vague and imprecise, a term that demands a lot and offers very little. Its very wide extension which includes a variety of social actions, from caring for the environment to buying supplies for children from poor families, corresponds to a frail, almost empty intention. In addition, many of the actions that corporations declare to be social are means of adapting to the demands of an increasingly conscious and knowledgeable clientele. Some of them even anticipate bills.

The best way to connect private capital with social welfare is not to let companies create the CSR strategies. Companies do not have the necessary expertise for such undertakings. They should entrust the resources allocated for philanthropic actions to specialized foundations with appropriate expertise in their field. The altruistic model proposed by Singer for individuals (Singer, 2017) can be extrapolated to corporations.

Like the for-profit organisations operating on the economic market, charitable foundations that use donated money for humanitarian actions can also be evaluated and audited for their effectiveness in reducing suffering around the world. The outsourcing of CSR and the delocalization of the good done can ensure its ethical character in the sense of an altruistic ethic. Thus, the money will go where it is most needed, where it can save more lives, alleviate the suffering, protect the environment, etc. They will not go to close communities in order to gain sympathy, image, publicity. Companies that do this should be considered, from an ethical point of view, unlimited responsibility companies.

In order to be ethical a deed must do good. But if the good done is not selfless is the deed still ethical? Or if isn't done out of duty or virtue, but out of profit calculation? Judging from a strict utilitarian perspective, we should observe to what extent the action respects the rule of "the greatest happiness for most.". Ethical utilitarianism is a consequentialist moral philosophy. The deeds are judged as good or bad depending on the extent to which their consequences translate into the happiness of the majority. Considering the data provided by Oxfam, we see that the economic system is moving in the direction of a concentration of wealth and a deepening of inequalities. The greatest happiness is reserved for the least, while the majority has little happiness, if not suffering. Considering the figures provided by Oxfam, we see that the economic system is moving in the direction of a concentration of wealth and a deepening of inequalities. The greatest happiness is reserved for the least, while the majority has a little happiness or even suffering. The good of strategic philanthropy is not altruistic, it is governed by the interests of the company and connected to the immediate expectations of the community.

4. Conclusions

Designing the CSR into one or other forms discussed above will lead to three main categories. The first variant is the one in which the company's resources are allocated for social actions that are intended to make profit. CSR is used as a marketing tool serving the economic interests of the company. Such a variant escapes the ethical framework because the philanthropic actions have nothing to do with ethics. This is the amoral CSR.

The second variant is that of corporate altruism in which corporations donate resources in order to do a disinterested good. The money is given to specialized humanitarian agencies and used to reduce illness or suffering where is the greatest need. There isn't any predictable gain for the company. Thus the CSR is outsourced and the donor company does not claim any right to decide on the destination of the resources or how will be used. This is Peter Singer's efficient altruism implemented at the corporate level. The variant can be considered ethical in a strong sense.

The last option is to keep CSR within ethics, but not the classical ethics we all know with the values of duty, virtue or the greatest happiness for most, but a softer kind of ethics. Strategic philanthropy fits here because it aims to hunt with the hound and run with the hare (bot more to hunt with the hound). Because the economic goals prevail over the philanthropic ones, this variant is ethical in a weak sense. It claims a fragile kind of ethics or an ethics of compromise. In such a system the moral values are subordinated to the value of profitability. A good is done with the condition of obtaining a subsequent gain. CSR involves an agreement in which both parties have something to gain, a win-

win situation. Soft ethics is the ethic of weak times and moral crisis. It is the ethics of consumerism and profit as cardinal values. It is better than none.

Ethics is about what is good to do. Business economics is about what is profitable to do. To believe that these two values can be reconciled and put to work together is a deception. A framework that places CSR closer to the field of economics than to the humanities is the right position for most of the research on this subject. Those involved in carrying out CSR actions should have a clear awareness of the ethical status of their decisions and strategies.

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