# 5

# THE PROBLEM WITH A NARROW-MINDED INTERPRETATION OF CSR: WHY CSR HAS NOTHING TO DO WITH PHILANTHROPY

*Nick Lin-Hi*

**Abstract:** In recent years, the responsibility of corporations has been widely discussed. However, there is no general agreement as regards what CSR is exactly. Due to the indefinite nature of CSR, the term actually embraces several ideas and different contents. A very widespread understanding of CSR defines the subject as (strategic) corporate philanthropy, including operations such as corporate giving, corporate volunteering, corporate foundations, etc. The philanthropic approach to CSR implies that corporations must take responsibility beyond their core business activities. This article argues that a philanthropic approach to CSR is problematic. Moreover, such a conceptualisation strengthens the perception that making profits is immoral; therefore, it endangers the basis of corporations' licence-to-operate in the long run.

**Keywords:** Corporate social responsibility, licence-to-operate, corporate philanthropy, business and society, corporate profits.[1]

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## INTRODUCTION

In 2007, the business world began to hit hard times. The financial crisis has led to an economic downturn all over the world. Although it can be assumed that, sooner or later, the real economy will recover from these shocks, the financial meltdown caused serious collateral damage for society: a deep-rooted loss of social trust in business (e.g. Roth, 2009; Yandle, 2010). The crisis has fostered the impression that business does not serve social interests but rather harms social good. In this respect, social scepticism against the market economy, corporations, and profits has been growing continuously and reached new heights. According to the 2009 Edelman Trust Barometer, business has sustained a significant loss of trust all over the world. Relating to this study, American trust in business dropped dramatically from 58 percent in 2008 to 38 percent in 2009, reaching its lowest level in *post-Enron* times. It is becoming clear that more and more people no longer believe in the compatibility of business on the one hand and social interests on the other. For this reason, business is in danger of losing its social legitimacy more than ever.

With regard to the eroding trust in business, the need has arisen for discussion about values and morality within the economy and fortunately such a discussion already exists. Discourse about the relationship between business and society is reflected in several prominent terms and ideas (Garriga & Melé, 2004), such as Corporate Citizenship, Business Ethics, Stakeholder Management, Sustainability or Corporate Social Responsibility. Furthermore, it is also a happy coincidence that the discussion has gained considerably in quality and intensity over the last few years. Debates about the relationship between business and society have become a topic for leading international journals such as *Academy of Management Review* (e.g. Campbell, 2007; Matten & Moon, 2008), and *Journal of Marketing* (e.g. Luo & Bhattacharya, 2006; Wagner, Lutz & Weitz, 2009). Also the recent launch of the *International Journal of Applied Ethics* represents the growing importance of ethical issues for business. Because of the widely spread contents and terms concerning the relationship between business and society, the term Corporate Social Responsibility (CSR) is used in order to provide terminological consistence in this paper.

Undoubtedly, the discussion concerning CSR has yielded some fruitful insights into the nature of the relationship between business and society. In fact, it can be perceived as a bonus in itself that the responsibility of business is being intensely discussed within the public and academic community.

CSR has found its way into practice and has been established as a normative key concept in business. Although the responsibility of business is widely acknowledged both in theory and practice, there is no general consensus about what CSR actually means. Up to now, CSR has been a vague concept with no clear definition. CSR is associated with corporate giving (e.g. Brammer, Millington & Pavelin 2006), corporate volunteering (e.g. Muthuri, Matten & Moon, 2009), cause-related marketing (e.g. Brønn & Vrioni, 2002), personal values of managers (Hemingway & Maclagan, 2004), gender mainstreaming (e.g. Grosser & Moon, 2007), stakeholder dialogues (e.g. O'Riordan & Fairbrass, 2008), and several other topics. To sum up: CSR is an umbrella term with an unclear content. Hence, Votaw's conclusion regarding CSR is still pertinent: "The term is a brilliant one; it means something, but not always the same thing, to everybody" (Votaw, 1973: 11). Due to the ambiguity of the debate and the virtual arbitrariness of its contents, nearly everything can be associated with CSR.

The lack of a general agreement regarding the precise nature of CSR reflects the complexity of the subject. Due to this complexity there is a demand for simple focal points. In the current CSR discussion there is one specific idea which offers a strong focal point: the relationship between CSR and philanthropy. The underlying assumption of the philanthropic CSR interpretation is that corporations must take responsibility beyond their business activities. In line with this view, CSR is related to doing good deeds (e.g. corporate giving, corporate volunteering, corporate foundations, etc.). The main advantages for corporations implementing such activities are their high visibility and simple public communicability. In addition, members of society and customers as well favour discretionary responsibilities and perceive the respective corporation as good and responsible. At the same time, several social groups benefit from the philanthropic deeds of corporations. All in all, a philanthropic CSR strategy creates numerous positive effects for business as well as for society.

This paper deals with the prominent CSR interpretation that corporations have the responsibility to do good beyond their core business. It is important to understand why a philanthropic understanding of CSR is very popular on the one hand but on the other hand undermines businesses' licence-to-operate in the long run. To avoid misunderstandings I would like to emphasise that I do believe corporations have a responsibility, but I do not believe that this responsibility has something to do with philanthropic activities. However, the question regarding the kind of responsibility corporations have is not addressed in this paper. The first section of this

paper illustrates the current dominance of the philanthropic understanding of CSR and gives reasons for its popularity. The next section addresses the problems of such an approach to CSR and argues against the philanthropic approach through four points of criticism, before coming to a conclusion with a few brief considerations at the end.

## CSR AND PHILANTHROPY

For corporations, the question of their responsibility is fundamentally important because it is strongly connected with their socially-conferred licence-to-operate. In light of increasing criticism regarding their economic value creation in recent years (e.g. Bakan, 2005; Klein, 2009), corporations must give account of their social role along with their responsibility, and substantiate that their activities are in line with the interests of the community. If corporations do not fulfil the demands of society, they risk losing their licence-to-operate. Considering this background, it is not surprising that corporations are interested in a good reputation for CSR. Therefore, building a responsible image is a central managerial and strategic question for corporations.

In this context, philanthropic activities can serve corporations as a simple way to be perceived as responsible actors.[2] Corporations demonstrate their responsibility through charitable donations, sponsorships, corporate volunteering or caused-related marketing. Such an understanding of CSR is characterised by the perception of CSR as promoting the public good beyond core business activities. In accordance with this understanding, McWilliams & Siegel define CSR as "actions that appear to further some social good, beyond the interest of the firm." (2001: 117) The European Commission for instance regards CSR mainly as "a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment." (European Commission, 2001: 5) Corporations are doing good to solve small and large problems of society in order to appear generous and charitable. By providing financial support to NGOs,

[2] Within theoretical discussion, several specific terms have been coined for corporate good deeds, e.g. philanthropic responsibility (e.g. Carroll, 1991; Wulfson, 2001), (corporate) philanthropy (e.g. Koch, 1981; Rampal & Bawa, 2008; Tracey, Phillips & Haugh, 2005), strategic philanthropy (e.g. Post & Waddock, 1995) or corporate citizenship (e.g. Gardberg & Fombrum, 2006).

by sending managers to schools to paint classrooms, or by funding higher education, companies are attempting to secure this image. Philanthropy is enjoying increasing popularity in practice (e.g. Brammer, Millington & Pavelin, 2006). In 2008 corporations in the US spent about 14.5 billion US Dollars on doing good (Giving USA Foundation, 2009).

It should be mentioned that several authors understand CSR in a broader sense than just doing good (e.g. Matten & Moon, 2008; Waddock, 2006). In Carroll's well-known CSR Pyramid (1991) the author describes four levels of responsibilities: (1) the economic responsibility to be profitable, (2) the legal responsibility to play within the given law, (3) the ethical responsibility to behave in accordance with social norms, and (4) the philanthropic responsibility to do good things in society. Furthermore, Carroll points out the importance of the first three CSR levels:

> In fact, it would be argued here that philanthropy is highly desired and prized but actually less important than the other three categories of social responsibility, in a sense, philanthropy is icing on the cake. (Carroll, 1991: 42)

In contrast, nearly 20 years later, Carroll and his colleague assert:

> Since what is debated in the subject of CSR are the nature and extent of corporate obligations that extend beyond the economic and legal responsibilities of the firm, it may be understood that the essence of CSR and what it really refers to are the ethical and philanthropic obligations of the corporation towards society (Carroll & Shabana, 2010).

This statement reflects the increasing focus on philanthropy in CSR. In addition, there are in fact authors who equate CSR with philanthropic activities (e.g. Kotler & Lee 2005; Peloza 2006; Vélaz, Sison & Fontrodona 2007).[3] Altogether, philanthropic activities can be considered a crucial focal point for CSR (e.g. Waddock & Smith, 2000; Wettstein, 2009).

The strong relationship between CSR and philanthropy is not new. Already in 1973, Votaw noted in reference to CSR: "Many simply equate it with 'charitable contributions'" (Votaw, 1973: 11). Even though this

[3] Often, authors do not explicitly define their understanding of CSR. However, some authors start with a broad review on existing literature whereas their own research focuses on doing good. Hence, in many cases CSR is implicitly equated with philanthropy.

statement was made over 35 years ago, it is as valid today as it ever was and the relationship between doing good and CSR is widely held in practice as well as in theory. The popularity of charity is especially based on the fact that philanthropy creates benefits for both corporations and society. Even prominent scholars such as Porter & Kramer (2002) or Kotler & Lee (2005) argue that philanthropy is a source for competitive advantage. Philanthropic activities can, for instance, foster a favourable impression of a firm among customers (Luo, 2005), they can contribute to building up local partnerships (e.g. Porter & Kramer, 2002), be a risk management tool (Godfrey, 2005) or enhance a corporation's reputation (Williams & Barrett, 2000). Furthermore, several empirical studies claim a positive link between philanthropic activities and the corporation's interests (e.g. Fry, Keim & Meiners, 1982; Moir & Taffler, 2004; Brammer & Millington, 2005).

The popularity of the philanthropic CSR concept in practice is rooted in the numerous advantages it brings to corporations. Firstly, philanthropic activities offer high visibility:

> In fact, the most visible element of a company's CSR activities is often its charitable giving, which in most cases could very easily be decoupled from its product (Fisman, Heal & Nair, 2006: 2).

Corporations have to publicly demonstrate their responsible engagement (Holme & Watts, 2000), and charity is certainly tangible. For this reason, good deeds are seen as outstanding proof for a corporation's responsibility and activities such as corporate giving or corporate volunteering afford them a highly observable position as a responsible and good corporate citizen. Secondly, philanthropic activities are quick and easy to run, and do not require complex management know-how:

> The primary characteristic of modern corporate philanthropy is that it is intended to produce a more specific, more measurable benefit in a relatively short time period (Stendardi, 1992: 3).

Furthermore, the required skills for doing good can be found in the corporation's marketing department. Thirdly, charity contributions are measurable and therefore relatively simple to quantify (Campbell, Moore & Metzger, 2002). This could be one reason why some researchers postulate corporate giving as an indicator of a corporation's responsibility (e.g. Navarro, 1988).

Philanthropic activities are a reasonable investment for corporations because they are in line with public expectation. There is a market for altruism (Henderson & Malani, 2009); therefore, the prerequisite for being responsible is fulfilled in form of the existing business case. Since corporations are acting within a market system they have to align their businesses towards a competitive advantage. It can be seen as the nature of a market economy that corporations have to calculate their investments. That is exactly why CSR has to be compatible with a corporation's profit focus, which ultimately means that CSR must be incentive compatible (Lin-Hi, 2009). The fact that corporations have to secure their competitiveness means that a business case is required for CSR. CSR without a business case can be considered the equivalent to a market exit strategy. In a nutshell, the bottom line is that CSR must be a "cooperative venture for mutual advantage" (Rawls, 1971: 4).

The link between doing good and making profits shows a non-altruistic side to philanthropic activities. Although some authors point out the relevance of altruistic motivation (e.g. Wood & Logsdon, 2001), the dominant management view is an economic one. Corporations' interests are central to the management debate about discretionary responsibilities (e.g. Porter & Kramer, 2002; Smith, 1994). Philanthropic activities are considered strategic instruments in business to foster the maximisation of profits (Saiia, Carroll & Buchholtz, 2003). In this respect, the term "altruistic" is misleading (e.g. Payton, 1988). Several scholars highlight that only the self-interest of corporations legitimises the use of their resources for doing good (e.g. Campbell & Slack, 2007; Gardberg & Fombrum, 2006; Post & Waddock, 1995). Emphasising the profitability of doing good can be traced back to Friedman's critique in the 1970's. Among other things, Friedman argued against CSR due to the possible misusing of corporate resources.

All told, the notion of CSR as doing good is a very popular subject in theory and practice and therefore constitutes a strong focal point for CSR. With regard to the advantages of charity described above, the immense popularity of corporate philanthropy is not surprising. Although there is a need for a business case on the one hand, there is also the need for appropriate CSR focal points on the other. CSR must contribute to strengthening society's trust in business. The following section explains why CSR has nothing to do with charity and, secondly, why the association of CSR with altruism is problematic.

## PHILANTHROPIC:
A NARROW-MINDED INTERPRETATION OF CSR

There can be no doubt about the potentially positive relationship between philanthropy and profits. In particular, sophisticated strategic management of philanthropy gives a competitive advantage (Porter & Kramer, 2002). And there is similarly no doubt about the benefits of philanthropic activities for society. "Philanthropic donations may, therefore, serve both the needs of communities, and enhance the long-run financial performance of the firm" (Brammer & Millington, 2005, 30). Hence, it is not surprising that the philanthropic conceptualisation of CSR is quite popular. Nevertheless, philanthropy is not a sensible focal point for CSR. This section argues that the seemingly plausible strategy to conduct corporate social responsibility through corporate philanthropy is systematically misleading and, in the long run, undermining the legitimacy of the core business activities of corporations.

The first objection concerning the relationship between doing good and CSR can be referred to as the phenomenon of old wine in new skins. Corporations have been doing good since the 17th Century (Smith, 1994). It is not a new idea in business to support events, organisations, or individuals through the provision of money, products or services. Corporate giving, corporate volunteering, and other charitable activities are not entirely new ideas and have been widely discussed in marketing (e.g. Caesar, 1986; Varadarajan & Menon, 1988). It is a well-known idea to combine the interests of corporations and society through marketing activities (e.g. Dawson, 1969). Hence, the question arises: What is special about *responsibility as charity*? When responsibility and philanthropic activities are put on the same level, CSR is just a new term for an old idea. However, a new term does not provide answers for new challenges in business today.

The second argument against a link between CSR and philanthropy is based on the inherent two-stage conceptualisation of responsibility. A philanthropic approach to CSR is related to the question of how to use a corporation's resources beyond the core business. The question of where the resources or funds originate is not relevant in this context. Thus, there is a separation of daily business operations and responsibility (Suchanek & Lin-Hi, 2007). The problem of the two-stage conceptualisation becomes obvious when profits are made in a questionable way. It cannot be a sensible approach to call a corporation responsible just because it is well

known for its philanthropic activities, while the exact same corporation is cheating customers or bribing the government simultaneously. A generous donation to an orphanage does not compensate for any kind of child labour. Such compensation would be nothing more than a modern-day version of indulgence selling or *greenwashing* (see also Laufer, 2003). Consequently, a philanthropic approach to CSR does not contain information about the criteria of responsible profit-making. In addition, good deeds do not indicate the responsibility of corporations. Enron, for example, was well known for its generousness but was clearly not a responsible firm. For these reasons, good deeds establish spaces for the misuse of the ideal of business responsibility.

The third point of criticism refers to the lack of a normative foundation for a philanthropic approach to corporate responsibility. CSR is a normative concept: "The CSR field remains strongly imbued with a moral imperative" (Porter & Kramer, 2006: 82). Therefore, the concept CSR has to give guidelines for the imperative of what a corporation must do and also what society can expect from companies. However, in management theory there is only the positive imperative: the imperative to be profitable. If there is a link between corporate philanthropy and competitive advantage, the positive imperative to do good is strengthened by profitability. However, a positive argument does not substitute a normative one (Lin-Hi, 2008). Otherwise, there would be no need to discuss normative issues in the fully positive management field; hence, Milton Friedman would be right in saying that the "social responsibility of business is to increase its profits" (1970). In this regard, there is no normative imperative in business as to why corporations must engage in charity. The missing normative foundation encompasses the problem that it remains undefined whether society has the right to demand philanthropic activities. Furthermore, the scope of business responsibility cannot be answered in a normative way. There is just the positive impetus of doing good: as long as charity fosters business interests, it seems worthwhile engaging in it.

The fourth argument against the charity approach to CSR is rich in content and therefore, must be explained in detail. The argument rests upon the separation between responsibility and profits. As mentioned previously at the start of the article, business is faced with a loss of trust. In the public eye, profits are perceived as being opposed to social interests because profit seeking leads to socially undesirable results such as financial crises or corporate scandals. Hence, corporations must demonstrate that making profits is not wicked or immoral. However, a CSR idea based on

the charity approach achieves the opposite. There is an implicit message that a corporation's responsibility must be grounded beyond the core business (e.g. Waddock & Smith, 2000). This leads to the converse argument that core business has nothing to do with responsibility. In this respect, philanthropic activities strengthen the view that the profit-making focus of corporations' core businesses itself does not correspond with social interests – otherwise there would be no need to give money back to society. From this perspective, a philanthropic approach to CSR is seen as a counterweight to profit-making. This angle accelerates the critical view of the market economy and its profit focus.

The separation argument is a semantic issue which was also addressed by Milton Friedman in 1970. Friedman objected to the discussion of business responsibility beyond profit maximisation because such a discussion "helps to strengthen the already prevalent view that the pursuit of profits is wicked and immoral and must be curbed and controlled by external forces" (Friedman, 1970: 126). Friedman is right to criticise such an understanding of CSR that does not fit in with the mechanisms of the market economy. Furthermore, he is also right in his intention to stress the moral dimension of profit orientation for society as a whole. Therefore, it is a problematic issue when corporations or managers implicitly create an outward impression that business has something to do with altruism. In public, however, corporate philanthropy is popular because of its altruistic character – philanthropy is commonly understood in the truest sense of the word:

> The greater the extent to which philanthropic activity is viewed by a community as a genuine manifestation of the firm's intentions, motivations, and character, the greater the positive moral evaluation will be among that community. [...] The greater the extent to which philanthropic activity is viewed by a community as an ingratiating attempt to win favor, the greater the negative moral evaluation will be among that community. (Godfrey, 2005, 784 f.)

Theoreticians as well as practitioners are in favour of charity because it fosters the interest of corporations and therefore charity is conceived as a strategic investment (e.g. Saiia, Carroll & Buchholtz, 2003). However, by sticking to this point of view, the (semantic) consequences for the legitimacy of business are faded out. Moreover, managers sometimes insist on stressing the altruistic motivation of their CSR strategy. To have a heart of gold

seems to be good for the corporate image; therefore, it creates a source of competitive advantage (e.g. Forehand & Grier, 2003; Yoon, Gürhan-Canli & Schwarz, 2006). However, this leads to a discrepancy between business strategy and public desires (Du, Bhattacharya & Sen, 2010).

Philanthropic activities declared as responsibility mislead the public, and also implicitly negate the nature of business. In connection with the altruistic emphasis of their engagement, corporations themselves establish CSR as a counterweight to profit-making. However, corporations are not altruistic, and they cannot be altruistic in a competitive environment. Hence, the declaration of philanthropy as CSR fosters an illusionary view of business and therefore creates inappropriate focal points in public concerning the relationship between business and society. In this way, corporations bite the hand that feeds them because they are dependent on social legitimation to make profits.

The importance of focal points and the power of ideas are widely acknowledged in social sciences (e.g. Popper, 1966; Weber, 1949) as well as in economics (e.g. Waldkirch, Meyer & Homann, 2009). Focal points not only influence social expectations of corporate responsibility, but also affect the CSR strategy of managers. In this respect, focal points guide both thoughts and actions. Against this background it is important to have appropriate focal points concerning the relationship between business and society; otherwise public expectations will be unavoidably disappointed. And disappointment does not foster the building of trust.

Corporations cannot deny their profit-making focus anyway. If corporations want to tackle the problem of their decreasing public legitimacy, they will have to stand behind their profit focus:

> Business will have a much better chance of surviving if there is no nonsense about its goals – that is, if long-run profit maximisation is the one dominant objective in practice as well as in theory (Levitt, 1958, 49).

Corporations should neither position themselves as altruistic actors nor create the impression of being altruistic at all. There is the danger of forming a disingenuous understanding of business.

To sum up, philanthropic activities, such as donations, sponsoring, etc., are economically useful and not entirely problematic, *as long as they are viewed as instruments of the classic marketing mix*. However, good deeds become problematic when they are declared as CSR. In this

respect, philanthropic activities should be seen for what they are: marketing instruments to foster corporate interests and therefore instruments to generate profits.

## FINAL REMARKS

Considering the current economic developments and the rising distrust in business, corporations and their profit orientation, CSR is becoming a central topic for business. Thus, business (both, in theory and practice) should have an interest in generating sensible focal points for applied ethics. For this purpose, managers should bear today's challenges in mind. Business is, in fact, faced with the problem of an eroding legitimacy in society all over the world. Trust in corporations as well as in markets is connected with ideas. Indeed, the idea that profit orientation can be in harmony with social interests does not stand virtually unopposed in public. Therefore, business should not strengthen the view that making profits is wicked and immoral.

It is one of the main challenges for business and academics to establish a CSR framework that allows for the combination of profits and responsibility without neglecting the semantic issues. However, this does not mean that every type of profit fosters social interest as Friedman postulates. There are indeed several possibilities for making irresponsible profits. Hence, there is a need to differentiate between good and bad profits. I suggest the following focal point for such a differentiation and therewith for CSR: *Corporations have the responsibility to avoid short term profits at the expense of third parties*. Corporations do not have the obligation to engage in altruistic activities, but they do have the responsibility not to harm society.

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