

On the Relationship between CSR and Profit

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Abstract: It is a genuine concern for corporations to consider whether CSR (Corporate Social Responsibility) should be given more priority than making profits. There are two kinds of opinions on this issue; one is the “burden” opinion, which means the practice of CSR is a burden on corporations and should be abandoned, and the other one is the “proliferation” opinion, which means corporations can make handsome profits by good performance of CSR. In fact, corporations’ attitudes toward CSR mainly depend on the fitness of CSR with profits. Corporations will usually hold a positive attitude if their practice of CSR contributes to the increase of profits. Otherwise, they will hold a negative attitude towards CSR.

Keywords: CSR; profit; burden opinion; proliferation opinion

What is the relationship between CSR and profit? Which one should be given more priority? It is not only a realistic problem for corporations, but also a theoretical and practical subject for scholars to study systemically. Milton Friedman (1970) holds the idea that, as economic organizations, corporations should prefer profit and wealth for the sake of shareholders. In fact, the attitude of corporations towards CSR is, to a large extent, dependent on the relationship between social responsibility and profit. If the practice of CSR contributes to the increase of profit and wealth, corporations will hold a positive attitude towards CSR. Otherwise, they will hold negative attitude towards it.

Is CSR a Burden?

Some corporate leaders are not interested in CSR, because they are worried that the practice of CSR will consume resources and increase the costs of corporations. Even if CSR can help corporations to maintain corporate image or increase the visibility of corporations, it will be slow and cannot produce the desired effect in a short period of time. From the point of view of economic interests, the practice of CSR will inevitably cost profits, which could, instead, be used to develop corporations. The opinion that regards CSR a burden on corporations can be called as a burden opinion.

Why do corporate leaders have the burden opinion? One reason is that they are worried that the emphasis of CSR will lead to more duty, which should be fulfilled by the government. Government officials sometimes make it legal for corporations to take on more and more social responsibility. A second reason is that corporate leaders claim that the performance of CSR will increase operating costs, which include the costs of improving the working conditions of the staff, guaranteeing and increasing employee benefits, and replacing environmental protection equipment. All of these factors will decrease the profit margins of corporations. A third reason is that some corporate leaders identify CSR simply with a social denotation and strongly agree with the idea that corporations are not charity originations and have no obligation to solve social problems; as a result, charity is a burden on corporations. We should deal

with these opinions case by case and should not neglect any of them because they are one-sided. For example, the opinion that CSR means the government shifts its social responsibility to the corporation raises the question of how to make a distinction between the responsibility of the government and that of the corporation. The purpose of this distinction is to argue that corporations have limited responsibility so that the rights of corporations can be respected and protected. The key point of eliminating the shortcomings of these kinds of Burden Opinions is to respect the basic rights and interests of corporations. The government or the public should not impose the social responsibility on corporations; especially, the government should not concoct various pretexts and levy arbitrary charges, fund-raising quotas, or fines on corporations; instead, a mechanism and a channel for corporations' defending their rights and interests should be established.

It is strongly advised to do an objective analysis of the opinion that CSR will increase the operational costs of corporations. Some corporate leaders hold a negative attitude towards CSR and avoid all related social responsibilities except the so-called responsibility of making profits. An important reason is that there really exist inherent contradictions between making profits and fulfilling other social responsibilities, just as Drucker insisted that "there is a contradiction between an endogenous ability to profit and the company's contribution to society", which was quoted by Solomon (1993) in his book *Ethics and excellence: Cooperation and integrity in business*. According to generally accepted opinions on CSR, the social responsibility of corporations is the obligation through which the corporation should uphold other stakeholders' rights and promote their related interests. Obviously, CSR is concerned with how to distribute the profit of corporations; that is, in the event that total amount of profit is defined, the more the other stakeholders get, the less the investors get.

Talking objectively, compared to the costs traditional pattern of management that is pure producing, selling, and making a profit regardless of environmental protection and the satisfaction of employees' rights and interests, the cost of CSR does increase the operating costs. However, the point is that in a contemporary society, corporations have to survive in the business environment where the social and legal institutions, non-governmental forces, social direction of public opinion, and social public anticipation have already made CSR a necessary and a basic factor for the survival and development of corporations. To put it bluntly, gone forever are the days when corporations can purely make profits by lowering labor costs, freely use natural resources, and release pollution.

When all corporations have to perform related social responsibility, logically they have the same competitive costs because of the performance of CSR. But in the reality, there exist contradictions between CSR and profit, and this means that some corporations can make profits without performing CSR, while other corporations performing related CSR make no profits and the costs of performing CSR will increase. Furthermore, once there are no severe sanctions and punishments on the corporations who are sweatshops without any sense of humanitarianism by often extending the working time of employees, these corporations will have larger profit space. Obviously, it will increase the costs of corporations who have good performance of CSR. In some degree, it will naturally decrease the activity of their performing CSR. It is worth noting that this seldom happens in a comparatively perfect economic marketing system.

The reason that some corporate leaders regard the practice of CSR as a burden on corporations is because they do not realize that it is necessary for corporations to take on their CSR, meaning that CSR has already been an indispensable part of costs during the course of their production and operation.

Unfortunately, they still stick firmly to their traditional management concepts. If we purely consider the actual investment of corporations, CSR really increases the costs of production and operations when corporations perform CSR, such as, providing good working conditions, improving employees' benefits, and reducing industrial waste and pollution in accordance with national environmental indicators, but it is also essential for corporations to perform CSR, just the same way as it is essential for them to pay for the costs of production materials and machinery equipment.

Since both kinds of costs are necessary for corporations to pay, why are they willing to increase the second kinds of costs and not willing to perform their basic social responsibility? The reason some corporate leaders never regard the costs of production materials and machinery equipment is that in their traditional idea is that such costs are inevitable costs of their production and operations. But in the present world, it should also be a necessary part of their actions for corporations to practice their CSR. If some corporations can gain larger amounts of profits without any performance of CSR, it will be a heavy blow to those corporations who take on their CSR actively. Accordingly, the costs of CSR will be an additional part for the lawful corporations meaning that they can also save the costs of CSR without any loss. As a result, the government should take action on these kinds of unjust social phenomena.

In short, corporate leaders who have the opinion that CSR is a burden on corporations have not realized that good social environment is the macroeconomic factor for their development, and that the stability and good order of society can play an important role for their development, and that it is an inevitable trend for corporations to maintain good social public relations and image for contemporary enterprise development, and also that the performance of CSR gives a good opportunity for the development of corporations.

Is CSR Proliferation?

Focusing on the costs of CSR, some agree with the idea that CSR is a burden on corporations with the conclusion that corporations should not perform CSR for the sake of the shareholders of corporations, while others understand CSR in a completely different way. They treat CSR as an efficient way to help corporations make profits. According to this kind of opinion, there is no contradiction between the performance of CSR and making profits. On the contrary, in the long run, the relationship between these two factors is positive. From the point view of these corporations, they can do better for shareholders through good behavior, such as social denotations, and furthermore, they believe that it is not only worthwhile to perform CSR, but also corporations have to perform CSR. This kind of opinion is termed as the "Proliferation" opinion.

There are different ways to classify different kinds of CSR and one way is to differentiate between statutory CSR and voluntary CSR. Statutory CSR means that corporations must perform their CSR, and voluntary CSR means that corporations have the choice to decide whether to perform their CSR. According to Louis W. Hodges (1986), there are three kinds of responsibilities: assigned responsibility, contracted responsibility, and self-imposed responsibility. Correspondingly, we agree with the opinion that there exist three kinds of CSR's: assigned CSR, contracted CSR, and morally self-imposed CSR. By personification of capital, corporations have the nature of making profits and have no consciousness to limit their own interests. As a result, regardless of the interests and rights of other stakeholders, we need forceful laws in order to prevent and punish those corporations who maximize profits one-sidedly. The

government must regulate the behaviors of corporations by law and other forceful institutions in order to define permissive behaviors of corporations during the course of maximizing their profits. There is no doubt that any corporation has the social responsibility of making a profit in a lawful way. When corporations sign legal contracts through equal consultations with other marketing subjects, they have related CSR, which means they should perform the responsibility stipulated by the contracts. Additionally, corporations have related responsibilities to perform basic social moral rules and to satisfy public expectation. The assigned CSR and contracted CSR are forceful responsibilities and moral self-imposed CSR is voluntary. Public donations can be regarded as self-imposed social responsibility of corporations within their means and not as forceful obligations.

Corporations, in fact, are willing to make public donations because such activities can produce good social effects through media's propaganda, which can not only increase corporations' reputations and market sales, but also can decrease their advertising investment to some degree. Therefore, corporations really pay for certain costs when they perform their CSR, but if we evaluate CSR from the point view of social effects, corporations will get lucrative rewards for their practices of CSR. That is why some corporations include their social donations in the strategy development of corporations, which can usually be understood as doing some good for the society for the sake of the corporations themselves.

Regardless of whether the motivation which corporations keep is to perform CSR for the self-interests of corporations or for other stakeholders, their behaviors or the consequence of their behaviors, in fact, can be understood to be a combination of self-interests and altruism. From the point of view of direct obvious effect, corporations performing CSR is a good social behavior and a contribution to social tranquility, even if the performance of CSR includes only basic lawful production and operation, which provides for good manufacturing practices and services, protecting fundamental rights and interests, and discharging of industrial wastes in accordance to national environmental standards.

Their performance of CSR doesn't add any trouble to the society, exacerbate social conflicts of interests or increase the costs of social governance, and it also shows the corporations' ability to solve the problem in the society. From the point view of the corporations themselves, on the one hand, their performance of assigned CSR can help them avoid social punishment and gain recognition of stakeholders, such as investors, customers, vendors, suppliers, employees, communities, and governments, etc.; that is to say, within the corporation, the role of human capital can be brought into full play. Outside the corporation, the practice of this kind of CSR can help corporations obtain trust from consumers and trading partner and enhance their corporate brand image. On the other side, corporations' performing of moral and charity CSR can gain social reputation for corporations and will generate a credit effect so that they can expand market share.

CSR and Corporate Development

Although the length of the corporate life cycle is affected by many factors, CSR is an important one among them and can even be related to business survival. The behaviors such as discounting on the basic rights and interests of employees and not giving them proper protection can neither mobilize the enthusiasm of the staff, nor will be able to retain talent or attract new talent. Corporations that lack good corporate human capital cannot produce good products or offer good services. As a result, corporations without brand support will have no way to survive. Once corporations deceive consumers in terms of

quality and price of products and services for the sake of making profits, consumers will not only refuse to buy their products and services, but, also, corporations will lose their reputation and market share. For this reason, in an address titled as “Working together to write a new chapter in China-U.S. relations”, former Prime Minister of China, Wen Jiabao (2008) pointed out: “An entrepreneur should flow the blood of morality. He should combine the visible enterprise technologies, product management and related concepts of morality and responsibility together, both of which can constitute the economy and corporate DNA.”

We should relate the proliferation of CSR to Repeated Games, which will give us a new way to understand CSR. The proliferation of CSR is dependent on Repeated Games. According to modern economics, the market subject has already been transferred from “rational economic man” of traditional economics to “game player.” As a result, the driving forces of interests of market players, their mutual relationships, and the balance of their interests become the core issues of economics. Economists have already pointed out that market players will choose “strategy game” instead of an “opportunity game” in their participation in market activities. That is to say, in the pursuit of maximizing their interests in the market activities, the players should not only consider their own interests, but also consider the behaviors and reactions of other players. They will make a corresponding choice according to other players’ behavior. The game can be divided into two parts: “repeated game” and “short-term game,” which are based on the persistence and transience of trading activities.

Corporations with good performance of CSR can obtain trust from each other because of their good credit record of CSR performance in terms of Repeated Game behaviors; especially, the good credit record has a saving function, which will have a reputation effect and will reduce transaction costs and maximize or balance the interests of both sides. The good performance of CSR exemplifies the original meaning of economic behavior, which is making a self-interest profit and at same time be beneficial to all the mutual players. Although corporations without good performance of CSR can make profits occasionally in a short-term game, they have great difficulty winning a repeated game. The reason is that any stakeholders are not willing to deal with corporations that lack of CSR. Even corporations without good performance of CSR are unwilling to deal with corporations who cannot be law-abiding, honest, and trustworthy in their production and operation. Therefore, it will be very difficult for these kinds of corporations to survive in the long run in the market game. As Niu Gensheng, (2006) former chairman of Mengniu Group, pointed out, virtue is the best weapon to win hearts and minds. Good intelligence is enough for market players to win three to five years. But to win a lifetime, the market player must have the perfect virtue. There is a Chinese proverb, which is: a person with a good sense of responsibility can go further.

It has already been a consensus that corporations have some kind of inescapable CSR. However, it is still an important practical problem that how CSR can convert from altruistic aspirations into self-serving demands and consciousness. Generally speaking, the opportunity of this discussion is dependent on the active effect of CSR, which is corporations with good performance of CSR increase their reputation, establish a good corporate image, enhance their intangible assets, give priority access to the consumers’ preferred choice, and attract high-quality staff and business partners. Therefore, Philip Kotler (2004) has pointed out that CSR should be organically integrated into business operations and strategy, by fulfilling our social responsibility, which can help corporations obtain the following: increased sales and market

share, strengthened brand positioning, enhanced corporate image and clout, increased ability to attract, motivate, and retain employees, decreased operating costs, and increased appeal to investors and financial analysts. In other words, to meet the interests of other stakeholders will have a marginal effect. However, this does not automatically happen, and needs to rely on the promotion of social reward and a mechanism of punishment. Li Ruie (2005) insists that when we review the history of “longevity” of corporations, we must acknowledge that it has core competitiveness of enterprises and unique corporate culture, which are not easy to imitate; however, all these corporations have one salient feature, which is in the long run when capital accumulation reaches a certain level, rational capital owner will consider how to contribute to the community. They actually understand the mission of capital as a rational capital holder, which means they are trying to respond to the vitality of capital by poverty alleviation through education, and investments on public welfare projects.

In the context of contemporary society, the main problem is already not about admitting the identity of stakeholders for the reason that they already exist objectively, but is how to balance the interests of shareholders and those of stakeholders in the premise of respecting property rights. That is, whose interests have priority when there are sharp conflicts between the interests of shareholders and those of other stakeholders? It is argued that, in the long run, the interests of stakeholders have priority and in the short term, the interests of shareholders should be considered first.

These kinds of principled discussions don't make practical sense, and we must set specific scenarios in order to pursue the right target. From the point of view of corporations' strategy of making a profit, if corporations do harm to the legitimate interests of legal stakeholders for the sake of interests of shareholders, they will be punished by law and receive economic damage and image damage, and, in fact are like a dog in the manger. Contrary to these corporations without good performance of CSR, other corporations make profits for the sake of shareholders with observance of basic laws and without damaging other stakeholders' interests. We can call this kind of lawful behavior pursuing self-interests without harming others. The third kind of corporate behavior is called “beneficial to all,” which means this kind of corporations can fulfill the moral duty to satisfy the interests of other stakeholders. As a result, in the long run, they also maximize the interests of their shareholders.

The “burden” opinion and the “proliferation” opinions of CSR are quite different. There are at least two reasons to explain their difference. First, they use different operating cycles. The former focuses on immediate gains and losses, and the latter looks to the future. Second, they have different understanding on the relationship between morality and profit. The burden opinion means that when the profit is definite, the performance of CSR will increase the costs of operation because it occupies the profit of corporations. Without related performance of CSR, corporations will obtain larger profit margins. The “proliferation” opinion means that the performance of CSR does not conflict with making a profit and opposes unfair profit. For those corporations who perform good practice of CSR, they need a fairer market mechanism so that corporations without good practice can be excluded from the market.

The above analysis shows that the relationship between morality and profit is a complicated subject. We cannot draw the conclusion that these two are conflicting with each other, nor are they one entity. Sometimes, the performance of CSR demands that corporations should sacrifice certain profits, while sometimes corporations can make handsome profits without any performance of CSR. As a result, it should be divided into different levels of discussion on the practice of CSR. In the ought level, morality

and profit can constitute a logical unity, while in the factual level, there exists possible conflict between them. Once the market lacks of effective monitoring mechanism on making a profit, corporations may pursue interests in an immoral way. Therefore, the paradox between morality and profit happens in a factual level, which has close relationship with social institutional environment, media environment, and the values of business managers.

In short, the effective way to impel corporations to perform good CSR is to help them realize that there is intimate relationship between the practice of CSR and the survival and development of corporations. Furthermore, the practice of CSR can produce positive effects on the performance of corporations. Michael E. Porter and Mark R. Kramer (2006) point out: "To advance CSR, we must root it in a broad understanding of the interrelationship between a corporation and society while at the same time anchoring it in the strategies and activities of specific companies" They further argue for the opinion that corporations should achieve the "shared value" which means "choices must benefit both sides". Once corporate leaders strongly realize that it will be difficult for corporations to survive and develop if they neglect the performance of CSR, they will change their attitude towards CSR from negative to positive. Therefore, the widespread implementation of CSR needs good market environment where the performance of CSR can lead to good results for the production and operation of corporations. In this kind of market environment, the moot point is not whether corporations should responsibility and cannot escape it.

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