The dark side of corporate social responsibility

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As firms encounter intensive pressure from consumers, community groups and NGOs — while simultaneously facing heightened competition in the global economy — they are increasingly compelled to acknowledge the demands for corporate social responsibility (CSR). Despite the increase in this type of activity, controversy exists as to whether CSR can improve the interests of both internal and external stakeholders.

It has become standard to assess the link between socially responsible actions and employment relations as positive. However, some question whether it is possible to balance the interests of all stakeholders, given limited resources.

How does CSR benefit employees? Some scholars have treated it as part of a corporate propaganda strategy that can easily ignore the interests of the workforce. But an important point here is not the nature of social responsibility itself but the allocation of resources for CSR action.

We used two firm-level panel data sets to test the effects of firms' social responsibility involvement on employment-related issues.

Major findings are that CSR involvement:

- facilitates employer tendency to use performance-based pay and efficiency-based work practices;
- has a negative association with employment growth; and
- shows a positive relationship with increased labour flexibility through restructuring and/or contingent employment

How do we interpret these results? We focus on mobilising resources for CSR activities geared toward external stakeholders such as customers and community. The burden of obtaining resources for participating in these activities within a competitive business environment is always a concern for management. Needless to say, corporations need resources to respond to recent global trends, such as the adoption of codes of conduct and ISO26000. Some costs resulting from CSR activities are not directly financial (such as environmental protection) but nonetheless frequently impose monetary burdens such as investment in green technologies. Other costs are directly financial, such as donations to charities and the creation of scholarship funds. Therefore, maintaining a good reputation through CSR in a competitive environment depends on a firm's resources to a certain degree.

During the process of resource mobilization, firms can undertake cost cutting that may be detrimental to working conditions. If social responsibility is adopted as part of a corporate propaganda strategy, the interests of employees are more likely to be ignored or sacrificed. In many cases in which a choice must be made between external and internal demands, a firm must consider external demands first because of the inability to withdraw from social activities, over concern for its reputation and public image. As a result, firms are increasingly directing their CSR activities to external social issues, especially when social demands are strong and the requisite internal resources are not available.

A business primarily has two ways of mobilizing its resources. One is by improving its organizational efficiency. The other is by reducing its internal costs. From a business strategy perspective, the goal of mobilizing resources is to generate reserves by both enhancing efficiency and minimizing costs. Good examples of enhancements in efficiency include efforts to increase productivity by using innovative work systems and/or undertaking practices to increase employee motivation. These practices are closely associated with generating tangible and intangible resources by using employee knowledge and creativity through staff involvement programs and various incentives to motivate teams. Cost minimization is associated with reducing operating costs including labor costs. It can involve a more flexible utilization of human resources such as organizational restructuring and the use of a contingent labor force.

In reality, CSR commitment to social issues seems to impose additional costs. In response, firms with limited means appear to mobilize resources even by undermining the interests of internal stakeholders.

Our study tends to suggest two contrasting faces of CSR. At the same time that management attempts to project an image of “a good neighbor” by committing to socially desirable behavior, it appears to be “a bad employer” by undermining the job security of its own staff.

This study has a limitation. Because our sample included firms in a single country, Korea, nation-specific characteristics may have affected our results. Thus, our findings should be carefully interpreted before any attempt to generalize them. In addition, we did not test the causal relationship between these two variables (i.e., CSR and employment practices) and only found temporary associations between the two. Thus, one has to be circumspect in asserting that the investment in CSR is driving the change in employment practices and slower hiring growth.

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Notes:

- *This post is based on the authors’ paper Good Neighbors but Bad Employers: Two Faces of Corporate Social Responsibility Programs, published in the Journal of Business Ethics, 2015.*
- *This post gives the views of the authors, and not the position of LSE Business Review or the London School of Economics.*
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