Financial Returns of Corporate Social Responsibility, and the Moral Freedom and Responsibility of Business Leaders

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Objective:

This article reviews the normative arguments, theoretical work and empirical research seeking a better understanding of the financial relation between Corporate Social Responsibility (CSR) and Corporate Social Irresponsibility (CSI).

Methodology:

The article reviews theoretical literature of various authors and discusses gaps in their theories.

Key Findings:

- Delivering superior value to customers increases loyalty of employees through greater job satisfaction.
- Responsible companies may experience reduced costs.
- Friedman, champion of irresponsible capitalism, makes a case that CSI produces higher profits and thus is desirable. Machiavelli also advocates certain irresponsible practices.
- Like responsible companies, irresponsible companies have techniques that can form a self-reinforcing system.
- The dynamics of CSR and CSI firms are in equilibrium with equal average returns.
- It may be difficult to gauge a firm's net level of responsibility.
- The most important problem confronting research in this area is that it is difficult to judge CSR. Many companies are reluctant to disclose all of their practices.
- Both CSR and CSI firms with less management ability may tend to manage apparent CSR with less skill.
- Less skillful CSR and CSI companies might both invest less in R&D, and seem less responsible.

Conclusion regarding Returns of CSR and CSI:

The body of theory argues that CSR produces higher returns and presents logically sound mechanisms for socially responsible companies to contribute to strong financial success. However, there are also approaches that enable socially irresponsible firms to get high returns. Also the average returns of CSR and CSI firms are likely to be equal. This is because if returns of one or the other rose, it would attract additional competitors until equilibrium with equal returns was restored.

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