

# Corporate Social Responsibility versus Social Business

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**Abstract**—In this paper, it is aimed to contrast Corporate Social Responsibility with Social Business as defined by Prof. Muhammad Yunus. In accordance to that aim, primarily background of the corporate social responsibility (CSR) and social business will be described. Then, the main arguments in regard to both subjects will be emphasized. Subsequently, the main differences between CSR and social business will be identified.

**Index Terms**—Corporate social responsibility, poverty, social business, social problems.

## I. INTRODUCTION

Today, researchers and business practitioners highlight the potential of managing business-society relations more strategically. There is an intensive agreement that companies need to develop linkages between their business strategies and societal stakeholders' impact strategies. Therefore, corporate social responsibility becomes one of the most influential topics both in academic world and in real life practices. Relative to CSR, newer concept "social business" also attracts the attention of many practitioners from different disciplines especially after Nobel Prize Laureate Muhammad Yunus promoted the concept in Nobel Prize Ceremony.

According to the results of the paper, this perspective acknowledges potential trade-offs between short-term profitability and social and /or environmental goals, but still focuses on the opportunities for competitive advantage from building a social value proposition into corporate strategies. Additionally, these strategies range from simple form of donations to active engagement in Corporate Social Responsibility to Social Business. Although the ultimate goal of solving a specific social problem remains constant, the mechanisms, philosophies and strategies of all applications differ significantly.

## II. CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) has a long tradition especially in family businesses but it really came to distinction in the last decade when large multinationals began to adopt it to demonstrate that they were serious about delivering a positive social impact on the communities in which they operated [1].

The societal contributions of companies have originated from different motivations – perceived moral or religious obligations, philanthropic considerations, or economic

self-interest as health and education services could also yield business benefits [2]. While there is substantial agreement that corporate social responsibility (CSR) is concerned with the social obligations of business, there is less certainty about the nature and scope of these obligations.

The development of corporate social responsibility has been carried out mainly in the North [3] from the 1950s onward, a considerable number of definitions and conceptualizations have been provided to the literature [4]. However, the notion of corporate social responsibility is sometimes hard to grasp for companies because of an abundance of unclear and biased CSR concepts. The confusion surrounding CSR is a potential problem for companies in terms of making socially conscious investing decisions that provide sustainability [5].

According to Weber, a researcher, the term CSR can be broadly defined as "voluntary corporate activities to tackle social and environmental aspects." Correspondingly, CSR can be understood as a form of corporate self-regulation beyond mere compliance with the law [6].

Milton Friedman's argument of "from a purely economic perspective that business' only responsibility referred to the profitable use of resources within the boundaries of the laws of those countries in which they work. Since only people could have social responsibilities, the only social responsibility of business was to increase its profits" forms the basis of shareholder theory [7].

In contrast, stakeholder theory and researchers studying CSR from an ethical perspective counter that companies have social responsibility going beyond obedience to laws and regulations regarding safety, environmental responsibility, and financial integrity.

The term stakeholder (referring to those on whom an organization's activities have an impact) was coined by Edward Freeman [8] who promoted the idea of corporate owners beyond shareholders. While the shareholder (value) concept assumes that enterprises are obliged to pursue their investors' goals (i.e., long-term profit maximization), that entrepreneurial decision power lies with the investors (or their Managing Director), and business performance (profit or loss) correspondingly fully hits the investor, the stakeholder concept takes a more comprehensive view of companies, trying to consider their role within their socioeconomic context. Companies should do good for society.

Additionally, Parnell advocates contemporary perspective of social responsibility is linked with sustainability strategic management. Even though there is a debate continues on the notion of corporate social responsibility (CSR), most definitions do agree on the overall CSR covers 'doing good' for: workers, local society, as well as environment [9]. On individual's side, it is perceived that CSR is that engaging in

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activities such as taking steps to preserve the natural environment, avoiding or minimizing social harm, enhancing quality of life for the society [10].

In practice, CSR is traditionally often designated as a charity fund set aside by companies to do some good in the local community, sponsoring sports events, donating money to cultural institutions or disadvantaged children. Apart from the most passive form of “Corporate Philanthropy”, as it can be seen in Fig. 1, one level further, CSR engages in positive impact creation for the stakeholder and external relations. Next, “Social Investment” type of CSR actively considers the long-term impact of the environment where the company operates with all the social elements such as environment and labor health issues. The most active form of CSR, “Shared Value Creation”, welcomes social issues as one of their integral business strategies embedded in core operations.

Till today the most passive form of CSR is regarded as the preferred and prevailed application in corporate world. But with companies increasingly operating globally, the characteristics of CSR have been changing and being practiced toward more active forms.

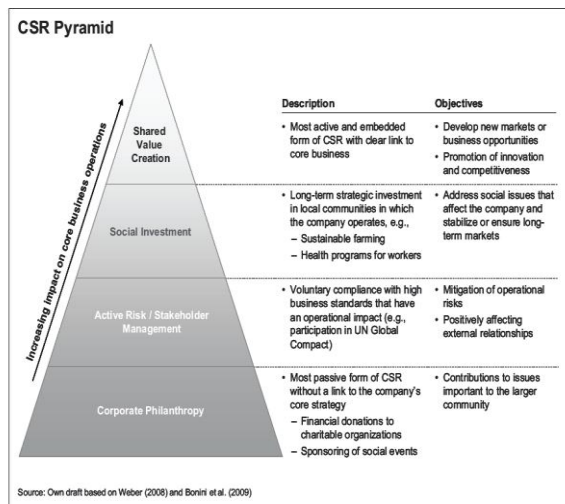


Fig. 1. Different levels of corporate social responsibility [11]

### III. SOCIAL BUSINESS

Muhammad Yunus, the founder of the Grameen Bank in Bangladesh, introduced the term “social business” in the field and won the nobel prize. Since then, universities and business schools from all around the world started to analyze and foster the notion. Meanwhile, the examples set by Yunus to prove his theoretical concept turned out to be success stories.

The social business storm began with the foundation of the Grameen bank back in 1976. The Grameen bank was established to provide microcredit to poor people as an alternative to the conventional banking techniques [12]. The aim behind this idea is giving opportunity to solve their social problem by encouraging them to be an entrepreneur. Though Grameen Bank took three decades to receive full global recognition, the model has in fact strongly influenced the way of thinking in the banking, development, and non-profit sectors – promoting the idea that entrepreneurialism, rather than charity, was the way to overcome mass poverty [13].

Based on his experiences with Grameen bank and pro-poor business in Bangladesh, Muhammad Yunus started to

promote the idea of social business and defined the concept as follow:

“As set by the examples, social business model does not strive to maximize profits but rather to serve humanity’s most pressing needs. Therefore, the first motive of a social business is not profit maximization, and second, it does not pay its investors dividends. Instead, it aims at solving social problems with products and services at affordable prices, or giving the poor and marginalized people ownership in a business and therefore allows them to share in its profits. A social business pays back only its original investment and reinvests its profits in innovations or further growth that advance its social goals. Although the social business is pioneering in its aims, it is traditional in its management. Its workforce is professional and paid according to market wages. This type of business may or may not earn profit, but like any other business it must not incur losses in order to be able to sustain itself. In every sense the social business is sustainable: in its direct environmental impact, its impact down the value chain, and critically, in its financial independence. This is a key difference between social business and charity. Once its initial investment is repaid, the social business aims to be financially self-sustaining, giving it the independence and security to focus its efforts on the long-term improvement of the lives of the disadvantaged” [14].

The major types of organizations are generally set as either profit-maximizing firms or social-benefit maximizing not-for-profit organizations. The first one seeks to provide the best for their shareholder whereas the other exists to provide best in regard to their social objectives. Social business is the social value maximizing enterprise with regular business functions such as marketing, production, human resources and finance. It is positioned in between of profit maximizing firms and not-for-profits, benefiting from their mechanisms in a new format. The organizational design, structure and functions work as profit-maximizing businesses (i.e. paying the HR as of market wage, procuring from suppliers and selling to retailers, etc) however the money earned remain in the business to allow the firm acting as a change agent for the world. Their owners never intend to make profits for themselves (which is explained with no-dividend policy), but they are entitled to get their initial investment back if they require. The profit remains within the company and surpluses generated are reinvested either to expand the business or provide benefits such as low-cost, high quality, high accessibility of services and products to the target beneficiaries [15].

He believes that self-sustainable social purpose companies could solve human challenges ranging from income poverty and pollution to inadequate healthcare and lack of quality education. Social business is not a simple concept of responding current poverty problems of the society, but it will be core issue in the markets of tomorrow since it combines the macroeconomic purpose of creating a world without poverty with a micro-level organizational implementation strategy through non-loss, non-dividend and sustainable companies [16].

Yunus’ social business concept got international attention in 2006 when the Grameen Group launched its first consciously designed social business joint venture in

partnership with Group Danone, a multinational food company from France. The purpose of the joint venture called Grameen Danone Foods Ltd. is to fight malnutrition among children in rural Bangladesh by providing fortified yoghurt at an affordable price. Following to that example, the number of social businesses in Bangladesh alone reached sixties.

IV. CORPORATE SOCIAL RESPONSIBILITY VERSUS SOCIAL BUSINESS

Social business and CSR have much in common. Both want businesses to take the interests of all stakeholders and especially the non-shareholders, while taking a larger and serious role in addressing social and environmental problems. Yet, there are important and underexplored differences. The differences between two notions, based on their purposes, structures, targets, profit related policies, compliance issues and shareholders’ perspective are listed below on the table;

CSR	Social Business
Profit sharing	Non-dividend
Profit Maximizing	Social benefit maximizing
Project based /Time Limitation	Company based/Enduring-Sustainable
Social projects within the companies’ core business strategies	Social projects within the recognition of diversified social problems
Targeting general society / satisfaction of stakeholders expectations	Targeting the poorest of the poor, or the ones in most urgent needs
Temporarily solutions to social problems / non sustainable in general	Consequences oriented-permanent solution
Devoting a small portion of profit	Raising its financial funds
Compliance with the moral /religious or legal obligations to engage in a social problem solving	Compliance with the “selflessness” to engage in a social problem solving
Shareholders and entrepreneurs bias on allocating profit on social problems	Shareholders and entrepreneurs full support on allocating profit on social problems

Fig. 2. CSR vs. social business

Yunus also differentiates CSR initiatives of profit-maximizing companies from his concept of social business. With reference to an organization’s primary purpose he argues that a profit-maximizing company could only devote a small portion of its resources to a social purpose. However, microcredit is used to establish social businesses that are self-sustaining .

According to Yunus [17]:

“In the present-day economic system, CSR would run up against a basic problem – managers’ legal obligation to their shareholders to maximize profits unless they mandate otherwise. They have to design the company to pursue profit first and then add the social features – provided that the social features don’t interfere with maximizing profit”.

While social businesses try to reach poorest of the poor [18], companies aim to meet expectations of stakeholders [19]. By their very nature, traditional corporations are not equipped to deal with social problems, whereas social business (exempted from shareholders’ monetary interests)

can exclusively concentrate on delivering social benefits. Moreover, as the social benefits ratios are not universally set, motives of some CSR activities of firms remain questionable. Opponents of CSR, criticize some companies’ misuse of the concept as a tool of public relations in the form of “window dressing.

Additionally, sustainable CSR projects mean cost for the companies and shareholders. Although CSR is valued by individuals, they would not bear that costs due to economic purposes of firms. Especially shareholders would not approve corporate spending on social problems when it is considered that a portion of profits are allocated to CSR. In this case, entrepreneurs would be responsible to pay all that costs. However, social business core purpose is to provide solution to a social problem. Therefore, shareholders or entrepreneurs would receive satisfaction to distribution of corporate profits to social problems [20].

CSR efforts usually focus very limited scope of social problems. In general CSR projects aim to reduce social and environmental negative impacts of a company. But, social business movement is anticipated to defy more specific social problems such as nutrition, child abuse, disabled. In addition; individuals who owned social business idea, are better than big companies at scanning problems that need to be overcome [21].

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