Proceedings of the 8th International Conference on Economic Management and Green Development
DOI: 10.54254/2754-1169/132/2024.18436

Pseudo Corporate Social Responsibility Strategies in Natural Asset Companies

Holly Zhang[1,a,*]

[1]Markville Secondary School, Carleton Rd., Markham
a. hqrzhang@gmail.com
**corresponding author*

Abstract: The recent withdrawal of the New York Stock Exchange's (NYSE) proposal of a new asset class prompted a revisit to the purpose of Corporate Social Responsibility (CSR). The asset class, known as the Natural Asset Company (NAC), exemplifies a stakeholder primacy model that has become popularized by large multinationals working toward a sustainable future. This model has been criticized for serving more optics than actual impact, leading to questions about the purpose of the NAC. Following concerns raised by several attorneys general, the NYSE withdrew its proposal. Among the concerns cited by the attorneys general was the ambiguous language used to explain the NAC's business model and the threat of private enterprises owning public land. This paper presents an analysis of the underlying pseudo-CSR articulated by the NAC and its impact on the landscape of CSR. The paper concluded that in order to achieve true CSR, companies themselves should not be upheld to a CSR standard, but rather, the employees themselves through their own decision-making.

Keywords: corporate governance, corporate social responsibility, stakeholder primacy, sustainable development.

1. Introduction

Despite the vast amount of literature on corporate social responsibility (CSR), the subject remains ambiguous. Nonetheless, one interesting perspective increasingly assumed by academics is that it is a form of "international private business self-regulation" [1]. As companies engage with CSR in the context of regulatory frameworks, they are better held accountable to the management of resources for their CSR programs. Through this approach of accountability, according to Hatami et al [2], companies can bridge the gap between true CSR and pseudo CSR. While powerful legal frameworks like the Sarbanes-Oxley Act do exist to regulate companies, CSR policies are the progressive tools that instill necessary ethical codes of conduct [2].

Still, because there is no clear standard against which CSR policies can be compared, it is difficult to differentiate between true CSR and pseudo CSR [3]. This ambiguity leads to several empty and performative promises in CSR programs that result in a disillusioned view of companies as merely "greenwash" [4]. Greenwash has become an increasingly popular marketing strategy, especially with the publication of works like the Brundtland Report that introduced ideas of sustainability. As companies continue to expand their spheres of influence, it is imperative that CSR policies are expanded and executed. In their pioneering work *The Modern Corporation and Private Property*,

DOI: 10.54254/2754-1169/132/2024.18436

Berle and Means underscored the influence of corporations, observing their transition from vehicles of welfare to mobilizers of the economy:

Corporations have ceased to be merely legal devices through which the private business transactions of individuals may be carried on. Though still much used for this purpose, the corporate form has acquired a larger significance. The corporation has, in fact, become both a method of property tenure and a means of organizing economic life. [5]

During the late 20th century, economists like Milton Friedman declared that the sole purpose of the business was to maximize shareholder value. Today, however, with the push for sustainable development, companies are seen as responsible not only to their shareholders, but to all of their stakeholders. This has led to an increased emphasis on CSR in businesses. This article aims to examine CSR with a case involving the proposed new asset class on the New York Stock Exchange (NYSE): the Natural Asset Company (NAC). The NYSE defines the NAC as an amalgamation of economic, social, and environmental interests. The NAC's unique corporate structure is rooted in a business model whose primary purpose is not revenue, but rather, the sustainable management of natural resources. The NAC ostensibly encourages shareholders to invest in the environment and sustainability. Recently, however, the NAC has been criticized for having ulterior motives under the pretense of CSR [6]. By examining the NAC proposal (and its eventual repeal), this article further contributes to existing discussions [2], [6], [7] surrounding true and pseudo CSR and proposes alternatives in policies. This paper prefaces with a historical analysis of sustainable development (the broader term often used in conjunction with CSR) followed by definitions of CSR and corporate governance models and concludes with an analysis of the NAC and its implications on true and pseudo CSR.

2. Sustainable Development

The term "sustainable development" (SD) was introduced by the United Nations World Commission on Environment and Development (WCED) in the Brundtland Report. The report defined SD as the ability to "meet the needs of the present without compromising the ability of future generations to meet their own" [8]. Although the Brundtland Report is credited as the first to formally propose a framework for SD, the idea has been echoed throughout the 19th and 20th centuries in the form of conservation. Gifford Pinchot, for instance, is largely recognized for his pioneering work in conservation. In his book *The Fight for Conservation*, Pinchot stressed the importance of regulated private ownership in common goods like water, revealing the growing relevance of companies in leading environmental movements [9]. Additionally, in the 1970s, Rachel Carson's seminal *Silent Spring* ignited a grassroots movement against pesticides, prompting the creation of the Environmental Protection Agency. Thus, companies have become integral actors in the conservation movement and as such, must be subject to appropriate policy.

During the era of the Brundtland Report, John Elkington also proposed the "triple-bottom-line" (TBL), an accounting framework categorizing a corporation's obligations into three pillars: economic, social, and environmental [3]. Since then, in the corporate context, SD has been defined as a "model of triple-bottom-line" [3]. As a result, other terms advocating for responsibility beyond profit margins like CSR have become synonymous with SD. In fact, there is often little to "no visible differentiation between these [CSR and SD] terms" [3]. However, unlike SD, which holds multiple actors accountable, CSR refers specifically to companies.

3. Corporate Social Responsibility

While it is true that CSR can be regarded as a subset of the much more holistic SD, it is important to recognize key differences. Unlike SD, CSR was established in the 1950s and was then simply known

DOI: 10.54254/2754-1169/132/2024.18436

as "Social Responsibility" [3]. In his seminal work *Social Responsibilities of the Businessman*, Howard Bowen defined social responsibility as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" [10]. This perspective stood in contrast with Milton Friedman's doctrine that the social responsibility of any business is to increase profits [11]. For our purposes, we will interpret CSR in the context of Bowen's work and Friedman's assertion as shareholder primacy, the maximization of shareholder value. CSR can further be categorized into two types: Pseudo and true. Pseudo activity, as defined by Adorno, is an action that "aggravates itself for the sake of its own publicity" [2]. Thus, pseudo CSR is equivalent to modern strategies intended to improve the company's optics.

Early evidence of CSR developing into a marketing strategy can be seen in the Dow Chemical Company, a leading manufacturer of the compound napalm used during the Vietnam War [10]. Burdened by protests and riots, the company ceased manufacturing the chemical, improving public relations and adopting sustainability goals. By leveraging the publicity of napalm, the company managed to turn what was once a controversial brand into a hugely successful marketing gimmick. In response to the student demonstrations, the then director of public relations Ned Brandt admitted "you could not have gotten…better advertising" [12]. This demonstration among many others in the 20th century set a precedent for future companies to leverage CSR as a means of publicity.

Nevertheless, as Yoon et al. [13] found, CSR intended to merely improve the company's reputation can also be a detriment to the company, too. As consumers grow increasingly aware of performative acts, they grow more wary of the intent behind CSR policies. So, true CSR must be a thorough execution of the company's policies that uplifts public perception of the company [2]. From a conceptual standpoint, this involves recognition of lack of policy implementation [2]. In order to separate the marketing from the action, CSR should be considered a progressive managerial tool that proactively implements policies for the betterment of the company [2]. To understand the ongoing struggle for CSR's authenticity, therefore, we must investigate a historical antithesis of modern CSR, shareholder primacy, as well as its complement, stakeholder primacy.

3.1. Shareholder Primacy

In direct contradiction to CSR is the shareholder primacy model that narrows the fiduciary duty of the management down to its shareholders. The struggle between CSR and shareholder primacy was popularized in the Berle-Dodd debate of the 1930s, during which Adolf A. Berle and Merrick Dodd discussed the degree to which companies should be responsible for public interest. While Dodd argued for "a view of the business corporation as an economic institution which has a social service as well as a profit-making function," Berle, in his publication *The Modern Corporation and Private Property*, emphasized the importance of maximizing shareholder value first and foremost [14]. Shareholder primacy first appeared in Adolf A. Berle and Gardiner C. Means' *The Modern Corporation and Private Property*, which suggested that the primary responsibility of management is its shareholders. Published during the Great Depression, the work argued that the corporate structure of America led to a separation between ownership and control [5]. Management was the de facto controller of the corporation, making shareholders proxy owners. Towards the end of the 20th century, Milton Friedman further endorsed this shareholder primacy model, declaring that "the corporation is an instrument of the stockholders who own it" [11].

3.2. Stakeholder Primacy

Stakeholder primacy extends the responsibility of a company to all its stakeholders. Stakeholder primacy is best seen within the context of the post-Friedman era, in which corporate executives

DOI: 10.54254/2754-1169/132/2024.18436

became increasingly convicted of artificially raising stock prices and deceiving their investors. In trying to meet earnings estimates, executives compromised long-term shareholder value, ultimately contradicting the entire notion of shareholder primacy. Shareholder primacy has also met criticism at a macro level. The finite nature of the "global commons" combined with a heightened anxiety about the planet's future has led to a "tragedy of the commons," an economic theory that suggests unregulated, public resources like land are at high risk of being overexploited [8].

So, it is imperative for companies to seek a new corporate governance structure. One model gaining increasing attention is stakeholder primacy. The Business Roundtable (BRT), a lobbyist organization of CEOs of major American companies, argues that stakeholder primacy contributes to "the future success of our companies, our communities, and our country" [15]. Its 2019 pledge to adopt the model has received over 180 signatures from the country's top executives [16]. However, there are caveats to this model, particularly the lack of quality metrics. CEOs and the BRT have regularly been accused of "empty rhetoric" [17]. Bebchuk and Tallarita [18] concluded that the pledge was "mostly for show," citing its ambiguity and disregard towards shareholders: of the 48 CEOs surveyed, only 2% received approval from shareholders to pledge. Pledging without approval by board members reveals the extent to which the statement truly impacts. Critics argue that the model serves as "unproductive corporate social responsibility" [19]. This argument runs in the same vein as opponents of the business model of the NAC.

4. The Natural Asset Company

In January 2023, the Biden Administration released a "national strategy" whose purpose was to improve environmental-economic decisions. The paper cautioned that current economic metrics like the Gross Domestic Product are "largely disconnected from the natural world" and that nature should be considered an asset on the "national balance sheet" [20]. The NAC, filed by the New York Stock Exchange (NYSE) to appear as a new asset class, quickly positioned itself at the frontier of the strategy. Proposed in late September of 2023, the NAC was praised by the NYSE as the solution to streamlining large-scale conservation efforts. The NAC, as the exchange defines, is a "corporation whose primary purpose is to actively manage, maintain, restore (as applicable), and grow the value of natural assets" [21]. By citing the tragedy of the commons, the exchange argues that the overexploitation of resources results in "ecosystem services…being degraded at alarming rates" [21]. It concludes that a public NAC could conduct "sustainable revenue-generating operations" and direct capital to conservation efforts [21]. In other words, the NAC is a stakeholder-oriented business model prioritizing environment and social responsibility before profits.

Soon after the initial proposal, however, the NYSE withdrew its filing. Attorney General Raul Labrador commended the stock exchange for the withdrawal, noting "this is a huge win for our states and the interests of our constituents as we continue to defend against the inherent dangers of these ESG [Environment, Social, and Governance] schemes and their activist agenda" [22]. In a letter of protest, a coalition of 25 states asserted that the NAC is "just plain bad policy" pointing out several inconsistencies in the proposal. It noted, for example, that terms like "communities," "equitable," "our future," and '"sustainability," are "nowhere defined" in the proposal, leaving the business model ambiguous and uncertain [22].

4.1. The Natural Asset Company and Pseudo Corporate Social Responsibility

The structure of the NAC has been inconsistent and paradoxical. The most salient concerns raised by several states after the NYSE's proposed rule change are: 1) the secession of land to foreign entities; and 2) the commodification of nature. These logical gaps in the business model of the NAC suggest that its SD goals are performative, aiming to capitalize on the rising demand for sustainable

DOI: 10.54254/2754-1169/132/2024.18436

investments. By introducing these types of pseudo CSR models, the NAC has welded CSR into a source of power that can be readily appropriated.

The NAC may be governed by a stakeholder primacy model endowing ownership to all stakeholders, but its slippery clauses on land ownership and national security suggest that control of NAC rests in the hands of majority shareholders. As Spash [23] notes, "in a long capitalist tradition they [owners] seek to profit from the extension of private property rights." At the core of the fight for the NAC is the fight for land–a far cry from social responsibility. Through these pseudo CSR incentives, the NAC further validates the critics of CSR, who argue that "while approval of this trend [CSR] is generally high among executives, suppliers and consumers, CSR initiatives are frequently challenged by stakeholders who view these programs as inauthentic "window dressing" [24]. This window dressing, Adorno cautions, is a blatant attempt at reifying, or legitimizing, pseudo-CSR [25]. CSR, which was once a form of responsible management, has become readily available "by means of control" [25].

The NAC commodifies something that was once considered invaluable: nature. Proponents of the NAC argue that the free-rider problem may give credence to their purpose. The free-rider problem is a market failure that is caused by consumption without contribution. Free-riders benefit from the use of public resources like nature without paying their fair share. And so, the argument goes, the NAC averts this problem by commodifying nature. This argument may appear plausible, but it is founded upon a false assumption: the NAC is capable of generating revenue. While there are several success stories of industries commodifying nature as a conservation effort (e.g. national parks), the NAC incorrectly assumes that the appeal of profit is proportional to the appeal of conservation. Aneel Karnani [26] described this misconception as the "do well by doing good" phenomenon. Companies have a duty to their shareholders to do well, and individuals have a duty to their environment to do good [26]. As a result, there are trade-offs between private interest and public welfare, making the simultaneous pursuit of both unsustainable [26].

4.2. The Natural Asset Company and the Private Interest and Public Welfare Trade-Off

While it is true there are instances in which private interest and public welfare intersect, in the case of the NAC, which must satisfy both its fiduciary duty to its shareholders while also maintaining revenue operations as a secondary objective, there is a clear contradiction. The success of other commodification solutions like the national parks industry lies not in the fact that they reconcile public welfare with private interest, but instead because they have regular federal influence. The invention of national parks was a cross-country effort; the success of parks like Yellowstone is largely attributed to the fact that they were initially property of the public [27]. Though the public acknowledged that the land could eventually be privatized, the role of government in shaping the culture of national parks influenced the present industry. Federal involvement made the land capable of being "held in trust" for the people [27]. By privatizing nature in addition to allowing ownership by foreign governmental entities before domestic, the NAC loses the trust of both shareholders and consumers.

As Karnani [26] observed, much of corporate literature assumes the social responsibility of a business is consistent with its self-interest, a notion that opposes the "very concept of a CPR [common-pool resource]," or public good. The inevitable trade-off between public welfare and private interest concludes that the NAC model does not avoid the tragedy of the commons because of its inability to generate sufficient revenue. To truly be socially responsible, the property rights of nature should not be entitled to large-scale businesses with complex corporate structures, but rather, the government, an entity whose inherent structure is built upon public welfare. Furthermore, CSR is a managerial tool, meaning companies should not implement CSR into their business models; rather, managers should implement CSR at an individual level to influence decision-making.

DOI: 10.54254/2754-1169/132/2024.18436

5. Conclusion

This article presented pseudo CSR through a critique of the NAC. Through the discussion of the various types of corporate governance and their evolution from the late 18th century to the present, we revealed that CSR has become increasingly marketable and ingenuine. We see this first-hand in the recent proposal of the listing of the NAC as a new asset class on the NYSE, highlighting its contradictory mission as a company. The objective of the NAC is to capitalize on the shareholder primacy model, by commodifying nature and persuading investors to invest in a sustainable future. Despite this, they claim their governance model is stakeholder-centric, in which case there is little possibility for any revenue to be generated, and by extension, any possibility for a large pool of investors. "Sustainable revenue generating operations," it follows, are misleading, greenwashing the inherent profit-driven model of the NAC. Companies should avoid amalgamating marketing efforts with CSR operations, so as not to be unconsciously incentivized to achieve publicity before results. Successful examples of this separation are most abundant in small and midsize enterprises, which do not experience the pressure public companies do to consistently demonstrate CSR in a manner that aligns with shareholder expectations. Instead of integrating CSR into the company's business models, employees should incorporate CSR into their codes of ethics and policies, upholding them to a standard of social responsibility within the company.

References

[1] *Sheehy, B. (2015). Defining CSR: Problems and Solutions. Journal of Business Ethics, 131, 625-648.*

[2] *Hatami, A., Hermes, J., & Firoozi, N. (2023). Moral laxity – the cognitive gap between true and pseudo corporate social responsibility. Critical Perspectives on International Business, 19(4), 526-549.*

[3] *Ebner, D., & Baumgartner, R. J. (2006). The relationship between Sustainable Development and Corporate. Corporate Responsibility Research Conference (CRRC).*

[4] *Karnani, A. (2013). Corporate Social Responsibility Does Not Avert the Tragedy of the Commons. Ross School of Business Paper No. 1210.*

[5] *Berle, A., & Means, G. (1932). The Modern Corporation and Private Property. Transaction Publishers.*

[6] *Baden, D. A., Harwood, I. A., & Woodward, D. G. (2009). The effect of buyer pressure on suppliers in SMEs to demonstrate CSR practices: An added incentive or counter productive? European Management Journal, 27(6), 429-441.*

[7] *Manteaw, B. O. (2007). From tokenism to social justice: Rethinking the bottom line for sustainable community development. Community Development Journal, 43(4), 428-443.*

[8] *World Commission on Environment and Development. (1987). Brundtland Report. Oxford: Oxford Univresity Press.*

[9] *Pinchot, G. (1910). The Fight for Conservation.*

[10] *Agudelo, M. A., Jóhannsdóttir, L., Davídsdóttir, & Brynhildur. (2019). A literature review of the history and evolution of corporate social responsibility. International Journal of Corporate Social Responsibility, 4(1).*

[11] *Friedman, M. (1997). Capitalism and freedom. Chicago: University of Chicago Press.*

[12] *Public Broadcasting Service. (2019). Napalm and The Dow Chemical Company. Retrieved December 15, 2023, from https://www.pbs.org/wgbh/americanexperience/features/two-days-in-october-dow-chemical-and-use-napalm/*

[13] *Yoon, Y. (2008). The Effect of Corporate Social Responsibility (CSR) Activities on Companies With Bad Reputations. Journal of Consumer Psychology, 16(4), 377-390.*

[14] *Stout, L. A. (2002). Bad and Not-so-Bad Arguments for Shareholder Primacy. Southern California Law Review, 75, 1189-1210.*

[15] *Harrison, J. S., Phillips, R. A., & Freeman, R. E. (2019). On the 2019 Business Roundtable "Statement on the Purpose of a Corporation". Journal of Management, 46(7), 1223-1237.*

[16] *Paine, L. S. (2024, August 19). The Business Roundtable's Stakeholder Pledge, Five Years Later. (Harvard Business Review) Retrieved August 22, 2024, from https://hbr.org/2024/08/the-business-roundtables-stakeholder-pledge-five-years-later*

[17] *Winston, A. (2019, August 30). Is the Business Roundtable Statement Just Empty Rhetoric? (Harvard Business Review) Retrieved February 18, 2024, from https://hbr.org/2019/08/is-the-business-roundtable-statement-just-empty-rhetoric*

DOI: 10.54254/2754-1169/132/2024.18436

[18] *Bebchuk, L. A., & Tallarita, R. (2020). The Illusory Promise of Stakeholder Governance. Cornell Law Review(Discussion Paper No. 1052), 1-77.*

[19] *Cheng, I.-H., Hong, H., & Shue, K. (2013). Do Managers Do Good with Other People's Money? The Review of Corporate Finance Studies, 12(3), 443-487.*

[20] *Office of Science and Technology Policy; Office of Management and Budget; Department of Commerce. (2023). National Strategy to Develop Statistics for Environmental-Economic Decisions. Washington, D.C.: The White House.*

[21] *Securities Exchange Commission. (2023). Notice of Filing of Proposed Rule Change to Amend the NYSE Listed Company Manual to Adopt Listing Standards for Natural Asset Companies. Washington, D.C. .*

[22] *States of Utah and Kansas; Offices of the Attorney General. (2024). Order Instituting Proceedings .*

[23] *Spash, C. L. (2022). Conservation in conflict: Corporations, capitalism and sustainable development. Biological Conservation, 269, 109528.*

[24] *Skilton, P. F., & Purdy, J. M. (2017). Authenticity, Power, and Pluralism: A Framework for Understanding Stakeholder Evaluations of Corporate Social Responsibility Activities. Business Ethics Quarterly, 27(1), 99-123.*

[25] *Kellner, D. (n.d.). T.W. Adorno and the Dialectics of Mass Culture. UCLA School of Education & Information Studies, 1-22.*

[26] *Karnani, A. (2010). Doing Well by Doing Good: The Grand Illusion. California Management Review, 53(2), 69-85.*

[27] *Nash, R. (1970). The American Invention of National Parks. American Quarterly, 22(3), 726-735.*