

Why Should Companies Care About Social Responsibility: The Business Case

Why are more and more companies of all sizes becoming more concerned about becoming a responsible citizen? For some, the company was born in an era of social responsibility and thus the practice was integrated into the business from the start (Salesforce.com is an example of this). For others, becoming a socially responsible company was a conscious decision. Those companies have been influenced by internal and external stakeholders that requested—or demanded—it.

Realistically, no company will put its financial stability at risk to respond to unreasonable demands. Companies have discovered that there are economic benefits to doing good, both tangible and intangible. Some of the benefits, and the research that backs them up, are:

- **Better reputation**—Increasingly, corporations are trading not on products or services but on their reputations, brand value, goodwill, and intellectual capital. These “intangibles” have an actual numerical value on the company balance sheet. An estimated 53% of the total value of the Fortune 500 companies, worth \$24.27 trillion, is made up of intangibles. And 85% of consumers report that they have a more positive image of a company that helps make the world a better place.
- **Increased employee satisfaction**—With three out of five people reporting that they want to work for a company whose values are consistent with their own, being seen by employees as a responsible company as well as a fair employer helps attract and retain the best talent. Other research shows that socially responsible companies attract and retain quality employees. According to the Center for Creative Leadership, the higher employees rate their organization’s corporate citizenship, the more committed they are to the company. Increased retention results in reduced recruitment and training costs; improved employee morale and productivity also lead to cost savings and increased profitability.
- **More loyal customers**—Customers like to purchase products or services from companies that are like-minded and socially responsible. This is true in both B2C and B2B situations.
- **Better investor relations and access to capital**—Many investors consider more socially responsible companies to be more secure investments. Also, a growing number of institutional investors have some kind of socially responsible investment portfolio. In the U.S., the market for investments with a positive social environmental or human impact is more than \$3 trillion according to Social Investment Forum. In Europe, the number is even higher.
- **Maintaining the license to operate**—Mistrust of corporations is widespread, particularly mistrust of financial services companies in the wake of the economic collapse. Some companies are beginning to feel that the tacit license to operate society grants them may be under threat. CSR consultancy SustainAbility has described social responsibility as “helping to reverse the recent

erosion of trust” in corporate America. Further, the 2015 Edelman Trust Barometer report found that companies that provide both personal and societal benefits “are better positioned to build public support.”

- **Higher profits**—The sum of the above benefits is widely believed to be higher profits. A meta-analysis of multiple studies concluded that “the meta-analytic findings suggest that corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility, is likely to pay off... CSP [corporate social performance] appears to be more highly correlated with accounting-based measures of CFP [corporate financial performance] than with market-based indicators, and CSP reputation indices are more highly correlated with CFP than are other indicators of CSP. This meta-analysis establishes a greater degree of certainty with respect to the CSP-CFP relationship than is currently assumed to exist by many business scholars.” This 2004 study won the Moskowitz Prize for Socially Responsible Investing from the Haas School of Business at UC Berkeley.

For More Information About Implementing Social Responsibility Programs Please Contact:

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