

Business Case for Corporate Social Responsibility

Introduction

What are some of the reasons why a company might choose to implement a Corporate Social Responsibility (CSR) strategy? Most companies subscribe to the notion that robust CSR activities will improve employee satisfaction and attract high quality workers. Some believe that having a positive impact on their surrounding communities will increase customer loyalty. Others insist that CSR activities will improve brand awareness and recognition. Regardless of the underlying reasons behind CSR strategies, most companies would agree that actively engaging in CSR is good for their bottom lines.

Conversely, poorly thought out CSR activities may have unexpected or negative consequences for an organization. CSR programs often require significant allocations of money, time, and human capital. If a company chooses to take a stance on a controversial issue they risk alienating part of their customer base (see the Chik-fil-A controversy [here](#).) Companies must walk a fine line when engaging in CSR activities, especially those pertaining to “hot button”, politically controversial topics. Publicly announcing their values and beliefs to the world can actually alienate customers, and might even lead to negative media attention and company-wide boycotts.

In order to better understand the business case for CSR, you must first recognize how CSR activities influence company operations from the ground up. Let us take a closer look at the impact CSR can have on a company’s reputation, employee management, investor relations, risk management, competitiveness, and profit margins.

Company Reputation

More and more, a company’s reputation and brand value are intrinsically tied to its profit margins. Consumers are increasingly seeking out companies whose business practices and sourcing choices align with their own personal values. These intangibles directly affect where and how customers inevitably choose to spend their money. McDonald’s has been a long-time supporter of the Ronald McDonald House Charities, a non-profit organization that aims to improve access to healthcare, education, and social programs directed at children living in poverty. McDonald’s CSR activities help demonstrate their commitment to improving societal problems while building a kid-friendly, caring reputation.

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On the other hand, neglecting or completely avoiding CSR activities can also have negative consequences. The Coca-Cola Company has been publicly scrutinized for using child labor in its overseas production facilities. While employing children in these foreign countries was not necessarily illegal, it went against American labor standards and led to a tremendous amount of public outcry, significantly tarnishing its company image and overall credibility with many of its consumers.

Employee Management

Companies want to attract and retain high quality employees and managers. More than ever, workers are choosing to join organizations whose values are similar to their own. This is especially true for white-collar workers and skilled laborers in North America. Companies will often go to great lengths to attract and retain these highly competent and talented individuals. Target donates 5% of its income to support education initiatives, sponsor activities promoting the arts, and improve community safety. In addition to their philanthropic activities, they offer a wide-range of employee benefits to workers at all levels including health insurance, retirement, and savings contributions. By offering these benefits, their employees need not rely as heavily on government-sponsored social programs typically offered to those working in retail positions.

Failing to act in a socially responsible manner can increase employee turnover and make it difficult to attract good workers. For example, Wal-Mart has consistently struggled to attract workers after being publicly scrutinized for paying their employees low wages and putting small retailers out of business. Many workers often avoid seeking job opportunities at Wal-Mart, leaving the company with a pool of less talented individuals to fill their ranks.

Investor Relations

CSR activities can have a huge impact on investor relations, potentially diminishing or increasing a company's access to new capital. Individuals often choose to invest in companies that have demonstrated social responsibility in their business activities, believing that these efforts make the companies less risky and more secure in the long run. IBM's history of helping communities around the globe through education and community service initiatives has strengthened investor confidence in the company's reliability and integrity.

On the other hand, not participating in CSR activities can prohibit a company from accessing capital once investors lose trust. Qwest is a great example of a company that lost access to investment capital after its CEO, Joe Nacchio, was accused of corporate fraud stemming from illegal stock sales. As a result of Mr. Nacchio's alleged fraud, the stock price fell from \$60/share in 2000 to just \$2/share in 2002. (Shore, 2007) Investors lost millions of dollars, which further tarnished the company's image and severely limited the amount of investment dollars available for new projects.

Risk Management

CSR initiatives enable a company to effectively manage and cushion its risk portfolio. The Gap was one of the first retailers in its class to provide an annual CSR report to its stakeholders. To everyone's surprise, they had for years donated irregular garments and leftover clothing to underprivileged women in South Africa who were facing economic and social oppression stemming from the apartheid system. The Gap's CSR efforts allowed the company to effectively manage its risks (leftover/unused items), while at the same time alleviating some of the hardship faced by those living under deplorable conditions in the developing world.

On the other hand, British Petroleum (BP) experienced a catastrophic oil spill in the Gulf of Mexico in 2010 which destroyed most of the credibility in its risk management portfolio. Following the disaster, BP sought to improve its tarnished reputation by limiting many of its riskier oil exploration techniques and by conducting a massive community outreach program which highlighted some of their alternative fuel projects. BP has since invested billions of dollars in solar, wind, and biofuel initiatives to demonstrate its commitment to preserving the environment. The jury is still out on whether these recent endeavors are too little, too late for BP's stakeholders.

Competitiveness

A unique CSR program can truly allow a company to stand out ahead of its competitors in the marketplace. The Body Shop, a makeup and beauty accessory retailer is a great example of a company that prides itself on its environmentally friendly products and its ethical practices. The Body Shop's CSR efforts have proven to be a unique selling point for environmentally conscious consumers, a rapidly growing market in the 21st century. In contrast, other US cosmetic companies such as L'Oreal, Mary Kay, and Johnson and Johnson, have previously turned a blind eye to animal testing and other unsavory

product development activities, greatly diminishing their appeal to many American consumers.

Profit Margins

Research indicates a direct correlation between proactive CSR strategies and above-average profit margins. In light of this notion, many companies have adopted rigorous new CSR methodologies as part of their fundamental business strategies. When managed appropriately, CSR efforts can enable a company to gain valuable market shares and increase their long term profitability outlook.

Summary

- Most companies agree that adopting a rigorous CSR strategy is a good business practice.
- Today's consumers tend to seek out products and services that are environmentally friendly, healthy, and socially responsible. Companies whose values align with their consumer demographic will prove more successful in the long run.
- In order to attract and retain high quality employees, companies must be socially responsible and exhibit a strong desire to improve the local communities in which they conduct their business. Companies that underpay their workers and offer little or no employee benefits often face high turnover rates and deplorable company morale.
- Investors often prefer companies that have demonstrated solid CSR practices, believing that these efforts make the investment less risky and more secure.
- CSR initiatives enable a company to maintain risk levels that are acceptable to investors, associations, competitors, and consumers. Risky behaviors can result in a damaged reputation.

References:

Shore, S. (2007). *Ex-Qwest boss Nacchio gets six years in prison*. Retrieved from http://usatoday30.usatoday.com/money/industries/telecom/2007-07-27-nacchio_N.htm

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