



Why Corporate Responsibility Lives *Despite The WSJ Trying To Kill It*

The Wall Street Journal prominently featured [an opinion piece this week](#) challenging Corporate Social Responsibility. The article, authored by University of Michigan business school professor Aneel Karnani, argues that it is “fundamentally flawed” to believe companies have a responsibility to act in the public interest. Professor Karnani takes the position that “in most cases, doing what’s best for society means sacrificing profits.” Since he believes all business decisions should be based on maximizing profits, he warns that CSR is “dangerous,” and “an illusion.”

Karnani’s argument is based on two faulty premises. First, the reality is that Corporate Social Responsibility – properly planned and practiced – can and does drive profitability. Second, the reality is that with corporate sins and secrets spilling onto computer screens, empowering citizen activists, it is in a company’s self-interest to consider the public interest.

At Cone, we call this “Better Business, Greater Good.” And we talk about “Corporate Responsibility” – dropping the word “social” – because key aspects of the strategy also impact economic and environmental business practices.

Here’s a look at some of the specific ways CR helps a company succeed and maximize profits.

Employee acquisition, motivation and retention: Cone’s research consistently shows that prospective employees are more likely to accept a job at a company whose business practices are seen as responsible in their economic, environmental and social impacts. (Ironically, the job-hunting priorities of MBA students at professor Karnani’s own university prove that point in an [Aspen Institute study](#).) Morale is higher and turnover lower in companies with strong CR practices. Higher quality employees and lower recruiting and training expenses support profitability.

Motivating investors and driving stock value: There are demonstrable financial connections between CR activities, share value and profits. A 2009 Thomson Reuters study shows that 82 percent of investors now evaluate environmental, social and governance criteria as part of their investing decisions because they believe these factors impact share value. As a result, not surprisingly, investments in socially responsible mutual funds have almost quadrupled in the past decade. Meantime, a [study by AT Kearney](#) shows that companies committed to sustainability had a 15 percent stronger financial return even in the down economy.

Innovation through engagement: By engaging with non-governmental organizations and other stakeholders on community needs, companies can gain new business insights and innovate products and services leading to increased profits. By [funding hygiene education and helping teach business skills to rural women](#), Unilever saw an opportunity for a new product line, developed new markets and has seen additional profits from reaching 133 million new consumers in six countries.

License to operate: Corporations need support from local governments, community leaders and citizens to effectively and efficiently enter new communities. A track record of responsible business practices, combined with effective communications and stakeholder engagement, helps win that support and drive growth. For example, the attention Starbucks has paid to treating coffee farmers fairly has helped it win acceptance in markets like the UK, where Fair Trade interest is high and where Starbucks has increased its store count more than ten-fold in a dozen years. Another example: by investing in rural water projects, [ITT’s Watermark initiative has created powerful new contacts and built goodwill in strategic markets](#), such as China, where it has high potential for business growth and profit (Cone client).

Reputation and sales: In a wired world, it is critical for companies to communicate about their CR practices. It is a way to positively impact reputation that will protect and enhance sales. Cone's 2010 [Shared Responsibility Study](#) shows that consumers want to engage with companies about social and environmental issues. When that happens, a majority of consumers report that they have a greater sense of loyalty to the company and are more likely to recommend it to others. Marks & Spencer's highly communicated "[Plan A](#)" initiative is a case in point. Launched just three years ago with a promise to invest more than \$300 million on environmental initiatives, the company has become the most reputable consumer brand in the UK according to The Reputation Institute. (To make the story even better, the "Plan A" initiative has become profitable as a result of the efficiencies it identified).

Environmental savings: Beyond Marks & Spencer, there are many examples of increased profits through reducing environmental impacts. But none is more powerful than Walmart, which discovered the issue of sustainability as it explored CR in responses to activist attacks several years ago. Walmart has lessened its environmental impact by revamping energy and transportation practices and compelling changes by suppliers. In the process, Walmart discovered it could save a fortune – so much so that [Walmart now admits](#) it keeps the pressure on as much for the profits as for its image! And there are profits waiting even in places you wouldn't expect. For example, Walmart launched a CR employee initiative called PSP, or "[Personal Sustainability Project](#)," encouraging employees to improve their lives and their community. North Carolina Walmart manager Darrell Meyers promptly suggested turning off the lights inside vending machines in 4,000 Walmart employee break rooms, saving the company \$1,000,000 a year.

Risk management: Corporate Responsibility identifies risk and protects profits. Practiced properly, CR is proactive. It starts with an audit of the societal impact of a company's business practices, including determining how the company is perceived by key constituents. The process brings risks and gaps coming to the fore, which companies can then address before they become recalls, lawsuits or boycotts that drain executive attention, cut revenues and increase costs.

Here at Cone, we spend significant amounts of time working with companies on Corporate Responsibility and Cause Branding strategies and communications. Like professor Karnani, we believe for-profit companies should be in the business of making a profit. But unlike him, we see from experience that profit and the public interest are interdependent. The "formula" varies from one company to another; CR strategy and communication must be customized to the unique nature and needs of each business. But it's the right approach for a company's long-term viability... and its bottom line.

Mike Lawrence

Chief Reputation Officer and EVP

Cone, LLC

617-939-8328

mLawrence@coneinc.com