GOOD FOR BUSINESS

THE BUSINESS CASE FOR SOCIAL BRAND BEHAVIOR

www.FARISYAKOB.com

@FARIS

~~Corporate Social Responsibility~~

STRATEGIC SOCIAL BRAND BEHAVIOR

Cheat Sheet

How Being Good Can Drive Business Success

- Drive shareholder value
- Drive revenue
- Improve operational efficiency
- Increase access to capital
- Attract customers
- Drive brand value and reputation
- Increase attraction and retention of talent
- Manage risk profile
- Increase innovation

Precis

[Source: GapingVoid.com]

In an increasingly transparent, connected world, there have been numerous cries over the last decade for companies to channel their energies around a point of view that informs their actions in the world.

Mark Earls - Welcome to the Creative Age [2002]

"Put really simply, the Purpose-Idea is the "What For?" of a business, or any kind of community.

What exists to change (or protect) in the world, why employees get out of bed in the morning, what difference the business seeks to make on behalf of customers and employees and everyone else?

BTW this is not "mission, vision, values" territory - it's about real drives, passions and beliefs.

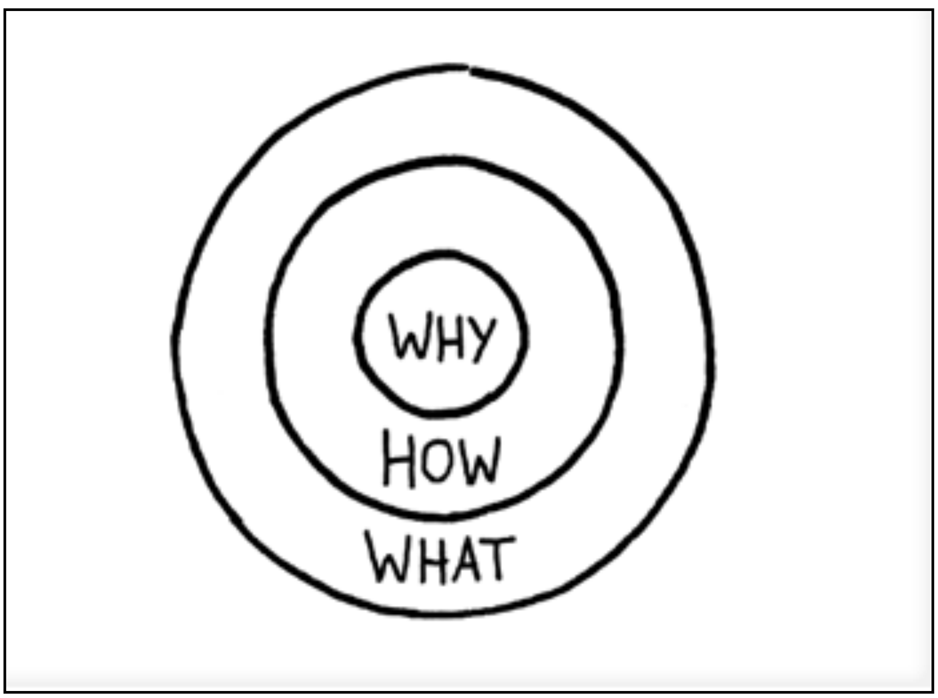
The stuff that men in suits tend to get embarrassed about because it's personal.

But it's the stuff that makes the difference between success and failure, because this kind of stuff brings folk together in all aspects of human life".

This idea has more recently become culturally salient again, expressed in various ways.

Simon Sinek - Start With Why [2012]

"People don't buy what you do, they buy why you do it."



[Source: Startwithwhy.com]

Gareth Kay [2009]

"Brands will be built on cultural and social missions, not commercial propositions."

A number of very successful companies, founding in the last 15 years, have been built around this thinking.

Zappos - Delivering Happiness.

Google - Organizing the World's Information [while not being evil]

However, industrial age companies, even hugely successful ones, have been less able to implement this kind of approach.

This is primarily because it is, in some ways, antithetical to the mandates of industrial, financially driven, organizations.

This is because, the last time this set of ideas gained salience was at the end of 1960s, an inevitable product of the mood of that decade, and as it filtered out of sub-cultures and into business, they were essentially dismantled by economists, exemplified by Nobel Economics laureate Milton Friedman.

The Social Responsibility of Business is to Increase its Profits
by Milton Friedman

When I hear businessmen speak eloquently about the "social responsibilities of business in a free-enterprise system," I am reminded of the wonderful line about the Frenchman who discovered at the age of 70 that he had been speaking prose all his life.

The businessmen believe that they are defending free enterprise when they declaim that business is not concerned "merely" with profit but also with promoting desirable "social" ends; that business has a "social conscience" and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers.

In fact they are–or would be if they or anyone else took them seriously–preaching pure and unadulterated socialism.

Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.

The discussions of the "social responsibilities of business" are notable for their analytical looseness and lack of rigor.

What does it mean to say that "business" has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but "business" as a whole cannot be said to have responsibilities, even in this vague sense.

{Well, that isn't exactly this case anymore, as, in some circumstances, corporations do have personhood, specifically when using the First American of the US constitution to protect the 'free speech' of political expenditures.

But, they remain, to Milton's point, artificial.}

What does it mean to say that the corporate executive has a "social responsibility" in his capacity as businessman?

If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers. For example, that he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price in crease would be in the best interests of the corporation.

Or that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment.

Or that, at the expense of corporate profits, he is to hire "hardcore" unemployed instead of better qualified available workmen to contribute to the social objective of reducing poverty.

In essence, his point, and the point that economics has repeatedly made, since Adam Smith's Invisible Hand and Mandeville's Fable of Bees, is that the economy creates the greatest good, the greatest value, when the entities within operate solely for their own benefit.

In fact, as the title of Milton's incredibly influential essay points out:

"The social responsibility of business is to increase its profits"

"there is one and only one social responsibility of business–to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

The challenge then, is that having 2 masters, Mammon and society, creates costs, not profits, for the shareholders who ultimately employ and control businesses.

This presents an intractable challenge to large, publicly traded companies, when faced with the challenge of behaving as responsible social entities. It's simply not what they exist for and, worse, it betrays the trust placed in them by capital by not maximizing returns.

So, as is usually the case, sides were drawn in contradistinction, and never the twain shall meet.

This is rarely helpful, in any sphere.

You need only look at recent US politics to see that.

As a culture, we are intellectually wed to binary oppositions.

This is an historical impact of being intellectual descendants of Hellenistic culture, where philosophy flourished and spread, and formal logic was abstracted to provide a framework for thought.

Logic is predicated on a single, simple thought: what can be properly called true or false?

If this system is to work, something can either be, or not be, but not both.

Binary thinking is built into our cultural operating system, in a way that is not true in Eastern cultures that unite things in endless spectra, resolving contradictions through metaphor and mysticism.

This counterbalanced the emergence of logic, which also happened independently in India and China.

Greek culture had a similar counterbalance - *mythos,* the rich culture of myths and legends. However, Western modernity is "the child of logos"[1] [the opposite of mythos in the Hellenistic tradition, it represents science and facts]. Science became the dominant paradigm for understanding the world. But logos alone is unable to give us a sense of significance – it was myth that gave life meaning and context, because our experience of reality simply isn't binary.

Despite that, partisan thinking now cripples US politics, and drives debates to polarized positions across all fields of intellectual and social endeavor.

The argument of ethical corporate behavior takes similar sides.

---

[1] [1] ***A Short History of Myth****, Karen Armstrong. Pg. 119*

The solution, then, surely, is simply to square the circle, and present a business case, in financial and strategic terms, palatable to predictably irrational investors, that demonstrates why ethical, socially responsible business isn't a cost, but a driver of increased returns and profitability.

BEING GOOD IS GOOD FOR BUSINESS

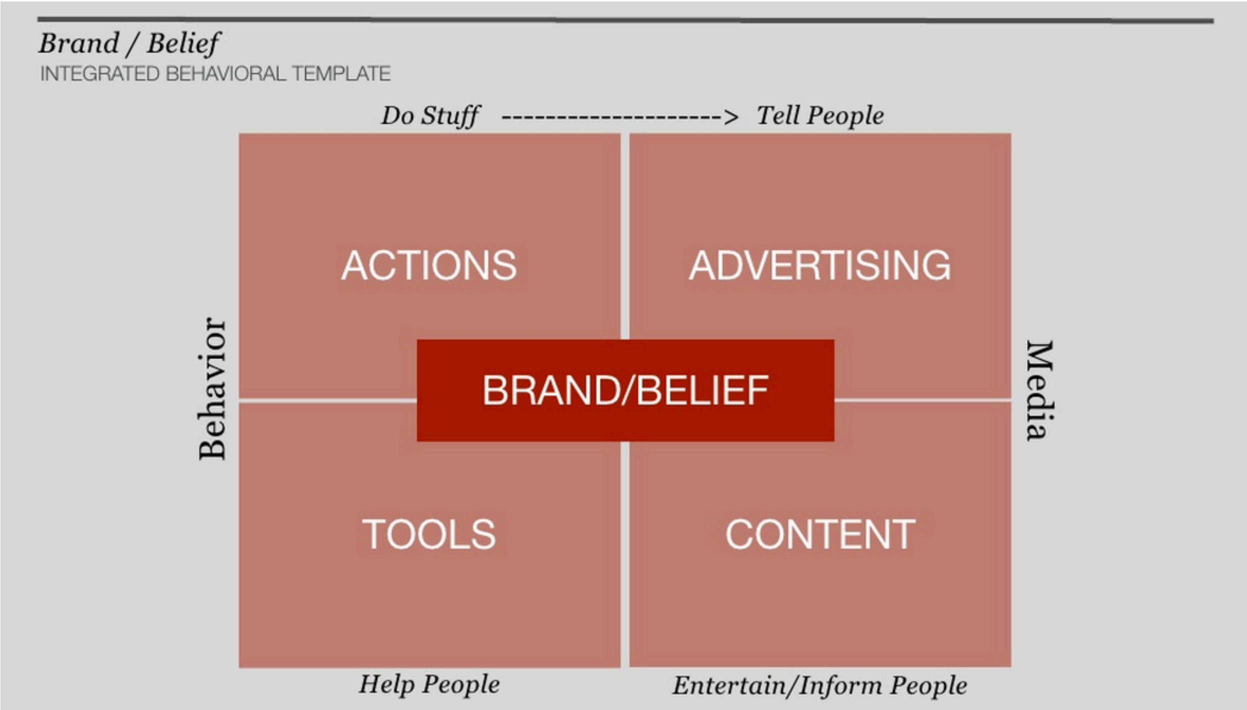
This kind of business strategy is usually represented as corporate social responsibility, which de-marks it as a cost centre within a corporation.

Corporate social responsibility should properly be understood as social brand behavior: a strategically lead managerial function that generates value for shareholders and stakeholders through operational innovation designed to manage and improve an organization's social and environmental impact.

Social brand behavior is increasingly important in an era of growing transparency, when every action of a company may be scrutinized and thus there is a corresponding heightened interest in the role of business in society.

Being Good is a strategic point of view that encompasses related corporate social responsibility and cause marketing, whilst driving it operationally throughout an organization.

Driven by an understanding of the relationship between the needs of the widest group of *stakeholders* – society at large – and the commercial imperative to generate profit and reward *shareholders* adequately, being good is a strategic brand behavior and tool that can create and maintain sustainable competitive advantage over corporations adhering slavishly to the incorrectly established dialectic of profits versus social behavior.



[A simple model that highlights the role of the brand as an expression of a core belief that impacts every element of corporate behavior.]

The generic business case that follows highlights 9 ways in which social brand behavior can impact financial performance over the short and long term.

It is an attempt to ground social principles in purely economic terms, and provide a foundation for conversations with financially trained C-Suite on their own terms, in their own language, with each point supported with financial evidence.

It is neither exhaustive nor definitive, but hopes to begin a conversation that brings together different points of view, rounding the edges of the square.

How Being Good Influences Business Success

1 Shareholder value

Long-term shareholder value is driven by a number of related aspects directly affected by ethical brand behavior:

- Brand-value & reputation
- Customer attraction
- Risk profile
- Human & intellectual capital

A De Paul University study found that *Market Value Added* for ethically committed companies was 2.5 to 3 times higher than peers. [2] [3]

Analysis of over 50 published studies on corporate social performance and corporate financial performance over 30 years finds an unambiguous positive relationship.[4]

Business in the Community states that 78% of senior European business people believe that integrating responsible practice makes companies more competitive, and 76% say that CSR can promote innovation and creativity.[5]

2 Revenue

A company's strong ethical stance can increase revenue via:

- Increased customer trust and loyalty
- Increased employee satisfaction and productivity

---

[2] Verschoor, C: Corporate Performance is Closely Linked to a Strong Ethical Commitment, De Paul Univeristy, 1999

[3] Verschoor, C: A Study of the Link Between A Corporation's Financial Performance and its Ethics Business and Society, 1998

[4] Orlitsky, M, Schmit, F, Reynes, S: Corporate Social and Financial Performance: A Meta-Analysis, Organisation Studies Vol 24, Issue 3, 2004

[5] Business in the Community: Fast Forward, 2002

Between 77% and 88% of consumers are more likely to buy from a good corporate citizen [6] [7]

3 Operational efficiency

Employee productivity can be driven by:

- Positive workplace atmosphere
- Competence and motivation through training opportunities

At Security Benefit Group, employee turnover fell from 22% to 7% in five years as a consequence of its company volunteer program, while income generated per employee jumped from $49,000 in 1990 to $79,0000 three years later.[8]

4 Access to capital

Perceptions of unethical behavior can affect financial markets' confidence in a firm.

Transparency and openness will provide sources of capital with more information, reducing the risk profile and increasing a lender's confidence.

For 79% of fund managers and analysts surveyed in 2003, the management of social and environmental risks has a positive impact on a company's market value in the long term.[9]

Over 70% of CEOs surveyed by the World Economic Forum believe that mainstream investors will have an increased interest in corporate citizenship issues.[10]

---

[6] Fleishman Hillard: Consumers Demand Companies with a Conscience, 1999

[7] Walker Research, Survey of 1037 Households, 1994

[8] Business for Social Responsibility Resource Centre www.bsr.org

[9] Investing in Responsible Business: The 2003 Survey of European Fund Managers, Financial Analysts and Investor Relations Officers, 2003.

[10] Why Global Corporate Citizenship Matters for Shareholders: A Survey of Leading CEOs, (2003)

Socially responsible investing (SRI) is on the increase. In the future the application of social/environmental screens will become the norm rather than the exception.[11]

5 Customer Attraction

A positive increase in customer loyalty has been demonstrated for companies with a reputation for superior ethical behavior.

86% of individuals surveyed indicated that, when forming a decision about a product or service, it is important that a company shows a high degree of social responsibility[12].

In particular, consumers expect transparency, honesty and humility.[13]

6 Brand Value and Reputation

Ethical behavior builds stakeholder trust, a necessary component of a strong corporate reputation, which in turn attracts customers, employees and investors.[14] Unethical behavior can destroy trust and reputation.

A DePaul University study has found that the average reputation score for a company with a strong commitment to business ethics was between 4.7% and 6.7% higher than for companies without this commitment.[15] [16]

> "Remember that the company is the brand. Customers are looking through the products to your values and how you do business. Today, the difference between similar products may be *corporate reputation*." [Source: Fastcompany.com]

---

[11] SustainAbility (Tomorrow's Value): Buried Treasure – Uncovering the Business Case for Corporate Sustainability, 2003

[12] Mori Report: The Public's View of Corporate Responsibility, 2003

[13] Creyer, E & Ross, W: The Influence of Firm Behaviour on Purchase Intention: Do Consumers Really Care About Business Ethics? The Journal of Consumer Marketing, Vol. 14, no. 6, 1997

[14] Alsop, R: The Best Corporate Reputations in America, Wall Street Journal, 23 Sept, 1999

[15] Verschoor, C: Corporate Performance is Closely Linked to a Strong Ethical Commitment, De Paul Univeristy, 1999

[16] Verschoor, C: A Study of the Link Between A Corporation's Financial Performance and its Ethics Business and Society, 1998

7 Human and intellectual capital

Clear ethical principles are associated with more confident, productive and loyal employees. Community activities drive recruitment, retention, and productivity through engagement, empowerment and learning opportunities.

The 1999 McKinsey/Business Ethics study finds that employees are more likely to be truly loyal when they believe their workplace has ethical practices. In contrast, employees with negative views of workplace ethics are more likely to be trapped (and thus unproductive) or at risk of defecting.[17]

97% of MBAs from 11 leading business schools were willing to forgo an average of 14% of their expected income to work for an organization with a better reputation for corporate responsibility and ethics.[18]

8 Risk Profile

Investors see CSR as a major indicator of a firm's exposure to risk. Increasing speed of information coupled with greater stakeholder empowerment have increased scale and immediacy of opportunities and threats.

An ICF Kaiser study of 330 companies within the S&P 500 found that a 50% improvement in environmental management systems and environmental performance results in a 13.2% decrease in Beta, a measure of sensitivity of stock used by analysts.[19]

A McKinsey Survey indicated that 80% of Global CEOs expressed a clear need to manage both the risks and opportunities of the changing role and the responsibility of business in society.[20]

---

[17] Chambers, E, Foulon, M, Handfield-Jones H, Hankin, S & Michaels, E: The War for Talent, McKinsey Quarterly no. 3, 1999

[18] MBA graduates value ethics higher from money, Business Respect newsletter No. 77, 29 Jul 2004

[19] Ameer P, Feldman, S, and Soyka, P: Does Improving a Firm's Environmental Management System and Environmental Management Performance Result in a Higher Stock Price? IFC Kaiser, November 1996

[20] McKinsey Quarterly: CEOs as Public Leaders, 2006

9 Innovation

Superior ethical performance is associated indirectly with innovation through:

- Employee engagement/empowerment through training and development opportunities.
- Openness to outside influences, exposing a firm to new ideas and ways of thinking.

Between 2000 and 2005, Hewlitt-Packard's 'World e-inclusion' programme' saw it sell, lease or donate $1bn in HP products to developing countries.

This ambitious program aims to improve the lives of the world's poor through sustainable business ventures, while providing powerful market opportunities for HP.[21]

[21] http://www.hp.com/e-inclusion/en/index.html