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The Debate

Companies worldwide are putting increasing emphasis on corporate social responsibility (CSR). But can a caring approach be profitable? And, is ethical business an achievable ideal?

Ron Robins

Robins argues that CSR fosters good business relationships and is vital for healthy financial performance too

Just as strong ethics are necessary for beneficial relationships with friends and family, so they are vital for driving a company's long-term financial performance. A company's strong ethical culture equates with honesty, respect for employees, clients and shareholders alike.

I began to understand the value of ethics in company affairs more than 40 years ago. As a financial analyst for a Canadian investment management firm, I saw that companies with an ethical corporate culture appeared to have above average profits. Over time, this "ethical culture" became identified and branded as corporate social responsibility (CSR). However, my belief that companies with strong ethics have higher profits was not academically confirmed until 2004.

That research, conducted by the University of Iowa, found a significant positive association between corporate social performance (CSP) and corporate financial performance (CFP). It also discerned a virtuous circle whereby CSP increased CFP, then CFP increased CSP, and so forth.

As an analyst, I know that the calibre and tenacity of management and workforce are probably the most important determinants for corporate success. And companies with good reputations are likely more successful in attracting them, as the findings in a 2013 CR Magazine & Allegis Group Services survey illustrates. Of 1,010 US adults surveyed, "69 per cent of Americans would not take a job with a company that had a bad reputation, even if they were unemployed".

Another factor I have observed is that robust CSR policies often grant firms a lower cost of financing, with investment in good employee relations, environmental policies and product strategies rewarded with a reduced cost of equity.

Strong ethics and CSR positively influence supplier relations, too, and so help maximise profits. It has been observed that the quality of a firm's network partners can decline after the commission of an unethical act. Equally, litigation costs resulting from bad ethics can destroy profits. This has been evident for banks in recent years. My view is that these legal penalties have been insufficient to date. But there is hope of further substantial justice forced by markets.

Some would argue that a focus on ethics can actually impair a company's profitability. But a study published by the US National Bureau of Economic Research in 2011, revealed something really fascinating. It found that out of 3,000 publicly traded companies, the more a company is corporately "irresponsible" (might equate with being unethical) the more it tries to be corporately socially responsible.

If CSR activities were not beneficial to corporate finances, then why would irresponsible companies turn to CSR? And why do most large public companies today engage in CSR? Because they believe that CSR enhances reputation and improves corporate performance and profitability.

Thus, I predict ever-higher ethical and CSR standards for companies everywhere. Furthermore, companies will need to issue standardised and independently audited CSR reports to meet the demands of their stakeholders, including shareholders and stock analysts who increasingly value this information. Everyone will be able to evaluate the effectiveness of a company's ethics and CSR activities as they relate to its operations and profitability.

We see that a strong culture of ethics – required for successful personal relationships – similarly benefits corporate profitability in many ways. This includes

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attracting and retaining a loyal workforce, optimising a firm's reputation, reducing a company's cost of equity, enhancing supplier relations, and mitigating litigation and associated costs. Yes, higher corporate ethics is a requirement for all companies interested in driving their financial performance. And it is a caring capitalism.

About the author: Ron Robins, MBA, is a former investment analyst and an expert in ethical finance. He is founder of the website Investing for the Soul

Mats Lingblad

Lingblad suggests that CSR means different things in different countries, and asks if it should even be part of a company's obligations

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The most socially responsible act a company can perform is to hire people to develop and manufacture useful products without breaking any laws. Beyond this, does a company have additional responsibilities? Many argue that companies should go beyond scope of the law and take on corporate social responsibility in areas as diverse as the environment, charitable donations and the protection of employment opportunities. In the academic debate, we sometimes hear that it is good for a company's profitability to engage in CSR activities. Many empirical studies have been conducted, but the results are often inconclusive.

It is often companies with good R&D and human resource management that also spend on CSR activities. However, irrespective of the final verdict, this debate is a sideshow. Social responsibility should be about what is right to do and not about what is profitable to do.

CSR is problematic from a societal perspective. I am considering activities companies engage in over and above those needed to produce useful products.

First, there is "value disagreement". There is surprisingly little agreement between countries of what is considered socially responsible. Business and economics is just one dimension of society. Other dimensions such as government, science, religion and morality are more suited to determine what should be valued in a society. Over time, different countries create different laws and social norms.

Multinational companies should be good citizens and follow the laws and social norms in the countries in which they are present and they should do this because it is right, not because it is profitable. Over and above this role, multinational companies should leave it to the host societies to work out what changes in laws and norms are needed.

Second is the issue of window dressing. Even if we were to accept that companies should actively influence a society's laws and norms, there is a major conflict of interest. Companies might be interested in CSR to become more profitable.

Some research shows that companies that sell to consumer markets can create more loyal customers if they invest in CSR. It is not clear that it really is socially responsible to charge higher prices because a company has created an image of spending on CSR.

Other research has shown that companies engaged in lawsuits increased their expenditure on CSR to look better in the eyes of external stakeholders. In fact, substantial investment in CSR has been described as an insurance policy that can be used as ethical leverage whenever the company does something bad.

In an increasingly global world, the problems of value disagreement between different countries will become more severe. The Fortune Global 500 already has multinationals from 36 countries represented. Consider the conflicts of having CSR initiatives with conflicting values influencing laws and social norms across the world. If executives are

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genuinely interested in spending more of their time on social responsibility, they should become social entrepreneurs, legislators or members of a charity. Otherwise, corporate executives are most socially responsible when they focus on developing and manufacturing useful products without breaking any laws. V

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