The virtuous circle of social responsibility

According to a study conducted this year by Duke University of over 1,100 CFOs globally, over 60% of them believe that social responsibility has become an important strategic issue for their businesses. How, and to what extent, does this new approach transform their operations?

Robert Eccles and George Serafeim, both professors at Harvard University, and Ioannis Ioannou, professor at London Business School, studied the organizational impact of social responsibility policies. Relying on the analysis of 180 firms, the three researchers showed in a recent study that those organizations which voluntarily adopted and maintained a policy of sustainable development from the early 1990s distinguished themselves from the rest (“The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance,” Harvard Business School Working Paper). According to the authors, the sustained anchoring of social responsibility at the heart of these organizations’ cultures contributed to deeply changing their functioning. In fact, they modified their compensation schemes to reward each person’s contribution to not only financial performance, but also to the company’s social and environmental performance. The culture of sustainable development in these firms goes hand in hand with their capacity to take into account the long term in their decisions and the commitment to transparency in communicating their performance. These organizational characteristics have reinforced their good reputation, which has granted them a privileged access to capital which is necessary for their development. Social responsibility policies have thus had a virtuous effect on the whole of the businesses’ performance, including their finances.

According to the three academics, to succeed in implementing such policies, managers must be able to integrate them into the global strategy of their business. To do this, they must engage their employees collectively to reflect deeply on the ways in which their activities should be rethought in order to achieve not only their financial objectives, but also new social and environmental objectives.

What is the takeaway from this work? Sustainable development policies can be financially profitable for businesses. This is a strong argument for businesses to adopt them. Yet, seeking to justify them through the profits they generate, leads to, at least partly, finding oneself in contradiction with one of the founding principles of social responsibility, which is the aim to overcome exclusively financial goals. The issue for businesses is not only an economic one, it also relates to their legitimacy in modern society. Younger generations have different expectations from previous ones. One after the other, studies show that those under the age of 40 are prepared to pay more to support sustainable development and that they aspire to work in a business in which social responsibility is not simply a marketing tool, but a real commitment. Learning to better integrate sustainable development in all aspects of their activities is thus a major issue for organizations, if they wish to please the consumers of tomorrow and to attract young talent.