Why Social Responsibility Needs To Be More Than Just A Fad

By Wally Hopp

Positive business isn't sexy. It's not exotic or clever or inspirational. In spite of this—or indeed because of this—it may be the most important management concept you've never heard of.

We are in the midst of an infatuation with corporate social responsibility (CSR). Firms are naming chief sustainability officers, business schools are launching social impact centers, and the media is filled with articles—you're reading one now—on the social role of business. Popular books like Cause for Success are even touting social responsibility as a path to business success with slogans like "how solving the world's problems improves corporate health, growth, and competitive edge."

All this enthusiasm is great—who doesn't want business to help make the world a better place? But it is also dangerous.

Contending With The Zeitgeist

CSR claims like the above quote smack of the oversimplification and overselling that characterize a fad. And all fads fade. But while many fads die out completely, some morph into mainstream thinking once they shed the hype. For example, the exotic Japanese Just-in-Time (JIT) system, which was touted as a cure-all for manufacturing in the 1980s, faded when the panacea promises failed to pan out, but re-emerged as the far less sexy "lean" in the 1990s, and is now part of standard business practice.

In a world in which corporations are rich and governments are poor, the idea that business can play a positive role in society is simply too appealing to allow it to perish as a mere fad. Academics are using positive business to describe what we hope will be the unsexy landing place for this important idea when the bluster and reckless talk have subsided. Toward this end, we define positive business as practices that enhance the welfare of all a firm's stakeholders—customers, employees, shareholders, and community members.

Applying the term "positive" to practices, rather than firms or individuals, is critical because it is precisely the current tendency to label entire firms as "responsible" that has led to the one-size-fits-all oversimplification of corporate social responsibility.

Quantifying Benefits

In addition to giving managers false hope that they can easily copy the successful social practices of other firms, this perspective has led academics to produce dozens of studies on whether or not corporate social responsibility is profitable—a fascinating but nonsensical question. Social responsibility is too broad, too multifaceted, and too integrated with other business practices to even define clearly.

Even if it could be defined, why would we expect every incarnation to be profitable? We don't hold other facets of management to this standard. No one asks whether marketing is good or operations management is profitable. Instead we ask whether specific practices are effective in particular contexts. We need to ask the same of positive business practices.

When we do, the questions become more complex. Strategy and execution matter. And we must make choices.

For example, energy efficiency could be a positive business practice. Reduced carbon emissions benefit society, while the cost savings could benefit customers, employees, and shareholders alike. But whether these savings are actually shared among the stakeholders is a management choice. In many firms,

managers fixated on short-term financial results would choose to direct the lion's share of the benefits to shareholders, through stock buybacks or increased dividends. But other choices are possible and can be profitable.

Consider Costco. Widely lauded as a model of social responsibility, Costco is known for offering higher wages and more generous benefits than most of the retail industry. Costco is also rated highly as a workplace, leads the specialty retail segment in customer satisfaction, and has substantially outperformed its competitors in the stock market over the past decade.

The fad version of the Costco story is that this success is the result of employees inspired by high pay. The real story is that Costco adheres rigidly to a low-price strategy, supports this with a host of productivity enhancement methods (including offering a limited line of products in bulk to reduce inventory costs, delivering products in efficiently packaged shipping pallets directly to the floor to reduce handling costs, and having a sophisticated replenishment system that ensures stock availability with very low warehousing costs), and, with the help of a skilled and motivated workforce, executes these well.

The lesson here is that the benefits generated by a firm are not a fixed pie to be divided among the stakeholders. Instead the stakeholders collectively determine the size of the pie.

In theory, happy community members enhance the firm's brand, which, combined with efficient production of quality products by happy employees, lead to happy customers who drive sales that produce profits that make for happy shareholders. But in practice these synergies are complex and market specific. Happy communities alone don't produce supportive brand buzz. They must be engaged through a well-crafted business model and effective marketing practices. Happy employees don't make great and efficient products by themselves. They need support from sound design processes and operations systems.

The positive business view forces managers and scholars to focus on the full range of stakeholders, as well as the complex ecosystem in which they interact. This won't make addressing the world's grand challenges through the power of business easy. But it will make it possible. And all progress starts with the possible.

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