

What really drives value in corporate responsibility?

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Few companies are clear about how investing in social initiatives will change stakeholder behavior or the harm a bad strategy can cause.

Now that stakeholders—including consumers, investors, and employees—pay increasing attention to the social and environmental footprints of business, corporate-responsibility efforts have moved into uncharted management territory. We see companies reengineering supply chains to make them “greener,” supporting social causes through volunteer programs for employees, or lobbying for human rights in far-flung corners of the globe.

As this tide swells, many executives are left with the nagging sense that such investments rest on a shaky understanding of how corporate responsibility creates value, both for their companies and for society. Some investments, of course, produce immediate and quantifiable gains, such as those from recycling or from manufacturing processes that save energy. But often, social investments are expected to yield longer-term benefits as engaged consumers step up their purchases, a broader investor base develops, or new talent flocks to a company’s recruiters.

In these more ambiguous cases, how is a manager to know whether stakeholders will indeed respond positively? Our research, described in greater detail in our recent book, *Leveraging Corporate Responsibility: The Stakeholder Route to Maximizing Business and Social Value*,¹ suggests that while stakeholders’ interpretations of corporate responsibility are multifaceted and far from uniform, it is vital that managers avoid creating an impression that such activities are crowding out core business priorities. In fact, some well-meaning corporate-responsibility activities can actually harm a company’s competitiveness.

Consider an experiment. We had consumers rate their own purchase intentions for computer accessories after learning about a company’s product quality and corporate-responsibility activities. Descriptions of the company as having high product quality had a modest positive effect, but for a company with low product quality, the consumer’s willingness to make a purchase actually *decreased*

when it engaged in otherwise positive corporate-responsibility activities (exhibit). In this second case, consumers were wary of these activities, thinking that the company ought to give precedence to product quality. Related research shows a similar dynamic at work with investors: highly innovative Fortune 1000 companies derive greater financial returns from their corporate-responsibility activities than their less innovative counterparts do.

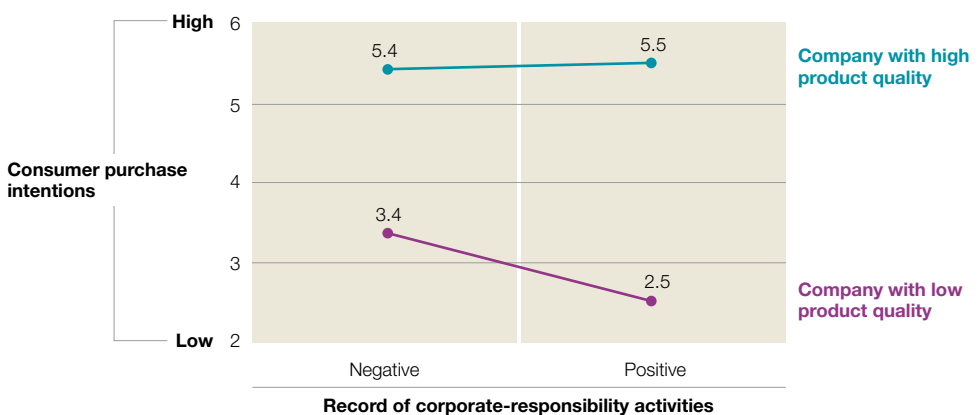
By following a few basic principles, leaders can increase the likelihood that stakeholders will interpret

corporate-responsibility initiatives more accurately and thus more positively.

Don't hide market motives. Stakeholders are remarkably open to the business case for corporate responsibility, as long as initiatives are appropriate given what stakeholders know about the business, and as long as companies genuinely pursue and achieve the accompanying social value. Companies should understand that they can pursue profitable core business and corporate-responsibility objectives in tandem, without trade-offs.

Low-performing companies may reap negative returns from their corporate-responsibility activities.

Example of computer accessories purchase decision; on a scale of 1 to 7, where 1 = not at all likely to buy and 7 = very likely to buy



Source: CB Bhattacharya and Sankar Sen

Serve stakeholders' true needs.

Consumers are drawn to products that satisfy their needs. Likewise, stakeholders are drawn to companies whose corporate-responsibility activities produce solid benefits, which can be tangible (such as improved health in local communities) or psychological (for instance, volunteer programs that help employees better integrate their work and home lives). Before investing in corporate responsibility, however, managers need to set clear objectives that companies can meet and then, ideally, create programs together with key stakeholder groups.

Test your progress. Corporate responsibility acts as a conduit through which companies can demonstrate that they care about their stakeholders. A company should assess its initiatives regularly to ensure that they foster the desired unity between its own goals and those of stakeholders. Calibrating strategy frequently improves the odds that corporate responsibility will create value for all parties. ○

¹ CB Bhattacharya, Daniel Korshun, and Sankar Sen, *Leveraging Corporate Responsibility: The Stakeholder Route to Maximizing Business and Social Value*, New York: Cambridge University Press, November 2011. Our research examines the two most important stakeholder groups—consumers and employees—to understand how and why they react to corporate-responsibility initiatives. The insights we gained helped us show how companies can develop, implement, and evaluate social-responsibility programs that foster stronger relationships with stakeholders and thus create value for them and companies alike.

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