Profits and purpose

Why CEOs should embrace greater corporate social responsibility **Interviewed by Leslie Stevens-Huffman**

CEOs who have been perplexed about the tarnished image of corporate America now have the opportunity to drive profits and positively impact the world. Often referred to as the fourth sector, the for-benefit business model is composed of organizations driven by both social purpose and financial promise that fall somewhere between traditional companies and charities. The success of this hybrid model is behind the emerging trend toward greater social responsibility and purpose in all companies, placing competitive pressure on CEOs to reinvent their company's mission and vision.

"The emergence of the for-benefit business model and the rise of corporate scandal is really a call to action for CEOs," says Rick Smetanka, partner with Haskell & White LLP. "There has been a growing discussion and debate in this country regarding the role that businesses play in our society; many believe that corporations are soulless and exist only to generate financial profits for shareholders. The next generation CEO will embody the notion that profits will be earned by prioritizing social responsibility."

Smart Business asked Smetanka about what differentiates the for-benefit model and how CEOs can reposition their companies to profit through social responsibility.

Rick Smetanka
Partner
Haskell & White LLP

What are the drivers influencing greater social responsibility?

Studies show that our country's faith in corporate leadership is at an all-time low. Memories of Enron and WorldCom and the disappointing choices made by business leaders, such as Bernie Ebbers and Martha Stewart, are behind the tarnished perception, which is causing many business leaders to reexamine their role within their own organizations and, more importantly, the meaning of their business to society at large. Without an action plan, CEOs may find themselves in a position like Wal-Mart, fighting an uphill battle against poor public perception and stagnant valuations that have fallen behind their forward-thinking competitors.

What is a for-benefit business?

Some for-benefit companies have been around for a while and are well recognized, such as Newman's Own, and Ben & Jerry's was a for-benefit company before it was acquired. Many of these firms are very successful because their customers identify their brand with their cause. Although the business concept is still evolving, the trend toward for-benefit corporations, also known as B corps, is growing. Even Wall Street investment bank, Goldman Sachs has a team that analyzes the environmental, social and management responsibilities of these new companies in much the same way a traditional financial analysis is conducted.

Essentially, the for-benefit company recognizes the generational shifts that are occurring in our society today and uses those shifts to create a competitive advantage and drive profits. In a country characterized by aging demographics and a young work force, for-benefit companies appeal to both consumers and employees through a commitment to making a difference in the world. These types of businesses are where consumers will want to shop, where employees will want to work and what communities will embrace.

What steps should CEOs take to focus on social responsibility?

First, give customers reasons to think about your organization as more than a commodity. The for-benefit model creates a greater bond between customers, employers and suppliers, and everyone understands the larger objectives. Many of these for-benefit companies use their social objectives as their primary marketing focus, which gives them an identity and establishes their values in a public forum.

Also, adopt a stakeholder model rather than a shareholder model. The shareholder model emphasizes profitability over responsibility and all business activities focus on driving returns to the company's owners, while the stakeholder model aligns the interests of customers, vendors, employees and community to benefit everyone. Today, leaders and companies that practice a stakeholder model may enjoy a competitive advantage over their peers.

How should CEOs manage employee and supplier relations?

Become an employer of choice. Trader Joe's and Costco are known for how they treat staff, and treating employees well is part of social responsibility. Training, good compensation and employee advancement programs will drive a socially responsible corporate culture as well as attract the best and the brightest people. Engaged employees will be more innovative and productive than their peers, and CEOs will likely earn a strong return on their investments. Treat suppliers as partners and contribute to their success through collaboration and by providing value-added advice. In turn, suppliers will be motivated to provide high-quality goods and services at fair prices.

What else should CEOs do?

Be an active participant in the community and make sure your corporation stands for something besides profits. Many organizations, such as Patagonia, donate a percentage of their revenue to charities and challenge their customers, vendors and business partners to do the same. By supporting the community and specific social initiatives, CEOs can lead their organizations to a higher level of profitability and social responsibility. <<

RICK SMETANKA is a partner with Haskell & White LLP. Reach him at (949) 450-6313 or rsmetanka@hwcpa.com.