Sustainability: Benefits of Social Responsibility to Brand Value & Profit

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ABSTRACT

The concept of Sustainability has emerged as a framework for businesses to address the sometimes competing demands for environmental protection, economic development, and social responsibility. However, the private sector still narrowly interprets Sustainability as environmental stewardship rather than a model for improving alignment with its stakeholders and benefits to the organization through improved product design, enhanced reputation, brand equity, political support, and, ultimately, profit. In a marketplace where products are separated by small technical differences, branding has become the true differentiator. Companies that integrate and communicate the value of socially responsible practices to multiple stakeholders, including their customers, may be able to improve brand value and other benefits that strengthen the economic performance of the organization. The limited understanding of Sustainability as a stakeholder-enhancing and branding tool suggests the need for a new framework to move beyond the current ecological perspective and its limitations. This paper focuses on Sustainability’s social benefits to positively leverage stakeholder connectivity resulting in enhanced brand value and profit.

LITERATURE REVIEW

Sustainability

The term “Sustainability” was first used by the World Council of Churches in 1974 in response to environmental challenges presented by growth and related social implications, including poverty. The discussion attempted to reconcile perceived conflicts between the environment, economic growth, and social justice (Dresner, 2002). The term was formally introduced by the International Union for Conservation of Nature and Natural Resources in 1980 as a construct for addressing environmental, economic, and social issues, and was defined as “the integration of conservation and development to ensure that modifications to the planet do indeed secure the survival and well-being of all people” (World Commission on Environment and Development, 1987, p.43). Sustainability gained additional prominence in 1987 when the United Nations World Commission on Environment and Development published its report “Our Common Future” (World Commission on Environment and Development, 1987). Chaired by Norwegian Prime Minister Harlem Brundtland, this document became known as the Brundtland report. It suggested that the competing demands for environmental protection and economic development required a new approach, referred to as: “sustainable development.” Sustainability was defined as development that “meets the needs of the present without compromising the ability of future generations to meet their needs” (p. 8). The two terms are essentially interchangeable, and for simplicity, “Sustainability” is used throughout this paper to capture the economic, social, and environmental components expressed in the report.
Work within the private sector has demonstrated little evidence in understanding, valuing or using Sustainability as a model for creating long-term organizational success. “In the private sector, Sustainability is still often narrowly interpreted as environmental stewardship. Recently, Sustainability has evolved to add economic and social responsibility as critical components of successful sustainable business practices” (Galea, 2004, p. 12). Implementation by business has focused on reductions in transportation expenses, waste, and packaging materials and building design. The majority of business executives and consumers think of environmental stewardship when asked about organizations’ sustainable practices.

If we look at Sustainability as survivability of the organization, then the company’s ability to fit well with its environment is the key. From the World Council of Churches original use of the term, to BCSD’s current orientation, Sustainability’s aim is to integrate economic, social, and environmental issues. It is through the firm’s “fit” with its environment that it can move past a limited view of the firm as solely profit-centered to one where the organization gains sustainable competitive advantage and long-term success by engaging with its multiple stakeholders.

Beyond the Profit Paradigm

Milton Friedman is a 20th-century spokesperson for the profit-driven perspective that states “the primary focus of the firm is increasing shareholder wealth” (Friedman, 1970). His “profit-centric” focus is clear including that spending on social causes diverts resources from the firm’s value-creating activities. In fairness to Friedman, he acknowledges that a positive social perception of the firm may provide benefits, but governance of these efforts must only be applied to directly increase profit. Alternatively, Whole Foods CEO John Mackey suggests that Friedman’s perspective is “too narrow and…undersells the humanitarian dimension of capitalism” (Mackey, 2005, p. 2). Mackey argues that the modern corporation has multiple stakeholders including, customers, employees, suppliers, and communities. He proposes that a profit-centered perspective, where customer satisfaction is viewed as merely a means to an end, is uninspiring to employees, potentially antagonistic to vendors, and may be harmful to the community and environment. He offers that Whole Foods’ socially-conscious approach represents a new form of capitalism that “works for the common good instead of a solely profit-centric view. Enlightened business must find the proper balance between all of its constituencies: customers, investors, suppliers and communities…which will result in a more robust business model than the profit maximization model it competes against because we encourage and tap more powerful motivations than self-interest alone” (Mackey, 2005, p. 9,10). Mackey proposes leveraging social responsibility to improve stakeholder performance, including brand equity. His views have recently evolved to what he calls “Conscious Capitalism” which emphasizes the importance of free markets and individual initiative while serving social and environmental needs (Marquis, Besharov and Thomason, 2011). It is worth noting that Whole Foods is Fortune Magazine’s most admired company (VanderMey, 2012).

Improving Strategy, Brand Value and Profit

Extending this theoretical work has the potential to improve the understanding and commitment of business to Sustainability principles, particularly, advantages to the company’s reputation, brand value, and profit. Firms can develop improved strategy through understanding the complex interdependencies of the firm’s environment, an increased ability to innovate because of highly attuned inputs, and brand resonance reinforced by a committed workforce and effective communication process. Hamel (2000) suggests that it is because of this holistic view that the organization can produce wealth through
discontinuous innovation and, in turn, long-term competitive sustainable advantage. This thinking “focuses a corporation on strategy, integration, innovation, and visionary leadership, and is a unifying approach essential for laying the foundation for sustainable, socially-responsible business” (Rainey, 2006, p.73). It increases the value-maximization orientation of the firm to include not only shareholders, customers, and employees but conscious integration of community interests. Value is achieved through product ecology, economic growth, and social responsiveness. Risks are mitigated through environmentally conscious planning and socially responsible action. The “strategic logic for Sustainability also includes self-preservation…achieving excellence and long-term success, about development creating innovative solutions for the market, creating value for all, mitigating risks, and obtaining truly distinctive competitive advantages through integration, innovation, and leadership” (Rainey, 2006, p.144). Many companies have seen the value of linking their Sustainability initiatives including social responsiveness to improve operations, brands, and profits. Nike is a classic example. Once viewed as a company of slave wages, forced overtime, and arbitrary abuse, the company has pioneered the use of social responsiveness and as a “catalyst for innovation…and use of Sustainability principles to generate ongoing value creation” (Paine, 2014, p.88). This fosters many opportunities to design products that address economic, social, and environmental issues that customers will value in their product selections. As previously mentioned, some companies address this with an ecological perspective as evidenced by McDonalds’ work in eliminating waste and the use of plastics or UPS working with customers to “shrink the product-to-package ratio” so its trucks can fit more packages (Colvin, 2010, p.51). For other industries, the concept may be more difficult to operationalize. Financial organizations still challenged by the short-term problems associated with collateralized debt obligations may now understand the shortsightedness of the product design yet, lack a clear model for creating products that better serve their customers and the community. Possibly, risk-mitigation methods long associated with oil spills or product recalls can help advance Sustainability’s implementation for new product development across other industries.

Corporate Social Responsibility as Foundation for Sustainability’s Social Component

The literature on Corporate Social Responsibility (CSR) is mature, and we can build on CSR findings to advance Sustainability’s social responsibility benefits to brand value and profit. CSR is the belief “that modern businesses have responsibilities to society that extend beyond their obligations to the stockholders or investors in the firm” (Visser et al., 2007, p.122), including philanthropic efforts, employee volunteerism, support of non-profit organizations, and other attempts to foster improved relationships with various stakeholder groups (p. 125). The literature suggests relationships between CSR and the social component of Sustainability (Ebner and Baumgartner, 2006) are nearly synonymous and conceptually aligned. We propose that CSR is the “social strand” of Sustainability and that it supports our stakeholder-approach. “Ecological aspects or the economic dimension of Sustainability are omitted from the CSR framework. However, some ecological measures are accepted, if stakeholders put pressure on the company to realize them” (p. 5). It is interesting to note that while CSR does not articulate an economic orientation, much of the CSR research, in fact, attempts to establish a relationship of the benefits of CSR to economic performance. Margolis and Walsh (2001) found 50 percent of empirical CSR studies indicated a positive link between financial performance and social responsibility. A meta-analysis found a positive relationship between social and financial performance (Orlitzky, Schmidt and Rynes, 2003), a bi-directional relationship that “rejects the idea that Corporate Social/Environmental Performance is necessarily inconsistent with shareholder wealth maximization” (p. 424). Another study confirmed this
relationship, but found that financial performance precedes social performance (Scholtens, 2008). McWilliams and Siegel (2001) believe these studies suffer from omitted variables, such as R&D and advertising. Moderating factors have been explored.

Brammer and Millington (2008) found “firms that exhibit unusually good, or bad, social performance in the sense that they make a higher, or lower, rate of charitable giving than that which would be predicted given their attributes have significantly higher financial performance” (p. 1339). Another study found “positive financial returns to CSR are amplified in firms with higher product quality indicates that a proper mix or combination of external CSR initiatives and internal corporate abilities likely generates and sustains financial value for the firm” (Luo and Bhattacharya, 2006, p. 15). One study found a positive association between employee-sponsored volunteering and internal legal and ethical compliance (Houghton et al., 2014). Finally, “when products sold by the company embody ethical or social values, positive CSR associations come into play. Consumers will trust companies with strong reputations to deliver on the implicit promise of these products. Consumers will be especially attentive to the company’s reputation for respecting and caring about them” (Castaldo et al., 2009, p. 12).

Benefits from CSR accrue over time by creating brand loyalty through consumer identification with the company (Marin et al., 2008) which empirically demonstrates that CRS engagement generates positive customer outcomes in organizational business relationships and is a worthwhile endeavor. Carefully targeted CSR activities can raise customers’ trust and identification, both of which foster customer loyalty. Homburg, Stiel and Bonemann (2013) propose that business customers receive long-term mutually beneficial relationships through enhanced trust and when customer’s self-concept and perceived business attributes overlaps. Trust comes from perceived socially responsible business practices and self-identification to socially responsible commitments. In highly competitive markets mutual trust may differentiate products and secure long-lasting relationships. Creating this differentiation requires that customer expectations regarding social responsibility and the firm’s practices be shared. The ground-work established within CSR and its benefits to the firm’s reputation and brand value clearly aligns with Sustainability’s socially responsible component and impact. Finally, a bi-directional relationship between corporations high on Sustainability and financial performance has been examined. “Higher mean sales growth, return on assets, profits before taxation, and cash flows from operations in some activity sectors” has been found in the top 100 sustainable global companies compared to control companies (Ameer and Othman, 2012). A similar study limited to European firms produced similar results between Sustainability-oriented firms and a control group in the same industries (Lopez et al., 2007). Similar results were found in a study of American firms (Byus, Deis and Ouyang, 2010). In summary, we propose that firms that apply sustainable practices through its socially responsive strategies and stakeholder engagement will have enhanced reputations, brand value, and financial performance.

Impact on Brand and Profit

In an era categorized by extreme global competition, low-economic growth, and ubiquitous information over-stimulated through social media, communicating the benefits of Sustainability to stakeholders is paramount to building brand equity and profit. We propose an exchange-based approach to analyzing this interaction. Survival depends on the company’s ability to maintain high levels of satisfaction among its key stakeholders including understanding their needs, concerns, and establishing trust with them (business or consumer) that results in trust, brand value, purchase, and profit. Since the
literature has assumed a bi-directional relationship, we acknowledge and emphasize those relationships. For firms engaging in Sustainable practices, there are four-benefit categories that synergistically increase competitive advantage: product design, cost reduction including operating efficiency, increased brand value, and win-win outcomes (great products/values alignment) (Kurucz et al., 2008). It is important to note that all relationships are moderated by marketing communication or promotion: “means by which firms attempt to inform, persuade, and remind consumers—directly or indirectly—about the products and brands they sell” (Kotler and Keller, 2012, p. 470). Among promotion’s five categories, we believe public relations, advertising, and personal selling are paramount. Their importance depends on the product, industry, and related social environment including customers. For example, personal selling is most important in business-to-business sales, so communication through the sales force is important. Public relations and advertising allow the organization to communicate its Sustainability programs, practices, and product attributes on a broader scale. Salespeople can expound on this while meeting face-to-face with customers and consumers. These efforts enhance brand associations of the organization and its reputation and brand equity. A second moderator is attribution or what consumers view as an organization’s motives for social responsibility (Du, Bhattacharya and Sen, 2007, p. 226). The rapid emergence of social media as a channel is now at a point of criticality to understanding and preserving the organization’s brand position as it relates to its Sustainable intent, practices, and even its failures.

It is also important to note the internal benefits of Sustainability particularly as it relates to employees. Employees increasingly want to work for firms that matter and we propose Sustainable practices will improve affective commitment. Affective commitment is defined as “identification with, involvement in, and emotional attachment to the organization” (Allen and Meyer, 1996, p. 253; Rego et al., 2010), which leads to lower employee turnover (Meyer et al., 2002), reduced absenteeism (Meyer et al., 2002), and more customer-oriented behaviors (Chang and Lin, 2008). It also reduces hiring costs by attracting better quality applicants (Drews, 2010). Prior research has established this relationship with firms rated socially responsible (Vitaliano, 2010). External stakeholders benefit from those employee attributes as the employee supports and communicates the sustainable benefits reflected in the brand. “The research shows that high-performing marketers are more likely to engage customers with their brand purpose and, that those employees in those organizations are more likely to express pride in the brand…that ensures a consistent customer experience…particularly when connected with a sustainable-living initiative” (Arons, Driest and Week, 2012, p. 59-64).

External stakeholders include intermediaries, community members (social and political), channel members (vendors and suppliers), and customers. Political stakeholders can “initiate a self-reinforcing process of sustainable attractiveness” through investing money (contracts), tax implications (e.g., credits, deductions, and regulations), and grants or subsidies (Mussen, 2012). Organizations with positive socially responsive brands may receive advantageous legal and economic benefits (e.g., subsidies, contracts, or tax implications). Distribution alignment can improve profitability by lowering costs (including monitoring) through efficiency or innovation resulting in increasing return on assets (Roberts and Dowling, 2002). When power information asymmetries arise between parties, social exchange theory postulates that trust mediates the relationship by reducing uncertainty and improving prediction (Croppanzano and Mitchell, 2005; Cook, Cheshire and Gerbasi, 2006).

A business perceived as socially responsible will benefit from greater trust and support from its intermediaries particularly its customers. This is achieved through “self-categorization” when the customer’s personal values align with the values of other organizations (Hogg and Terry, 2000). Sustainable practices and perception can occupy one level of brand associations. Brand association is a
multi-dimensional construct, which includes brand image, quality, and attitudes (Low and Lamb, 2000). It enhances reputation. A brand’s reputation increases revenue and ultimately profitability (Kim, 2000). As discussed prior, Sustainability’s effect will be enhanced by promoting its benefits through advertising, personal selling, and public relations and increased use of social media. Reputation is measured through: quality of management and products; ability to attract, develop, and keep talented people; value as a long-term investment; use of corporate assets; financial soundness; innovativeness; and community and environmental responsibility (Kim, 2001; 2000). There is a cross-over effect between employees and reputation. Reputation improvements increase brand equity, the additional value endowed to a brand (e.g., price premiums, loyalty, and market share) (Kotler and Keller, 2012). Reputation and brand equity enhance the customer, employee, and political paths. With the customer path, it improves an organization’s market share, revenue, and profit. This results in higher market share.

Previous studies indicate that market share (MS) is linked positively with profitability (Farris and Reibstein, 1979; Szymansky, Bharadwaj and Varadarajan, 1993), and that MS and product quality moderates the relationship between advertising expenditures and profitability. Note: MS is operationalized by two variables: absolute, compared to total industry sales, and relative, compared to the largest firms (Kim, 2000). Profitability is enhanced from customers’ willingness to pay more. This brand equity results in a higher return on assets (Byus, Deis and Ouyang, 2010). Profitability is measured as return on investment, equity, and assets, and earnings per share. These provide for greater cash flow. This moderating effect can occur at any level of our model. Implicit is that Sustainability mitigates potential risk by enhancing brand equity and reputation allowing firm to weather difficult times and engender commitment from key stakeholders during those difficult times. Our model (Figure 1) outlines the absolute and relative relationships necessary to holistically evaluate the impact of Sustainability on internal and external stakeholders and how Sustainability initiatives link to brand equity and ultimately the financial performance of the firm.

![Sustainability, Profitability Relationship Model](image)

**CONCLUSION**

This paper proposes that Sustainability and its emphasis on a socially responsible orientation increases profitability and firm survivability through mutually beneficial exchanges with key stakeholders including employees, intermediaries, and its customers. This is achieved through improved employee
commitment, intermediary alignment, and strong customer relationships as a result of increased trust, brand value, and purchases and the perceived Socially Responsible actions within the firm. This framework and its operational elements may drive corporations to embrace Sustainability as a strategic management construct to enhance a firm’s bottom line (McWilliams and Siegel, 2001). The model operationalizes measures and develops a causal model for testing. Essentially, as Mackey suggests, companies who create products more aligned with the needs of their community can leverage the firm’s interdependency with its multiple stakeholders by creating superior products and thereby increase the company’s competitive advantage and the firm’s long-term viability and profits. Sustainability will permeate businesses more as it effects are quantified, similar to how CSR is becoming ubiquitous in corporate boardrooms globally.

We support this view and suggest clearly articulating and examining the tangible benefits illustrated in our model, which has the potential to elevate the understanding of Sustainability significantly as a model of competitive advantage. “In view of growing concern about business and Sustainability and given the importance of corporate responsibility for on-going value creation, boards should learn from Nike’s experience” (Paine, 2014, p.88) in the value of establishing Sustainable, socially responsible, and environmental stewardship to improve the organizations’ value proposition, brand, and profits.

LIMITATIONS AND FUTURE RESEARCH

Organizations can embrace CSR while committing heinous acts. Merck & Company, Inc. spent $3 billion developing a drug to cure river blindness and provided it free, and later the company was implicated in Vioxx safety concerns (Mazutis, 2014). An organization’s rhetoric may exceed its Social Responsibility or Sustainability benefits (Cho et al., 2012). CSR ratings from objective third parties that are negative do not appear to influence firms since firms, in general, discuss only positive CSR activities (Scalet, 2010). Do firms that aggressively promote their Sustainable attributes create positive goodwill, even if those endeavors are not objectively strong? Is perception the driving factor? Future research can estimate the relationship between perceived commitment to Sustainability and brand value as measured through rating agencies. Perceptions could be taken from customers, employees, and politicians to determine brand benefits as a result of perceived commitments to Sustainable practices. As with advertising, which must reach a certain threshold to be effective, longitudinal studies could determine whether the relationship between Sustainability and profitability is curvilinear or linear. Also, Sustainability affects maybe moderated by industry. Industries with low-Sustainability efforts could be compared to those industries that embraced Sustainable practices.

REFERENCES


