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Article

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Suggested Citation: Bolton, Brian; Park, Jung (2022) : Social impact as corporate strategy: responsibility and opportunity, Cogent Business & Management, ISSN 2331-1975, Taylor & Francis, Abingdon, Vol. 9, Iss. 1, pp. 1-12,
<https://doi.org/10.1080/23311975.2022.2111035>

This Version is available at:

<https://hdl.handle.net/10419/289174>

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To cite this article: Brian Bolton & Jung Park (2022) Social impact as corporate strategy: responsibility and opportunity, Cogent Business & Management, 9:1, 2111035, DOI: [10.1080/23311975.2022.2111035](https://doi.org/10.1080/23311975.2022.2111035)

To link to this article: <https://doi.org/10.1080/23311975.2022.2111035>



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Received: 08 July 2022
Accepted: 04 August 2022

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ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | LETTER

Social impact as corporate strategy: responsibility and opportunity

Brian Bolton¹ and Jung Park^{2*}

Abstract: The level of social responsibility expected by society has risen significantly in recent years. Some companies used to pursue Corporate Social Opportunity (CSO) thinking about how companies engage with significant social shocks over the short-term. These actions are symbolic and empty gestures. Based on our collected business cases and conceptual analysis, we suggest a three-part framework for turning short-term windows of opportunity into long-term value-creation: knowing, doing, and repeating the right things. Going beyond corporate social opportunity towards responsibility requires authentic long-term strategy driven by social impact.

Subjects: Strategic Management; Corporate Governance; Corporate Social Responsibility

Keywords: Corporate social responsibility (CSR); corporate social opportunity (CSO); social impact; economic value; strategic planning; shadow boards; stakeholders

1. Corporate Social Opportunity (CSO) versus Corporate Social Responsibility (CSR)

Corporate social responsibility is generally thought of as creating value in ways that satisfy legal obligations and society's prevailing conventions; corporate social opportunity (CSO) refers to these windows where business leaders think they can follow a social movement to create economic value (Bolton & Park, 2021). Corporate social opportunity is distinct from corporate social responsibility because it has a short-term focus and may be disconnected from the strategic intent of any

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PUBLIC INTEREST STATEMENT

We introduce the concept of Corporate Social Opportunity (CSO) as an approach many companies take to respond to economic and social shocks in the short-term. Many leaders will be tempted to focus on short-term bridges – to only focus on the immediate opportunity. But short-term bridges will not address the roots of the problems. If we only focus on the concerns of the moment, we will continue to face the same problems in the future. By seeing social, environmental, and human-centered issues as the foundation of their future business issues, corporate leaders can design strategies that move beyond the immediate corporate social opportunity and turn these moments into movements.

corporate actions. Corporate social opportunities are frequently symbolic and empty gestures, aimed at following moments of economic and social chaos, but are not part of longer-term strategy or movement.

In recent years, business leaders were faced with the confluence of multiple challenges, the likes of which most of them had never seen before: the Covid-19 pandemic, systemic racism and the continued escalation of the climate crisis. As these events changed all our lives, many of us were pining for a return to normal, a return to the lives we owned prior to 2020. Of course, corporations will have an enormous role in creating the days ahead—for better or for worse. The recent years forced business leaders to find new ways to create value in the short-term. Many of these opportunities—like all opportunities—were fleeting and circumstantial. Profits that were easy to come by for some companies were merely the result of windows of opportunity that ultimately closed. The food delivery, home fitness, hand sanitizer, video conferencing and home entertainment industries all became essential during the depths of the pandemic, enabling some companies to also become essential. Uber Eats, Waitr, Peloton, Zoom and Netflix all thrived since the pandemic's outbreak. How are these companies doing today? Some are doing okay; some are really struggling.

Extracting rents is not the same as creating value (Lieberman, 2021). Short-term opportunities are not the same as long-term responsibilities. Business leaders can view social events either as short-term opportunities to extract events or as foundational responsibilities to create long-term value for their stakeholders. Companies need to develop systems and strategies that are capable of creating economic value in the future, regardless of the societal opportunities and challenges that come their way. Companies need to move beyond seeing social dynamics as short-term opportunities; they need to prioritize how their business makes peoples' lives better into long-term strategies. Companies need to move beyond corporate social opportunity.

The primary purpose of this article is to provide perspectives, frameworks and tactics to help solve the question of how business leaders turn social events—such as Covid-19, Black Lives Matter or the Climate Crisis—into long-term strategic movements. The business world is constantly presented with windows of opportunity created by evolving social issues; turning these windows of opportunity into long-term economic value requires the business leaders to be intentional and strategic with how they integrate these social opportunities into their decision-making and operations.

2. Business cases

2.1. *Extraordinary events in recent years*

Recalling the moment that started a series of extraordinary events, the first known cases of Covid-19 were reported to the World Health Organization on 31 December 2019. The following day ushered in a year that was unlike any other in recent memory. The challenges that businesses, societies and individuals faced were unprecedented.

- The novel Coronavirus quickly spread through China, Asia, Europe and the West, with the first case identified in the United States by 17 January 2020. By mid-March, schools, businesses and public spaces were shut down as most of modern society went into lockdown to try to limit the further spread of the virus.
- On 13 March 2020, Breonna Taylor, a 26-year old Black woman, was shot and killed by several White police officers as she slept in bed with her boyfriend in Louisville, Kentucky. On 25 May 2020, George Floyd, a 46-year old Black man, was killed by Minneapolis, Minnesota police officer Derek Chauvin; video captured Chauvin kneeling on Floyd's neck for more than 8 minutes, as other officers stood by and watched. These events escalated a nationwide—and worldwide—Black Lives Matter movement, protesting repeated police brutality and systemic racism.
- In the United States alone, there were 22 natural disasters with impact in excess of \$1 billion in 2020. Hurricanes Laura, Sally and Delta devastated the Gulf Coast region in late-summer, wildfires

swept across the Western states in the second-half of the year, and a mid-summer derecho—a massive, sustained windstorm—destroyed lives and crops across the Midwest. These 22 disasters alone cost the U.S. economy \$95 billion in direct damages.

- As the year wound down, President Joe Biden’s victory in the presidential election in November sparked more protests and division, as former President Donald Trump refused to acknowledge the victory and repeated baseless claims of election fraud that were consistently refuted. As the calendar flipped over to 2021, this vitriol all came to a head with the failed coup in Washington, D.C. by Trump supporters on 6 January 2021.

This brief list of events from 2020 is just that—a brief summary of the significant highlights of the year. And this list only includes select events from a United States’ perspective; many similarly impactful events occurred all around the world during 2020. This list is not, of course, an exhaustive list of the many events of 2020 that affected all of our lives in meaningful and often permanent ways.

At the time, these events felt historic and unique. Most humans had never experienced lockdowns or a global pandemic. The Black Lives Matter movement seemed to reach new levels of intensity and purpose. Natural disasters seemed to become more intense and devastating for those of us in the path of such events. The coup attempt was the first real threat to the American republic in over 150 years. Most personally, just about everyone had to change their lives, their schedules, and their relationships due to the many varied events of 2020.

But were these events really that unique? Perhaps they were historic in the magnitude and breadth of their impact; but, of course, 2020 was not the first time we experienced such events. Pandemics have been present in one way or another throughout much of the past century in many parts of the world: Spanish Flu, Ebola, West Nile, HIV/AIDS, SARS and others. Despite what many people may think, the Black Lives Matter movement did not start with the murders of Breonna Taylor and George Floyd in 2020; it really started in 2013 when three female organizers launched a project focused on building community engagement and political movement after George Zimmerman was acquitted of in the death of Travon Martin. And while the twenty-two \$1 billion weather events was the highest number ever, sixteen such events occurred in 2017 and 285 such events occurred between 1980–2020, costing the U.S. a total of almost \$2 trillion.

Thus, 2020 wasn’t really that extraordinary. The social and environmental events that so significantly businesses around the world were not new. We had seen it all before. And businesses had been forced to adjust to such events before. Yes, the confluence of multiple events of historic proportion at the same time forced us to adjust more than ever. But the events themselves had happened before. And that means they are likely to happen again.

2.2. Corporate reactions

Our purpose here is to think about the role that businesses had played in either dealing with or mitigating such social shocks.

- During the Covid-19 crisis, many leaders debated the right way to “open up the economy” and return to business as normal (for businesses, for schools and for other institutions). As the pandemic was literally a matter of life-and-death, this debate essentially introduced a discussion about the economic value of human lives. But what kind of economic value can a business—or a school—create if the people that engage with that business are getting sick or dying at a disproportionately high rate?
- During the Black Lives Matter protests, many pundits complained about the economic value that was being destroyed by a graffiti and vandalism. But how much economic value is destroyed when a significant percentage of the population lives in fear of civic leaders, in fear of going shopping in certain neighborhoods, or in fear of going for a jog after dark?
- During the summer and fall, as fires and hurricanes ravaged much of America and as typhoons and flooding devastated much of Southeast Asia, we all saw evidence of the power of nature. We have

known for decades that our industrialized lifestyles have been accelerating nature's fury and that we—people—have at least some ability to decrease the scale and scope of the climate crisis. The concern is that doing so would be very expensive; we—businesses, individuals, governments—would have to invest large amounts of money or resources today to prevent nature's fury in the future. And we do not want to do that because we view it as lost economic value today. But how much economic value will we lose in the future because we refused to invest in mitigation today?

A number of companies thrived throughout 2020 and 2021 because they directly addressed what people needed during these uncertain times (such as Amazon, Tesla and Etsy). Others entered bankruptcy during 2020 or 2021 because they could not adapt or innovate to the new economic environment (such as Hertz, J.C. Penney and Chesapeake Energy). And others thrived in the early days of the Covid pandemic but were more opportunistic than strategic and could not sustain their strong performance over the long term (such as Waitr and Peloton). These companies that focused on short-term opportunities rather than long-term strategies are prime examples of the dilemmas companies face as they work to create economic value through broader societal issues over both the short-term and long-term.

Herb Kelleher, the founder and former CEO of Southwest Airlines, would regularly share the secrets of his company's culture with anyone and everyone who would listen. He knew that culture was about people and the people that made Southwest's culture—including Kelleher himself—did not work anywhere else. As such, no other company could create Southwest's culture in order to replicate Southwest's success. The same is true of the case analyses in this article: your business will be different than any business we discuss, so your future success will be driven by factors that are unique to you, your business and the environment you work in. Do not try to view these cases as templates; view them as learning opportunities. Take what we present in these cases, connect it with the foundations and frameworks we introduce and then adapt everything to the unique situations and opportunities that you have in the future.

Like Southwest, many companies are trying to instill mechanisms that will lead to long-term cultures and structures that align with long-term goals. Chipotle links CEO compensation to goals related to decreasing greenhouse emissions and increasing diversity among store leadership and corporate positions; McDonald's links CEO compensation to diversity goals. Nike, Starbucks, Uber and many other large companies have adopted similar compensation incentives. Chevron and Exxon-Mobil have linked executive and director compensation to goals related to decreasing emissions and improving renewable energy options. Herb Kelleher at Southwest had it easy; he was the founder and the talisman of the company, so the culture and priorities evolved from him and his leadership style. Other companies, that have had other priorities and leadership styles for decades will need time before the fruits of these policies take impactful effect (and are fully embraced by internal and external stakeholders). And, many of these goals are nebulous and amorphous, creating the potential for executive compensation to increase without any significant environmental or social improvements. Yet, these goals are a step in the right direction. They are focused on the long-term; and creating the long-term that they want has to start with seemingly small (and potentially exploratory) actions. They are works in progress; but they are also working towards progress.

Companies in certain industries, such as travel hospitality, were devastated by the Covid pandemic and related restrictions. Others that were able to satisfy our most basic values (like Amazon), our needs (like Zoom) and our wants (Etsy) created enormous amounts of financial value—because they created enormous amounts of value for individual people. Amazon's stock price rose 117% during 2020; Zoom's stock price rose 396% during 2020; Etsy's stock price rose 302% during 2020. Are these examples of companies capitalizing on short-term social opportunities created by the pandemic? Perhaps; but that's not how stock prices work. Stock prices are forward-looking. Stock prices do not (or, at least, should not) reflect what any company was able to do in the past, but rather they (should) reflect what the companies are expected to do in the

future. Investors could be wrong and stock prices may be a lousy measure of long-term performance. Zoom's stock price did lose 45% of its value during 2021, when vaccines were introduced and a return to office seemed on the horizon. Despite this loss, the stock price was still up almost 200% during 2020 and 2021 combined; only time—and management's investments—will determine whether Zoom can turn this short-term opportunity into long-term movements.¹

We would be remiss if we ignored one of the most peculiar pandemic-CSR-CSO stories of 2020: why did Tesla's stock price increase 743% during 2020? Why is the value of Tesla more than twice the combined value of Ford, General Motors, Toyota and Honda (despite selling less than 1% the number of vehicles that those four companies sell)? Nobody knows, of course. As always, investors are valuing Tesla's current stock price based on the economic value they expect Tesla to produce in the future. Is this a pandemic story, like Amazon, Zoom and Etsy? While it may not seem so, we think it certainly is, at least indirectly. Why did the pandemic happen? Possibly because of our globalized lifestyles, possibly because many societies were not prepared to quickly mitigate the spread of a deadly virus and possibly because humans' and societies' relationships with nature have become more and more complicated over the past century.

Of course, economic turbulence and business strategies are not confined to dates on a calendar. Many of the issues that dominated decision-making in 2020 and 2021 have continued. And, other, new social issues will dominate strategic plans into the future: Russia's invasion of Ukraine in February 2022 forced business leaders to think about where they do business and forced political leaders (and citizens) to decide how to handle both the war and Ukrainian refugees around the world. Political divisions have continued—and increased—in many parts of the world, the climate crisis is getting worse (United Nations IPCC, 2022), and Covid-19 is continuing to evolve and change lives around the world. Lyon et al. (2018) argue that firms need to be transparent about their corporate political responsibility so all stakeholders can more fully appreciate their corporate environmental and social responsibility; these issues have been laid bare for many companies regarding their investments in Russia following its invasion of Ukraine in early 2022. These political (and social) fractures are economic and business issues. In the short-term, some business leaders will view some of these as opportunities to capture short-term profits; but these are not short-term issues. As the social issues evolve, as they have in the past and are sure to do in the future, the window of opportunity to capture short-term profits will close and some businesses will be revealed as superficially opportunistic. The only way businesses will create economic value in response to these social fractures is to view them as long-term drivers of strategy; then leaders must make investments and strategic plans that recognize the long-term nature of how these social issues impact stakeholders' lives. Every business's social responsibility is to maximize value over the long-term.

The great resignation of 2020–2022—or millions of employees voluntarily quitting their jobs to pursue something better, or something different—is a real-time example of how different stakeholders create value. The great resignation has given new power to employees and has created new challenges for business leaders. These challenges are due to changing work environments. Sull et al. (2022) argue that toxic corporate culture is the main cause of the great resignation; these toxic cultures can be due to failures to promote diversity, equity and inclusion initiatives, moral failures of leaders and not treating employees with respect. Employees are demanding more from their jobs. Gulati (2022) argues that people are leaving because employees are—finally—reevaluating their jobs and their purpose. If they feel disrespected, if they don't fit in with the culture or if they don't find their work meaningful, they are rethinking their own purpose and looking for other opportunities. As a result, it has become incumbent on business leaders to evolve their company's strategies to better align with its stakeholders' values (Sull et al., 2022).

3. The economics of value creation

Every dollar of revenue that (almost) every company has ever received has come from customers. (The exceptions are non-profits that receive donations or any business that receives indirect grant-

type funding). Customers are the lifeblood to the economics of any business—and they are the lifeblood to any firm maximizing its value. Revenue pays for all of the operations that the company has to perform to serve its mission and to deliver its products and services—it's a wonderful and beautiful circle. Yes, investment capital can provide one-time or periodic funding to help the company serve its mission—any accountant will remind us that while this may be cash inflow, it is not revenue. But the critical ongoing, constant source of cash inflow for every business is revenue. And revenue comes from customers.

In addition, maximizing revenue is not the same as maximizing value. Economic value is derived by subtracting the costs of delivering products or services from what customers are willing to pay for them (Lieberman, 2021). A company can increase its revenue higher and higher, but if it is increasing its expenses at an even greater rate, its value is likely going down. Value is maximized when we get the balance right between being effective—providing products and services that make our customers' lives better—and being efficient—doing so with the minimum possible cost.

After any business collects its revenues from customers, it has many other stakeholders to pay as a thank-you for making the revenues possible:

- We pay costs of goods sold expenses to suppliers and employees.
- We pay salary and wages expenses to employees.
- We pay taxes, permits and fees to various government entities.
- We pay interest to our banks and lenders.
- We pay advertising, distribution, legal, security, IT and other expenses to the multitude of stakeholders who help make our business run.
- And, during any time period when our cumulative revenues are greater than our cumulative expenses, we may choose to pay a dividend back to the investors who have helped finance our existence and growth.

Just as our customers choose to give us money because we make their lives better, we choose to give all of the above stakeholders some money because they make our business better. Each stakeholder is acting in their own rational self-interest, however they choose to define that; they are only trading time, energy, money or stuff with us because we are giving them something that makes their life better. The logic is relatively simple and the math is relatively simple; but identifying the perfect balance between increasing revenues and decreasing relative expenses is anything but simple.

The above discussion connects a traditional income statement with the stakeholders involved with each line item on the income statement. The income statement represents the past; it shows us how any business has performed in the past. Understanding this past helps us identify where any business is today.

The challenge, however, is that maximizing value involves predicting the future. The value of any business today is defined as the present value of all expected future cash flows. Managers, investors, employees and other stakeholders are constantly trying to predict the future to better understand what any firm's value might be. Managers care about the future cash flows because they will impact the managers' bonuses, reputation and future opportunities. Investors care about the future cash flows because they want a positive return on current investment. Employees, suppliers, governments and others care about the future cash flows because they may not want to do business with a firm that will be worthless (or even worth less) in the future. Every stakeholder, acting in their own rational self-interest, is always comparing the present value of all future benefits of engaging with the firm to the present value of all costs of engaging with the firm. Of course, different stakeholders will have different values and will include different factors in this formula. Predicting the future is always difficult; the fact that unpredictable stakeholders will value unpredictable things in the future makes it even more difficult.

We start with the past because we think it informs the future. What happens when it doesn't? When social moments become social movements, they change the future. These changes have real cash flow impacts for every business. Economists speak of "revealed preferences" (Caplin & Dean, 2015). This simply means that we observe people's values by what they spend their time, energy and money on. Social movements have always revealed new and evolving preferences—many times, they seem to reveal preferences that people didn't even know they had. Sometimes companies can influence or direct such social movements; they will always be affected by them. Companies that can predict, integrate and respond to any social movement the most efficiently and effectively will be the ones that create the most value through the social movements.

4. Connecting purpose and profit

When people do something, economists claim that they have revealed their preferences (Caplin & Dean, 2015). We cannot determine what people really value until they do something—until they trade or invest their time, energy and money for something. Then, and only then, do we know what they value. I may claim that I'm an environmentalist, but when I drive a gas-guzzling SUV, it would be fair to question my commitment to being an environmentalist; perhaps being an environmentalist is something that gives me value, but not as much value as the safety, comfort, convenience, roominess and genuine leather seating of my SUV give me. Or perhaps I want to go electric but recharging is too inconvenient where I live. Regardless of why, I've made a choice: I've revealed my preferences and clearly communicated what I care about. It doesn't matter what I say or post; all that matters is what I do.

And business leaders see my preferences clearly. My preferences have shown up in their income statement. The same could be said when employees quit after being told they have to return to the office, when customers move their money to a Black-owned bank, or when companies switch to a more energy-efficient supply chain. These choices are based on individual values, and individuals value are exactly what create financial value. This logic applies to individual choices, and it also applies to broader choices that companies and policymakers make. So are we making choices based on social purpose? And can we connect social purpose with profit? We know that profits only happen when we align what we are doing with stakeholders' values; the challenge is finding the equilibrium that optimizes value. That's never easy.

The 2000s was the decade of the governance. Enron was the 6th largest company in the U.S. in mid-2001; by the end of the year, it was bankrupt. Enron's failure was largely blamed on its leadership; it was a failure of corporate governance systems, people and structures. Enron was not alone: WorldCom, Adelphia, Arthur Andersen, Parmalat and other companies also had failed governance systems that led to their demise. In the U.S., the response was the Sarbanes-Oxley Act of 2002, which broadly mandated greater independence throughout each company's corporate governance system. Alas, this regulation was not enough to prevent the Global Financial Crisis in the second half of the decade. The board chairs at Lehman Brothers and Bear Stearns earned nearly \$2 billion worth of compensation (through both salaries and stock sales) in the years before their companies became worthless. This was viewed as a classic example of agency theory creating misaligned incentives: why would the board chairs care about all of the other stakeholders if they were free and able to cash out regardless of how the firm performed? Clearly, they didn't. Again, the response was regulation; this time it was the Dodd-Frank Act of 2010, which attempted to define rules that would better align agent compensation and principal (or owner) compensation through greater transparency, stakeholder engagement and even more independence within boards of directors.

Throughout the decade, reams of academic research attempting to (a) identify best practices of corporate governance, and (b) determine if these regulatory changes mattered were published. By definition, good corporate governance is that which maximizes value over the long-term (Bhagat & Bolton, 2019). The problem for this research is that the long-term can take a long time to reveal

itself. Studying transitional changes before they have completed their “one step back, two steps forward” process can lead to some confusing implications.

As a result, industry stepped in to attempt to commercialize measuring best practices of corporate governance through the use of governance scores or indices. Some of these were raw scores attempting to quantify only a firm’s governance structures; sometimes this is based off of generally accepted best practices (such as board independence and aligning compensation with performance), something this is based off of some proprietary factors in a magic black box. And sometimes these scores have gone beyond just governance scores to include a panoply of ESG factors; yet, in attempting to provide more holistic coverage within a score, these may have become even more abstract and difficult to operationalize.

Despite the transitory challenges in responding to these scores, the good news is that they are intended to capture the connection between socially-impactful issues and firm value. As firms invest in improving their ESG scores, they should be investing in initiatives that stakeholders care about (assuming the ESG scores are structured in alignment with stakeholder values). During any relatively short window of time, it may be difficult to identify the financial value that is created by this increased focus on social purpose; but over the long-term, the financial value should come. This is the difference between an opportunity and a responsibility.

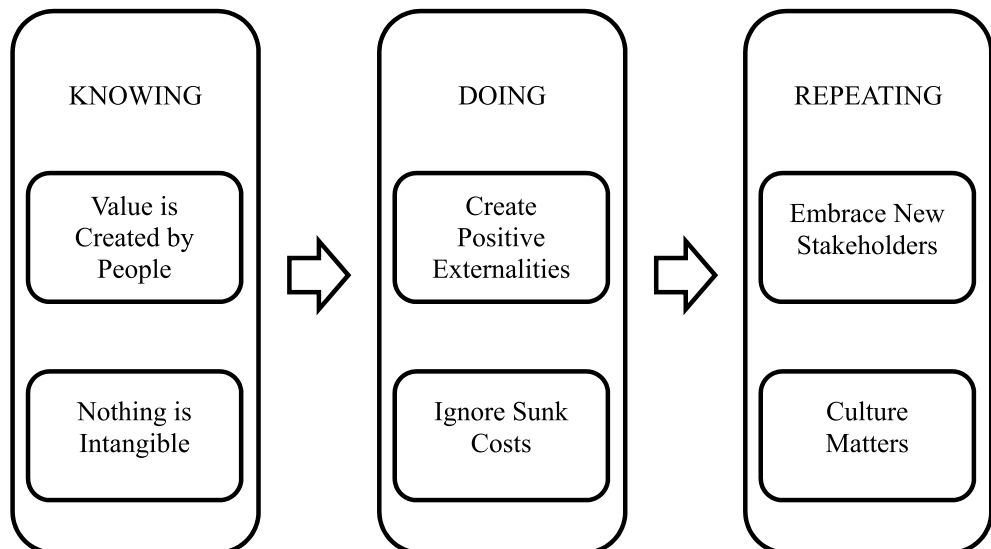
5. Strategies for turning a moment into a movement

Based on the collected business cases and conceptual analysis, we suggest a three-part framework (Figure 1) for turning short-term windows of opportunity into long-term value-creation: knowing, doing, and repeating the right things.

5.1. Knowing how your firm creates value

The economics discussion above applies generically to every company; but the specific details will be different for each one. We are all familiar thinking about “the 3 Ps” of people, planet and profit as a three-legged stool that must be balanced properly; getting that balance right will be different for each company. The key is that profits only exist because of people and the planet. For most of its existence, Walmart prioritized its customers over all other stakeholders—including employees, the environment, its communities and its suppliers. That was the secret to becoming the largest retailer in the world in the early 2000s; of course, that came with much criticism from different parties, but the model worked for Walmart customers and owners. That model has changed (slightly) during the 2000s. The company has been one of the largest investors in solar power putting photovoltaic panels

Figure 1. Framework for turning short-term windows of opportunity into long-term value-creation



on top of many of its stores. More recently, Walmart has increased wages and benefits for store employees, in many cases far above what is required (and certainly above what Walmart had historically offered). These moves lowered operating costs for Walmart, led to innovation in strategy and technology, embraced customers as a critical stakeholder, appeased some critics, complied with potential regulatory requirements along both social and environmental issues and changed Walmart's reputation so that we are now talking about the company in different ways. How Walmart made money in the 1990s—how it balanced people, the planet and profits—has changed. Today's economic environment and stakeholders demand a new approach. And Walmart responded.

Further, given today's focus on data-driven management, it can be tempting for leaders to ignore the seemingly intangible dynamics that create those data. But, in economics, nothing is intangible. Southwest's culture wasn't a line item on an income statement, but it led to higher revenues, greater productivity and higher employee retention. Walmart paying its employees a higher wage and offering greater benefits is a show of respect and trust; this, too, should lead to greater productivity and higher employee retention (and probably happier customers and higher revenues). Everything a company does is an investment in its future. Yes, investors want this to lead to higher profits and share price. Achieving this requires a delicate balance between short-term and long-term priorities; achieving this requires focusing on both tangible items that show up directly on the income statement and seemingly intangible items that matter immensely. Thinking that any aspect of leadership is intangible can be very dangerous.

5.2. Doing what creates value

Firms have limited budgets and can only make so many investments. Financial analysts create spreadsheets attempting to quantify the financial value created by each investment. Yet, in doing so, firms frequently ignore the tangential (financial) impact each investment has on the firm's larger ecosystem. Business leaders need to identify those that create positive externalities when making investments. Positive externalities can frequently evolve from recognizing that nothing is intangible. Importantly, positive externalities can propagate exponentially across stakeholders with speed that is nearly impossible to model on a spreadsheet.

The issues of culture, trust and respect are positive externalities. Vaccines are positive externalities; me getting vaccinated reduces the probability of you getting sick, increasing well-being and opportunity for both of us. Walmart, Amazon and Starbucks supporting college education for many of their employees is a positive externality that should improve the knowledge base of each corporation, making it more innovative and competitive. Investing in branding, in research and development, and in hybrid work schedules are all examples of companies trying to invest in positive externalities. They are gambles that may not work out; but that's true of all investments. Think of the alternative: what's the cost of *not* investing in branding, R&D and employee welfare?

And as they consider which investments to make to create value in the future, business leaders need to ignore sunk costs. Many feel uncomfortable, as there may be emotional or relationship ties to past investments. This is natural; the spreadsheets that attempt to quantify financial value start by looking at what created value in the past. But the future will never be exactly like the past. Anchoring leadership strategies to sunk costs anchor a firm's future to a past that we will never see again. Amazon established a new model of retail in the 2000s; this, in part, forced Walmart to move beyond its long-established (and successful) model towards new ways of creating value. Such transitions are uncomfortable because we can easily measure the short-term costs, but the long-term benefits are uncertain. One way to get over this discomfort is to incentivize the desired strategies and risk-taking; we saw earlier that many companies link executive compensation to certain environmental, social and governance goals. What worked in the past won't work in the future; companies need to ignore sunk costs and evolve with new opportunities.

After decades of defending sunk costs and legacy investments, Ford has finally made the transition to recognize a new reality and ignore what it invested in the past. In mid-2021, Ford

announced its plans to invest \$11 billion (USD) in new production facilities, battery plants, and research & development devoted exclusively to electric vehicles; half of this investment will go towards a massive Blue Oval City plant in Tennessee, where Ford expects to create more than 6,000 new jobs. It certainly has promise: the company has already seen strong demand for electric versions of its iconic Mustang and industry-leading F-150 truck. In the 11 years between when Tesla went public in 2010 and when Ford announced this new plan in 2021, Tesla gained almost \$800 billion in economic value while Ford gained a mere \$35 billion. Perhaps finally moving beyond its legacy sunk costs and investing for the future will help Ford close this gap.

5.3. Repeating strategies that make your firm unique

The economic and social turbulence of the early 2020s has shed light on the idea that all stakeholders matter. Companies have not always designed their strategies around essential workers, Black Lives Matter, or newly hired Generation Z employees. But they are doing so now. Business leaders need to embrace new stakeholders and recognize that which stakeholders will create value in the future may not be the same stakeholders that created value in the past. We've seen examples above with Walmart, McDonald's and Starbucks changing how they invest in their stakeholders. One revolutionary approach that can help other companies design their own new investments is creating a shadow board of directors (Jordan & Khan, 2022). A shadow board is a group of internal employees, typically younger employees, from diverse functions and contexts, charged with formal responsibilities of advising middle- and senior-management on strategic priorities. Companies frequently claim that their employees are their most valuable assets, but don't always demonstrate that with their actions; establishing shadow boards can be a way of tapping into the valuable knowledge and perspectives that many different employees have.

Of course, ultimate responsibility for a company's strategy and investments will come from its board of directors. And these are evolving to embrace new stakeholders, too. In 2008, Norway became the first nation to have a board gender diversity quota, mandating that at least 40% of a board's directors be women. In the time since, the ratio of women on boards of directors in Norway has increased from around 5% to over 40%. Many other countries have followed suit. The United Kingdom applied a voluntary comply-or-explain goal of 40% representation by women on boards; the ratio of women on boards in the UK has since gone from 10% to close to 45% for the FTSE 100. In 2022, the European Union announced it would be requiring all member-states to have a 40% quota. Whether its compulsory or voluntary, these changes are explicitly embracing new stakeholders, which should lead to embracing new perspectives, strategies, priorities and investments. And it is these strategies and investments that will make each firm unique. Find the strategies that make your firm unique, repeat those strategies and evolve those strategies as stakeholders and market conditions require.

Investing in stakeholders engaged with any firm can be what makes any firm unique. We discussed Herb Kelleher and Southwest Airlines' unique culture earlier. Kelleher was convinced that the company's culture (a) improved financial performance, and (b) could not be replicated. Anyone who has flown on a Southwest flight would likely agree with (b). Culture can be thought of as behavior and actions within a group that is programmed; importantly, it can also be influenced and managed (McNulty, 2016). It is an inclusive way to embrace new stakeholders; the Great Resignation and move to remote work are examples of why aligning culture with new stakeholders is critical. Culture may not show up on an income statement, but it is an externality that influences everything a business does; leaders being intentional with their actions will have to make sure culture is a positive externality and not a negative externality.

Firmenich is a Swiss company in the fragrance and flavor business. The company started investing in sustainability early in 1991 by signing the International Chamber of Commerce's first sustainability charter. They introduced biodegradable and renewable ingredients in making perfumes and then worked on socially responsible sourcing strategies. They soon began looking at the broader ecosystems of sustainability and experienced the sustainability action's positive inspiration among the

employees and its role as an important glue between the company and the clients. In 2021, the company used 96% biodegradable ingredients in their fragrance portfolio, 100% renewable electricity, and achieved no gender pay gap while keeping solid revenue growth. The strategic planning by Firmenich's leadership made it clear to all stakeholders what its plans and priorities were; its actions and investments over the next three decades created a culture of trust, authenticity, and engagement where all stakeholders aligned their actions with the leadership's strategy. This is the epitome of turning a short-term opportunity into long-term value creation.

6. Conclusions

We provide a framework to create a narrative that will help leaders think about how to turn short-term issues into long-term movements. The key to that narrative is believing that profits happen because of social, environmental and human-focused investments and not in spite of them. The social events in recent years have made this dynamic perfectly clear; when social and environmental issues dominate your customers', employees' and suppliers' priorities, profits only happen because of those priorities. Hope is not a strategy. Corporate leaders who hope that the recent challenges—environmental, social, political and economic—will simply go away on their own will be setting themselves up for failure. These problems will only go away if we address them head-on. Companies will only thrive in the future if they think beyond the immediate opportunity and focus on the long-term value that can be created for and by all of the company's stakeholders.

When individual stakeholders, from customers to employees to investors, are maximizing their own rational self-interest as they engage with each company, economic value is created through the business for everyone involved. Designing and implementing strategies that create such value over the long-term are the social responsibilities of businesses and business leaders.

Funding

The authors received no direct funding for this research.

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Disclosure statement

No potential conflict of interest was reported by the author(s).

Citation information

Cite this article as: Social impact as corporate strategy: responsibility and opportunity, Brian Bolton & Jung Park, *Cogent Business & Management* (2022), 9: 2111035.

Note

1. While Zoom's stock price fell 45% in 2021, Amazon's stock price increased 2.3% in 2021 and Etsy's stock price increased 23.1% in 2021.

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