Companies That Do Well Also Do Good

Is there a link between how well companies deliver on their social mission and whether they create long-term value for shareholders?

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Is it socially responsible for a management team to focus on long-term shareholder value? Harvard Business School professors Joseph L. Bower and Lynn S. Paine **write in *Harvard Business Review*** that the goal of driving shareholder value is "the error at the heart of corporate leadership."

While this has become a popular sentiment, the truth is that companies that succeed for shareholders not only generate valuable funding for potential environmental initiatives but also demonstrate a propensity to be more socially impactful. And this is not just speculation—the conclusions in this article result from tracking the total shareholder returns (TSR) of companies that were recognized for their social impact and for their investments in stakeholders at large.

When asked for their perspective on shareholders, many experts invoke miserly images from literature and Hollywood: Scrooge in "A Christmas Carol," Potter in "It's a Wonderful Life," and of course Gordon Gecko in "Wall Street." And in the current political climate, many management teams are hesitant to say they are in business to create shareholder value. Such a statement may brand them as materialistic, self-interested, money-grubbing, and greedy.

But this view is short-sighted. Many workers participate in pension plans that invest in and depend on equity and debt securities to meet their financial commitments to current and future retirees. According to the **Thinking Ahead Institute**, as of the end of 2018, there was about $25 trillion in U.S. pension plan assets, nearly all of which rely on the continued growth and success corporate enterprises.

In a similar way, charities, foundations, and endowments often invest their assets in equity and debt securities, and their ability to earn decent returns on those investments increases the reach of their philanthropic missions. And many successful company founders and executives donate considerable sums to charities. A well-known example is the Bill and Melinda Gates Foundation, which has more than $50 billion, mostly in equity investments, devoted to taking on some of the world's toughest challenges, including the extreme poverty and poor health care in developing countries and the failures of the U.S. education system.

Companies that create value also create jobs. Total employment increased by 61% over the ten years ending in 2018 among the S&P 500 companies that beat the median TSR. Compare this with the 2%

increase in employees for those that underperformed for shareholders. About 3.3 million more jobs were created by the high-TSR companies relative to the rest.

But beyond these direct benefits, there are indirect ones. When companies are financially successful, they have the resources to treat their workers better, to invest more in innovation (with all the resulting benefits to society), and to be more active and socially responsible as corporate citizens. Of course, it doesn't always work out that way. Just as not all people apply their skill sets in ways that are better for the community, not all companies aim to be good corporate citizens.

The Relationship

With our research, the question we sought to answer was whether, on average, there was a significant relationship between how well companies delivered on their social mission and whether they created long-term value for shareholders.

Fortunately, both *Fortune* and *Forbes* publish rankings that can inform the answer. The latest ***Fortune Most Admired Company*** ranking identified 50 global "all-stars" by surveying almost 4,000 executives, directors, and securities analysts, each of whom selected the ten companies they admire most. The criteria used were social responsibility, quality of products and management, investment value, and the ability to attract talent.

Forty of Fortune's most admired companies are in the S&P 500, and over the five-year period ending in 2018 the median cumulative TSR for those companies, including dividends and share price appreciation, was 26.4% above the median for the full index. So, these "admired" companies also delivered superior TSR for shareholders, demonstrating the link between doing what's admirable and creating long-term shareholder wealth.

The ***Forbes Just 100*** identifies organizations among America's largest public companies that pay workers fairly; treat customers well and protect their privacy; produce quality products; minimize their environmental impact; give back to the community; commit to ethical and diverse leadership; and create abundant job opportunities. Of these ranked companies, 93 are in the S&P 500. By applying the same analysis described above to these organizations, we found that over the five-year period ending in 2018 their median cumulative TSR was 12.6% above the median for the full index. So the *Just 100* companies also delivered superior TSR for shareholders.

Fortune and *Forbes* use different methodologies, each of which captures different perspectives on what it means to do good. So, we decided to examine the performance of the 23 companies that made both lists. The median cumulative TSR for this group was fully 41.5% higher than the median of the S&P 500 index over the five years. These results show a positive correlation between shareholder value and the social benefits a company provides.

And these findings are robust. We evaluated median TSR for the members of each ranking, as well as the combined list that includes those in both the S&P 500 and the S&P 100, and we examined each over the last one, three, and five years. Every way we cut the data, the median TSR of the ranked companies was always higher than the median of the index. Of course, this data doesn't infer any causality. But given the current climate of skepticism around shareholder value, it's worth repeating that we consistently see companies that achieve success for shareholders tend to also deliver more social benefits.

Just Rewards

While these rankings sought to identify good companies, as it turns out they have also identified companies that have done well for shareholders. Why is this? Sure, companies that are more financially successful have the resources to be generous, but it's also good business to have a happy workforce. Companies that treat their employees well tend to attract and retain better employees that work harder and smarter and partake in a sense of pride.

The companies we studied also tend to spend more on innovation to differentiate their offerings, which delivers more valuable goods and services to customers—that tends to make workers happier, too. And being a good corporate citizen pays in other ways. Environmental and social initiatives can serve as the basis of marketing campaigns that differentiate a company with its employees and customers. Recent research by George Serafeim, Dean of Sustainability at Harvard Business School, shows that environmental, social, and governance (ESG) investing can actually be a positive net present value strategy that provides a competitive advantage. This research takes our argument a step further, suggesting that companies can do well for shareholders *by* doing good. Those determined to pit shareholder value against the common good best take note.

It's not just that financial success provides the resources to be a good corporate citizen. Delivering value to all stakeholders can also provide strategic advantages that make companies more successful. Just as executives shouldn't be hesitant about letting the public know what they do to benefit their employees, customers, and society at large, they shouldn't hesitate to communicate their desire to create long-term value for their shareholders.

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