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2023 Will Test Companies' Commitment to Social Responsibility

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Summary.

The months and year ahead will test whether American companies will uphold commitments to ESG and corporate social responsibility as we near a recession. The authors, members of three organizations that work with leaders engaged in social impact across sectors and regions, caution against stepping back from these commitments and cutting costs. They provide four reasons why upholding ESG and CSR are critical to long-term success: 1) Your workforce is making employment decisions based on corporate purpose commitments and actions; 2) your customers make purchase decisions based on corporate purpose commitments and actions; 3) your investors make decisions based on corporate purpose and action; and 4) your company's reputation is intrinsically linked to corporate purpose and actions.

2023 will be a test of corporate America — the year we find out if corporate social responsibility (CSR) commitments and environmental, social, and governance (ESG) principles are deeply ingrained values or in fact only hobbies to be enjoyed in economic fair weather.

As members of three organizations who work directly with thousands of leaders engaged in corporate social impact across every sector and region, we urge you, corporate executives, not to step back from the gains you've made in community and global investment and employee engagement as we near a recession. It's taken an abundance of corporate commitment, years of dedication and investment, to see the benefits of your leadership.

With the likelihood of recession in 2023 increasing every day, corporate leaders are being tasked with navigating these turbulent times, and cost-cutting is a conventional strategy to deploy. Unfortunately, history shows that CSR, ESG, and purpose initiatives are typically first on the list to freeze or underfund during recessionary times. This test comes at a time when CEOs have made significant strides in tying ESG to profitability, with 70% of U.S. CEOs acknowledging that ESG improves financial performance, up from 37% just last year, per a recent [KPMG](#) survey. Yet 59% of CEOs said they planned to pause or reconsider their ESG efforts.

This is a mistake. Here are four reasons why prioritizing an investment in corporate citizenship is critical to the long-term success of profitable enterprises.

1. Your workforce is making employment decisions based on corporate purpose commitments and actions.

Recruiting and retaining talent continues to be a challenge in every sector, despite the weakening economy. While job security and fair wages will be top of mind during an economic downturn, employee engagement and corporate commitment to social impact, driven largely by CSR teams, remain critical. Edelman's special report "[Trust in the Workplace](#)" found that seven out of 10 employees wanted their job to bring societal impact, calling it a strong expectation or deal breaker when considering a job. Your employees will leave to find a purpose-driven employer if your company is not one.

2. Your customers make purchase decisions based on corporate purpose commitments and actions.

Consumers are even more discerning during increased times of uncertainty, which makes reputation and transparency key. While consumers are more attuned to rising prices, the differentiator will be brands that uphold their commitments to society through good times and bad. In fact, according to the [2021 Porter Novelli Purpose Premium Index \(PPI\)](#), "73% of consumers say [that] to win their support, companies must show how they are supporting communities and the environment."

3. Your investors make decisions based on corporate purpose and actions.

One of the core strategies of ESG investing is risk mitigation. ESG-related issues are material and can cause financial or reputational damage. Especially during volatile periods in the market, investors want to know that these social risks are being tracked and managed at the highest levels in the company. In March 2022, [Merrill Lynch issued a report](#) to its investors on the importance of the S in ESG, in which it asserted that because social factors underpin the key inputs to economic growth, managing and monitoring social indicators has never been as important as it is today.

4. Your company's reputation is intrinsically linked to corporate purpose and actions.

The Edelman Trust Barometer shows that trust in companies is slipping; all it takes is one poor choice to flip the perception of a company to disdain. Community needs will only increase during economic downturns, including basic needs such as shelter, food, and education. The continued support corporations provide to nonprofits through financial investment, employee volunteerism, product donation, and nonprofit board service — the S in ESG — is critical in maintaining strong relationships with your key stakeholders. Your

corporate responsibility team is your offense and defense for ensuring your reputation remains strong.

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Your “why” doesn’t change when things become less comfortable. In fact, it gets more important. So, where do you start?

You start from the inside out, by reasserting — and following through on — your commitments to corporate social impact. As leaders, understand what is required to uphold your commitments, maintain your company’s reputation, and transparently follow up on the impacts. Then, support your corporate social responsibility functions and leaders through social investment for the long-term. Leading companies invest 1% of pre-tax profits in society, with the top-quartile investing 2.3%. What’s your number?

Systemic change requires a long-term view of where a company and society is headed. If corporate leaders commit to serving communities of color, investing in their own CSR teams, and providing meaningful ways to engage their employees in their commitment to purpose, we can continue to build momentum addressing our most challenging societal issues and drive meaningful and lasting change.

Companies have established themselves as an important member of the community, and those that are most successful have incorporated social innovation into their business strategies. If companies cut their societal investment, employee volunteer programs, and other citizenship strategies now, companies and society at large will emerge from a recession with more severe challenges than we have today.

The choice is clear. Don’t default to a short-sighted strategy of cost-cutting. Strengthen your commitment to corporate purpose and emerge from the looming recession, hand in hand with your stakeholders, positioned for long-term success.

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