



# Corporate Responsibility in a COVID-19 World



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*Can corporate responsibility persist in the Covid-19 era? If so, how? Paul Argenti explains why now is the time to focus on the long term and think about the opportunity that comes out of crisis.*

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Is it the responsibility of companies to create value for shareholders alone or for all constituents? Every year, I open my Corporate Responsibility class at Tuck with this question, encouraging my students to discuss the differences between Milton Friedman’s shareholder-focused model and Charles Handy’s constituency-focused approach. As the years have passed, an ever-increasing majority of my students side with Handy, arguing that companies are responsible not just for the bottom line, but for their broader communities and the world in which they operate.

## Is it the responsibility of companies to create value for shareholders alone or for all constituents?

This belief that today’s corporations have a higher purpose is not just the purview of hopeful students in a classroom; the

concrete actions of the business world’s most influential investors and leaders increasingly reflect the same thinking. Environmental, social, and governance (ESG) issues are an increasingly important metric in the minds of many investors. At the April 2019 meeting of the Business Roundtable, 181 U.S. CEOs joined together to redefine the purpose of corporations as promoting “an economy that serves all Americans.” In his 2020 annual letter, Chairman of BlackRock Larry Fink declared that companies must contribute to society or risk losing BlackRock’s support. Vanguard and State Street followed suit. Given that these three funds collectively hold roughly a fifth of the S&P 500, it is difficult to ignore the rising and widespread influence of ESG activism.

And then the COVID-19 crisis hit. Abruptly that core question about the responsibility of corporations became enormously more urgent. Now a more appropriate inquiry, both for my students and for all business leaders, might be: Can

corporate responsibility persist in the post Covid-19 era? If so, what does it look like?

I believe that the answer to the first question is a resounding “yes.” I hope here to help answer the second one.

Corporate responsibility requires companies to take responsibility for how their actions affect individuals, communities, and the environment in which they operate. Nonetheless, they can be tempted, in times of crisis, to narrow their focus to just their shareholders and their bottom-line. Yielding to this temptation is dangerously shortsighted. Today, more than at any time in the past fifty years, businesses are expected to support all their constituents, and all the more so in crisis. The leaders of every major institution should therefore be thinking about how their reaction to this crisis will be remembered and judged, shaping their legacy. Given the immense strain of simply running daily operations during the pandemic, I believe that businesses should focus on three core areas of

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corporate responsibility: treatment of employees, treatment of customers, and treatment of communities. By attending to these areas, leaders can position their companies to weather the current storm and to emerge even stronger than before.

Companies must begin by taking care of their own, viewing their employees as assets, not liabilities. In times of extreme financial duress, companies must cut costs. Extensive furloughs or layoffs may be a tempting way to do that, but companies must realize that their employees are among their strongest assets. When this is over, those without a strong workforce will be unable to operate at full capacity. At the same time, companies must weigh the very real health risks their workers face while fully employed against the financial hardship of reduced hours or layoffs. While there is no universal answer that works for every company, viewing employees as assets, rather than liabilities, will guide this challenging decision in the right direction.

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Concretely, that direction is retaining as many employees as possible by providing financial support and prioritizing safety. Shell provided over \$2 million in cash contributions and employee match programs to support its employees' efforts to build their savings. Domino's Pizza, most of whose employees must work on-site, has drawn on its credit

line to hire more workers, devoted \$15 million to second quarter 2020 bonuses, improved its sick pay policies, and provided all employees with safety supplies such as gloves and masks. These steps helped both its employees and the long-term interests of its shareholders. As Domino's CFO Jeffrey Lawrence put it, "This is not a time to pinch pennies. This is a time to do the right thing for your team members, for your customers."

Danone also instituted comprehensive policies and practices, including salary guarantees and benefits, that indicate how highly it values its employees. In mid-March 2020, CEO Emmanuel Faber announced that Danone would guarantee all employment contracts and wages until June 30, 2020, extend healthcare and childcare programs, and establish a €300 million fund to help fragile suppliers. It also gave all employees in factories and warehouses in France a €1,000 bonus. Faber stated, "There is no way we can continue to supply our customers and consumers with food if our staff does not feel absolutely safe at work and secure about their jobs." When the virus struck Danone's Chinese factories in January 2020, it was also quick to react, reconfiguring factories to facilitate social distancing, stockpiling masks, and expanding remote work options. A central committee at Danone then extended the changes made in China to facilities in other parts of the world.

Companies that do reduce their workforce because they are facing serious financial problems should, at the very least, explain the rationale behind their decisions, being transparent about what they are doing and why. The reputations of companies that do not take this approach will surely be damaged.

Indeed, the reputations of Amazon and its subsidiary Whole Foods have taken a beating

because, although both are essential businesses, they clearly demonstrated a lack of commitment to the needs of their employees during the crisis.

The CEO of Whole Foods rightfully drew the ire of the press by urging employees to donate their paid time off to coworkers who were directly affected by the pandemic. Critics were quick to observe that, with Amazon's support, the grocery chain should have been more than able to afford granting adequate sick leave to all employees. Following harsh criticism from the media, Amazon rethought its policy and issued the following statement: "... Amazon is matching all funds to the Whole Foods Fund since the acquisition to support the team needs during this unprecedented event, and all Whole Foods team members have access to the 2-weeks paid time off related to coronavirus that was announced for all Amazon employees."

While Amazon itself has often acted responsibly during COVID-19, from spending "hundreds of millions of dollars" (per Jeff Bezos) on developing COVID-19 testing capabilities to procuring 100 million face masks to be worn by "all associates, drivers, and support staff in our operations network," these efforts were overshadowed by their otherwise poor treatment of employees.

Next, companies must consider how the pandemic affects core customers and find ways to acknowledge this impact without exploiting the tragedy. It would be tone deaf for companies to simply not address the upheaval caused by COVID-19, but they also must approach the topic tactfully. Dove walked this fine line brilliantly by celebrating healthcare workers in its Salute to Beauty campaign, stating that, "Courage is beautiful." The US version (the ad was originally created in Canada) also mentioned Dove's donations to Direct Relief

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to care for US healthcare workers. The ad was part of parent company Unilever's broader global commitment of around \$108 million in supplies and cash to COVID-19 relief, including 200,000 masks in New Jersey and a National Day of Service (May 21, 2020) on which Unilever donated all essential items made in its factories to the relief efforts of Feeding America and other charities.

PepsiCo subsidiary Frito-Lay, on the other hand, released an "anti-ad" celebrating everything it had done and denigrating other brands for advertising during the pandemic. While Frito-Lay genuinely has done great work by, among other things, creating 3,000 new full-time jobs with benefits and donating more than \$15 million to relief efforts, Fast Co. said it best, writing, "[These] are all laudable moves. But couching it in holier-than-thou anti-ad sentiment is a bold take. Especially when, and let's be clear, this is 100% an ad itself." Frito-Lay's campaign was not truly sensitive to this challenging situation. By pretending that an ad campaign had no advertising purpose, Frito-Lay at best introduced confusion about its corporate purpose, and at worst sowed the seeds of distrust in consumers.

By finding more direct financial ways to support customers, companies can go above and beyond. These efforts may range from extending loyalty programs to relaxing payment terms. JetBlue, for example, extended all its loyalty programs through December 31, 2021, allowing customers to retain their status without flying the requisite miles. Each current JetBlue Mosaic (frequent flyer program) member could also give one other person a Mosaic membership which lasted from June 15, 2020 through June 15, 2021. Similarly, Anheuser-Busch raised \$4 million through a voucher program in which individ-

ual consumers could buy a gift card and the company would donate a matching amount to the customer's favorite pub or bar. Anheuser-Busch thus both provided financial support to the bars that buy its products and created goodwill and brand awareness in the consumers who purchase those products.

Finally, companies must strive to support the broader communities in which they operate. To survive this pandemic, companies must remember that they do not exist in a vacuum. Supporting their communities is therefore critically important. By ensuring the survival of its community, the company can also ensure its own survival.

Caterpillar enacted a comprehensive plan to benefit all stakeholders, including its community. The Caterpillar Foundation committed \$10 million to directly support the global COVID-19 response and to help organizations, both locally and internationally, that have been affected. Their efforts ranged from food banks to hospitals to educational and international development organizations.

The Foundation worked with other organizations to provide resources to hospitals, medical staff, and patients, as well as facilitating online STEM and coding education for youth whose schools had closed. Furthermore, for a limited time, the Foundation expanded its existing U.S. Matching Gifts Program, providing a two to one match on employee and retiree donations to eligible nonprofits. The Foundation also raised its initial matching gift cap from \$1 million to \$2.5 million.

Prioritizing those who are most at risk is another way companies can support local communities. Shell, for example, donated \$132 thousand worth of isopropyl alcohol to organizations that make disinfectant wipes for surgical and medical applications. Those wipes were

distributed to hospitals throughout the US. Shell also produced and donated 1,600 gallons of liquid hand sanitizer to twenty-two emergency management offices, partnered with Mental Health America to provide resources and information to people in the US communities where they operate, and supported the Family & Youth Counseling Agency to help the front-line health care and displaced workers and their families of Southwest Louisiana. Finally, Shell worked with the United Way of Southeast Louisiana to assist people who were severely affected by the crisis.

Unfortunately, not all companies choose to protect the communities in which they operate. American Airlines displayed gross negligence during the onset of the pandemic by steadily increasing its number of flights through the end of April 2020 and seating people close together despite its claims that it was enforcing social distancing. Moreover, the airline then announced it would seat people in middle seats. It is no surprise that over 100 of American's flight attendants and forty-one pilots were diagnosed with COVID-19 by the beginning of April that year. And all this occurred while the company accepted government aid, which should have increased its sense of responsibility to the public.

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Companies, and other large institutions like hospitals and universities, hoping to be remembered for how responsible they were during this crisis, were not well served by a short-term financial focus. If ever there was a time

to focus on the long-term and to think about the opportunities that come out of crisis, that time is now. As this pandemic now drags on into 2021, ensure that your employees are well cared for. Continue to speak about the challenges this crisis has imposed on everyone without being exploitative. And extend support to the broader community in which you operate, recognizing that the health and success of local communities supports the health and success of corporations. Ultimately, corporate responsibility is not about saying the right thing but about doing it, every day. ■

## Author Bios

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## Endnotes

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