

## Global Market Strategy Research

### The Social Costs of Business: Implications for Sector Strategy

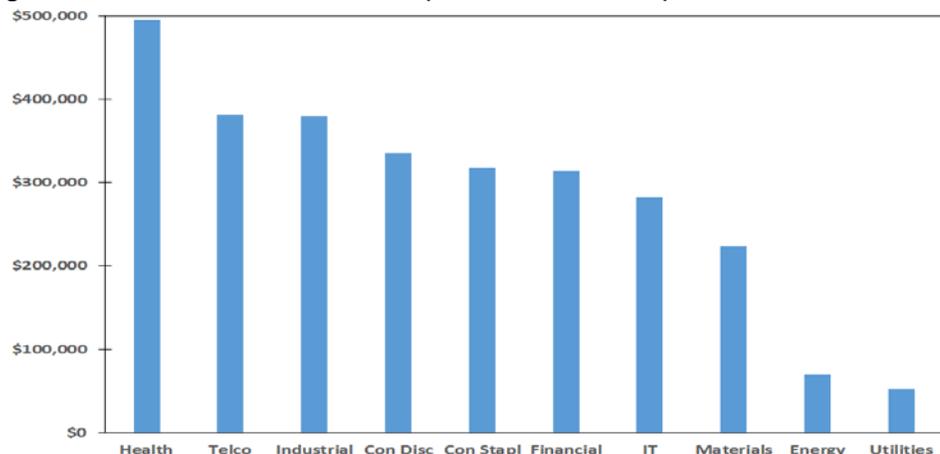


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- **The social responsibility of business** — In pursuit of the goal of increasing profits, businesses incur costs to nurture relationships with key stakeholders: local communities, suppliers and their workers, the company’s own employees, customers. Some of these costs are straightforward; others are tougher to quantify. To be sure, many business-stakeholder relationships have benefits too.
- **“S” at the sector level** — Utilizing a number of metrics — (i) costs of community support; (ii) costs of “cheap” labor; (iii) costs of committed and safe employees; (iv) costs of attracting and retaining customers — we estimate the “social costs of business” for the ten sectors in the MSCI ACWI.
- **In our opinion, “S” costs are material** — For the median sector, social costs represent an estimated \$300,000 per million dollars of sales. In many sectors, the greatest risk to margins from social costs would seem to arise from worker “underpayment.”
- **Sector strategy refined** — While there is currently no material change in sector rankings, the new “social costs” metric refines our sector strategy by explicitly incorporating costs that are oftentimes overlooked by traditional financial analysis.

**Figure 1: The “Social Costs of Business” (Per \$ Million of Sales)**



Source: Cornerstone Capital Inc.

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