

TAKING STOCK

RISK MANAGEMENT INSIGHTS FOR THE RETAIL/WHOLESALE INDUSTRY



SOCIAL RESPONSIBILITY AND RISK FOR THE RETAIL/WHOLESALE INDUSTRY

A positive relationship with investors, customers, and employees can contribute to a retail/wholesale organization's success. Public perception of a company's citizenship, ethical approach to operational decisions, and its overall societal impacts can affect its reputation and sales. As a result, retailers and wholesalers are increasingly pressured to demonstrate that they are acting responsibly. But the manner in which a company approaches and engages such initiatives is not without risk. As organizations incorporate social responsibility into their operations, it is important to examine potential issues and consider ways to best address such risks.

Social responsibility is generally defined as an ethical theory of citizenship where an entity — whether an individual or an organization — has an obligation to act to benefit society at large. Corporate social responsibility initiatives have the potential to touch all aspects of a retailer or wholesaler's business, including:

- Where a company locates its facilities.
- What products it sells.
- Who it will engage as business partners.
- The employment and benefits choices that it makes.
- How it interacts with customers and local communities.

While the concept of social responsibility is not new, companies today are often expected to play a larger role for a variety of reasons. In part, this is because retailers and wholesalers:

- Are a source of employment and economic development within communities.
- Enable the flow of necessary goods and services to customers.
- Require close interactions with the public and are expected to manage their operations in a way that minimizes negative impacts.

Organizations with integrated social responsibility plans can often enjoy positive reputations, which can create competitive advantages. The ability to demonstrate that corporate citizenship is embedded throughout the organization and positively engaged with customers and local communities can be a powerful differentiator that can enhance brand recognition, propel public relations initiatives, and increase customer traffic.

SOCIAL RESPONSIBILITY RISKS

Companies actively pursuing social responsibility efforts can face several risks that can threaten their operations. These include:

- **New product offerings.** Companies consistently seek new products to offer customers and social responsibility can often be connected to these business decisions. For example, consumers increasingly value locally and regionally produced products as well as organic and gluten-free foods, and expect to see such products on store shelves. But retailers may be pressured to pull or recall a product for any number of reasons, including if the product's description is found to be invalid, potentially exposing the organization to reputational damage, claims of false advertising, and recall expenses.
- **Discontinued products.** Companies may decide to discontinue certain products that may be considered unhealthy. Consumers who wish to continue purchasing these products may be alienated and take their business elsewhere.
- **Supply chain.** Organizations that source local and regional products can often better demonstrate corporate citizenship, community support, and benefit from powerful promotional opportunities. But local producers may be unable to comply with contractual requirements such as insurance, which is often required to protect wholesalers or retailers.
- **Human resource practices.** How an organization chooses to align employment practices and comply with the requirements of the Affordable Care Act, and how those actions are perceived by employees and the public, can affect its reputation. Employees that do not qualify for benefits may seek medical care under a workers' compensation claim.
- **Community relations.** Retailers and wholesalers that seek to promote a welcoming and safe environment for customers and employees can be challenged by store or facility locations in remote and economically distressed locations. Additionally, in municipalities where local regulations permit weapons to be carried, businesses may need to strike a careful balance between the private rights of citizens and public responsibility.

MANAGING THE RISK

A business that is perceived to be socially responsible may be able to promote its presence within a community and ultimately increase sales. Conversely, actions or events that are perceived by employees or the public to be irresponsible, unethical, or contrary to the public good can damage the brand. To better manage these risks, retail and wholesale companies should:

- Publicize and explain product shifts, incorporating the business context and social consciousness behind the decision.
- Arrange vendor insurance programs that allow for the enforcement of procurement policies and the ability to continue doing business with smaller suppliers.
- Review workforce management policies and liability programs to ensure potential regulatory compliance. Also, communicating and educating employees about the various benefits options available may be helpful.

The ability to embed corporate citizenship and social responsibility into business decisions, corporate practices, and operational policies throughout the organization can help mitigate the frequency and severity of employee and customer incidents, regulatory enforcement activity, fair labor practice claims, and other issues that can result in negative publicity, reputational damage, and lost business.

For more information about Marsh's Retail/Wholesale Practice and other solutions from Marsh, visit marsh.com, or contact your local Marsh representative.

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