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Corporate Social responsibility: The growth of a business phenomenon

Abstract
Work/ Life balance is one of the indicators of a responsible employer who is concerned to provide a "great place to work" for sound business reasons. In a world where product cost and quality often do not differentiate clearly between competing businesses, it is the quality of customer care as demonstrated by satisfied and motivated staff that can make the difference. This article puts the issue of work/ life balance into its wider context of corporate social responsibility.

Purpose

This first of two articles intends to make clear why the majority of the major global corporations now feel the need to report on their annual activities not just in terms of their finances and profit. It has almost become a given that firms with internationally known names report to their stockholders and their wider stakeholders on the social and environmental impact of their businesses as well.

This first article takes a descriptive approach with the purpose of explaining CSR to those who are new to the concept and are uncertain what CSR means. For people who may still be hazy about the difference between CSR, philanthropy and business sponsorship. This article is not intending to be critical or analytical. That more questioning approach will be applied to a follow-up article.

What is CSR?

Increasingly companies are beginning to recognize that society's expectations of business continue to get more demanding. A recent survey concluded: " A company's responsibilities to society, environmental and labour practices are all seen by the public across 20 countries as more important than its economic contribution. [27]

"CSR is about how companies manage the business processes to produce an overall positive impact on society."(Source: Corporate social responsibility, www.mallenbaker.net/csr/)

"Corporate social responsibility is essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment." (Source: Promoting a European Framework for corporate social responsibility (2001) Luxembourg: Office for Official Publications of the European Communities)

[27] Environics' Global Campus Monitor (2003) conducted among 1,200 undergraduates across the 20 largest economies in the world

"CSR is about business giving back to society" (Source: Making Good Business Sense (2000) The World Business Council for Sustainable Development)

"For the Academy, CSR is about the management of a company's impact on its stakeholders, the environment and the community in which it operates. It is more than just the amount of money donated to charitable causes. It is about the integrity with which a company governs itself, how it fulfils its mission, the values it has and what it wants to stand for, how it engages with its stakeholders, and how it measures its impacts and publicly reports its activities." (Source: CSR Academy (2004) The CSR competency Framework, www.csracademy.org.uk)

Customer satisfaction is where CSR begins and the bottom line is where it ends.

Why is a study of CSR important?

Progressive policies in the modern business world owe a great debt to the unethical behaviour of a number of high-profile globalised companies:

The verdict on the CEO of Enron in May 2006 reminded the world of the events which shook the sense of financial probity in the USA, leaving thousands of employees robbed of their retirement funds and the state of California struggling in the supply of its electricity.

In 1999, the world was shaken by photos of nine-year old children sewing Nike footballs in sweatshops in Pakistan. Since NGO have frequently highlighted dubious practices in the developing world as global giants out-source their manufacturing.

EXXON Valdez, the world's largest environmental disaster to-date in 1989, left the coastline of Alaska devastated for years, fifteen years later large elements of the ecosystem still had not recovered and the livelihoods of fishermen were severely reduced. A disaster made worse by a CEO who appeared before the world's TV screens and seemed to be both uninformed about the disaster his company had created and appeared not to care.

The advent of instant mass media brought these events into the world's living rooms. Is it any wonder that in recent surveys 48% of the global public declared little or no trust in large companies![28] In a recent survey in the UK 62% of British adults said they do not trust business leaders.[29]

Kraft, Nestle, Proctor & Gamble, Shell, BP, Microsoft, BBC, Unilever, Vodaphone, Starbucks, L'Oreál, Cadbury Schweppes, E-ON, Sony, Orange. Just a handful of the respected big-name companies who have incorporated reporting on the social and environmental impact of their business into their annual reporting systems, the so-called Triple bottom-line: How is our business doing: financially, environmental, socially. There is hardly a company within the US Fortune 500 Group that has not fully developed CSR practices and policies. More than half of the top 250 companies in the UK reports on environmental, social or ethical performance showing that non-financial disclosures have become of mainstream interest to outside stakeholders. [30] Not all of CSR companies and their reporting

[28] Voice of the People (47,000 adults across 47 countries), 2002
[29] MORI Trust Monitor, 2003
[30] Financial Times, 9 September 2003 Corporate Social Responsibility

methods are without their critics. But it is an indication of the breadth and depth of the trend towards CSR that "big business" feels it just has to account for their social and environmental impact, to their stakeholders and the wider public as well as reporting to their stockholders on the company's economic and financial performance.

Scope of CSR

The "bottom line" is the traditional way for a business to report on its annual success. A message to shareholders and the money markets on the financial state of the company. Answering for their operations on the quality of their management and how well they have performed financially.

But the world is changing. And changing fast. Outside stakeholders are increasingly taking an interest in business activity, especially in those firms that have a global reach. These wider stakeholders too are taking an interest, enquiring what – for good or bad – the business has done. How its goods and services have impacted on the world, on the environment and on society – either locally or wider. Some of these stakeholders are "internal": trade unions who are interested in how the company treats and develops its workforce. Others are NGO's interested in the effects of out-sourcing of the manufacture of goods to developing nations where regulation of industry is less rigorous. Others are customers who – while still prioritising value for money, accessibility to goods and quality – want to ensure that the products they buy do not offend their personal values, such as cosmetics that have been tested on animals.

"Triple Bottom-line"

The phrase has become a by-word for the progressive business which claims to take its behaviour responsibly. A CSR company reports annually on its financial performance as always but now it also comments formally on the effects its operations has had on the planet and the impact of the business on society,:

Economic performance

The financial bottom line is predominantly the focus of financial analysts. It does not address the questioning demands of the wider network of stakeholders that surrounds every global company. But a business ignores prioritising its financial performance at its peril. No amount of concern for its environmental or social impact can relieve a business of its responsibility to perform well financially. Every CEO in charge of a struggling company knows that! But CSR companies are widening the scope of their responsibility to include the wider environment and the planet; its own internal environment, the climate within which its own employees operate.

Environmental effect

The impact of a business's performance on the environment is reflected in two separate spheres:

What was it that prompted the tiny business that ferried the author to nature reserves off the coast of Wales to advertise that its business was "carbon-free"? For safety reasons, it had to use powerful speed-boats against the capricious tides, ironically burning up large amounts of fuel in order to bring its customers to environmentally sensitive areas. Why did a small company with a fleet of only five speedboats feel duty-bound to put in its advertising that it compensated in other ways for its carbon emissions?

The sustainable development of a business is part of the PR a company projects about its activities to the world. A concern for the well-being of the planet may not be naïve idealism. Some businesses have demonstrated with considerable success, for example, the fact that reducing their emissions and re-cycling the heat they had previously emitted as waste into the atmosphere has significantly reduced costs. And contributed positively to the company's financial bottom line.

In addition to this concern for the external environment, many firms in the competitive market place have reviewed their internal environment, their own workplace, the way they treat and develop their own employees. In a world where quality and cost decreasingly differentiate between services offered by competing businesses, top firms are falling over themselves to attract the best employees they can. High-powered women executives who go off an have a baby should not be encouraged to return to work later and to take their expertise to a rival company. They will not if an effective HR programme has been organized that makes it possible for these valuable employees to ease their way back into work and offer their years of experience and expertise back to their former employer.

Social impact

Philanthropy has been the traditional way in which some businesses have contributed to society. In the 19th century, libraries were founded, concert halls built. The rich in business such as Rockefeller and Carnegie more than played their part. They made their money. And **then** they gifted to society lasting monuments to their name and business acumen. And the evidence from the Bill Gates Foundation, now joined by the world's second richest man Warren Buffett in June 2006, proves that philanthropy is still alive and well in the United States at least.

More of a 21st century phenomenon is ethical purchasing. Evidence from the success of the Body Shop group or the American ice-cream company and ethical pioneer Ben & Jerry's shows that value-based criteria in society do affect some consumers' purchasing behaviour. The anti-GM food campaign in Europe, the scare about iPods being produced in sweat-shop conditions, the manufacturers of the world's leading sportswear companies allegedly producing their goods in the de-regulated conditions of the developing world, reports of leading clothes manufacturers employing child labour in conditions that prevents them from finishing their schooling, – all of these provide evidence of a trend that society at large is keeping a close eye on the social impact of how a business operates. Many in the UK were shaken in 2006 when Body Shop was purchased by L'Oriel, a company whose policy on testing cosmetics on animals was not so absolutely clear-cut. A Brand Index survey has suggested that satisfaction ratings in the ethical cosmetics company Body Shop has slumped since the company was taken over by L'Oreál. According to the survey, satisfaction levels in the Body Shop have gone down from 25 points to 14.

The author himself enjoyed direct involvement in one of the UK's "academy" secondary schools. Fifteen years ago, a carpet manufacturer invested time, money and expertise in a failing school in south London. It had been a school in a poor environment, attracting only those pupils other schools did not want. After management expertise from business contacts, pump-priming money from central government and the businessman, fifteen years later, the school is being held up as a shining example of what a community school can achieve, with outstanding pupil behaviour, high educational standards and excess demand for places. This pattern is being replicated nation-wide in the UK. Business investing in local schools and the future workforce, business working for educational excellence.

Businesses have responded to society's increasing demands and challenges. "Triple bottom line" reporting for many has become the norm:

Economic performance
Environmental effect
Social impact.

Advocates for CSR – both in large and small companies – will invite business leaders to examine some core issues:

Customer service

If businessmen imagine that customer service is only about price and service, they should consider that the public's reaction to the EXXON Valdez disaster reduced the company's stock value from the largest oil company in the world to the third largest in just a few weeks. The public has also ensured that "EXXON Valdez" has permanently entered the world's vocabulary as a shortcut meaning business arrogance and ecological damage. In a world where price and quality differentiate little between the offer in the high street, for many companies, the value of a brand name has become huge. Kellogg's reckon that 97% of their stock value is attributable to their name. Dirty your name and you do serious damage.

Marketplace

Nike might have asked more questioningly what are the risk factors connected to the product you make when you out-source your manufacturing to suppliers in Vietnam or Pakistan. Or they might just have considered who are the customers about to boycott their products because the local suppliers they used were guilty of using child labour.

And Apple in 2006 – when they were accused in a British newspaper of having a supplier producing their iPods in the third world under sweat-shop conditions – might have wondered just how do you future-proof your business to go-with the emerging social trends rather than being tripped up by them.

And did Google seriously estimate correctly world reaction to their agreement to allow the Chinese government to control access to information when Google went live in China in 2006? Did they anticipate the reaction to their reputation as the world's most accessible route to e-information when they put considerations about competitive edge before social and business ethics? On this issue, one survey on a global internet forum for CSR specialists found a majority for maintaining home values while operating within the law (54%) and a strong 38% for not doing business under such conditions. [31]

[31] Business Respect No. 92, April 2006, http://www.mallenbaker.net/csr/

Environment

There is no such thing as pollution, There is just a valuable resource in the wrong place at the wrong time. Are you paying twice for the things you never use? Once when you buy in your raw materials. And then again when you pay to have them taken away as waste. Many business have now worked out how to save money by handling their waste more effectively and cut down on unnecessary packaging.

Workplace

Your people are your greatest asset. You say it again and again. Do you really treat them like that? Do you nurture their pride in their company? Or do you burn-out their energy and commitment every waking hour while they plan to move to a more family-friendly company? British Telecom claimed it saved £3m in recruitment costs in the year to March 2003, since 98% of women returned after maternity leave. As a result of its flexible working programme, BT has 9,000 employees working from home and it reports an absenteeism rate of 20% below the UK average. Similarly, after introducing a more family-friendly policy of work-life balance, PriceWaterhousecooper, the global consultancy firm, reported in the UK an increase in return rate after maternity leave. In 1998 only 40% of their highly skilled and qualified women returned; by 2003 it had jumped to 80%. Unilever records 90% of its women managers return to them after starting a family but an internal survey found that 60% of the managers returning to work part-time would have left if they could not have worked flexibly.

Community

If you think you have a divine right to do business, your local community may surprise you. Like when you want to expand, they might not be so supportive. Or if you do not invest in the local community, they might not be able to supply you with the skilled staff you need to do business. And did Disney, the ultimate family-oriented company, really want an NGO splashing over the world media that workers building the Hong Kong Disneyworld were housed in inhuman conditions? Action Aid reported construction workers living in huts with 3-4 bunks used by 6-8 men, a shower stall which doubled as a toilet. And subjected to working untrained on constantly running machines with a high record of injury. Working 12-13 hours shifts for 6-6 days a week for 40 cents an hour. Is that the Disney dream its marketers promised itself?

Growth in interest

There can be no doubt that businesses move with the times. The world has changed, businesses have changed with it. The following causes are some of the reasons why – as a result of changing times – businesses have embraced the cause of socially responsible behaviour in business:

Advances in Information & Communication Technologies

When the Director of Shipping for EXXON was giving out good news to the press conference that the company had in place procedures that were coping with the world's largest environmental disaster, the world's media were overhead in helicopters filming the failure of such procedures. Through their own television sets the world was able to judge for itself the value of those re-assurances and see for themselves what they were worth.

When the EXXON Chairman eventually went live on TV and showed he had not even read the latest plans for the clean-up arguing that was not the job of a Chairman, the media flashed instantly around the world into our living rooms his apparent lack of concern.

Instant communications means the CEO can no longer hide. Confronted by a strong tradition of investigative journalism in the world's media, bullet-proofing a business's financially-valuable reputation has become a major chore.

Stakeholder activism

It is everywhere. The media are out for a good story. NGO's in the developing world are casting suspicious eyes at global companies taking advantage of de-regulation. The supply chain, too, is under scrutiny, every Third world supplier knows any abuse of human rights is being watched and will be publicised. And it takes only hours for the world to be informed. Activism has become a professional undertaking. For some in the anti-globalism lobby it has become a full-time way of life. For the animal-liberation activist, the commitment is full-time. Even the middle-class housewife out shopping and wanting to avoid feeding her family unknowingly with GM-food – hardly the most radical of activists in the world – she too expects more of business rather than just making money. The concert-goers in 2005 who crowded into the Live 8 concerts around the world had a good time. But they knew what they were saying when these stakeholders chanted "Trade not Aid". Business leaders are not trusted any more than are politicians. They live under the microscope.

The demand for business to consult with their wider stakeholders has become the norm in terms of expectation. Businesses are increasingly being held up to account. Transparency in the way they report on how they do business is expected. The Enron scandal shook the corporate world of America when it discovered that its strict regulatory procedures could still let something on this scale happen. No longer is it acceptable for businesses to comply with the statutory minimum. A company that wishes to project itself as a positive and attractive employer has to be offering more than the minimum required by law. Or else!

Arguments over the influence of the energy industry on the Bush administration and US foreign policy remain unproven. But American companies are finding growing levels of attention being paid to their political donations by investors concerned about the use to which corporate funds are being put. According to the Financial Times in 2006, the issue is likely to become more prominent in the run-up to the November 2006 elections since candidates in close races will seek even greater funding from companies. Recent scandals have prompted demands for greater transparency on political contributions, which during the last big election cycle in 2002 totalled $184m.

Transparency is now demanded. Otherwise one might get the recent accusations against the Australian company passing bribes to Saddam Hussein to help by-pass the UN food-for-oil sanctions. The increasingly sceptical public and the investing community still needs convincing and keeps searching for answers.

The days are long since gone when business could shrug its shoulders and glibly "That's business!"

Supply chain responsibility

And if it wasn't enough to be held accountable for a business's own operations, global companies are kept under the microscope for the behaviour of their suppliers. It was not Nike that employed a nine-year old boy to sew footballs in Pakistan. It was one of their suppliers.

Stakeholders are holding big business accountable for the actions of their supply chain. And the more committed to CSR a business becomes, the more society stringently expects the well-managed, ethically responsible global company to police their suppliers in the third world to manage abuse of human rights, to wipe out unethical employment practices and to control pollution of the environment or in the workplace. Hypocrisy in the CSR world is dealt with more cruelly that any other business that has turned its back on the concept of "responsible business".

Apple Computer produced a report into operations at its suppliers factories in China in the face of the criticisms in a UK newspaper in 2006 on sweatshop allegations. The report said that some discrepancies had been found, but there is no evidence of child or forced labour. The company's audit found that that all workers at Foxconn's plant earned at least the minimum wage and over half the workers received more, with the opportunity for bonuses. But workers were often working over the 60 hours per week maximum. However, the International Confederation of Free Trade Unions (ICFTU) still doggedly criticised the report on the grounds that it had not been independently verified.

More positively, in July 2006 Greenpeace acknowledged the role of the food companies such as McDonalds in bringing soya traders to the negotiating table over the devastating deforestation in the Amazon. Multinational traders in soya beans had released a statement declaring a two year moratorium on buying soya from newly deforested land there. The move followed action by some of the leading food retailers including McDonald's which in turn had been prompted by world-wide publicity in the mass media about the deforestation issue. The group of traders and food companies remain under pressure on the issue nevertheless, with Greenpeace having warned that the moratorium will be seen as a token gesture unless further real change is delivered.

The purchasing power of the multi-national, it seems, is seen as a powerful weapon. The public expects big business to use it responsibly and is reluctant to turn a blind eye.

Government interests in CSR

Governments have long since taken an interest in the practice of business and regulated to control business behaviour. The trend continues:

The Indian government is to ban the use of children under the age of 14 working as domestic servants or at hotels and restaurants from October 2006. The penalty for breaking the law could be a jail term of up to two years. India is generally held to be the country where child labour is most common, and children working in restaurants and food stalls in particular are a highly visible sign of the problem. The government said that such children are often made to work for long hours and undertake hazardous activities. Children are already banned from highly hazardous industries, but the ban is generally thought not to be effective. Doubts remain also about the viability of this latest measure, too.

A more novel approach has evolved in Europe more recently. The EU is probably in the lead among political institutions to have placed CSR at the heart of its competitive strategy. This will be addressed in a subsequent article. Suffice for now the statement that:

"The European Union is concerned with corporate social responsibility as it can be a positive contribution to the strategic goals decided in Lisbon *'to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion'* ".

Increasingly societal changes have shown a shift in balance from the dominance of government to regulate and control society to one where responsibility is shared more equitably with business and civil society/ NGO's. These latter institutions have relatively grown in power and influence while those institutions attached to the nation state may have increasingly found themselves increasingly frustrated at their lack of ability to shape and manage events. For years, competing EU member states have argued in a self-protective way about a sustainable fishery policy while still fighting to preserve national interests. National governments negotiating with each other have come up with no solutions and continuing depleting stocks. Unilever wanted to stay in business and continue to sell fish products. With the power of their supply chain, they developed their own sustainable fishery policy. Business – acting in the interests of business in en environmentally responsible manner – succeeded where governments have consistently failed.

The business case for CSR

In a sense, there is none. Not if by a business case one means the provable reason why – in taking a course of action – a firm can expect to receive more benefits than it costs. There is no guaranteed business case for CSR, – just as there is none for innovation or marketing. Benefits from participating in CSR may be non-financial and hard to quantify; they may be long-term; they may not materialize at all. Just as some marketing campaigns can go wrong, just as innovations can fail to get to market. No guarantees, no bullet-proof business case. Success in doing CSR depends on the judgment in the selection of which actions to pursue. And the flair, skill and energy applied by management to achieving results. CSR is an art-form, not a science. It requires human judgement, humans are fallible. It is a discipline containing benefits, choices, dilemmas and disasters.

There are, however, common themes that emerge.

Reputation and risk management

Numerous surveys have been conducted to assess the growing movement of public opinion in the USA and Western Europe towards brands and companies with good reputations. There is a body of evidence that a company which is considered to be socially responsible can benefit both from its enhanced reputation with the public as well as its reputation within the business community. The 2001 Environics International CSR Survey Monitor listed the three most important factors influencing public impressions of companies were: social responsibility (49%), brand quality/ reputation (40%) and business fundamentals (32%).

What I buy is what I am, – this is increasingly a perception of the purchasing public and it is a tool used by marketers to increase market share. While all businesses must first satisfy customers' key buying criteria- price, quality, availability, safety, convenience – studies show an increasing desire to buy (- or not to buy -) as a consequence of values-based criteria ("sweatshop-free", not-tested-on-animals, GM-free, "child-labour-free"). Do I want to buy products tainted by such ideas if there is little to put between the competing products on the supermarket shelf in terms of price and quality? The western world has achieved levels of unparalleled well-being in the past years. Only a passing knowledge of Maslow's theory would lead one to expect a shift upwards to higher levels of concern. Worrying about your daily bread is being replaced for some with concerns for the world we live in, in the products we buy. And the way we do business. And this is particularly true of the well-to-do, the better educated, the well-connected and those for whom price is not the first consideration.

The distrust of business leaders and larger companies mentioned above is worrying when accountants are now adding the value of a company's brand image to the balance sheet. It is estimated that 96% of Coca-Cola's value as a business comprises intangibles like reputation and brand-image. American Express calculates 84%. What value does the company hold when such an valuable commodity as the brand-image is severely dented? The Exxon Valdez incident clear showed the answer.

In the context of the above social-change environment, a range of issues can threaten the value and future health of a company: human rights abuses in the supply chain, pollution incidents, environmental explosions such as in 2006 the accusations against Coca-Cola in India. Coca-Cola was alleged to have high levels of pesticide residues in its soft drink products. The Centre for Science and Environment (CSE) said that its study, based on 57 samples from over 12 Indian states, showed that the drinks contain harmful residues. The group said that the levels in some samples exceeded standards by 140 times for the pesticide Lindane, a known carcinogen. Coca-Cola argued back that the NGO was not an accredited laboratory and did not operate to fixed standards. The company's products, it said, had been tested against stringent EU standards which had found no correlation for the allegations of pesticide residues. Nevertheless, both Coca-Cola and Pepsi faced a strong backlash in the wake of the attacks. Recently five Indian states placed partial bans on the sale of the products, with Kerala in addition opting for a more wide ranging ban. Of course, a management executive assesses risks every day, he has to convince itself that such incidents will actually bite. He had to assess the potential damage. Many might choose not to act, they might take the risk. But in the environment of CSR today and an increasingly demanding public global media, it is an ever-widening source of potential risk that the executive feels driven to examine.

86% of institutional investors across Europe believe that social and environmental risk management will have a significantly positive impact on a company's long-term market value [32]. But despite that, less that 33% of respondents in another survey admitted to incorporating risks associated with sustainability into their risk assessment strategies. [33] Evidence that there is still a long way to go before the link between the growing trend towards CSR and the widening of risk assessment is operating universally.

And the question of brand image is becoming increasingly important. And consequently reputations remain continuously vulnerable to market pressure. How can a product be top quality if it is produced in a sweat-shop? How can it be fun to use if it was manufactured by children unable to attend school because they are forced by poverty into work? Marketers go to great lengths to create an image of their brand in the public's eye. Many brands get tainted by stories that run counter to people's values:

Indian police in July 2006 rescued 160 children from a train that was taking them to work as child labourers at a plant run by the Oil and Natural Gas Corporation (ONGC). The children were aged between 10 and 14, and had been brought by a private contractor to work at the plant. Police acted on a tip-off, but failed to catch two agents that were escorting the children to the plant. ONGC, which features at number 13 in the list of India's most respected companies in the Business World survey, is a signatory of the Global Compact and states that it is committed to taking action against child labour.

Being caught out may not wipe out sales the next day. But such counter-productive images do have an impact, – especially when the competition has bullet-proofed theirs.

CSR offers a means by which companies can influence the attitudes and perceptions of their stakeholders, building up trust and developing the benefits of positive relations into business advantage. By encouraging firms to take a pro-active approach to identifying risk across a widening range of features, including social and environmental impact, CSR offers the opportunity to reduce avoidable losses, identify new emerging threats and protect the value of its reputation.

Employee satisfaction

Business are run by people for people. Zadek describes companies as: „ no more or less than a human intervention for making things of other things and getting them into use" [34] Businesses as such are dependent on its employees (people), on its relationships with its stakeholders (people) and on the creation of value (bought by people). It is not possible to separate employees out from a business, they are the business. Understanding and aligning their values with the business is critical for business success.

[32] Taylor Nelson (2001) The European Survey on SRI and the Financial Community (conducted among 302 financial analysts and fund managers across Europe)
[33] PWC (2002) 2002 Sustainability Survey Report. PWC.
[34] Zadek,S. (2001) "The Civil Corporation: The New Economy of Corporate Citizenship" Earthscan.

"A new breed of job seeker is placing ethical considerations above financial incentives when considering a job offer. Future job packages need to reflect this new found ethical consciousness among job seekers if companies are to maintain their appeal". (Keith Robinson, website Director, totaljobs,com)

It is an ancient adage, "People are our greatest asset". Many firms today, even when faced with having to lose staff numbers over all, are working hard to attract and retain the best and most talented, Increasingly, especially among talented people, – in particular among the indispensable and well qualified young people every corporate wants to get their hands on and who accordingly can make demands to their own – good employment practice and ethical values are key factors in attracting and retaining the most talented in their workforce. [35]

People spend a lot of time at work, they expect to grow and flourish there just as they do out of work. People want to work for a responsible organization. [36] Recent evidence in the USA suggests that 60% of people want to work for a company whose values are consistent with their own and that they will remain loyal as long as this consistency pertains. [37] An employer may support their image by encouraging employee volunteering and company charities. But fundamentally, the issue is increasingly whether the young bright and talented are proud to work for the company they are with. And that starts with the way the company does business – and the way it treats its employees.

Shareholder self-interest may play a part too: In June 2005, some of the largest shareholders in Wal-Mart wrote to the company urging action over the company's corporate reputation following a series of fines and class actions on workplace issues. Wal-Mart has been acquiring a name for poor employment practices. The letter, timed to coincide with the company's annual general meeting, argued that publicity around the poor reputation was beginning to impact on the company's share performance. The shareholders expressed 'serious concerns' about regulatory non-compliance.

Innovation & learning

Peter Senge's finding in MIT Review noted that corporate mortality is a symptom of a deep problem that affects all companies: they are poor learners. [38] In a survey of European business leaders, however, an astonishing 80% agreed that responsible business practice stimulates creativity, by integrating a focus on society and the environment into the main-core of their business practices, a CSR firm is per se a learning organization, it must be learning about the marketplace. The long-term survival of any business depends on understanding and responding to societal change. In a world of increasingly rapid change, given a planet facing significant social and environmental problems, dramatic changes in the way businesses

[35] The work Foundation (2002) The Ethical employee

[36] BITC (2003) Responsibility: Driving innovation, Inspiring employees. FastForward Research 2003, Business in the Community

[37] Environics' Global Campus Monitor (2003) conducted among 1,200 undergraduates across the 20 largest economies in the world

[38] Senge, P.M. & Carlstadt, G. (2001) Innovating our Way to the Next Industrial Revolution. MIT Sloan Management Review. Vol. 42. No. 2.

operate is inevitable. It was back in the more stable 1970's that Shell estimated the average lifetime of a corporate entity was forty years. [39] Rapid change and the drive to innovate continually threatens even that life-span now. The key to survival is renewal, innovation, creativity. Leaders of CSR companies are using their links to their stakeholders, society and the environment to promote innovation and are turning social and environmental learning into business opportunity.

Concern for the environment is creating product innovation. To save the environment in July 2006 Ford declared it would invest £1bn in the UK alone by improving ordinary engine efficiency and reducing the weight of cars through the use of advanced materials.

Or witness the growth of hybrid engines in cars. A new model which solves an environmental problem and has found itself a niche market among car-purchasing customers. But CSR does not come before the business case. Any product developed in the name of social responsibility which is a detriment to the success of the business is unsustainable. A zero-emissions car that drives like a dog and costs twice as much will not do. Performance equivalent to what the customer already has must be in-built into the design specification. Placing concern for the environment before implementing sound financial performance is not a business option.

Financial performance

The Institute of Business Ethics surveyed the FTSE 250 companies and discovered that those with an ethical code in place out-performed the average on economic and market value-added. [40] This mirrors the findings in the USA of a survey of companies which had performed successfully for fifty years. Those with a "vision" – a core purpose beyond making money – also achieved a far higher financial performance that their "non-visionary" peers. [41]

Corporate responsibility is considered by CEO's to lead to direct improvements on the bottom line. Nearly 70% of CEO's surveyed rated CSR as "vital" to profitability. Understanding how your company uses materials, re-considering the state of packaging, how waste and energy are managed have been proved to reduce operating costs. Integrating environmental considerations into new plant can reduce lifecycle costs and improve business efficiency. 78% of senior business leaders across Europe believe that, only by fully integrating responsible business practice into mainstream operations, will companies be more competitive, improve market positioning and profitability. [42]

Preventing loss of shareholder value as a direct result of scandals should be every CEO's intention. In Australia in February 2006 the AWB Managing Director

[39] de Geus, A. (1988) "Planning as Learning" Harvard Business Review (March-April 1988): 70-47, cited in Senge, P. (1990) The Fifth Discipline: The Art & Practice of The Learning Organisation, Century Business, London.

[40] www.ibe.org.uk/DBEPsumm.htm

[41] Collins, C. & Porris, J.I. (2000) Built to last: successful habits of visionary companies. 3rd Edition, Randon House, London.

[42] Taylor Nelson (2001) The European Survey on SRI and the Financial Community (conducted among 302 financial analysts and fund managers across Europe)

was first to resign over an Iraq kickbacks scandal. During the food for oil sanctions, the company is said to have responded to the invitation of Iraqi officials to inflate wheat prices enabling them to grab then the excess to help fund Saddam's regime. Payments totalled Aus$ 300m paid to Saddam Hussein. The AWB board has begun to take expected action to rebuild public confidence in the company, which wiped around one third from the value of the company's shares over one month. Shareholders are considering a court action against the monopoly wheat exporter. Shareholders are increasingly demanding greater transparency on what happens with their money. Damaged reputations as much as legal sanctions reduce market value.

Conclusion

Business motivation to adopt CSR

There are those who advocate CSR for its **intrinsic** value. Ethically, they feel it is the right thing to do. Some might even go far enough to declare it does not matter if it serves shareholders' interests. For example, some purists have been known to argue that a business should invest in the costs of controlling emissions – and thereby increasing their own costs – even when their business rivals do no such thing. It is the right thing to do environmentally.

Such a course of action might easily damage shareholder interests. As would refusing to pay bribes to officials in developing countries when your competitor does. And as a result the business rival wins contracts. But avoiding involvement in bribery, some feel, is morally the right thing to do.

Most businesses take a more **instrumental** view of CSR. They believe it works, they have convinced themselves it brings added value:

It helps keep businesses within the law

Philanthropic giving creates goodwill with customers

Good HR improves productivity & staff retention – reducing costs

Corporate "virtue" increases customer base

In this, such business leaders are convinced that benefits outweigh the cost and enhance shareholder value at the same time. That is their business case.

The following chart summarises where businesses feel they gain through involvement in CSR and where it impacts most effectively.

Economy ("bottom-line")		Evidence of improved profits Reduced operating costs through control of waste Job satisfaction: reduced absenteeism Attractive image attracts sales Increased customer loyalty Improved worker commitment, better quality of performance Access to financial capital through socially responsible investment funds (SRI)

Envi-ronment	**External**	Control waste: improved customer image (bottom-line contribution) Reputation for high-level environmental practices leads to more relaxed regulation (bottom-line contribution) Improve supply chain working conditions (customer loyalty)
	Internal	Happy workforce, more motivated (bottom-line contribution) Improved productivity bottom-line contribution) Retain staff longer (bottom-line contribution) Attract top quality employees (bottom-line contribution)

Society		Benefit from philanthropy, sponsorship Improved brand image: more sales from positive image, customer loyalty (and contributes to the financial bottom line)

It should not be overlooked that the benefits listed above under the non-traditional elements of reporting on business performance – the environment and society – are also shown in the table as adding value to the traditional reporting criteria, the financial bottom-line. Converts in the business world believe CSR adds-value, it also contributes to financial performance.

A subsequent article will develop this theme further. It will postulate the voices of opposition to CSR, examine differences in approach from philanthropy to CSR and set out the policy approach being developed within the European Union at government level.

Annex 1 What's in it for business?

What business says.

A survey questioned how European businesses were conducting their practices in CSR: their motivation for involvement; how integrated CSR activity was in-built into their business strategy; who they partner with; where the results of CSR activity impacts most and whether what they are doing is replicable elsewhere or is a one-off.

The following chart summarises their reactions.

Why we are doing CSR	%
Company-led, thought-through business decision	92
Internal business need – employee motivation – re-structuring – recruitment – marketing opportunities	38
External business need – social issues – threat of legislation	38
Both internal and external need	23
How CSR is managed in the business	
Aligned with core business objectives, takes place with active company involvement through employees and resources	69
Community investment with no direct business involvement But half have close links with business interest	30
Philanthropy	1
CSR embedded into company strategy through policy or guidelines	16
Stakeholder partnerships	
Working with range of partners	30
Working with NGO or not-for-profit organisation	30
Working with trade unions	6
Impact and results	
Have a benefit to the business	94
Business benefit is a social impact	20
Success assessed by objective measure	25
Business effectiveness of CSR	
Potential for being repeated elsewhere	73
Being adopted by other companies	20
Remains on-going	95

In all the above, CSR is perceived by business respondents are primarily as business issue, it is pursued for business interests. Not for philanthropic purposes or causes.

Source: CSR Europe magazine (September 2003)

Further reading

Szerkesztő: Ágoston L (2006), Több mint üzlet: vállalati társadalmi felelősség-vállalás / More than business: Corporate Social responsibility, http://www.demos.hu/

An excellent introduction to CSR from a Hungarian perspective, available in English and Hungarian.

Mallen Baker Corporate Social responsibility (website), http://www.mallenbaker.net/csr/

Up-to-date information from all over the world, newsletters published monthly. An easy way to keep up-to-date with the latest happenings.

Business in the community

A leading body in the UK for CSR, working with 700 leading companies committed to improving their positive impact on society

http://www.bitc.org.uk/index.html

Commission of the European Communities (2002) Corporate Social Responsibility: A business contribution to Sustainable Development, Brussels, COM(2002) 347 final