

CORPORATE SOCIAL RESPONSIBILITY

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Is corporate social responsibility (CSR) more concerned with massaging an organisation's reputation than promoting more responsible entrepreneurship? Can being socially responsible increase shareholder value? And is it okay for a company to do the right things for the wrong motives?

Aaron Caplan is Manager in the Sustainable Business Solutions practice group for PricewaterhouseCoopers and wrestles these issues on behalf of a growing list of organisations that are coming to the realisation that CSR is no longer something you can take or leave. We learned that CSR started life as corporate philanthropy, where organisations gave to charities and performed good works for their employees and their communities. Whether founded on moral principles or the belief that it produced a more motivated workforce, corporate philanthropy was, in part, a reaction against the exploitations of the industrial revolution.

From corporate philanthropy to social responsibility

The transition from philanthropy to social responsibility requires a multitude of required behaviours based on honesty, respect, fairness and integrity. These must be translated into policies and day-to-day business practices that have a beneficial impact on the community, the environment, the workplace and the marketplace. These policies include sustainability, energy conservation, cutting greenhouse emissions, ethnic diversity, lifecycle management, being a good neighbour, a good employer, an environmentally considerate consumer of natural resources and a good risk manager.

Socially responsible companies consider the full scope of their impact on communities and the environment when making decisions, balancing the needs of stakeholders with their need to make a profit.

Companies are encouraged to employ local people and use local suppliers and add to the sum total of human capital by training their staff and giving them good experiences from which they can learn. CSR also requires transparency in the way an organisation operates and the introduction of systems to monitor and report on CSR compliance such as triple bottom line accounting – environmental, social and economic.

Being good versus doing good

We also learned that CSR does not necessarily extend to the wholesomeness of a company's products. For example, Boeing is an exemplary employer that does good works in the community. It also happens to make cruise missiles - no conflict. Cadbury (now with added Schweppes) was one of the great pioneers of corporate philanthropy. When the Cadbury family established the Bourneville factory in 1879, they believed that a profitable business required healthy communities. But its

products are high in fats and sugars – no conflict. Ironically, one of the world's most controversial corporations, British American Tobacco, actually scores rather highly for CSR and has been praised for its efforts to eliminate child labour among its growers – apparently no conflict there either. So it's not about being above reproach, it's about operating in as humane and neighbourly manner within the constraints of adding shareholder value.

It's a matter of perception

For many people, tobacco companies can do nothing to redeem themselves. In a Mori poll, one third of respondents (NGOs and CSR experts) said that they could not regard tobacco companies as at all responsible while one in five felt the same about nuclear power companies. In decreasing order of opprobrium came defence (8%), oil (3%), fast food (3%) and mining (3%). No one interviewed would condemn companies in the food manufacturing, alcoholic drinks, banking, air transport, retail and mobile telecommunications. When it comes to CSR, perception seems to play a very large part.

This apparent contradiction between doing business in a responsible way while displacing the responsibility for misuse, overuse or just plain use of a company's products onto its consumers has caused many to believe that CSR simply provides a smokescreen for companies to carry on business as usual. NGOs such as the Princes Trust and the Economist have been highly critical of the misuse of CSR.

Why bother with CSR?

Given the daunting list of behaviours and the inevitable cost of CSR compliance, one wonders why an otherwise successful company would want to get involved. The fact is, they may no longer have a choice. As I walked past the now semi-permanent stand on Oxford Street manned by the animal rights activists there were notices on display describing drug companies as 'Puppy dog killers' with gruesome images to match. Activists, or fear thereof, are the incentive that encourages many organisations to take a keen interest in CSR. They don't like the idea of protestors in their lobbies or lobbyists protesting outside the homes of their senior directors. Not the highest of motives but hey, you have to start somewhere.

Another major source of pressure is from employees who now look at an organisation's CSR credentials before considering career options. Additional pressure comes from clients, regulatory bodies, partners and shareowners. NGOs such as Save the Children and Oxfam or consumer groups may question the employment practices of a multinational's subsidiaries or sub-contractors.

Is virtue the only reward?

One question Aaron Caplan hears a lot is "Can CSR improve the bottom line?" Stock market research has revealed a 5% premium on the share price for companies with vision. However the gains are not immediate and there's a measurable Body Shop or Nike effect where putting one's head above the parapet can initially get you into hot water.

The biggest impact on the bottom line probably derives from investor pressure. As the popularity of ethical investment policies increases, pension fund managers and institutional investors are actively seeking out companies with good CSR credentials.

A major value of CSR may not even appear in the triple line accounts – it's the impact on the company's reputation. Goodwill is believed to account for 71% of total market capital and consumers certainly prefer to deal with companies that are socially responsible.

The top 250 companies in the UK claimed that damage to reputation was the biggest business risk they faced. Organisations that take CSR seriously will probably react better in a crisis because their instincts are ethical. Certainly, the reputation of Citigroup plummeted after the Eurobond dumping debacle, which it also handled very badly. CSR also encourages forward thinking, possibly averting the next asbestos or thalidomide disaster. You do the sums.

So where does one begin?

We have got the message, CSR isn't just a nice to have, it should be built into every organisation's long term strategy. So if we want to do business in a socially responsible way, where should one begin? You could start with the supply chain and that includes all your suppliers and partners, who also have to be squeaky clean. The sports shoe manufacturer Nike got very interested in CSR when it was exposed for allowing slave labour to be used in the manufacture of its products.

As soon as you start to play the CSR game, you very quickly find yourself having to balance several sets of imponderables. It's a root and branch operation, but business must come first and no one should expect an organisation to convert to CSR overnight.

Whether an organisation is ethically inclined or not, CSR is an issue that it can no longer ignore. More sustainable business practices are an important potential contribution to mankind's future; helping to achieve more sustainable economies, improving the quality of life for people around the globe and ensuring the survival of our environment.

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