

Making Sense of Corporate Social Responsibility

Part I – Drivers

Corporate (Social) Responsibility (CSR) has been on the agenda for a few years now. What we have recognised is that the fluidity of the concept and terminology has made it difficult for senior managers to figure out what (if anything) their companies are supposed to do. So a good starting point to make sense of CSR is to look at what the driving forces are at this point in time.

The pressures companies are facing around CSR and governance today are easy enough to identify:

- With the perceived 'shrinking' of government NGO's and the community demand greater business involvement and contributions,
- Customers demand safe products and ethical business practices to the point where they are prepared to change purchasing habits,
- An increasing section of society is demanding environmentally sustainable business operations,
- Investors are looking for improved governance and better risk & reputation management to protect future returns,
- Employees seek greater empowerment, more job security, better work-life balance and a sense of meaning in their work.

What is harder to see is that all of these concerns and pressures are related and require an integrated approach to managing them. Up to now most companies have interpreted CSR as external community relations and treated it accordingly, usually by managing it out of Corporate Affairs or PR. That's a predictable response to community expectations but is unsuited to achieving the business benefits of an integrated approach.

This approach also misses the point with regards to real corporate responsibility, which is related to a company's products and services as well. There is little point in getting recognised for supporting the local community whilst producing unsafe products or providing unethical services. It is at this point where we first recognise that CSR is based on shifting ground, 'unsafe' and 'unethical' are terms that will change their meaning as new information becomes available, just as it did with cigarettes and smoking.

At the same time the question of the business benefits of CSR is still a hotly contested issue. Some commentators have gone as far as blaming the recent downfall of Parmalat on its sponsorship of Parma Football Club and concluded that CSR is contrary to shareholder interests. This is akin to concluding that Ray William's lavish gifts are to blame for the HIH debacle. Business success and business failure are dependent on a multitude of interacting factors and processes. It is very rare indeed that just one factor will dominate and usually only for a short time.

No senior manager we have met has doubted the business benefits of better risk management, better corporate governance or good employee relations. Recognising that this is related to CSR and that sustainability, eco-efficiency, stakeholder management and community involvement should fall under the same banner is a much tougher act to follow.



Specifically, there is no way to follow this argument as long as you still believe in 'economic man' – the reduction of individuals to rational operators in markets seeking to maximise utility.

To follow this analysis further we therefore have to look at how people and their values are evolving. It was easy to mistake people for rational utility-maximising automatons for as long as a material orientation has been the predominant trend in society. We are now seeing a significant minority of Australians move to the next stage in the development of human consciousness. In the language of Spiral Dynamics – a model of individual and collective human development that examines individual and collective value systems (see box) – they are moving from a science and achievement oriented values level (called *orange*) to a feeling and communitarian oriented values level (called *green*). This is accompanied by a major shift in values, not only in individuals, but also in wider society.

Spiral Dynamics

Spiral Dynamics is a theory of human development that looks at individual and collective value systems. It is a predictor of individual motivation and collective behaviour systems and has been proven by extensive quantitative research. The original concept was developed by Clare Graves and later expanded and adapted by Don Beck and Chris Cowan. In their view the psychology of the human being is 'an unfolding, emergent, oscillating spiralling process marked by the progressive subordination of older, lower-order behaviour systems to newer higher-order systems as man's existential problems change'.

In Spiral Dynamics individuals and cultures first move from *beige*, the level of basic survival to *purple*, magic-animistic tribal societies as still seen today in some remote Aboriginal communities. The next level, *red*, sees a shift to power based structures with a single ruler, such as in Iraq under Saddam Hussein or in street gangs. The demand for order then creates *blue*, an all powerful other or order like in the Catholic Church before Galileo or in Soviet-style Communism that establishes unquestionable truths. The need for self development and independent truth then drives us to *orange*, the level of scientific achievement and material wealth which is still the predominant level in Australia today. Human spirit then rediscovers its need for bonding and community in *green*, the level of ecological sensitivity and feeling.

There are at least two further levels beyond *green* that have been identified so far. Development next makes a quantum leap to *yellow*, where the individual for the first time is able to see all previous levels and integrate them. Dominator hierarchies are replaced by natural hierarchies and flexibility and functionality have the highest priority. A very small minority of Australians has achieved this step today. Beyond *yellow* lies *turquoise*, a universal holistic system that unites feeling with knowledge and a new spirituality.

The beauty of this model is that it can predict what structures people are going to create at each level. *Blue* will build rigid hierarchies, *orange* will prefer matrix organisations with delegated authority, *green* will create loose networks and reach for consensus and *yellow* will continuously build fluid, project based structures with functional, competence based leadership.

For more information on Spiral Dynamics see www.spiraldynamics.net and www.spiraldynamics.com.

The reason this is relevant to business is that it represents a shift in the values of their two core constituencies – employees and customers. All the pressures faced by companies around



CSR described above are the expression of group oriented values, of ethics related values and of a shift to values that favour harmony over hierarchy. The last point is especially poignant; the recent flattening of hierarchies in most corporations is as much a sign of cost-cutting and operational efficiency as it is driven by employee desires for empowerment and less rigid hierarchies.

The trend from the individualistic and status oriented *orange* values level towards egalitarian and caring *green* has been going on for many years and our guess is that it has accelerated in the last 10 years. Visible indicators are the rise of the *Challengers* in the MindShare consumer profile survey, the increasing vote for The Greens party and the amazing trends in downshifting observed here and likewise in the UK. At the same time the people operating mainly from this *green* values level are still only a minority, perhaps accounting for 20-25% of the adult population.

So if we accept that such a shift in human values development is underway, what does that mean for business, what does it mean for CSR and why should you care? The main reason that you have to take notice is that *green* has little concern for core business functions like execution and making a profit. As such, people operating from *green* will attack business over its social and environmental scorecard and disregard the fact that the business may go bankrupt should fixing all the identified problems be simply too expensive. These activists have dominated the scene in the nineties.

Consequently leading businesses responded with 'stakeholder engagement', or at least some degree of talking to the pressure groups (via PR or dialogue). In addition an increasing number of businesses are taking the reporting approach. Triple bottom line reports such as the GRI are seen as a way of informing stakeholders and potentially of creating internal pressures to improve performance in areas reported on.

We see both of these approaches effective only as part of an integrated solution. The evidence to date is that CSR has been largely given the short shrift and, if it is taken up at all by a company, it is usually relegated to a single person with little power and little budget. But the pressures mentioned at the beginning are not going to go away. So how do you reconcile core business with these 'distractions' resulting from a tectonic shift in values that is as unstoppable as continental drift?

First and foremost you need to realise that CSR will become the way of doing business. Today the doctrine of shareholder value is still the dominant driver of business behaviour. We have little doubt that this will be replaced by a doctrine of corporate responsibility or some form of precautionary principle within the next decade or two. So in the same way as today all business functions are evaluated with a view to the bottom line, in future all business functions will be evaluated based on values and corporate responsibility. Don't get us wrong, business will still need to be profitable, but how you go about doing business and what products and services you can sell without getting into trouble is going to change significantly.

Since this long-term process described above is already under way, what should you be doing now? CSR needs to be progressed beyond PR and community engagement and become a part of creating and selling products and services. This means that agreed on corporate values are taken into account in all decision making and in evaluating employee and corporate behaviour. This is nothing short of a major culture change and it is going to be a slow process, at least until the legislative framework in Australia changes (which is already happening in parts of Europe).



What is required (and is slowly happening) to support this process is the emergence of a new breed of managers. Sometimes referred to as 'integral leaders' or 'functional leaders' they see the benefits of hierarchies as clearly as the drawbacks of rigid hierarchies, they understand the needs of the business as much as they understand the needs of the employees, customers and other stakeholders. Their managerial authority is based on competence, not position and their actions are consistent with their top values: success, honesty, openness, accountability, straightforwardness and integrity.

These new functional leaders are the drivers of organisational change away from rigid hierarchies and command and control – towards flexible functional hierarchies, ambidextrous organisational structures and competence based authority. This is the frontier of culture change opened up by the pressures outlined at the beginning. The external pressures are just making the need for change more urgent.

You can accelerate this process by promoting on competence and values, by taking behavioural 360° feedback into account for promotions and by putting codes of conduct in place that encourage ethical behaviour and punish unethical conduct. What you shouldn't do is getting rid of performance management or KPI's. Instead re-examine what the company has in place today and ensure that those systems and measures are in line with the values, conduct and behaviour you need to promote. Unless the values of the organisation are not reflected in its day-to-day and strategic decisions, no one is going to take them seriously.

None of this is a fast process and no business has exactly the same starting point. Depending on the industry you are in you will face different pressures because you attract a different workforce. Knowledge based businesses looking for teamwork and emotional intelligence in staff are driven faster along this transformation as they tend to attract more employees operating from the *green* values level than say manufacturing or resource companies.

So if this is all about organisational change, what has it got to do with CSR? The two key overlaps are that the internal and external pressures become the same and that how you conduct yourself as a business becomes of interest. CSR is really about HOW the business operates which impacts risk, reputation and employees. If you have achieved excellence in managing ethics, risk (including product, social and environmental), reputation and work-life balance you will no longer have to worry about CSR and all you are left with is to incorporate stakeholder management beyond investor relations.

A recent survey of business leaders, analysts and journalists in the US has found that it can take up to 4 years to restore a damaged company reputation. Given that reputation and other intangibles make up anywhere between 40% and 80% of a company's stock market valuation it is a risky proposition indeed to ignore ethics, CSR, reputation management and good governance. With the progressive shift to *green* values business is becoming increasingly accountable to the whole of society and the process of establishing and managing stakeholder relationships is one of the first steps you will have to take.

Confusing terminology aside, CSR is not a fad but an expression of the shift in values systems we talked about. Because the expressions of this values shift are multi-faceted, the resulting changes needed in business management involve more than one department. It starts at the top with a focus on ethics and sound corporate governance. From there it goes sideways into stakeholder management and reputation management, which need to permeate throughout the company. Simultaneously you will have to work down and address the necessary changes to leadership, business systems and processes that may be working against the cultural changes required.



What is certain is that no matter where you have started you will need to progress to looking at an integrated approach. In the same way that sales and marketing excellence will not shift a dud product forever, you will not be able to protect your reputation internally and externally without going through all business areas. It may be of help to think of it as an exercise in risk management where ethical conduct, environmental footprint, employee relations and stakeholder expectations are key risk areas that have to be managed on an ongoing basis.