

Making Sense of Corporate Social Responsibility

Part II – Definition & Approaches

This article provides a brief summary on Corporate Social Responsibility or CSR. It looks at the definition, elements and common approaches to implementing CSR, but does not attempt to examine or establish a business case for CSR (we will look at the business case in a later article). A recent global survey by The Economist Intelligence Unit¹ found that 85% of senior executives and institutional investors believe that CSR is a central or important consideration in decision making, indicating that CSR has become accepted even without a clearly defined business case.

This article follows on from Part I, which primarily examined the drivers behind CSR.

1. What is CSR – Definition

Despite the growing importance of CSR, there is little agreement as to what the phrase really means and there are many different names for the same or similar concept, such as Corporate Social Responsibility, Corporate Citizenship, Business Sustainability and Corporate Responsibility.

While some may argue over the distinctions among these terms, at the core they all point towards the same **fundamental principle**: that a company is responsible for providing more benefits than just profits for shareholders. It has a role to play in treating its employees well, preserving the environment, developing sound corporate governance, supporting philanthropy, fostering human rights, respecting cultural differences and helping to promote fair trade, among others. All are meant to have a positive impact on the communities, cultures, societies and environments in which companies operate.

These efforts should also benefit a company's various stakeholders, who comprise all or some of the following: customers, employees, executives, non-executive board members, investors, lenders, vendors, suppliers, governments, NGOs, local communities, environmentalists, charities, indigenous people, foundations, religious groups and cultural organisations.

2. Spirit vs. Compliance

With the complexity and the 'fuzziness' of the CSR definition, it should not come as a surprise that each company that is embracing CSR is following a different path. In this variety of approaches, two stand out – a 'spirit of CSR' approach and a 'compliance' approach.

With the compliance approach companies react mainly to pressure from investors and government in the wake of the corporate scandals a few years ago. The approach focuses on corporate governance, risk management and compliance with laws and regulations. Adding often existing philanthropic efforts to the mix we can call this approach GRCP. This is probably the dominant

¹ 'The Importance of Corporate Responsibility' The Economist Intelligence Unit, 2005

approach to date, but it does not offer social and environmental responsibility beyond whatever regulations are in place in the countries where the company operates.

In the 'spirit' of CSR approach the company goes beyond compliance and takes a good, hard look at internal and external practices with the aim of being a leader in employee relations, environmental sustainability, human rights, stakeholder engagement, sound governance and transparency. The company may actively create an internal business case for CSR initiatives or accept that even if there is no obvious return-on-investment that there is a social case for CSR as a result of changing expectations on companies from society. A company which has incorporated CSR into its core business acts as a responsible citizen in society and in the environment, even to the point of acting as a catalyst where government or communities have failed.

3. Underlying Drivers (*see Part I for more*)

There is a long-term trend of shifting values in Western and Australian society and its corresponding change in the expectations we have of corporations today. This shift has been underway for some time now, starting in the late sixties, but gathering force in the last decade. The global consumer of the 1990s is morphing into the world citizen of the new millennium. We are shifting in increasing numbers from me, more and greed to we, enough and need. Holism, wellbeing and responsibilities are taking over centre stage from materialism, achievement and rights.

Because this process is slow and the previous values remain deeply engrained in large parts of the population, we tend to ignore much evidence of this shift which can be seen in the growing trend in downshifting, corporate social responsibility and the rise of the green vote. It can also be seen in the growing popularity of alternative medicine, yoga and meditation.

Consumers increasingly demand that companies act responsibly and have started to make their purchasing decisions accordingly. Employees take their cues from Generation Y and refuse to work a 60+ hour week. Activists continue to draw attention to issues such as child labour, environmental pollution and product safety. The overall pace of change will continue to be slow, barring further accelerating events, such as the Enron-Andersen scandal.

Another key driver is the ever-growing importance of corporate reputation in the valuation of a company. The modern, knowledge based corporation has very few tangible assets and 70-80% of its market valuation is an amalgamation of intangible assets: employees, reputation, brand, values, vision, patents, processes, licenses, designs, rights etc. With reputational capital being slow and difficult to build and easy to destroy it makes sound business sense to invest in protecting the company's reputation and to actively manage risks that may impact it.

4. Areas of CSR

Given the broad definition of CSR there are many areas of business operations that are affected by it. The most often mentioned elements of CSR are:



- **Governance:** sound governance, ethical conduct of staff, transparency of operations, no conflicts of interest, compliance with listing rules, compliance with corporate law
- **Risk Management:** organisational health & safety, product safety, regulatory compliance, reputation management, responsible business practices, stakeholder engagement
- **Value Chain:** responsible procurement, supplier management, externalisation of costs, supplier screening, supplier feedback, fair trade
- **Social:** human rights, community engagement, philanthropic activities, charitable donations, staff volunteering, social benefits, local capacity building, social investment
- **Employees:** turnover, morale, satisfaction, work-life balance, internal culture (transparency), labour practices, job security, remuneration, diversity, equal opportunity, training
- **Environment:** environmental footprint, waste & pollution avoidance, eco-efficiency, product recycling, sustainability, greenhouse gas emissions, resource reduction, precautionary principle
- **Measurement:** GRI (Global Reporting Initiative) reporting, internal & external audits, verification statements, management targets

The sheer size of this simple list goes a long way towards explaining the dilemma that companies are faced with. Doing 'all of CSR' might cost up to 2% of total revenue (as mentioned in The Economist report), but at the same time most companies already cover many of these areas under different headings, especially in the areas of risk management and employees. It is neither feasible nor desirable for a company to do it 'all at once', so picking a suitable approach to implementing CSR whilst keeping the big picture in mind is the way to go.

5. Common Approaches

Given the varying definitions and the many areas of CSR it is not surprising that pretty much each and every company has adopted a slightly different approach to implementing CSR. We believe there are probably four main types of approaches that can be distinctly identified, though:

a. By the Book

We have already mentioned that the 'compliance' or 'by-the-book' approach is quite common. This approach looks primarily at the governance and environmental sides of CSR and starts with measuring and reporting – mostly in the form of a GRI report. It is very popular with resource and manufacturing industries.

b. Human Rights

Companies operating with factories or suppliers in cheap labour markets are mainly focused on human rights and labour practices. This approach to CSR is common in the textiles, apparel and cosmetics industries (Gap, Nike, Avon etc.), where the consumer backlash can be vehement.

c. Soft

This is probably the most common approach in knowledge based industries. Its main focus is employees, as attracting and keeping the best people is paramount to competitive survival. The best employees have a values system that cares about transparent internal cultures, ethical conduct, high morale, teamwork, work-life balance and also about community engagement, contribution and philanthropy – hence this approach combines the employee and social areas of CSR.

d. Brand

In this approach a combination of philanthropy and cause-related marketing is at the core. The company will actively advertise its particular philanthropic or social involvement, usually spending much more on advertising than the philanthropic activity itself. This approach is popular in the food industry (Starbucks, Ben&Jerry, Fair Trade products etc.).

There is no right or wrong approach to CSR, companies face different internal and external pressures that they are responding to. For example, the CSR debate shifted strongly towards sound corporate governance and ethical staff conduct as a result of recent corporate scandals and the subsequent changes in legislation (Sarbanes-Oxley, Higgs Report).

Ultimately the real test of CSR is that companies 'walk-the-talk' and start putting more effort into measuring and transparently reporting on their CSR initiatives. To date, only 25% of Global Fortune 500 companies prepare a social and/or environmental report.