CSR - Who needs it?

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> *'The analytical fog surrounding CSR provides a smokescreen for companies which proclaim their adherence to it while failing to adopt appropriate principles for the conduct of their core business.'*
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> *Sir Geoffrey Chandler, ex-Shell and Amnesty International (2003)*

> *'Corporate leaders feel pressured by activists to take action on various social issues, and by donating money to a social issue they make friends and positive associations. The 'feel-good' of corporate philanthropy seems to be evidence enough. I disagree completely.'*
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> *Michael Porter, Harvard Business School (2003)*

Today we are used to hearing a lot about 'corporate social responsibility'(CSR), 'sustainability', or 'corporate citizenship'. Consultancies, conferences and websites proliferate. You might suppose that a new age of 'responsible' business practice has dawned.

However, my observations over the past few years suggest that even in companies who pride themselves on their reputation for sustainability, or produce heavy 'triple bottom line' reports (economic, social, and environmental), issues of responsibility seldom if ever surface in day to day meetings. And asking about 'CSR' is likely to be met by a blank or evasive look, or being told 'the PR department takes care of that'.

I believe the whole area is still shrouded in the 'analytical fog' that Geoffrey Chandler referred to, with particular muddle over two questions. What is 'CSR' anyway? And why should a business adopt it as a policy?

CSR, sustainability, corporate citizenship, with certain other phrases (usually containing '*ethical'*) are properly not identical, but in my experience they are often used interchangeably. Here, to keep it simple, I will describe a catch-all concept which I will call 'corporate responsibility'. I take this to mean the idea that companies have responsibilities beyond the simple growth and profitability of the business – responsibilities to the environment, to all the people affected by their activities, and to future generations.

When we look at how this principle is interpreted in practice, it appears that much of what actually goes on under these headings consists in mere variations of traditional philanthropy. Often these aim to win the PR benefits of giving, while at the same time showing a net profit to the company - as in the popular 'cause related marketing' (CRM) promotions. (At a conference about this, I repeatedly heard speakers assure the audience that 'a good CRM programme won't cost you a penny, and will add to your bottom line'.) Charities, businesses, even consumers themselves all collude in encouraging these schemes - though it may be asked how much credit a company really deserves for channelling someone else's money to charity, while adding to their own profits.

Be this as it may, such activities, together with employee volunteer schemes, sponsorships and other talk of 'giving something back to the community', are generally peripheral to the main activities of the company and its impacts on its stakeholders. However, it is increasingly acknowledged that corporate responsibility should mean something much bigger than this. As a group of CEOs agreed at the World Economic

Forum in Davos, 2002, 'the frameworks we adopt for being a responsible business must move *beyond philanthropy* and be integrated into core business strategy and practice.'

On this broader view, corporate responsibility is much more than random (or strategic) acts of apparent generosity. It involves the consideration of all potential and observed impacts of the company's activities, for good or ill – impacts on the environment, on workers and suppliers, on countries and neighbourhoods, on customers, and on future generations. Many companies are now attempting this, reporting on their progress using comprehensive 'triple bottom line' formats such as the Global Reporting Initiative (GRI).

This poses a much greater challenge. There are some real, worthwhile 'win-wins' – efforts to reduce wasted energy or pollution, for instance, often lead to greater efficiency and cost savings for the business. But there will also be conflicting pressures and interests, unintended consequences, and issues over which the organisation itself may have little enough real influence. (Arguably both pressure groups and some managements overestimate the power that corporations have to solve the world's many intractable problems.)

So is it all worth it? At this point we need to consider the solidity of the arguments for adopting corporate responsibility as a core business value. I think this is much less straightforward than is often assumed, however much we may sympathise with Sir Geoffrey Chandler: '….it must be a matter of astonishment to other walks of life that for the corporate world doing good needs to be justified by monetary reward'. However, as Michael Porter (*Competitive Advantage*) has said, 'No matter what they say in public, when you get behind the scenes with executives and directors, they will ask you "why should we invest in social initiatives?" We may all care deeply about saving the world but if we cannot answer this question properly, we have a problem.'

Why then should corporate responsibility matter to a board of directors or to top management? First of all it's important to acknowledge that there is a case *against* it. Some argue that business should only serve society by the profitable supply of goods and services, and the only responsibility of directors is to maximise the return to shareholders. Responsibility for society and the environment lies with civil government. This case was made by Milton Friedman and Friedrich von Hayek almost fifty years ago, when issues of global social justice and environmental degradation were much less thought of than they are today. However, the argument is by no means now obsolete. In 1981, CEOs of America's 200 largest corporations – the Business Roundtable – agreed that 'balancing the shareholder's expectations of maximum return against other priorities is one of the fundamental problems of management'. In 1997, however, the same forum changed its mind: 'The notion that the board must somehow balance the interests of stockholders against the interests of other stakeholders fundamentally misconstrues the role of directors' (Mintzberg, 2002). And as Joel Bakan's (2004) book and documentary *The Corporation* make very clear, this principle is not only enforced in US corporate law, but actively pursued by many publicly owned corporations. In Henry Mintzberg's view, far from entering a new age of responsible management we are currently living through an era of unprecedented 'selfishness', with CEOs co-opted into maximising profits at all costs by absurdly large bonuses.

What then, from the point of view of management, is the case to be made for corporate responsibility? I will try to frame this in terms of four constituencies whose behaviours might have impacts on the long term success of a business. These are **consumers** or customers; external **critics**, such as journalists and NGOs; **shareholders** and stockmarkets; and the management and **employees** of the business itself.

Consumers

One case often made for corporate responsibility is the power of the new ‘ethical consumer’, or even the ‘vigilante consumer’. Surveys are often quoted appearing to show most people ready to switch their custom on the basis of the perceived ‘ethical’ reputation of one brand or another. But these kinds of data ignore the more important truth that whatever people claim in surveys, they are very rarely prepared to incur increased costs or decreased satisfaction in the pursuit of social or environmental goals. Beyond certain niche marketing successes, (e.g. Fairtrade coffees; the Co-operative Bank), consumer demand is not a strong incentive to increased responsibility. More people actually want cheap flights, SUVs, and double-decker cheeseburgers.

Critics

There is certainly a great deal more public criticism of corporations today. Books like Naomi Klein’s *No Logo* and Eric Schlosser’s *Fast Food Nation* are bestsellers; groups such as Greenpeace raise issues and generate media and public pressure for change. Not all criticism of corporate behaviour is well-founded, but much of it is reasonable and valuable. However, it does not entirely answer the question of why companies should bother to respond to it. If directors are simply running scared of bad publicity, they must surely be waking up to the fact that even sustained boycotts rarely show any significant effect on their bottom line. McDonald’s, Exxon, and Nestle have all been the subject of extreme external pressure, and yet they continue to post results that please the markets.

Shareholders

A similar argument applies to stockmarkets. So-called 'ethical investment' may be fast growing, but it's still trivial at under 2% of UK investments. And whether these funds outperform or underperform the market depends on which you choose, and what time period you choose to look at. (During the last major downturn, the category that fared best for investors was tobacco stocks….) Most shareholders are institutions such as pensions funds, and their managers only interested in one thing – again, return on investment.

Employees

By now you may think I am a complete CSR cynic. I am not. Nor would I feel happy to see businesses pursuing profit at all costs, without concern for the dangerous and fragile and complicated global environment we all live in. I want to see more businesses that consider and care about the consequences of what they do. I believe I'm not alone in these aspirations – and it's in this belief that I think the strongest argument for corporate responsibility lies. In the words of Charles Handy (2006), "Organisations are not machines. They are living communities of individuals. The essential task of leadership is to combine the aspirations and needs of the individuals with the purposes of the larger community to which they all belong." A fifty year trend in management theory confirms that successful companies are consistently those which have strong cultures and shared values, which their employees can give their commitment to. The assumption should be that people want to go to work to engage in something that they believe to be in some way worthwhile. Increasingly, 'worthwhile' will include an awareness of the impacts the company has on other people and on the environment (and not the size of the CEO's bonus). If this is true, corporate responsibility needs to be a non-negotiable part of the core values of the business, part of the answer to the question 'What are we all here for as an organisation?'

What this might mean in practice will not be driven by the pursuit of good PR, nor merely a reaction to critical comment, but will be a continuing exploration and exercise of imagination on the part of everyone in the organisation. There will continue to be conflicts, not always resolvable, but problematic issues will be openly discussed rather than swept under the carpet. Companies who follow this route will not become immune from criticism (who will?), but that won't be important because the project does not depend for its ultimate validation on extrinsic approval. They will consistently aim for openness of debate, continual possibility of change, the ability to listen and respond to critics without becoming either reactive or defensive, and congruence between the organisation's espoused values and its actual behaviours.

The results may look messy and imperfect, but these companies will stand the best chance of getting the best from their motivated and loyal staff, of staying open and responsive to the continual changes in the world around them, and perhaps in the long run, of earning the trust and respect of their critics as well as their customers. If all those things happen, they should also prosper.

References

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