CORPORATE SOCIAL RESPONSIBILITY

Just good business

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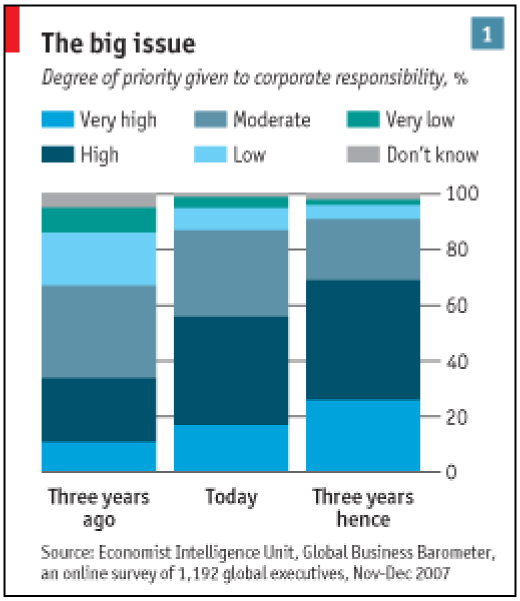
Corporate social responsibility, once a do-gooding sideshow, is now seen as mainstream. But as yet too few companies are doing it well, says Daniel Franklin (interviewed here)

Illustration by Ian Whadcock

IN THE lobby at the London headquarters of Marks & Spencer, one of Britain's leading retailers, the words scroll relentlessly across a giant electronic ticker. They describe progress against "Plan A", a set of 100 worthy targets over five years. The company will help to give 15,000 children in Uganda a better education; it is saving 55,000 tonnes of CO_2 in a year; it has recycled 48m clothes hangers; it is tripling sales of organic food; it aims to convert over 20m garments to Fairtrade cotton; every store has a dedicated "Plan A" champion.

The M&S ticker says a lot about the current state of what is commonly known as corporate social responsibility (CSR). First, nobody much likes the CSR label. A year ago M&S launched not a CSR plan but Plan A ("because there is no Plan B"). The chief executive's committee that monitors this plan is called the "How We Do Business Committee". Other companies prefer to describe this kind of thing as "corporate responsibility" (dropping the "social" as too narrow), or "corporate citizenship", or "building a sustainable business". One Nordic executive glories in the job title of director, accountability and triple-bottom-line leadership. All this is convoluted code for something simple: companies meaning (or seeming) to be good.

Second, the scrolling list shows what a vast range of activities now comes under the doing-good umbrella. It spans everything from volunteering in the local community to looking after employees properly, from helping the poor to saving the planet. With such a fuzzy, wide-ranging subject, many companies find it hard to know what to focus on.



Third, the M&S ticker demonstrates that CSR is booming. Whether through electronic screens, posters or glossy reports, big companies want to tell the world about their good citizenship. They are pushing out the message on their websites and in advertising campaigns. Their chief executives queue up to speak at conferences to explain their passion for the community or their new-found commitment to making their company carbon-neutral. A survey carried out for this report by the Economist Intelligence Unit, a sister company of *The Economist*, shows corporate responsibility rising sharply in global executives' priorities (see chart 1).

None of this means that CSR has suddenly become a great idea. This newspaper has argued that it is often misguided, or worse. But in practice few big companies can now afford to ignore it.

Beyond the corporate world, CSR is providing fertile ground for think-tanks and consultancies. Governments are taking an ever keener interest: in Britain, for example, the 2006 Companies Act introduced a requirement for public companies to report on social and environmental matters. And the United Nations promotes corporate responsibility around the world through a New York-based group called the Global Compact.

Business schools, for their part, are adding courses and specialised departments to keep their MBA students happy. “Demand for CSR activities has just soared in the past three years,” says Thomas Cooley, the dean of New York University's Stern Business School. Bookshelves groan with titles such as “Corporation Be Good”, “Beyond Good Company” and “The A to Z of Corporate Responsibility”.

Why the boom? For a number of reasons, companies are having to work harder to protect their reputation—and, by extension, the environment in which they do business. Scandals at Enron, WorldCom and elsewhere undermined trust in big business and led to heavy-handed government regulation. An ever-expanding army of non-governmental organisations (NGOs) stands ready to do battle with multinational companies at the slightest sign of misbehaviour. Myriad rankings and ratings put pressure on companies to report on their non-financial performance as well as on their financial results. And, more than ever, companies are being watched. Embarrassing news anywhere in the world—a child working on a piece of clothing with your company's brand on it, say—can be captured on camera and published everywhere in an instant, thanks to the internet.

Now comes concern over climate change, probably the biggest single driver of growth in the CSR industry of late. The great green awakening is making company after company take a serious look at its own impact on the environment. It is no surprise, therefore, that 95% of CEOs surveyed last year by McKinsey, a consultancy, said that society now has higher expectations of business taking on public responsibilities than it did five years ago.

Investors too are starting to show more interest. For example, $1 out of every $9 under professional management in America now involves an element of “socially responsible investment”, according to Geoffrey Heal of Columbia Business School. Some of the big banks, including Goldman Sachs and UBS, have started to integrate environmental, social and governance issues in some of their equity research. True, the finance industry sends mixed signals: it demands good financial results above all else, and in parts of the financial world—notably the private-equity part—scepticism on CSR still runs deep. But private equity itself is having to respond to public pressure by agreeing to voluntary codes of transparency.

As well as these external pressures, firms are also facing strong demand for CSR from their employees, so much so that it has become a serious part of the competition for talent. Ask almost any large company about the business rationale for its CSR efforts and you will be told that they help to motivate, attract and retain staff. “People want to work at a company where they share the values and the ethos,” says Mike Kelly, head of CSR at the European arm of KPMG, an accounting firm.

Too much of a good thing?

Since there is so much CSR about, you might think big companies would by now be getting rather good at it. A few are, but most are struggling.

CSR is now made up of three broad layers, one on top of the other. The most basic is traditional corporate philanthropy. Companies typically allocate about 1% of pre-tax profits to worthy causes because giving something back to the community seems “the right thing to do”. But many companies now feel that arm's-length philanthropy—simply writing cheques to charities—is no longer enough. Shareholders want to know that their money is being put to good use, and employees want to be actively involved in good works.

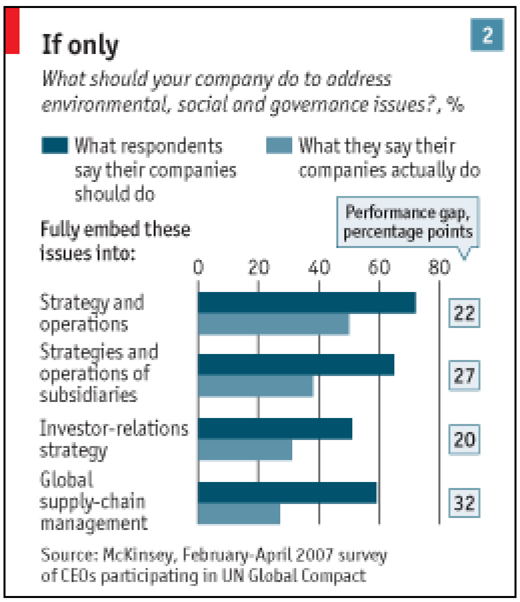
Money alone is not the answer when companies come under attack for their behaviour. Hence the second layer of CSR, which is a branch of risk management. Starting in the 1980s, with environmental disasters such as the explosion at the Bhopal pesticide factory and the *Exxon Valdez* oil spill, industry after industry has suffered blows to its reputation. Big pharma was hit by its refusal to make antiretroviral drugs available cheaply for HIV/AIDS sufferers in developing countries. In the clothing industry, companies like Nike and Gap came under attack for use of child labour. Food companies face a backlash over growing obesity. And “Don't be evil” as a corporate motto offers no immunity: Google was one of several American technology titans hauled before Congress to be grilled about their behaviour in China.

So, often belatedly, companies respond by trying to manage the risks. They talk to NGOs and to governments, create codes of conduct and commit themselves to more transparency in their operations. Increasingly, too, they get together with their competitors in the same industry in an effort to set common rules, spread the risk and shape opinion.

All this is largely defensive, but companies like to stress that there are also opportunities to be had for those that get ahead of the game. The emphasis on opportunity is the third and trendiest layer of CSR: the idea that it can help to create value. In December 2006 the *Harvard Business Review* published a paper by Michael Porter and Mark Kramer on how, if approached in a strategic way, CSR could become part of a company's competitive advantage.

That is just the sort of thing chief executives like to hear. “Doing well by doing good” has become a fashionable mantra. Businesses have eagerly adopted the jargon of “embedding” CSR in the core of their operations, making it “part of the corporate DNA” so that it influences decisions across the company.

With a few interesting exceptions, the rhetoric falls well short of the reality. “It doesn't go very deep yet,” says Bradley Googins, executive director of the Boston College Centre for Corporate Citizenship. His centre's latest survey on the state of play in America is called “Time to Get Real”.



There is, to be fair, some evidence that companies' efforts are moving in a more strategic direction. The Committee Encouraging Corporate Philanthropy, a New York-based business association, reports that the share of corporate giving with a “strategic” motivation jumped from 38% in 2004 to 48% in 2006. But too often corporate strategy is not properly joined up. In the car industry, Toyota has led the way in championing green, responsible motoring with its Prius hybrid model, but it has lobbied with others in the industry against a tough fuel-economy standard in America. Surveys point to a big gap between companies' aspirations and their actions (see chart 2). And even corporate aspirations in the rich world lag far behind how much the public expects business to contribute to society.

According to Mr Porter, despite a surge of interest in CSR, in most cases it remains “too unfocused, too shotgun, too many supporting someone's pet project with no real connection to the business”. Dutch Leonard, like Mr Porter at Harvard Business School, describes the value-building type of CSR as “an act of faith, almost a fantasy. There are very few examples.”

Perhaps that is not surprising. The business of trying to be good is confronting executives with difficult questions. Can you measure CSR performance? Should you be co-operating with NGOs, and with your competitors? Is there really competitive advantage to be had from a green strategy? How will the rise of companies from China, India and other emerging markets change the game?

This special report will look in detail at how companies are implementing CSR. It will conclude that, done badly, it is often just a figleaf and can be positively harmful. Done well, though, it is not some separate activity that companies do on the side, a corner of corporate life reserved for virtue: it is just good business.