A special report by European Business Forum

EBF on...

Corporate Social Responsibility

Contributors
Elena Bonfiglioli,
Geoffrey Bush,
Melissa Carrington,
Jean-Philippe Courtois,
Roger Cowe, Pierre Defraigne,
John Elkington, Bernard Giraud,
Jan Haars, Adeline Hinderer
Daniel Janssen, Mark Kramer,
Peter Lacy, Geoff Lane,
Céline Louche, Jane Nelson,
Mervyn Pedelty, Michael Porter,
David Stangis, Joss Tantram,
Chris Tuppen, David Vidal,
Stephen Young and Maurizio Zollo

IN ASSOCIATION WITH:

Microsoft
Your potential. Our passion.

DIAGEO

CONTENTS

EBF on...

Corporate Social Responsibility

This report is published by **European Business Forum Ltd – Summer 2004**. ISSN 1469 6460. **Editorial Offices** Plumtree Court, London EC4A 4HT, United Kingdom. For more information about this and other Special Reports, please contact Sophie.vonderBrelie@ebfonline.com or call +44 20 7213 3160. To purchase additional copies, call +44 20 7212 6456, or email ebfon@ebfonline.com.

CSR: moving on to the front foot

Corporate Social Responsibility (CSR) has crept remorselessly up the boardroom agenda in recent years. Corporate scandals, regulatory pressure, tough advocacy from NGOs and the pressure of wider public opinion have put companies firmly on the defensive, with the result that few inside or outside the corporate arena believe it is any longer enough to merely make profits and comply with the law

By Tim Dickson

At the same time, however, a more positive CSR message is increasingly being broadcast – one that is only starting to be analysed and debated across Europe. The gist of this thesis is that socially and environmentally responsible behaviour is part and parcel of good management, that far from being an optional 'add on', CSR needs to be embedded in corporate strategy – and throughout every level of the organisation – if commercial success is to be assured. The new buzzwords are 'mainstreaming' and 'integration', meaning that what was previously a peripheral, almost an apologetic activity, must now be absorbed into a firm's core functions and value systems.

This is a formidable challenge for corporate leaders beset both by other urgent agenda items and brought up on a more specialised CSR diet. First they need to understand and acknowledge the power of this new thinking (some of which inevitably runs counter to their own instincts), then they are required to take their colleagues, employees and other stakeholders with them.

This special report – the fourth in a series – is designed to assist on that journey and help individual readers find inspiration from others to develop their own solutions. As with our earlier publications (on Sustainable Development, Risk and Leadership) the report brings together the views of a wide range of international thinkers in this area, laced with commentary and case studies from a range of senior executives currently grappling with the issues.

Many important sub themes emerge from the contributions, of which the following are in my view among the most important:

- How can the benefits of CSR best be quantified and articulated? To what extent can – or should – attempts be made to link individual CSR activities to the bottom line?
- Will society, and the politicians who represent it, ultimately allow companies to play their part in securing a more sustainable future by voluntarily embracing CSR? Or is further regulation at national or European level inevitable?
- How difficult is reporting? What does it take to move from the glossy social and environmental accountability reports to the more robust documents expected by stakeholders openly displaying 'warts and all'.
- Is CSR an area where Europe really has a competitive advantage (and which can help the region achieve its medium term goal of global competitiveness)? Or is good corporate citizenship more deeply rooted in North American businesses than the critics care to admit?
- How convinced are investors of the merits of 'mainstream' CSR? Without the support of financiers will business leaders ever truly embrace the new philosophy?
- What is the role of business education? Can standard setters force leading business schools to take the issues more seriously?

I hope you enjoy and value this special report. Please send any comments to editor@ebfonline.com

Evolution or revolution?

Every business affects society – but how does society affect business? Michael Porter and Mark Kramer focus on interactions between business and generic social issues, value chain impacts and the competitive context. John Elkington takes issue with their 'tidy rigour', arguing that CSR faces an unpredictable future

Challenging assumptions

CSR and philanthropy can, and must be, treated together as part of a broader view of the relationship between business and society

By Michael Porter and Mark Kramer

Michael Porter

Mark Kramer

There are some deeply embedded assumptions and confusion within the field of corporate social responsibility (CSR), as last year's European Association of Business in Society event in Copenhagen revealed. First, equating CSR with philanthropy, making it seem as though any corporate engagement with society should be voluntary and limited to charitable donations. Second, the idea that social concerns should be integrated with the company's business, and that morality alone should be an adequate guide to action.

We do not equate CSR with philanthropy. Instead, we believe that both CSR and philanthropy can – and must be – treated as part of a broader view of the relationship between business and society. Indeed, the failure to connect CSR and philanthropy greatly diminishes the concept of CSR.

Understanding the relationship between a company and society requires a framework that can encompass the full scope of the connections. Merely invoking the broad moral obligations of business or the need for good public relations will not ultimately motivate effective and sustained corporate behaviour.

It is clear that every business affects society and also depends on a basic set of social conditions in order to be able to operate and compete. Factors such as an educated workforce, available natural resources, healthcare, good government and the rule of law are all essential preconditions for a business to operate.

Society also depends on business. The economic and social welfare of any population is dependent on having successful companies that can sustain a viable local economy.

Each company draws upon different social resources and produces different social effects in different locations. Any useful framework to guide CSR practices and philanthropy must address these specific interactions between a business and the social conditions in which it operates.

Social issues can be divided into three categories:

- **Generic social issues** that neither significantly affect, nor are directly affected by, the business.
- **Value chain impacts** – the consequences of a company's operating activities, whether good or bad.
- **Competitive context** – those aspects of the social environment that constrain the productivity of the business in its operating location. Local schools, for example, may affect the competitiveness of companies that depend on a local workforce, even though those companies' activities do not directly affect local schools.

'Broad, unfocused support of multiple causes is often viewed as an example of CSR – but this approach has little impact'

The first category, generic social issues, falls out differently for different companies and industries. For example, the HIV/AIDS pandemic in Africa is a generic issue for a US software company, a value chain impact for a pharmaceutical company, and a competitive context issue for an energy company that depends on local residents to operate its facilities.

Generic social issues, largely unconnected to the business, are where most corporate donations are directed today. Broad, unfocused support of multiple causes is often viewed as an example of corporate responsibility and good citizenship, although we find that this approach in fact has little impact.

The second category, value chain impacts, is where much CSR thinking is currently focused. The dominant approach focuses on modifying a company's operations to mitigate harm and improve sustainability.

The third category, competitive context, is the most overlooked. It is here that a company's strategic philanthropy can create social change while improving the environment for long-term corporate success.

We believe that social issues in the first category should be left largely to other charitable organisations and to individual employees acting independently. Corporations should focus on the second and third categories, and they should address them in a co-ordinated way. We find that efforts to address value chain impacts can be more effective if married with philanthropic investments to improve the context.

A good example is Novo Nordisk, a leader in diabetes treatment that depends on a viable healthcare delivery system as part of its competitive context. Novo Nordisk created the World Diabetes Foundation to support capacity building and effective procurement systems in developing countries.

The company works with the World Health Organisation and government health agencies to analyse disease burden and diabetes care, develop national healthcare strategies, and support public education campaigns. Novo Nordisk complements philanthropic support through value chain activities such as training physicians in diabetes diagnosis and care, sponsoring mobile diagnosis clinics in China, and discounting its products for developing countries.

Our research has uncovered many such examples of companies that use their charitable contributions, combined with other corporate activities, to make substantial positive social change in ways that directly help both the business and the society in which it operates.

To be an effective and socially responsible corporation today, companies need to move beyond generalised concepts of good citizenship. A strategic approach that sets priorities and utilises all the tools available – including strategic philanthropy – will transform CSR.

Michael Porter is Bishop William Lawrence University Professor at Harvard Business School and, with **Mark Kramer** , co-founder of Foundation Strategy Group. They are authors of *The Competitive Advantage of Corporate Philanthropy, Harvard Business Review, December 2002*

Biting the bullet points

By John Elkington

CSR issues are likely to drive waves of creative destruction that companies may not be able to predict

John Elkington

I have just addresses a Conference Board event in new York on business and sustainability. My theme: the future. Fine, you may say, but what's that got to do with the connections between corporate social responsibility (CSR) and philanthropy that Michael Porter and Mark Kramer explore? A great deal, I would argue. For the issues we discussed in New York have the potential to blow apart the tidy rigour of the three Porter/Kramer bullet points.

But first, a few overall reactions. Like Professor Porter, I spoke at the EABiS event in Copenhagen in autumn 2003 – though, to my chagrin, I had to fly in the day after his speech. Still, while the man may have gone, the shock-waves of what he was understood to have said were still ricocheting around Denmark.

As I arrived, a number of people told me that Porter had characterised CSR as little more than corporate philanthropy. This I found hard to believe, partly because of the sophistication of his thinking, partly because of his clear, long-standing interest in such issues as the environmental impact of Dutch intensive flower production. So the first couple of paragraphs of the Porter/Kramer article in this Special Report come as no great surprise, even if they were a relief.

I wonder, though, whether the 'deeply embedded assumptions' referenced by Porter and Kramer don't cut both ways? So, for example, I had originally arrived in New York for the Conference Board event from Washington, DC, where SustainAbility had convened a small number of companies to discuss the question whether there is a growing transatlantic divide in perceptions of CSR. The consensus was that there is a growing divide — and I suspect that the misunderstanding of Professor Porter's Copenhagen arguments were but one more symptom of that trend. Any misunderstandings were no doubt aggravated by the radically different approaches to philanthropy practised in the US.

So I began reading the Porter/Kramer article and, to my horror, jumped to the conclusion that this was going to be hideously boring: I agreed with most of what they say. But then I got to the bullet points. They are neat, elegant and true, as far as they go. Yet, at least on an initial reading, they miss two key points.

First, the bullet points seem to assume a world where companies and value chains evolve in predictable ways. Generic issues, the unimaginative reader might assume, will remain generic. Of course, no-one could imagine Michael Porter assuming any such thing, but some social and environmental issues, such as climate change, may be generic for many businesses at present, but are unlikely to remain so. Instead, they will drive waves of creative destruction and Value will migrate from climate-unfriendly sectors to climate-friendly sectors.

Second, and conceivably because of that first assumption, of a world that favours large existing incumbents, Porter and Kaplan focus more on risk than on opportunities. We are asked to think about "aspects of the social environment that constrain the productivity of the business in the locations where it operates." OK, but surely the competitive context also contains a multitude of opportunities?

To take their software company example, might such a company not develop a highly profitable suite of hospital products that helped cure or prevent diseases like HIV/AIDS? Just as Bill Gates and his colleagues stripped tens of billions of dollars of value from leaden-footed competitors, so companies that get ahead of the sustainability curve — be it in agriculture, construction, mobility or finance – will enjoy competitive advantage. At the New York event, a top General Motors executive made the point that today's mobility systems are profoundly unsustainable. Clearly that's a risk to GM and other providers, but isn't it also an opportunity for hybrids, fuel cells and hydrogen technology?

Indeed, given Porter's work on competitive advantage, I began to wonder whether Porter/Kramer hadn't been distracted by the CSR language? Their thesis seems to assume that CSR objectives lie largely outside the normal marketplace, which at the moment is unquestionably true. If you are a pharmaceutical company, it's a drag (financially, at least) to have to give your drugs to developing countries free or at cost. But some companies – and growing numbers of entrepreneurs – will work out how to convert today's drag factors into tomorrow's market accelerators.

That said, I welcome the involvement of people of the stature of Professor Porter in the debate, congratulate European Business Forum for helping tease out some of the issues, and very much hope that the Porter camp will increasingly integrate the emerging issues likely to be associated with a world of 9bn people later in the century into their leading edge work on corporate and national competitivity.

And the future of CSR? Well, I totally agree with the point that 'broad, unfocused support of multiple causes' – often viewed as an example of corporate responsibility and good citizenship – "has little impact." In fact, we have just completed a report for the UN Global Compact which argues that: first, current voluntary initiatives are ill-fitted to addressing the sort of challenges distilled in the UN Millennium Development Goals; second, scalability must increasingly be a central feature of all corporate responsibility initiatives; and third, governments will have an increasingly crucial role to play in shaping markets with incentives, both positive and negative.

The problem with the second point, of course, is that most CSR people don't have a clue about business models or how to go to scale. So expect a shake-out when the current CSR bubble inevitably deflates. But even if the language changes, the challenges will remain – and so will the risks and the opportunities.

John Elkington is Chair, SustainAbility
www.sustainability.com

CSR hits the boardroom

Most companies have come to CSR through environmental issues, human resources, health and safety or corporate affairs. Roger Cowe argues that social responsibility should be championed by leaders and understood across all business functions

Integrating responsibility

CSR is no longer a peripheral issue but a core part of business strategy

By Roger Cowe

One of the clearest signs that a company is taking its social responsibilities seriously can be when it disbands its Corporate Social Responsibility team. By absorbing CSR specialists into core business functions, as has happened at groups such as BP, the company shows it is serious about integrating CSR rather than treating it as a peripheral advisory function.

Most companies have come to CSR through one specialism or other. For some early leaders, especially in oil and mining, environmental issues were the key to CSR, and the Environment, Health and Safety function acted as an early custodian. CSR also surfaced in the sourcing departments of companies facing supply chain issues. Where employee questions were critical, HR might have been responsible. In other companies, CSR fell to corporate affairs specialists.

As CSR has developed, it has become clear that a company's responsibilities cannot be delegated to a specialist function. Instead, managers must understand what CSR means across the business. This was the thinking behind the UK government's plan to establish a CSR Academy to develop managers' understanding and skills across business functions. Of course specialists may be required but many CSR leaders have come to understand that they need to develop a specific understanding of their own responsibility issues and incorporate them into business strategies. And, like any change programme, this must be led from the top.

Corporate governance scandals from Enron to Parmalat have brought governance and CSR closer together in the boardroom. They have emphasised the links between responsibilities to shareholders and other stakeholders and have focused government attention around the world. While politicians have generally shied away from attempting to legislate for corporate responsibility, there has been a growing recognition of the broad responsibilities of corporate boards. The South African government's King 11 Commission has gone farthest in identifying responsibilities to all stakeholders as part of its governance approach. Other governments have legislated for some form of reporting, most notably the UK with its recent requirement for an Operating and Financial Review to cover broad risks and relationships.

> 'Corporate governance scandals from Enron to Parmalat have brought governance and CSR closer together'

Developments such as these confirm that CSR has moved into a new phase. A recent report from the UK's Work Foundation calls it "The end of the beginning". There are still plenty of companies at or

near the beginning, but there are many more which realise that:

- CSR is not something for a few high-profile companies in controversial industries; it is important for all companies in all sectors and in all regions of the world
- CSR is about products and services, marketing, and corporate strategy, rather than philanthropy and community involvement
- Each company needs to understand the specific issues, risks and opportunities of CSR that are relevant to its own circumstances.

The move from the general to the specific is an important step. To date, many CSR efforts have been couched in general terms, which have been difficult for executives to grasp. It has been difficult to translate the broad concerns about worker conditions, environmental impact and interactions with communities (including human rights issues) into concrete business risks and opportunities. This has meant that it has been difficult to identify the business case.

On the other hand, exclusion can be easily understood by a bank that faces the threat of government action versus the opportunity to build a new customer base; or for a pharmaceutical company struggling to balance patent (and profit) protection against access to essential medicines. Moreover, the impact of climate change has become very relevant to utility companies that are coming to terms with trading carbon dioxide emissions.

Research last year by consultancy Arthur Little identified how CSR was spreading beyond traditional areas, even in sectors such as oil and car manufacturing which were among the earliest to respond to environmental pressures. The consultants suggested that CSR in the oil and gas sector had gone beyond questions of oil spills and carbon dioxide emissions to focus on their socio-economic impact and relations with host governments, while the car industry now faces broad mobility questions as well as having to work on emissions and safety. The rise of obesity as a key factor for the food industry is another sector-specific example of product responsibility.

Such specific examples reinforce the message that responsibility has to be integrated into the business. Early CSR activity such as employee volunteering or other community support, environmental process improvements and work on diversity could not have begun to address product issues such as obesity. Nor are they helpful to the growing number of companies that seek to build competitive advantage from social responsibility.

Integrating CSR is a much tougher task than mounting a ‘CSR programme’. It typically starts with work on values, but needs to permeate through the business and become embedded in mainstream business systems, from strategic planning to marketing to HR. Handled badly, it can produce cynical responses rather than greater commitment to responsible strategies. Leaders need to demonstrate their own commitment, not just in fine words but in ensuring those words are linked to business motivation and consequences and supported by development programmes and the kind of business systems that accompany any serious initiative – objectives, targets, measurement and appraisal, for example.

One element of commitment is ‘inclusiveness’ – including employees in the development of value statements and their meaning, external stakeholders in identifying critical issues, where the company stands and where it needs to aim. Yet ‘stakeholder engagement’ is relatively rare and its absence undermines the credibility of CSR work in many companies. Commitment also relies on the willingness of stakeholders to engage and that is not always the case, as British American Tobacco discovered when it tried to talk to critics.

Danone is an interesting example of how a company has embedded CSR. The "Danone Way" demonstrates how 'values' statements can translate into action. The food group has extended its basic values into a comprehensive performance assessment tool. Group companies are required to assess their performance across a wider range of questions covering issues such as health, supplier and employee relationships and the environment.

One important aspect of Danone's approach is that it feeds into managers' pay. A substantial part of bonuses are dependent on the responsibility assessment. Clearly, this is a powerful way of getting managers' attention and emphasising how seriously a company is taking CSR. It stresses that CSR affects business performance and strategies, not just reputational issues.

Danone's internal assessment mirrors the external assessments of a growing band of organisations, including investors who are incorporating responsibility into investment appraisals. In the US, Business in the Community is now in the second year of its Corporate Responsibility Index, which ranks participating companies based on their (self-reported) management processes and performance.

The result of this growing assessment industry, unfortunately, is 'questionnaire overload' as hard-pressed staff struggle to cope with wide-ranging enquiries whose relevance is not always apparent. However, this should decline as companies produce more comprehensive public reports, assessments focus on company-specific factors and as reporting becomes more standardised.

All of these trends are discernible. Even without formal requirements from governments, more companies are producing public CSR reports. While many still lack clarity, breadth and hard facts, the growth of the Global Reporting Initiative (GRI) has helped develop a consensus about where reporting is heading. The GRI, for example, is developing sector-specific guidance that should help companies produce more relevant reports.

Investors are also getting smarter at identifying sector-specific and company-specific factors.

'One element of commitment is "inclusiveness" – including employees in the development of value statements and their meaning, and external stakeholders in identifying critical issues, where the company stands and where it needs to aim'

Companies like Innovest provide sector analysis that identifies companies' strengths and weaknesses and investment risks, which the financial world needs if CSR is to be incorporated into investment decisions.

Sector analysis has been sharpened by researchers such as Sustainability Asset Management, the Swiss company behind the Dow Jones Sustainability Indices, which worked with the World Resources Institute in the US to assess how steps to mitigate climate change would affect the global car industry. As with other studies, the researchers concluded that the impact would vary widely from company to company, demonstrating the importance of this kind of focused analysis for stock-picking investors. Similarly, institutions such as J P Morgan have assessed the impact of the European Union's carbon emissions trading scheme (which begins next year) on the utilities sector.

The growth of such external analysis has reinforced the need for companies to develop internal measurements of performance in social and environmental areas, which is a critical element in integrating CSR. The old adage: "what gets measured gets managed" holds a lot of truth. This approach can be dangerous because it can lead companies to manage only what they can easily measure, but there is no doubt that managers respond best to targets and assessment of performance against them. That remains a major challenge for many companies trying to integrate CSR.

Roger Cowe is a freelance writer specialising in CSR issues

CSR and the bottom line

The business case for CSR is largely accepted, but what are the benefits? Chris Tuppen of BT sets out the financial case for CSR and Jane Nelson shows that good practices can have a 'multiplier' effect. Melissa Carrington and Geoff Lane suggest leadership and vision will help companies reap the full dividends of CSR, while Maurizio Zollo says business should consider the motivation behind corporate philanthropy and CSR. Finally, Joss Tantram identifies some key themes and drivers for a socially responsible business

Building a quantitative business case

BT has moved beyond the 'intuitive' case for CSR by putting some hard numbers to four key areas of operation

By Chris Tuppen

Many business leaders are now convinced of the need to contribute to the wider goal of sustainable development, so you would expect that the business case for CSR is largely proven. If you tap 'CSR business case' into the Google search engine, 145,000 references will appear. Yet it is still extremely difficult to find quantified cause-and-effect linkages between CSR activities and real returns on investment.

The much-vaunted qualitative business case generally revolves around four key areas:

- Reputation: building trust in a company is a long, uphill climb, but losing it can have dramatic effects on share price and customer loyalty
- Retention and recruitment: employees want to work for responsible companies who care for their workforce and contribute to society
- Operational efficiency: CSR can improve the bottom line through material efficiency and energy and waste minimisation
- Increased sales: cause-related marketing, eco- and ethical labels and new product innovation can influence the top line

British Telecommunications has tried to establish the quantitative business case by putting some hard numbers to each of these areas:

Reputation

For many years BT has monitored overall customer satisfaction ratings of our 19m UK residential consumers through 3,250 face-to-face interviews every month. While we had an intuitive feel for the underlying factors affecting customer satisfaction ratings, there was no known objective quantified link between these and the measured customer satisfaction figures. BT Retail, led by CEO Pierre Danon, took up this challenge in 2001.

A detailed statistical analysis of this mass of data identified those factors that strongly correlated with changes in overall customer satisfaction (see

Figure 1). The numbers at the head of each column are the cause-and-effect modulation (or elasticity) factors for each of the four main drivers of customer satisfaction.

They are best explained by example. If BT's overall image and reputation goes up by, say, 2 per cent, then we would expect to see a 0.84 per cent increase in our customer satisfaction rating (2 x 0.42). Or if people perceive that prices have increased by 10 per cent then we would expect to see a 0.6 per cent fall in our customer satisfaction rating (10 * - 0.06). (Note how the pricing modulator is negative so that falling prices drive up customer satisfaction. It is also relatively small compared to the other modulators as recent price changes have not generally affected people's perception of value for money.)

Figure 1: The principal drivers of customer satisfaction

> 'Surveys tell us that consumers are paying more attention to the level of social responsibility demonstrated by companies'

It is also worth noting the impact the BT Group's universal reputation rating has had on individual consumer satisfaction. The modulation factors were derived through a process of refined iteration to achieve an optimum fit to the customer satisfaction figures for 1999 and 2000 (correlation >99.99%). The model was then allowed 'free run' to assess its predictive quality. Surveys such as the UK's annual MORI CSR survey tell us that consumers are paying more attention to the level of social responsibility demonstrated by companies.

In 2003, 84 per cent of consumers thought CSR was either fairly or very important. Given that each consumer makes thousands of purchasing decisions every year, however, it is only in a relatively small number of these cases (eg buying organic produce) that the consumer actually makes a conscious consideration of the supplier's environmental, social or ethical performance. Our model nevertheless shows that a company's reputation has a significant influence over customer satisfaction ratings and, given that CSR is a component part of reputation, this would suggest that there could be an important subconscious CSR element to purchasing decisions.

As part of our corporate reputation survey analysis we have, over the years, included a number of CSR-related questions. This has allowed us to apply the same statistical correlation methodology to determine the contribution that CSR makes to the image and reputation modulation factor of customer satisfaction. This analysis has been based on 80 months of data, comprising tens of thousands of interviews which we have used to break down the most significant components of the reputation modulation factor (see Figure 2). The numbers in red are related to CSR and constitute over 25 per cent of the 0.42 reputation modulation factor. We have been cautious of being more precise than this as it is not clear to what extent CSR is a component of the 0.05 assigned to the 'trust' question – "BT is a company you can trust".

Taking our model to the bounds of reasonable extrapolation, the 25 per cent would indicate that if BT were to cease all its CSR activities (that is, cease treating employees with respect, ignore environmental issues, no longer emphasise the need to act with integrity, ceasing non-profitable services and cancelling all community activities), then our customer satisfaction rating would drop by 10 per cent, with a more than proportional effect on customer loyalty, turnover and 'ultimately' profitability.

Figure 2: CSR in Image/Reputation

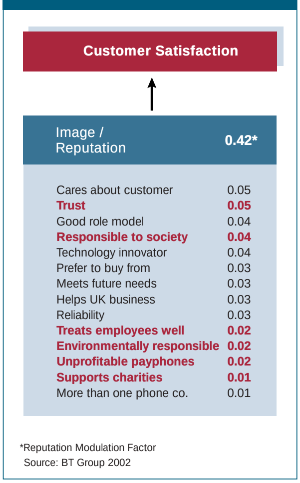
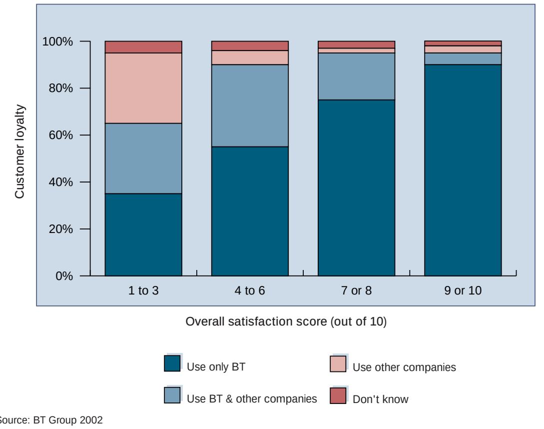


Figure 3: Dissatisfaction loses customers



Source: BT Group 2002

Retention and recruitment

To recruit, retain and motivate the best people, we have to find innovative ways of helping them achieve a balance between work and personal life. Our work-life balance policies cover flexible working, home working, part-time working, job-sharing, maternity and paternity leave, adoptive leave, parental leave, special leave and leave for carers.

A recent survey in BT found 49 per cent of employees agreeing that BT's CSR activities make them feel more proud to work for the company, illustrating how our CSR activities contribute directly towards employee satisfaction.

Employee satisfaction is interwoven with our focus on customer satisfaction. For example, demotivated and dissatisfied employees will inevitably reflect their dissatisfaction in the customer experience.

When we asked a sample of customers at one of our call centres how likely they were to stay with BT, about 7 per cent of those who were "very dissatisfied" also said they would definitely leave BT. Taking this figure, along with some rough assumptions about average bill size, the number of customers an adviser might deal with in a year, net margin and so on, we estimate that a single adviser with poor customer handling skills could potentially reduce company profits by £300,000 (see Figure 3).

Of course, we take action well before this stage is reached, but it illustrates the need to focus considerable effort on employee satisfaction by meeting employee expectations, investing in people and focusing on key issues such as work-life balance.

Operational efficiency

Our environmental programme has been in place since 1990 and has dramatically reduced our wastes and emissions of greenhouse gases, ozone-depleters and so on.

Since 1996 we have achieved a 42 per cent reduction in CO_2 emissions due to the energy efficiency programmes we have introduced. Since 2000 we have reduced the amount of waste we sent to landfill by 23 per cent. Last year, the income from our recycling efforts was £4m which, together with our landfill tax savings, reduced our waste disposal costs by around 45 per cent.

Our operational fleet of 32,700 vehicles, one of the largest in the UK, is now predominately diesel-fuelled. Over the past five years, the size of our fleet has reduced by 15 per cent and fuel consumption has reduced by 19 per cent. This is largely the consequence of productivity targets, operational policies and environmental awareness programmes.

Overall, our eco-efficiency measures have delivered approximately £600m of savings over 10 years.

Increasing sales

Of course improving reputation and customer satisfaction increases sales, but sometimes CSR can be more directly linked to revenue generation.

Just as we incorporate environmental and ethical criteria into our procurement activities, so do many government departments and large corporate clients.

In the 2003/4 financial year our sustainable development credentials support bids with a value of around £1bn over the life of the contracts, which is double the previous year. While price and quality remain the key determining factors, we expect this trend to continue in the future.

BT's strategy for exploiting flexi-working and conferencing markets is another example of how BT's proactive management of social and environmental issues is helping contribute to growth in revenues. For example, we have undertaken social and environmental impact studies into BT's own use of flexi-working and conferencing, illustrating them as solutions to social and environmental problems.

A study of Options 2000, BT's flexi-working programme, found savings of 424,000 miles a week of car travel and 190,000 miles a week of rail travel. Social benefits included spending more time with the family and less time commuting. A similar study into BT's use of (audio and video) conferencing found annual savings of £9.7m and 54,000 tonnes of CO_2.

We are now investigating how Information and Communication Technology can be used to address other environmental and social issues, creating innovative revenue streams for BT. The first example has been a partnership with the software company Entropy to supply online environmental management systems.

Conclusion

In our search of the elusive business case for CSR we have been able to show that CSR makes important contributions to BT's customer and employee satisfaction measures, helps drive cost-efficiency and directly builds and supports BT's sales.

Chris Tuppen (*chris.tuppen@bt.com*) is Head of Sustainable Development and Corporate Accountability, BT Group
www.bt.com/betterworld

Multiplying the benefits

Companies can make an enormous contribution to society through responsible, efficient and profitable initiatives that produce a 'multiplier' effect

By Jane Nelson

During the past decade, CSR has moved from the margins of the corporate agenda to the mainstream. It has become increasingly familiar on the international business media and conference circuit and has become the focus of increasing, often conflicting, criticism. There are four common critiques of this trend:

First, some continue to argue that the sole responsibility of business is to make profits and obey the law. (Henderson, 2001). We agree that profitability and legal compliance are the foundations of responsible business. They are insufficient, however, in a world of changing societal expectations, where companies increasingly face reputation and litigation risks.

Second, some argue for comprehensive global regulation of business. A group of more than 80 NGOs and academics has called for such regulation, stating: "Multinational corporations are too important for their conduct to be left to voluntary and self-generated standards." (Citizens Charter to the UN).

We believe that advocates of this approach have given too little thought to the practicalities of defining, implementing, monitoring and sanctioning a global regulatory framework that aims to cover all CSR-related issues in all countries. However, there is a need to level the playing field and ensure that laggard companies are held accountable. This requires capacity building and increased dialogue to negotiate the most appropriate mix of regulatory frameworks, fiscal incentives, market mechanisms and voluntary initiatives.

Third, some worry that too much is expected of the private sector in a difficult operating environment. For example, Klaus Schwab, President of the World

'Profitability and legal compliance are the foundations of responsible business. But they are insufficient in a world of changing societal expectations'

Economic Forum, has argued that "responsibilities that used to be the purview of governments – like poverty, health and the environment – have been handed over to corporations....now may be the time to re-examine these assumptions."

We agree that there is a danger that stakeholders expect too much of business without examining their own accountability. Once again, this points to a growing need for regular stakeholder dialogue.

Fourth, while some see CSR as an add-on to business, we see it as central. The production of goods and services to meet customer needs and generate profits is central to a company's social responsibility. If done in a way that moves beyond legal compliance to reflect international norms and standards, core business activities can have significant, wider benefits. This point is emphasised by Unilever which said in its latest Annual Review: "We regard the very business of doing business in a responsible way as the core of our corporate social responsibility".

If managed in a way that minimises negative and maximises positive impact on stakeholders, the following eight core business multipliers can make an enormous contribution to building more prosperous, equitable and peaceful societies:

1. Generate investment and income

Companies can increase capital investment in local economies through:

- Investing in operational and transportation facilities
- Paying wages and taxes; making grants/social venture capital funds to community groups
- Reinvesting in the local business for future growth
- Earning foreign exchange

2. Produce safe products and services

Companies can ensure the impacts of goods or services are beneficial by:

- Managing the full life-cycle
- Investing in quality, safety and environmental components
- Adapting brands to meet local needs
- Ensuring affordability of essential goods

3. Create jobs

Companies can support employment generation goals by:

- Creating jobs for locals
- Supporting jobs along supply chains
- Minimising the wider costs associated with restructuring

4. Invest in human capital

Companies can develop human capital through:

- Training programmes for employees
- Training contractors and suppliers
- Occupational health and safety programmes for employees and contractors
- Tackling HIV/AIDS in the workplace
- Supporting university research that meets industrial and national economic needs

5. Build local business linkages

Business linkages can be developed along the corporate value chain through:

- Sourcing raw materials and services locally
- Using local product distribution, delivery, servicing and disposal activities

6. Spread international standards and practices

Companies can harness global, national and local value chains to spread accepted standards through:

- Corporate governance and ethical practices
- Quality management and operational systems
- Health, safety, environment, and product safety
- Supporting labour and human rights

7. Support technology development and transfer

Companies can adapt technologies and skills to the needs of host communities. This can include:

- Locating research facilities in host countries
- Linking equipment, technology and materials to local training systems
- Implementing technologies for cleaner and safer production and distribution
- Managing the potential unintended consequences of new technologies

8. Establish physical infrastructures

Large companies can play a valuable role in contributing to infrastructure, including:

- Plant and machinery, transportation systems, telecommunications, water and sanitation, waste management facilities, and energy
- Legal and financial systems and business associations

While recognising the important roles of philanthropy and compliance, The Prince of Wales International Business Leaders Forum has argued that the greatest contribution companies can make to society, especially in developing countries, is through responsible, efficient and profitable investment that produces socio-economic multipliers such as the ones outlined above.

Jane Nelson is director of business leadership and strategy at The International Business Leaders Forum

This article has been adapted from Economic Multipliers, IBLF, 2003.

REFERENCES

Misguided virtue, David Henderson. IEA, 2001 Citizens Charter to the UN, www.corpwatch.org

Why is CSR failing to deliver?

A lack of high-level commitment, vision and leadership condemns many CSR initiatives to flounder or remain trapped in organisational silos

By Melissa Carrington and Geoff Lane

In 2005, the UK will hold the presidencies of both the G8 and the EU. Tony Blair has already selected Africa as one of the key themes for both presidencies and, 25 years after the Brandt Commission, the Commission for Africa is preparing a new Brandt Report. Next year, the UN will review progress towards the 2015 target to achieve its Millennium Development Goals (MDGs).

The research for both these reports is likely to make depressing reading. If we don't improve on the current rates of progress towards the MDGs in Africa, the 2015 targets will not be met. Even where there is progress, it is not fast enough.

In sub-Saharan Africa, for example:

- Universal primary education will not be achieved before 2029
- Targets on reducing child mortality from disease will not be met before 2165
- The halving of poverty will not be achieved for 100 years

Although it has been 50 years since the establishment of the World Bank, the IMF and a new world order, the neo-liberal experiment and 'trickle-down"'economics have demonstrably failed to deliver sustainable growth, development and access to basic human needs for the world's poor. This view is no longer the preserve of a minority of vocal anti-globalisation demonstrators, but, increasingly, well-respected economists and former World Bank insiders such as Joseph Stiglitz.

Climate change is likely to be a second key theme on the agenda for both the EU and G8 summits. The start of the first Kyoto Commitment period is now just four years away and the Protocol has yet to be ratified. Even if all current policy measures are implemented, including the EU emissions trading scheme, developed country GHG emissions are expected to be some 5 to 10 per cent above 1990 levels in 2010 compared with a Kyoto target reduction of 5 per cent.

Developed economies are also failing to move towards a more sustainable path with respect to other key environmental and social issues. In the OECD area, for example, although there have been improvements in recycling rates, the amount of solid waste going to final disposal is on the rise and water usage continues to rise on a global level, leading to worldwide concerns over water shortages.

The link between over-consumption and waste in the industrialised world, and poverty and environmental degradation in the developing countries is crucial. The least developed countries are the most dependent on agriculture and the exploitation of natural resources, such as forestry and fisheries, leaving them vulnerable to resource depletion and worsening terms of trade. At the same time, the developed countries continue to subsidise agriculture, forestry and fishing, while failing to use natural resources more efficiently.

Although there has been a decade of progress since the Earth Summit in Rio in 1992, in many ways the world seems no closer to achieving sustainable development. The persistence of global poverty and environmental concerns suggests that the notion that it is possible to develop sustainably without risking wealth and welfare, and without fundamental changes in the patterns of production and consumption, is flawed. Anti-globalisation campaigners blame the international institutions, the WTO, the IMF and the World Bank. Institutional political economists argue that elements of the capitalist system itself need to be changed to overcome the intrinsic growth bias in the world's economy which is held responsible for environmental degradation and growing inequalities in the distribution of wealth.

Business sector commentators and less radical NGOs suggest that, despite the current popularity of the corporate responsibility agenda and the rapid growth in social entrepreneurship, the corporate sector is having little positive effect on the world's most pressing problems.

CSR appears to be failing to deliver on both its social and environmental dimensions. Voluntary approaches are not working fast enough. Many commentators are therefore calling on government to play a stronger role by defining governance standards and frameworks for corporate social responsibility and articulating the role that the corporate sector and civil society should play.

So why, despite its unprecedented popularity, is CSR failing to deliver? After all, many companies are attempting to integrate social, environmental and ethical concerns within their mainstream business strategies and practice. There is a renewed emphasis on corporate governance and the need to engender an ethical business culture throughout the organisation. Many companies produce comprehensive reports on the organisation's environmental, social and community policies, management systems and performance.

However, what is often lacking is understanding at the highest level within the organisation of why CSR is necessary and how it links to sustainable development. Without high-level commitment, vision and leadership, many CSR initiatives within organisations flounder or remain within their environmental or corporate affairs silos. Crucially, the case also needs to be made to the international investment community, which needs to understand the long-term risks and opportunities arising from sustainability for the companies in which they invest.

> 'It is time for corporations to redefine their role in the creation and destruction of environmental capital'

If the corporate sector is to play a more positive role in sustainable development, a significant shift in attitude is needed. A paradigm shift will result from the recognition that in the end it is the actual sustainability performance of organisations that counts. It is time for bold and visionary leadership in both the public and private sector. It is time for corporations to redefine their role in the creation and destruction of environmental capital and the redistribution of wealth.

Melissa Carrington is a senior manager and **Geoff Lane** is the partner responsible for PwC's Sustainable Business Solutions practice in the UK

Philanthropy or CSR: a strategic choice

Managers and academics need to understand the different motivations behind the two approaches

By Maurizio Zollo

Making sense of the differences between Corporate Philanthropy (CP) and Corporate Social Responsibility (CSR) has become something of a challenge for both managers and academics. As Michael Porter and Mark Kramer suggest in the opening debate, CP and CSR co-exist and should complement each other. While CP is concerned with the improvement of the competitive context, benefiting both the company and society, other CSR activities are either superfluous, as in the case of generic social initiatives, or are marginally necessary, as in the case of supply chain initiatives.

'Recent surveys confirm that the correlation between social and financial performance is either positive or neutral'

Despite the intuitive appeal of both arguments, I believe the first shows significant logical flaws as soon as one examines the underlying assumptions behind the two concepts, and that the second only makes sense under the strict assumptions of the CP model. As soon as one adopts a broader perspective that accommodates both CP and CSR as special cases with common dimensions, does the division between 'general social', 'value chain' and 'strategic philanthropy' activities lose its meaning.

CSR is defined following the green paper issued by the EU Commission in July 2002, as the integration of "social and environmental concerns in (the) daily operations and in the interactions with stakeholders on a voluntary basis". There are three models representing positions in the debate on the relationship between business and society, and the responsibilities the former has towards the latter (Table 1). The first, which I label the "trade-off" model, was forcefully articulated by Nobel Laureate Milton Friedman in 1970. The second captures the essence of the CP approach proposed by Porter and Kramer (2002), and the third conveys the characteristics of the CSR model as discussed by Preston and Donaldson, 1995).

The distinction between the 'trade-off' model and the other two - and implicitly the similarity between the CP and CSR models - is related to assumptions about the existence of activities that can produce both economic and social value for the company's stakeholders. Whereas Friedman's model assumes that no such activities exist, and that therefore any social initiative will affect profits negatively, both CP and CSR relax this assumption and accept that companies can identify such activities. In fact, recent surveys of academic studies on the "business case" (Margolis and Walsh, 2003) confirm that the correlation between social and financial performance is either positive or neutral; the trade-off model does not seem to gain support from real data analysis.

However, the comparison between CP and CSR reveals a series of important differences that might be generally under-represented in the debate. First, the causal logic underlying the motivation for the initiatives is different. In the CP model, the logic goes from the social performance to the economic one. Companies engage in philanthropic activities because they are convinced that by doing so they will be able to gain a significant advantage in terms of reputation, social capital and business development. On the other

Table I: Comparing Three 'Business & Society' Models

	Trade-off Model	Corporate Philanthropy	Social Responsibility
Ultimate purpose of firm existence	Wealth creation	Wealth creation	Social and economic development
Financial v Social performance	Trade-off Correlation < 0	Jointly achievable Social => Financial	Jointly achievable Social => Financial
Governance mode	Shareholders' rule	Shareholders' rule	Shareholders' mode
Resource allocation criterion	Shareholders' value max. (SVM)	SVM long-term + ST social impact	LT social impact ST financial impact
Type of social impact activities	None, unless necessary	Add-on to normal (special projects)	Embedded in all normal activities
Economic logic of social actions	Risk protection	Revenue growth opportunities	Fully integrated

hand, given the definition of CSR, achieving full integration of social and environmental concerns means that the causal reasoning goes in the opposite direction: the ultimate purpose of a company is the enhancement of social welfare, and economic performance is a necessary condition to achieve that. Economic profit is a means to an end, rather than an end in itself.

So can you have it both ways? Can managers think and act according to both causal logics? Obviously not. Even though they might be working on similar initiatives, such as tackling the health crisis in Africa, they would be doing so for different reasons and treating their investments in very different ways. In the case of CP, the initiative would be an ad-hoc project aimed at short-term social impact and long-term financial gain. In the case of a fully embedded CSR model, the initiative would be part of a company's routine operations, with its economic profit serving the long-term goal of contributing to social welfare.

This leads to the second point, that the division of activities among generic social issues, value chain impact and the competitive context makes perfect sense only within the instrumental logic that characterises the trade-off and the CP model. In a company that has integrated CSR, the driver for managerial decisions and actions is both different and simpler: decisions are made and actions are taken only after a full analysis of the economic and social implications. Moreover, sustainability means different things in the two models: it is about sustainable competetive advantage in the CP model, and it is about social and environmental sustainability in the CSR model.

Novo Nordisk's activities in the fight against diabetes in developing countries is a good example of CSR, not CP. This is not an ad-hoc initiative aimed at a long-term financial benefit via significant short-term investments (and immediate returns of image). Rather, it is part of Novo Nordisk' way to understand its role vis-à-vis the rest of the world and the work is fully embedded in its way of doing business. The economic profitability of the initiative is a short-term consideration in order to ensure the long-term goal of eradicating diabetes from, and therefore eventually putting themselves out of, business. Hardly a recipe for sustainable competitive advantage, but an exemplary case of sustainable development.

Maurizio Zollo is Associate Professor of Strategy and Management at Insead

REFERENCES

Donaldson, T. and Preston, L.E. (1995). The stakeholder theory of the corporation: Concepts, evidence and implications. Academy of Management Review, 20(1): 65-91.

Margolis, J.D. and Walsh, J.P. (2004). Misery loves companies: Rethinking social initiatives by business. Administrative Science Quarterly.

CSR: drivers and challenges

Companies are investing heavily in the managing and reporting of social and environmental issues but they are still not incorporating CSR into strategy

By Joss Tantram

If a company wants to understand how Corporate Social Responsibility and sustainability issues might contribute to value creation, it must incorporate them into its strategic thinking. Strategic management processes in most companies are the processes that fit most closely with the uncertainties and timescales posed by such concepts.

Practitioners not only need to have a clear understanding of how strategy works within the specific context of their own organisations, but also to be aware of the different ways in which strategy is implemented within their organisations.

A recent study* by the Business Education Unit of the WWF, the global environment network, found out how trends in CSR and corporate sustainability were influencing strategic responses from companies.

Our starting point was that sustainability and CSR issues by their very nature require strategic responses. Companies have not fully understood that environmental and social trends have significant implications for the future culture and shape of business. While it has been long understood that environmental management aids process efficiency and lower costs, we found that companies perceive such initiatives as operational and are therefore dealt with at a 'sub-strategic' level.

The research was developed in three phases:

- Three themed action research workshops involving sustainability practitioners and investor relations staff from Aviva, Barclays, BP, BT, Marks and Spencer, Morley Fund Management and Severn Trent.
- Detailed third-party research and analysis in areas of agreed concern
- Consultation, research and commissioned input from Core Ratings, a leading responsibility financial ratings company, the Chartered Institute of Personnel and Development (CIPD) and Henley Management College, together with support and advice from staff at Insight Investment (the fund management company of HBOS) and Business in the Community.

It revealed a series of key themes and drivers outlined below that have serious implications for future business practice. We believe that companies which do not understand these drivers may face strategic challenges which will affect their long-term viability.

Resource availability offers opportunities as well as constraints

The Earth is a finite, complex system. Human demand for, and the consumption of, resources is increasing at an exponential rate. Most companies already view improved resource efficiency as an important means of driving down costs (conserving value), but the pursuit of alternative resources, markets and patterns of consumption may offer far greater opportunities for value creation.

People matter

In an increasingly competitive market economy, skilled labour, superior management capability, knowledge and information are key non-financial assets. While remuneration plays a key role in a company's ability to attract and retain high-calibre staff, people are also motivated by a sense of trust and loyalty. They want their knowledge and capability to be valued, and they want to buy products and/or services from familiar names and brands they can trust.

Traditional business models need to change

The most successful proxy for assessing the relative importance of issues in a market economy is money. In many respects, conventional economic models do not fully address non-financial or intangible drivers of business value. Indeed, they can often result in misleading conclusions about how sustainable certain business practices are.

More strategic responses are required

A growing number of companies believe that more active consideration of sustainability issues will offer important sources of additional business value, as well as threat. More strategic responses are required if the potential relationships between sustainability issues and business value are to be fully understood.

Sustainability issues are material business concerns

If companies are to start the process of integrating sustainability issues with strategic thinking, they also need to convince the investment community that these issues are material, both to aspects of business performance and to long-term business success.

Sustainable business practices increase value creation

Increasingly, institutional investors are applying forward-looking indicators to refine company valuations. If the active treatment of sustainability issues requires superior foresight, management and implementation capabilities, then high standards of performance could be used as proxies for good management in general.

We found that although companies are investing considerable sums in understanding, managing and reporting the impact of environmental and social issues, they are failing to make commitments and progress in sustainability part of their 'whole company offer' or strategic direction. To date, only a small number of companies reflect any sustainability or responsibility commitments within their strategy. We concluded that lack of strategic integration acted as a block to the development of sustainability as a driver of company value.

In simple terms, companies attract finance through the development of a strategy that is assessed by the equity market. Although there has been growth in recent years in Socially Responsible Investment (SRI), it still represents no more than 5 per cent of the finance available for investment. The authors felt that companies should be able to develop corporate strategy that would reflect their commitment and progress in sustainability such that it is valued by the mainstream equity market.

We found that although the mainstream equity market rarely specifically analysed the potential of environmental and social issues to create value, it is already using a range of tools and techniques which can asses how sustainability and CSR can create value at a strategic level.

> 'Companies perceive such initiatives as operational and are therefore dealt with at a "sub-strategic" level'

We uncovered four techniques which provide opportunities for companies to measure the contribution of CSR and sustainable performance to value creation and therefore drive investment in better performing companies.

- Impact upon company earnings – making capital available to companies at a lower cost than conventional behaviour
- Impact on a company's equity risk premium – if analysis reveals that a company is not managing its risks, effectively predicted risks will increase and the predicted value of the company's shares will decrease over time
- Drivers of shareholder value - increasingly effective management of sustainability issues has the capacity to affect these drivers significantly and can be used to identify potential sources of value growth
- Links with drivers of intangible value - environmental, social and ethical issues have been identified as top-10 drivers of intangible value

The analysis tools required to achieve this integration are already in common use within companies. We suggest that given a wider range of input assumptions to these tools, they will be suitable to define sustainable strategic options and select preferred responses.

Joss Tantram is a partner at Terra Consult, which offers sustainability solutions to business and local and national government, and consultant to WWF-UK

* To Whose Profit? Evolution – Building Sustainable Corporate Strategy, by Vicky Kemp, Alasdair Stark and Joss Tantram www.wwf.org.uk

View from the ground

Business leaders share their experiences of socially responsible business, from Jean-Philippe Courtois's account of Microsoft's EMEA initiatives to Solvay chairman Baron Daniel Janssen's story of how CSR principles shaped the group's history. Transparent reporting is part of Co-operative Financial Services's approach, says Mervyn Pedelty, while Jan Haars reviews TPG's global CSR programme. Finally, Geoffrey Bush explains how Diageo took social issues 'mainstream' and Dave Stangis looks at Intel's Global Citizenship Annual Report

Corporate citizenship – a learning journey

An understanding of the divides in income, health, employment and education are some of the lessons Microsoft's CEO for EMEA has learned from responsible business practices

By Jean-Philippe Courtois

Jean-Philippe Courtois

Corporate social responsibility and corporate citizenship as it is defined today were never part of a company's DNA. Microsoft has always recognised and respected its responsibilities to shareholders and the community but we have recognised recently that our role and responsibilities as a global citizen have grown along with technology and society's expectations of business.

We know that in today's world it takes more than great products to make a great company. With this in mind, we have broadened our original business mission – a PC on every desk and in every home – to enabling people and businesses throughout the world to realise their full potential.

My own role as CEO for Europe, the Middle East and Africa (EMEA) has taught me a great deal – the vast potential of people, the great diversity of cultures and languages, and the great divides in income, health, employment and education around the world.

CSR is an important way to meet the socio-economic challenges of the region and for doing responsible business. CSR is a learning journey we are passionate about and consequently we are investing much time and money in our policy.

In thinking and learning about CSR we are very aware of the need to live it through our mission and values, to embed it in our business and to connect through partnership with all our stakeholders. CSR is a key mechanism for listening, learning and improving. Business partnership is already a fundamental part of our business model, with hundreds of thousands of independent developers and companies using the Microsoft technology platform around the world to build and deliver solutions to industry, government and the education sector. Multi-partite social partnerships are the way we will help develop a sustainable information society in the future.

Our journey involves learning about societal concerns and expectations and extending our partnerships. We will be looking beyond the communities in which we operate today to other communities where we can help build the sustainable markets and societies of tomorrow. It means being responsible in developing our technologies and being conscious of the direct and indirect societal impact of those technologies. All of this stimulates us to put ourselves under scrutiny, to be bolder in challenging ourselves, in learning from others and being innovative in our approach. As we go forward, we are focusing our efforts in four main areas.

Openness and integrity in business practices

We're proud that we have always had solid reputation in the investor community for our open and transparent financial reporting. With the introduction of the Sarbanes-Oxley legislation we have stepped up our efforts further. We have developed Standards of Business Conduct for all employees to maintain high ethical standards in dealing with customers and partners. And we've introduced a 24 hours and seven-days-a-week compliance hotline for guidance to employees on ethical business issues.

As an IT industry leader, 'openness' also means being open with our technology – by increasing access to our source code and working with others in our industry, universities and governments, to develop open systems and devices that customers need.

We are also working with other companies and with independent bodies to develop and promote open technology standards. For example, on web services we are part of a broad industry coalition, the Web Services Interoperability (WS-I) Organisation, to promote web services that work across a variety of platforms, operating systems and programming languages.

Contributing to a sustainable information society

This means engaging with policy issues such as privacy and security, spam, online safety and IT product lifecycle issues, in collaboration with industry partners, governments and NGOs to develop legislation, multi-stakeholder partnerships, awareness-raising and self-regulation.

It also means working with independent developers and advocates to build assistive technology features into our software to make computing and the internet more accessible for people with disabilities. Another project involves the development of language localisation software that translates key PC interfaces and commands into a wide range of languages including Catalonian, Icelandic, Slovenian, Ukrainian and Welsh.

Microsoft is contributing to sustained local economic growth through our local IT partnership system and through industry and academic partnerships for research and innovation. For example, our research facility at Cambridge, UK, focuses on pure research for the next frontiers in computing, while Microsoft's European Innovation Centre in Aachen, Germany, focuses on collaborative applied innovation with European industry and academia in areas such as IT security and privacy, e-government and mobile and wireless technology.

‘We have developed Standards of Business Conduct for all employees to maintain an ethical approach to dealing with customers and partners’

Supporting local communities

The cornerstones of our commitment to digital inclusion are three programmes that support local partnerships to empower local people.

- **Unlimited Potential**, our global community investment programme, supports lifelong learning opportunities for disadvantaged learners in community technology learning centres. The programme provides funding, train-the-trainers programmes, IT skills training, software donations, and employee involvement. It is supporting over 300 centres in more than 40 countries of the EMEA region, with over 100 partners, assisting unemployed youth and adults, people with disabilities, older people, women and refugees. In the last year these centres provided training to almost half a million people and offered access to thousands more.
- **Partners in Learning**, our global support programme for classroom education, operates in partnership with government and educationalists to provide teacher and student skills development, tailored curriculum development, technical support and research to deprived schools and institutions.
- **Microsoft Authorised Refurbishers**, enables authorised PC refurbishers to reinstall Microsoft operating systems into PCs donated to schools, charities, non-profit organisations and community centres.

Being a responsible company

We provide ongoing training, functional and geographic mobility, and flexible work options such as home working and childcare. We have a strong commitment to diversity, equal employment, anti-harassment and anti-discrimination policies. And we have just launched a regional programme for employee involvement in the community through which we will mobilise a target of 5 per cent of our employees for three days a year.

We are committed to sound environmental stewardship in our facilities and our product packaging. We have also set up a partner network to support refurbishment of second-hand PCs to be made available to community and non-profit groups.

What we have learned so far

We are learning that it takes considerable effort to keep up with and respond to societal expectations. We are also learning that CSR is a fairly deep learning journey and you have to be prepared to challenge yourself and some orthodoxies about corporate decision-making and culture. CSR works most effectively if you link it to core business – in Microsoft’s case, IT education and lifelong learning.

We are seeing benefits for our employees and our business in how to innovate and address problems we would not have thought about ten years ago – from the role of IT in connecting refugees to home and hope (which we are learning in our partnership with UNHCR) to the educational needs of girls in traditional societies. This is a key part of the bottom-line case for CSR: the benefits and solutions that result from partnerships between social innovators and business innovators – and the innovation and transparency that accompany them.

While we did not understand the extent of this journey when we set out, we do know that we are committed to corporate citizenship as a means to develop solutions for society. We also know that IT can address deep local and global challenges The learning is humbling and the challenge is hugely enjoyable – and that is a good result in itself, both for society and for the company.

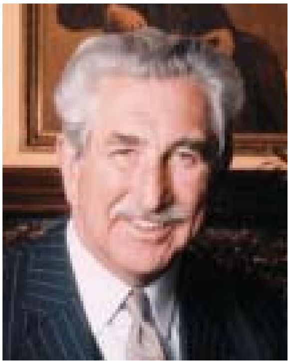
Jean-Philippe Courtois is CEO, Microsoft Europe Middle East and Africa

www.microsoft/emea/inthecommunity

The key to corporate longevity

Solvay has survived three wars and three revolutions in its 140-year history. Chairman Baron Daniel Janssen believes the group came through these turbulent times because it held to principles now associated with Corporate Sustainability

This is an extract from an EBF interview with Baron Daniel Janssen, chairman of the Belgian chemical and pharmaceuticals group Solvay and a member of The *European Round Table of Industrialists (ERT)*, an exclusive and influential group of 45 leaders of multinational corporations.



EBF You are a firm boardroom advocate of Corporate Social Responsibility (CSR) and corporate sustainability. How do you articulate the case?

Janssen The tradition of the Solvay group and my own family is one of corporate leaders being fully responsible, not only for their own business but also for the society around them. My ancestor Ernest Solvay, the founder of the company, created various faculties at the University of Brussels in the first decade of the last century (including a business school) and was an active citizen of his time.

As well as trying to increase profitability and growth at Solvay and be inventive in the chemical and pharmaceuticals sector, I have tried to do the same in my lifetime.

There are three major issues when it comes to CSR. The first is social. There are still some very poor people living in very difficult conditions in the well-developed countries of Europe, while the conditions in Africa, in Latin America, and in large parts of Asia are much harsher. It is the responsibility of major corporations not to be indifferent to that and, if they can help, to work in the direction of more social justice.

The second point is the environment. The deterioration of the environment over the last 40 years is why I was one of the 100 founding members of the Club of Rome in 1968. This is an issue for the whole world but businesses are often involved and we in the chemical industry in particular should bring our expertise to help find solutions. The problems do not originate very often from our own businesses – they originate from the citizens, from the cities, from industrialisation generally and from demographic changes – but we should help if we can.

The third point is what I would generally term the ethical issue, which encompasses corruption and transparency. How one deals, in other words, with the people who work in companies. This has always been important but it is even more so today given the fact that so many more countries are no longer state-controlled. Such countries had no tradition of ethical behaviour – indeed, in some cases it was just the opposite, something companies like Solvay are now having to deal with.

The decreasing influence of the state is another significant factor. At the beginning of my career 40 years ago (in the Belgian company UCB), our way of dealing with a major strategic issue like acquiring another company or closing a plant was to seek the views of either the minister of the economy or the prime minister. Today, these issues are our responsibility. We don't have a state umbrella above us, certainly not in multinational issues.

Corporate leaders must understand these issues, be prepared to deal with them in specific cases and ensure that future managers, through training in business schools and universities, also understand them. I've gone out of my way in the last 10 years to make speeches on ethics and CSR because I think there's a particular role for experienced businessmen to give a

> ‘If a private company is seen to be corrupt or a major polluter – or to misbehave socially in other ways – it is likely to disappear’

lead and show the public authorities that we are prepared to find solutions.

EBF Does CSR increase profitability (a question everyone wants to know)? Or is that the wrong question?

Janssen The purpose of a business is first and foremost to increase activities and hence profits. The purpose of CSR is to have a better society in the future than in the present or the past. It is true that if a private company is seen to be corrupt or a major polluter – or to misbehave socially in other ways – it is likely to disappear. So when I say that for me, or for the Solvay Group, I'm not directly seeking profitable objectives through CSR, I'm nevertheless trying to act as a good citizen (private and corporate) to ensure that the company survives and thrives for another 140 years.

We've been active through three wars and three major revolutions. And I believe we came through these turbulent times because we have acted in conformity with CSR (even if we did not know the phrase at that time).

A friend of mine, Paul Smets, a Brussels University professor, published a book called *Ethics or Cosmetics*, a title which frames the dilemma. For me, it is not about public relations, it's for the interest of the company and of the citizens around that company.

EBF How do you rate Europe's reaction to CSR? Is it serious or do large companies need to go a lot further to integrate this thinking into their strategy and culture?

Janssen A majority of private enterprises, in my view, has long acted in conformity with the principles of CSR and has been willing to confront new issues as the world changes. But, as in everything, there are always a few crooks around, and a few corporations which do not act responsibly. What has changed, as I say, is the diminishing role of the state and the need for corporations to assume new duties and responsibilities as well as taking advantage of new rights.

EBF Corporate governance has been a major obsession in Anglo-Saxon countries in recent times. Has the same been true in continental Europe in your experience?

Janssen Certainly. In 1998 I chaired the corporate governance committee for the employers association in Belgium and in most of the countries where we operate there have been similar bodies. Now I am a member of the new Belgian Corporate Governance Committee, set up to deal with the new European Directive. Corporations – and boards in particular – represent a last resort for the public given that governments no longer try to take care of business. Improving the quality of boards and the procedures they use will continue to be important. in a changing world.

The issue of independent board members is one we have always taken seriously in Solvay – managers cannot be seen to be independent, nor can controlling shareholders who are looking after a particular interest. The creation of committees – audit, remuneration and nomination, and finance committees – is also critical for good governance. I am also strongly in favour of separating the chairman and the CEO, something which needs to be addressed in the US (where talk of corporate governance is often just lip service). I was offered both roles at various points but I have always refused. As CEO before, I noticed how helpful it was for me to discuss things with my chairman, mostly in agreement in my case, but it doesn't have to be. Now, as chairman, I am on the other side.

Corporate governance has been more dramatic in the US because of huge mistakes in recent years. But there are weaknesses in Europe, too; everyone needs to improve their systems.

The full interview can be downloaded from www.ebfonline.com

Avoiding the 'greenwash'

Co-operative Financial Services publishes a Sustainability Report designed to counter allegations of CSR hypocrisy

By Mervyn Pedelty

Many critics of CSR accuse large organisations of 'greenwash', saying one thing in their glossy environmental and social accountability reports while secretly lobbying for a different position with government.

In fact, a great deal of the good CSR work undertaken by many companies is undermined by such allegations of hypocrisy. One of the problems, of course, is how to report CSR work. Our view is that by openly disclosing where they stand on each material issue, and submitting this to external audit, companies could robustly counter such allegations.

At Co-operative Financial Services we have recently published our stance on a wide range of issues as part of our first combined Sustainability Report – a 'warts and all' assessment of our ethical and sustainable performance during 2003.

We have taken the strongest elements of the Co-operative Bank's and the Co-operative Insurance Society's (CIS) previous work in ethics, diversity, community investment and ecological sustainability, and have merged them into a coherent new framework. (CFS was formed in 2002 to bring together the Co-operative Bank and CIS). We are convinced that reporting how we are performing against our vision, and the degree to which we are delivering value to a range of partners in a socially responsible and an ecologically sustainable manner, is good for the future success of our business.

Under the heading of 'influence and action' we state the position we have adopted on various issues. Of the 86 performance targets set by both The Co-operative Bank and CIS for 2003, 43 have been fully achieved, acceptable progress has been made on 27 and 16 have yet to be completed.

A negative shown in the report is the 27 per cent increase in the amount of paper used by the bank due to the increase in mailings to the enlarged customer base following the creation of CFS in 2002.

Having developed partnerships with a number of Community Development Finance Initiatives (CDFIs), the bank's provision of loans/overdrafts to small businesses in deprived areas far outstrips the industry norm (10.4 per cent of advances compared to 3.3 per cent). In addition, 24 per cent of corporate business banking advances (loans, overdrafts, etc) are invested in activities with a partially significant social/environment impact (£422m).

The issue of diversity highlighted both positive and negative developments. The number of bank staff that declare a disability rose from 1.2 per cent to 3.4 per cent, and those from an ethnic minority increased from 3.5 per cent to 4.3 per cent during 2003. However, despite these improvements numbers still trail regional and national population profiles.

CFS is now one of the top 10 business purchasers of 'green' electricity in the whole of Europe. As a result, CO_2 emissions at the bank have reduced by 91 per cent since 1997 and by 52 per cent since 2002 at CIS.

External auditors also noted that satisfaction among CFS customers was greater than the industry norm for all types of products.

Mervyn Pedelty is Chief Executive of Co-operative Financial Services

A new factor in the business equation

Two years ago TPG, the Dutch post, express and logistics group, embarked on a ground-breaking partnership with the United Nations World Food Programme. TPG's Chief Financial Officer, looks back on the challenges and rewards of building a global CSR programme

By Jan Haars

Being good at business is no longer good enough. A recent survey* carried out in 23 countries found that most people believed corporations should move beyond profit-making and should help build a better society. A new factor has been added to the 'how-to-run-a-successful-business' equation: CSR. These days you have got to do well *and* do good.

At TPG we built our CSR programme around an extensive partnership with the UN World Food Programme (WFP), the UN's logistics arm and the world's largest humanitarian organisation. The WFP mans the frontline in the fight against hunger. In 2003, it helped feed more than 104m people – 56m of them children – in 81 countries.

From our experiences we can attest to the fact that CSR programmes, when effective and meaningful, can have a significant impact both on the target issues and on the company involved.

In 2003, we committed €6m, which included more than €1m raised by our employees, to help WFP feed and educate children in poor countries through its Global School Feeding Programme. We provided emergency airlifts using our planes, logistical expertise to help improve WFP warehouses and fleet management systems, and support in critical back-office areas like accounting and HR. We also helped WFP attract another influential corporate partner, the Boston Consulting Group.

But we also gained a lot in return. In our home market in the Netherlands, we saw our ranking jump from 26 to five on the most comprehensive survey of the country's top 30 corporate reputations. We received extremely positive media coverage, including a place in *Fortune's* top 10 companies to work for in Europe. And we received numerous compliments from public and private sector organisations alike.

Most importantly, we saw our partnership with WFP create an enormous amount of enthusiasm and pride among our employees. One survey indicated that 92 per cent of our managers thought the partnership added value to the company. At every level in the organisation people put on an incredible display of creativity, coming up with an array of fund-raising activities that included a sponsored walk across 10 Asian countries, a talent hunt competition and various sporting events.

Spurred on by our success in 2003, we have upped our commitment this year to €10m. And we are convinced that we will be able to generate even more value - both for WFP and for ourselves. However, as is often the case in life, our success with WFP came only after we resolved several key challenges.

First, we were confronted by the diversity of our commercial undertakings. At TPG we are active in three areas: postal delivery, courier services and logistics. Business gurus like Harvard professor Michael Porter point out that companies, like individuals, are most effective when they are able to deploy their unique set of skills and talents. Finding a partner like WFP whose core business aligned with our own allowed us to build a cross-divisional commitment for our CSR programme. But we were only able to do this by taking a good look in the mirror and asking ourselves what we had in common. The answer was simple: we move things from A to B.

Of course, we could have neatly sidestepped the issue by building three tailor-made CSR programmes anchored and managed at (in our case) the divisional level. But this would have diminished their impact and increased the associated costs by spreading our focus. We also would have forgone – or maybe even counteracted – the reputation benefits we have reaped by creating competing CSR associations among our stakeholder groups.

The second challenge to our CSR programme were national and/or cultural boundaries. TPG has offices in 64 countries and we do business in more than 200. It should come as no surprise that different countries and cultures have different priorities when it comes to social and environmental issues. But as many will acknowledge, a good CSR programme needs the support of people at all levels and locations in an organisation. For multinationals this can be something of a Catch-22 situation: do we choose issue A and risk losing the support in some countries, or do we choose issue B and risk losing support in other countries? If not handled properly, this situation could create tensions between different business units, something few companies would consider a positive result.

By aligning ourselves with WFP and the fight against hunger we hit on an issue with which almost everyone identifies, even if they have been fortunate enough not to experience it in their immediate environment.

'By aligning ourselves with WFP and the fight against hunger we hit on an issue with which almost everyone identifies – even if they have been fortunate enough not to experience it in their immediate environment'

Finally, we have the continuing challenge of perspective. Ultimately, TPG is a business, not a humanitarian organisation. We are proud of our support for WFP and excited about the enthusiasm it has generated among our employees. But our achievements need to take place and be communicated in context. Our efforts have made a difference, but unfortunately they have not eradicated hunger.

Similarly, the good results we have seen with WFP cannot and do not overshadow our market performance. We have to continue to motivate our people to do well and do good. Fortunately, the match in our core competencies and those of WFP means that the efforts our employees put into their work can benefit WFP and vice-versa.

Looking back on almost a year-and-a-half of a successful partnership with WFP, I can confirm what has become an adage of the CSR movement in recent years: it is a true win-win situation. But I would add that you can only attain this balance if you address the inevitable challenges to the organisation honestly and early on in the process.

Jan Haars is CFO of TPG of the Netherlands

Corporate citizenship: the rights and the responsibilities

Diageo has made a conscious effort in recent years to take social issues into its mainstream business, says its director of corporate citizenship

By Geoffrey Bush

Geoffrey Bush

Like many companies, Diageo (or at least its component parts such as Grand Metropolitan, Guinness and Pillsbury) began its CSR journey in the local community. The Toxteth riots in Liverpool in the early 1980s, which affected both pubs and local livelihoods, was probably a defining moment for everyone and since then we have backed schemes all over the world to help the unemployed, ethnic minorities and the homeless. We now earmark 1 per cent of operating profits per annum for community investment and have just celebrated the 20th anniversary of Tomorrow's People Trust, a national force in tackling unemployment in the UK.

Our strategy has evolved in a number of ways and under various influences, not least the impact of the mergers that created Diageo. For example, when we acquired Pillsbury in the US, the whole GrandMet group adopted the idea of employee volunteering, a culture that has been successfully implemented as far afield as Latin America, India and Australia.

The story of recent years, however, has been a conscious strategic effort to bring the concept of corporate citizenship into our core businesses. We like to talk about corporate citizenship rather than CSR because of the way it implies rights as well as responsibilities. The establishment of a corporate citizenship committee in 2001, chaired by the CEO, was a crucial step.

Diageo's corporate citizenship focus manifests in a number of ways: taking the industry lead in the responsible use of alcohol, stakeholder engagement and reporting are the most important.

When we acquired the wine and spirits business of Seagrams in 1997 we became the world's leading premium drinks business and, we believe, offered a different sort of leadership. The drinks industry has long been well-regarded in terms of self-regulation and a number of codes, including the so-called Dublin Principles and education initiatives have been established over the years, such as the Portman Group in the UK, an industry-funded group that promotes responsible drinking.

The managing director of our Australian business recently took four months off to lead an international study group, comprising Government, NGO and other industry representatives, charged with looking at ways of developing a national alcohol policy in Australia. In the UK we are working with interest groups and others specialising in public policy to encourage greater debate about how to tackle alcohol misuse such as the so-called 'binge' drinking culture. During 2004 we have already backed over 30 local programmes around the world, designed specifically around the World Health Day theme of Safe Roads.

Responsible drinking has also featured increasingly strongly in our advertising and marketing. Every Diageo employee associated with one of our brands - and the employees of the advertising agencies we work with – has gone through a training programme on our marketing code . We also run an annual compliance programme which is strongly enforced. We have shared our policies and training programmes with other companies in the sector who are adopting similar programmes.

Much of this, of course, is linked to good reporting and here we have made important strides. We follow the guidelines of the Global Reporting Initiative (GRI) –notably their metrics, and templates – and have found this a very useful exercise, both internally and externally. We have been surprised by the way it has helped foster a common purpose among employees. A key development has been the publication of global and local corporate citizenship reports - so far we have produced them for Scotland, Poland, Nigeria, Australia, Korea and Kenya/East Africa.

On stakeholder engagement we have gone a lot further in the past couple of years and we are determined to be more systematic with all stakeholder groups, including shareholders, employees, governments or NGOs. One of the best tests of whether you are a 'good' corporate citizen is how you behave when making tough decisions – being seen to take stakeholder views into account enables us to do this effectively.

Geoffrey Bush is Director of Corporate Citizenship at Diageo

Facing up to the challenges of CSR reporting

Intel's Global Citizenship Annual Report tracks its attempts to raise the level of transparency in how it reports good performance and where issues need to be resolved

By Dave Stangis

At Intel, as is probably true in many other companies, our 'coming of age' regarding CSR reporting has been an evolutionary affair.

Of course, we've had processes in place for years to report on our financial performance. We began systematic reporting on our environmental health and safety (EHS) initiatives in 1994, though we had collected such data internally for many years. It is significant that my job as manager of the overall CSR effort developed directly from my prior work as EHS external affairs manager.

What has changed over the years is that we are now much more focused on responding to what our external stakeholders require. They tell us what they think is important and we try to match up our internal data gathering and reporting efforts with those expectations, to the degree possible. Given the wide range of stakeholders, however, we will never be able to respond to everything they would like us to do, or report on.

The broadening of stakeholder expectations in the last few years has meant that our data gathering processes have had to involve a wider range of employees. This has presented some real challenges, not the least of which is just finding out who does what and who has what information in a company of some 80,000 employees in almost 50 countries.

Our CSR effort is run differently than it is at some other companies. Instead of having a central group focused on CSR issues and reporting, we have a manager whose job it is to build a company-wide network of experts who know the issues and can make decisions. And we bring that network together regularly to track our progress and define our strategy for the future.

All of this means doing a lot of surveying. We regularly survey employees on general workplace satisfaction as well as things such as safety. Externally, we have a wealth of stakeholder input to guide us: community advisory panel input, community perception surveys that ask those close to us how they like being our neighbour, rankings and lists put out by watchdog organisations or media, and so forth.

‘We bring together a company-wide network of experts who know the issues, can track our progress and diagnose issues that need to be resolved’

We take that data and a mass of other data and try to define where we have gaps and how we are going to fix those gaps. This year we published our third annual Global Citizenship Annual Report. As before, the report is organised around the sustainability reporting guidelines under the Global Reporting Initiative standard. It contains very specific data where we have that level of information – many EHS charts, for example. But we also outline broader commitments each year, and then compare our actual performance with those goals each year.

We still face challenges, and probably will for some time. We continue to try to push the level of transparency – to be faithful and honest about reporting good performance, issues resolved and issues still to be resolved.

We still do not collect, nor traditionally report, some of the data requested in the GRI indicators. For example, we have a long-standing policy of not releasing the names of our suppliers. This doesn't mean we would never do that, just that the request for such information kicks off an internal debate that has to take place before a decision is made. And that has proven to be a very positive, if unanticipated, benefit of the process.

We have made progress on pushing out the traditional boundaries. For example, this year we included two charts in our report that we never released publicly before: turnover data by region and a detailed breakdown of employees by location and site function. This is actually a very positive process because it allows us to challenge old ways of doing things in light of new standards and expectations.

So we continue to try to face the challenges, and learn as we go.

Dave Stangis is Director Corporate Responsibility, Intel Corporation

Accountability stakes

Will companies voluntarily embrace CSR? Or is further regulation at national or European level inevitable? Pierre Defraigne of the European Commission says CSR is doomed to remain a fairweather policy unless multilateral rules are imposed on rogue companies. Meanwhile, Bernard Giraud, Sustainable Development Director of Danone Group explains how European companies are sharing best practice of CSR

Creating a level playing field for CSR

Multinationals should be held accountable by their countries of origin for severe infringements of social and environmental norms

By Pierre Defraigne

Corporate Social Responsibility has many merits, but it begs many questions. Is CSR not too loose a response to the growing gap between insufficient multilateral, social and environmental norms and the increased risk of misdeeds by global firms which are less accountable to national governments and more pressurised by global financial markets? Should the gap be filled by coercive minimum international standards and rules that are subject to credible dispute settlement procedures? Should multinational corporations be held responsible by their countries of origin for breaches in basic norms wherever they operate? I would answer yes to the three questions.

According to Michael Porter, companies may be the only entities that make money, but they are not the only ones that contribute wealth and generate welfare, since it is the mix of rules and markets, of private and public goods that secure sustainable development.

The benefits of globalisation are obvious: economies of scale, worldwide competition and foreign direct investment (the most effective vehicle for transferring know-how and capital to developing countries and plugging them into world markets) are the driving forces behind global growth; moreover, they ease the emergence of newly industrialised economies. However, one of the main challenges of globalisation is the change in balance between a global company and its context: as an extraterritorial entity, it loosens its links with national authorities and strengthens its bargaining power with governments.

Yet while global companies see their margin for manoeuvre increased *vis-à-vis* national governments, they are subject to the pressure of globalised financial markets. The latter's greed for short-term profits can tilt the balance from stakeholders' to shareholders' interests, with the result that governments eager to attract foreign direct investment can be pressurised to the point of putting their own rules in competition. It is a dangerous drift. Increasing scrutiny through social and environmental labelling ensures broader interests and non-profit values make their way – to some extent – to boards and are incorporated in strategy.

Rational firms have no incentive to produce public goods. What they can generate are positive externalities as far as the social and physical environment is concerned. However, the extra costs of doing this carry financial benefits: improving their image, differentiating products, securing natural resource supplies, enticing the best employees and convincing ethically minded investors. Consequences such as training unskilled workers or protecting the environment do support CSR, but the cost of providing them is consistent with a profit rationale as they correspond to cost reductions and price increases. In such cases, CSR pays off.

But any CSR move beyond normal market requirements means lower profits and is therefore subject to cost pressures from the business cycle or free-riding competitors in search of high returns.

CSR is doomed to remain a fairweather policy unless multilateral rules are imposed so a level playing field can be established. We are in a typical Gresham Law situation where bad practices generalise at the expense of good practices. We need mandatory rules. In an ideal world, governments would all ratify multilateral norms and an independent authority would enforce them. But either norms are not ratified nor applied or international organisations lack powers.

A process should be set in motion to make the rule of law prevail. One way is to make multinationals accountable to their countries of origin for infringements in any other country, with regard to three sets of norms: basic human rights, core labour standards (i.e. not minimum wages) and relevant multilateral environmental agreements. Multinationals should comply with provisions of such norms or divest* in extreme cases determined by international consensus.

Competition among rules in such matters is not acceptable. By bringing higher standards to the developing world, multinationals will, beyond their precious contribution to the growth of local economies, add a deeper contribution to the rule of law and to social and environmental progress.

In order to create a level playing field, developed countries should agree on such minimum standards for their enterprises through an open agreement, drawing on OECD experience and in a wider forum. The next step would be to bring developing countries into these agreements through dialogue, bilateral deals or 'enriched' conditions on multilateral lending.

Pierre Defraigne is Deputy Director-General, DG Trade, European Commission. This article represents the personal views of the author and in no way engages the European Commission or its services.

* Consider precedents set by successive US administrations on American assets linked to Nazi Germany and Soviet Russia

From ideology and rhetoric to practical solutions

Europe's largest organisations and stakeholders have joined forces at 12 roundtables to share their varied experience and knowledge of CSR

By Bernard Giraud

The European Commission initiated the European Multi-Stakeholder Forum on CSR in October 2002 following an appeal from European heads of state in March 2000 and a European consultation in 2001 on its CSR Green Paper. The Forum currently involves Europe's largest organisations, representing the interests of large, medium and small businesses together with stakeholders such as employees, consumers, investors and the public. CSR Europe, the European business network on corporate social responsibility, was invited to participate in the Forum.

It has two broad objectives. First, to "improve knowledge on the relationship between CSR and sustainable development (including its impact on competitiveness, social cohesion and environmental protection)...with a special emphasis on small and medium enterprises (SMEs)". Second, to "explore the appropriateness of establishing common guiding principles for CSR practices and instruments..."

In late June 2004 (as this special report was going to press), the Forum was due to present a report about its work and make recommendations to the Commission, which has promised to react by October-November 2004. The Forum's final results will build on four reports that sum up 12 roundtable discussions on the following issues:

- Improving knowledge about CSR
- Fostering CSR among small and medium enterprises (SMEs)
- Development aspects of CSR
- Diversity, convergence and transparency of CSR practices and tools

Solutions versus rhetoric

Our concern was to ensure that discussions at all the roundtables focused on practices and solutions rather than ideology and rhetoric. Fifty case studies were discussed and analysed by Forum participants, including BT and the Global Reporting Initiative (GRI) on effective and credible transparency and reporting.

We heard from Carrefour, the French-based supermarkets group, about how it works with the International Federation of Human Rights on Asian suppliers on issues including working conditions and child labour. We also heard from B&Q about how it has applied Forest Stewardship Council's (FSC) label and process certification, and from Hydro on how it addresses bribery and corruption with Transparency International (the international non-governmental organisation devoted to combating corruption).

On a personal level, I found it interesting to discuss the way Danone, my own company, is handling responsible restructuring with the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF), and integrating CSR into management processes across different functions and operations worldwide.

Outcomes to-date

The Forum has fostered a climate of mutual respect that has enabled members to forge a better understanding of CSR. It has also witnessed the incremental implementation of CSR at different levels and functions within companies. This was done by taking account of the different sizes, sectors and locations of each company and understanding the conflicting expectations of shareholders. The Forum roundtable reports* capture the discussions and analysis of the key drivers, obstacles, and success factors of the various CSR practices and initiatives presented.

The Forum has also served as an instigator for mainstream organisations involved in the Forum to take the lead on CSR. For instance, the European Association for SMEs (UAPME) and the Association of the European Chamber of Commerce (Eurochambres) are starting up a European campaign in 25 countries to promote the business case for CSR among SMEs. In November 2003 the Council of European Professional and Managerial Staff (Eurocadres) adopted a manifesto announcing the development of training schemes for integrating CSR within middle management functions. And in mid June the European Trade Union Confederation (ETUC) was due to host its first CSR conference on the experiences of its local and national affiliated members.

Final sprint

CSR Europe is now drafting a report that will include recommendations for future initiatives, including raising awareness and improving knowledge on CSR, developing capacities and competencies for 'mainstreaming' CSR, and encouraging a better environment for CSR in Europe.

However, several sensitive questions remain – and the extent to which a consensus can be reached will determine the Forum's long-term success. For instance, how can transparency be promoted not only in companies, but for all stakeholders so that the trust required for innovative partnerships can develop?

We have to be alert to any initiatives that member states and the EU may take on CSR. From our perspective, the challenge for business and stakeholders is clear: how can Europe embed CSR into competitiveness? After all, Europe's strategic goal is to become by 2010 the word's most competitive economy, capable of sustainable economic growth with more and better jobs, greater social cohesion and high environmental protection.

Bernard Giraud is Executive Director, CSR Europe and Sustainable Development Director, Danone Group

* Reports can be obtained from www.csreurope.org

Financing the CSR plan

How convinced are investors of the merits of 'mainstream' CSR? Without the support of financiers will business leaders ever truly embrace the new philosophy? Céline Louche, formerly of Triodos Zeist, looks at the investment policies of European investment houses, while Adeline Hinderer of CSR Europe points to signs of interest from mainstream investors in social, environmental and ethical issues

Opening the channels of communication

Sustainable investment creates a space for dialogue between companies and stakeholders which can stimulate change

By Céline Louche

When the first European-based sustainable investment fund was launched in the UK in 1984 by Friends Provident Stewardship, many observers were sceptical. They expected relatively little money to be attracted to this or similar vehicles.

By August 2001, however, there were no fewer than 60 'sustainable' funds in the UK, representing £4bn, or nearly 2,000 times the original estimate of one seasoned financial markets observer. By October 2002, according to a survey carried out by SIRI Group, 280 funds of this kind operated throughout Europe, an 11 per cent increase over the previous year.

This said, the field remains small in terms of market capitalisation and its impact is inevitably limited. Key actors must therefore use other options to stimulate change, one of which is to open a channel of communication between corporations, shareholders, financial institutions and a wide range of stakeholders about the best way ahead.

What is sustainable investment?

The origins of sustainable investing can be traced back to the 18th century in the US, when religious individuals first actively started to avoid the so-called 'sin' stocks – alcohol, tobacco, weapons and gambling. In the early 1970s, corporations with activities in South Africa were excluded for supporting apartheid.

These kinds of 'avoidance investing' dominated early ethical investment actions. In the mid-1980s, ethical investment took a new turn. It began attracting a larger group of investors, especially social and environmental groups. Little by little it moved away from avoidance to inclusion – focusing on specific 'beneficial' areas of activity such as environmental technology.

At the end of the 1990s a third generation of sustainable investment appeared, associated with what is called 'best in class'. This last generation of investment funds represents a shift of reference from ethical principles to the three P's (People, Planet, Profit) or sustainable development. As a result, sustainable investment has become more accessible and more popular, less tied to ethical values and more linked to a set of globally recognised concepts.

How does it work?

Sustainable investment may be described as a set of actions that lead to the screening and selection of corporations by investors. It consists of three important elements: strategy, screens and criteria.

The investment policy of the sustainable investment fund of Triodos Bank NV, the Meerwaarde Fund, for example, is based on the three Ps approach. Profit refers to a sound return and risk; people refers to human dignity, treating employees, clients, suppliers and the community in which the corporation operates in a responsible way; planet implies due consideration to the environment, including elements such as the use of natural resources, production and treatment of waste and, air, water and ground emissions. The investment universe is limited by people and planet factors, with profit used to select the final portfolio. In order to implement its policy, Triodos uses three types of screen – exclusionary, comparative and inclusionary – and distinguishes between two strategies of investment. The aim is to select company leaders by sector in relation to social and environmental behaviour.

One of the strategies uses two types of screen: inclusionary and exclusionary. This strategy seeks to invest in corporations which, on the basis of their products and/or services, deliver a positive contribution (social added value) to people and/or the environment (the so-called inclusionary criteria). Companies which derive a significant percentage of their turnover from sustainable activities are only then judged on their involvement in exclusionary criteria. Those that pass are selected for investment.

The other Triodos strategy also uses two types of screen: exclusionary and comparative. All sectors of activity are considered. However, in order to qualify, companies must fulfil two conditions; first to be among the best 50 per cent in terms of sustainability performance, and second, not be involved in any of the exclusionary criteria. The comparative screens focus on policies, management systems and performance (comparative criteria can vary according to sector specifics). They are then given an overall score on their sustainable performance record and ranked. Triodos chose to select the best 50 per cent in each sector to stimulate corporations to improve their sustainability performance. The best 50 per cent are only selected for the investment portfolio if they also pass exclusionary criteria, that is to say they are not involved in an unsustainable sector or practice.

Strategies and screens differ from fund to fund: some have only one approach, others combine several types. The most common practice, typified by the Dow Jones Sustainability and the FTSE4Good indices, is a combination of exclusionary and comparative screens. Moreover, the criteria applied by funds are both numerous and diverse. As of July 2003, the Triodos Meerwaarde Fund contained 21 exclusionary criteria (16 activity-related and five process-related), 126 comparative criteria and six inclusionary criteria.

Comparative criteria are organised around three main aspects: people, planet and transparency and external relations. The first two aspects are sub-divided into three main categories reflecting principles and policies, management systems, and performance.

Each category contains a certain number of questions. Weight is given to each of the three aspects according to its relevance to the company sector. Once again there are differences in the number of criteria used by different funds, as well as in the definition of the criteria.

This lack of standardisation results in a diversity of investment universes. For example, as of November 2001 Fortis Bank was included in the FTSE4Good index but not in the Dow Jones Sustainable index, and ING Bank was included in the Dow Jones Sustainable index and not in the FTSE4Good. This diversity and multiplicity can be confusing for companies and investors. Cmpanies are confronted by many demands and expectations – some of them contradictory or incompatible with the company's goals and objectives.

In this context, Eurosif is promoting its 'Transparency Guidelines for Sustainable Funds'. As of April 2003, the guidelines were signed by 20 organisations, among them Triodos. Signatories commit themselves to "be open and honest and disclose accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the sustainable investment policies and practices relating to the fund" .

Who are the actors involved?

Ethical investment involves five main groups of actors: companies, stakeholders, rating organisations, financial institutions, and investors. Companies are the central focus of the process: they are screened and ranked in order to define the investment universe. They actively participate in the screening process by providing information. Stakeholders are the actors who can affect or are affected by the achievement of the firm's objectives. They include non-governmental organisations such as human rights, environmental groups, trade unions, consumer groups, (inter-) governmental organisations, shareholders, professional organisations and the media.

Rating organisations such as Ethibel in Belgium or Dutch Sustainability Research in the Netherlands collect information related to social, environmental, quality and corporate governance matters, and carry out the sustainability screening of corporations.

Rating organisations have established networks that include companies, stakeholders and organisations such as VBDO (the Dutch Association of Investors for Sustainable Development), Eurosif (the pan-European stakeholder network for promoting and developing sustainable and responsible investment), and GRI (the Global Reporting Initiative).

The importance of dialogue

Companies receive an ever-increasing number of questionnaires from sustainability analysts enquiring about social and environmental issues. The questions touch areas that used not to be looked at, at least by financial analysts. Companies are not always prepared to respond to those new demands.

The purpose of sustainable investing, however, is not to punish but rather to stimulate change. One way to do that is to question behaviours and practices. This can be achieved through dialogue. Sustainable investment creates a space for dialogue between companies and stakeholders which can stimulate change.

This article is extracted from 'Mirror, mirror on the wall…" which first appeared in **EBF** *magazine, Issue 15, Autumn 2003.*

Céline Louche was sustainability analyst at Triodos Zeist, in The Netherlands (www.triodos.com) She is now a researcher at the Impulse Centre, Business in Society, Vlerick Leuven Gent Management School, Belgium

CSR does matter

Mainstream investors and analysts are integrating social and environmental criteria into their financial assessments

By Adeline Hinderer

While it is clear that a good CSR record will never compensate for poor financial results, it seems that the financial community in Europe is at least starting to see improved social and environmental performance as a contribution to good management.

The absence of a sound CSR record can also be a drawback for fund managers and analysts if a company exhibits specific risks characteristics. Poor social and environmental practices are likely to trigger suspicion and numerous questions.

A recent survey* of 400 European fund managers and financial analysts found that social and environmental issues do matter for the investment community – but only up to a point. Of the fund managers who participated in the study conducted by CSR Europe, Deloitte and Touche and Euronext, 79 per cent felt that the management of social and environmental risk had a positive impact on a company's market value in the long term (although a majority considered it had no impact on short-term market value). Moreover, 40 per cent of those surveyed claimed that they awarded socially and environmentally responsible companies a premium in investment decisions.

The survey found that even if the socially responsible investment 'label' may represent a market niche, social, environmental and ethical criteria could "be used progressively in a complementary approach to asset allocation together with other criteria – including growth value".

The survey results are in line with the outcomes of a separate series of interviews conducted by Insead and CSR Europe among investor relations officers (IROs), the financial community's main contacts within companies. The analysis of these interviews reveals that almost all IROs said they expect mainstream investors and analysts increasingly to integrate social and environmental criteria into their assessment, but

'The absence of a sound CSR record can be a drawback for fund managers and analysts if a company exhibits specific risks characteristics'

only gradually. Some were looking at a timeline of four to five years.

A starting point for such integration is likely to have some risks that are quantifiable and have a direct financial impact. At this stage, investor relations officers say there is a definite interest from mainstream investors on social, environmental or ethical issues to the extent that they could affect earnings or stock prices (costs associated with compliance with environmental regulations or the threat of litigation).

Sell-side analysts are also waking up to CSR issues, as HSBC, Dresdner Kleinwort Wasserstein and West LB Panmure begin to develop initiatives and products that take into account social, environmental and ethical dimensions. This trend, moreover, is affecting the IRO's role within the company. Some IR departments fill in the questionnaires from rating agencies and screened funds. They may also be involved, along with colleagues responsible for sustainable development or CSR, in meeting active mainstream investors such as ISIS Asset Management, Henderson Global Investors or Morley Asset Management.

On average, they indicate that they spend about three to four hours a month on social and environmental issues, and expect this to grow. Some IR departments have conference calls or presentations dedicated to socially responsible investors. Dexia Asset Management organised a Socially Responsible Investment (SRI) roadshow in eight European capitals in early summer 2004.

In a small number of cases, the IR department itself has begun to develop expertise on CSR issues. Some IROs are designated the role within the investor relations team of being the key contact for CSR and socially responsible investment issues. In 2003, the UK Investor Relations Society offered its members a conference focusing on communicating environmental performance to investors. "CSR is likely to become much more of an issue ... it is important that our professionals get geared up," said Peter Baguley, IR Director at Boots.

Despite growing investor interest, IR officers may need to play a proactive role by drawing attention to the importance of CSR and how this feeds back into the creation of company value. Some interviewees emphasised how the financial community needs to be made aware of how CSR policies can offer a company competitive advantage.

Jadran Trevisan, Head of IR within ENI, took investors on a field trip in Nigeria: "We were presenting not only our production profile and our activities, but also our social and environmental achievements. It is important for us, because we must have strong links to the community in any country we operate in."

It is clear then that companies that wish to convince shareholders and other stakeholders of their ability to manage risks and make the most of opportunities for developing social and environmental performance should integrate their IR department rather than leaving it as an untapped resource.

Adeline Hinderer is programmes co-ordinator for CSR Europe, a non-profit organisation that promotes corporate social responsibility
www.csreurope.org

* *CSR and the role of investor relations: from switchboard to catalyst (2003)*

CSR and the future

As pressure grows for companies to balance the short-term commercial targets of business with long-term societal sustainability, the demand for education and skills to deal with CSR increases. Elena Bonfiglioli and Peter Lacy believe that a systematic infusion of CSR is urgently needed in MBA and executive education programmes, while Stephen Young of the Caux Round Table suggests that business schools need to focus on ethics if future managers are to avoid corporate scandals

Building skills in partnership

CSR must be integrated into business education and management development if companies are to deal with society's demands on business

By Elena Bonfiglioli and Peter Lacy

The interest of business and academia in corporate social and environmental responsibility (CSR) has, to a large extent, been triggered by corporate scandals, advocacy from NGOs, regulatory pressure from policymakers and concern from consumers and the media.

However, as the debate has grown, the role of business in society has come to be viewed as an opportunity for business not only to protect itself from risk and reputational damage, but also to strengthen its relationships with its stakeholders and improve internal strategy and management. Indeed, the focus has shifted from value *preservation* to value *creation*.

Unlocking value of CSR through education

While there is now a demand from companies to innovate and build capacity towards better stakeholder management, the knowledge and skills required to enable managers to deal with these complex challenges still appear to be lacking in business schools and within corporate academies and HR departments.

In order to balance the short-term commercial targets of business with long-term societal impact and sustainability, managers increasingly require new knowledge and skills. Yet it remains to be seen if business educators are providing what is required to address these issues and to help managers devise solutions that create business and value for society.

Recent surveys by CSR Europe, the European Academy of Business in Society and Global Campus Monitor, have shown that the demand for education to deal with corporate responsibility issues is growing fast from companies, individual managers and students. However, the supply of new skills and knowledge has been slow and uneven – both in business and academia.

Companies increasingly say they are taking CSR considerations into account in their recruitment processes. This is a promising trend, but as of yet, insufficient. While it is clear that companies recognise the important role CSR plays in winning the war for

talent, the extent to which these issues influence hiring decisions is not yet explicit. For the majority of companies, there is a clear opportunity to improve the development of coherent strategies and programmes to support managers with these skills once they have been recruited, for example by aligning competency frameworks, value-based performance assessments or reward systems.

In an attempt to plug the skills gap, some businesses are appointing in-house specialists and creating departments to formulate and communicate their corporate values. In addition, a great number of business networks and consultancies have sprung up to support businesses in better managing their social and environmental impact. A small number of business schools have recognised this and turned it into competitive advantage through specialist programmes and courses.

However, in the long run the real challenge is the integration of CSR into core company operations. To benefit fully from CSR, the knowledge, skills and tools to manage this integral dimension of a business' operations need to become part of the education and training of every business manager, at every level of the company. In order for this to happen seamlessly, a company culture has to be developed that encourages all managers to consider social and environmental concerns on a par with traditional economic priorities.

There is a clear role for business educators to help companies take CSR into their mainstream operations and disseminate skills and knowledge to integrate it across all departments. However, business schools and in-company trainers have failed to grasp the need to develop managers in finance, strategy, HR with a solid understanding and awareness of CSR.

More fundamentally, a systematic infusion of CSR throughout core business education offerings such as MBAs and executive education is also largely lacking. The specialist approach to CSR still seems to be the prevailing norm in business education: the widespread impression is that corporate finance is seen as the mandatory course on a Monday while CSR is offered as an optional module on a Friday. This approach further polarises the debate: divorcing the concept of 'doing business' from that of 'doing responsible business', a distinction which the business community is increasingly recognising as outdated.

Nor has the training challenge been met within companies. HR departments, corporate academies and 'in-house' programmes are often ill-equipped to enable change and can be hampered by the imperative to create shareholder value, which is often understood in narrow and restrictive financial terms.

What is clear within companies is that they need staff skilled in managing the social and economic impact of their business operations. The key question now – both for companies and business educators – is how should employees acquire these skills? Should companies recruit new specialists or should they work with business educators, both in-company and in business schools, to develop their staff? To address the current skills shortage and to aid the development of managers, a combination of both approaches may well be required.

Structured partnerships between business and the business education community is one way forward. In order to prepare students for the real world, business must feed practical knowledge and 'real life' issues concerning CSR into management education.

Starting the journey down a difficult path

The path to improving knowledge and skills of CSR is a difficult one, not least because the expectations of society and customers are continually evolving. In just a few years the debate has moved from 'what is corporate responsibility' to 'how do organisations learn to be responsible in an ongoing way?' and 'how can managers balance short-term financial success with long-term sustainability?'

In answering today's practical questions of how best to integrate corporate responsibility into 'business as usual', business practitioners have turned to a variety of learning tools. For example, in a recent survey*, more than 90 per cent of business practitioners say they learn mostly on the job, reading, networking, or attending conferences. In the same survey, 40 per cent said they learned from 'hands-on' activities such as secondments to the voluntary or public sector, participation in Business in the Community's 'seeing is believing' sessions and e-learning.

There is a growing recognition, however, that the academic rigour and educational expertise of business schools and corporate academies can build long-term solutions to the shortage of skills and knowledge about CSR.

To move forward, greater partnership and collaboration is needed between companies, business educators and those going through the learning process. New learning programmes and opportunities need to be forged, which draw from a wide range of traditional and innovative methods and include practical experience of corporate responsibility.

This needs to become part of the core curriculum, education and training of every business manager at every level of the company, regardless of whether this is delivered internally or externally. Learning should reflect the need to develop leaders and managers able to respond to real-world situations – the complex, integrated, knotty business problems and challenges – that they will encounter as managers in a wide range of functions.

'In order to prepare students for the real world, business must feed practical knowledge and 'real life' CSR issues into management education'

To integrate these issues into traditional management learning will not be simple and will require a careful blend of theoretical and practical instruction.

Building practical solutions

Addressing the disconnect between supply and demand on business in society education was the primary reason for the establishment of the European Academy of Business in Society (EABIS) in July 2002. Bringing together some of the world's leading companies and European business schools, the academy aims to build partnerships focused on integrating business in society issues into the heart of business theory and practice.

Its activities focus on developing research, education and training to support the development of high quality knowledge and learning grounded in strong business relevance.

In France, INSEAD has been actively working with companies to develop research and training material on the social and environmental dimension of business performance. Within EABIS, it now leads a consortium of business schools and companies such as Johnson and Johnson, IBM, Microsoft and Unilever, working to study the nature and consequences of societal demands on business decisions and actions from a business strategy perspective and exploring ways to raise awareness and skills among managers and executives. This project, named 'Response' is part of the European Union's Sixth Framework of Research, the first time they have included CSR in the programme. Under the EABIS umbrella, it will shape a new model of research on CSR, with business and academic partners shaping the project to combine high academic quality with quick access to business-relevant results.

In a similarly radical project supported by the EU's Sixth Framework Programme, an EABIS-led project, starting in September 2004, will bring together business schools, companies and other stakeholders to look at how Europe can establish a research area on CSR. 'CSR Platform' aims to address the fragmentation of research and co-ordination in Europe by creating a single point of reference for the region, connecting groups of academics internationally, across disciplines and even with more fundamental subjects such as economics, sociology, psychology. It will also actively engage CSR researchers with practical end users. CSR Platform will explore ways and means to engage companies and other stakeholders in structuring inputs and outputs from research across Europe.

At the national level, the UK is to establish the CSR Academy in July 2004. With strong support from the business community and other stakeholders, it promises to be an important development that will hopefully be repeated in other countries across Europe. Recognising that the CSR debate has tended to focus on business best practice and benchmarking rather than integrating CSR into the business goals and competencies of the managers, the Academy aims to move the debate forward by raising the profile of the skills needed to make CSR more mainstream. Importantly, this will mean engagement with departments responsible for measuring and managing skills and competencies.

Effective knowledge and learning partnerships

As the wider debate on the role of business in society rolls on, it is vital that the debate on knowledge and skills moves forward apace. Business schools and companies have a crucial role to play in building partnerships. In many cases traditional divisions between the two on learning are counter-productive. Both will need to find new ways of extending their research and teaching agendas to include all stakeholders and to ensure that practical experience feeds into the process in a systematic way.

The hands-on, practical nature of business education, research and theory is its greatest asset and a driver of value for business, academic institutions and, increasingly, for society. The complexities of today's business environment require the mainstreaming of CSR issues into business education and ongoing management development inside and outside of companies. CSR, and with it a commitment to combined economic, environmental and social development and growth, will only move to the next stage of sustained value creation through effective knowledge and learning partnerships. For all those directly involved and for society at large, the pressure is mounting and the stakes are getting higher.

Elena Bonfiglioli is Director of Corporate Social Responsibility and Community Affairs, Microsoft EMEA
Peter Lacy is Executive Director of the European Academy of Business in Society

* *'Changing Manager Mindsets', Report of the Working Group on the Development of Professional Skills for the Practice of Corporate Social Responsibility, Department of Trade and Industry, The Corporate Responsibility Group, April 2003*

Ethics: the key to understanding business and society

Managers need to be taught the principles and practices of business ethics and sound, responsible corporate governance if businesses are to avoid corporate scandals

By Stephen Young

The spectacular business frauds of Enron, WorldCom, Parmalat and the collapse of the dotcom and telecommunications companies have prompted a huge rethink on what should be taught at business schools. There is a growing consensus that business schools may have underestimated the consequences of separating enterprise success from ethics and social responsibility.

It was for this reason that the Association for the Advancement of Collegiate Schools of Business (AACSB) urged the business schools whose courses it accredits to upgrade their teaching of ethics. The association's standards for accreditation define the substance of what is taught in education, and, by implication, provide for instruction in business ethics and ethical analysis.

Carolyn Woo, Dean of Notre Dame business school and incoming AACSB President, commissioned an AACSB task force on which I served to examine this issue. Its report* advocates systemic changes in the way ethics should be taught to future owners and managers of business. It concluded that the teaching of business ethics under current AACSB standards is inadequate. We have therefore proposed more specific guidelines for the delivery of knowledge about the relationship between business and society.

Our first proposition is that business has a relationship to society. Business as a permanent institution of human civilisation is about much more than making money for owners and senior managers. The purpose of business – its teleology – is to create wealth for society out of private capital.

The second proposition, flowing from the first, is that business exists inside a web of stakeholder relationships. Conceptually, boundaries and borders cannot be built to wall off a successful business from its customers or from its employees, equity investors, creditors, suppliers and regulatory communities. The business penetrates into the lives of the stakeholders and stakeholder concerns often penetrate into business decision-making.

Thus, we advocate that the teaching of business ethics must start with knowledge of the complex relationship between business and social stakeholders. Such teaching needs to be carried out across the curriculum wherever stakeholder concerns are implicated in the formation of business judgement.

For example, stakeholder concerns arise in finance and accounting courses (owners and investors); in marketing and sales courses (consumers); in organisational theory and human relations/worker rights courses (employees); in business law courses (community); in courses on production management (customers, suppliers, community concerns for the environment, employees); and in strategic planning courses (all stakeholders).

Business ethics can no longer be a marginalised academic discipline aligned principally with moral philosophy. Virtue must be integrated with profitability. The more accurate framework for reflection and policy making is CSR as an underlying matrix for sustainable profitability.

Our report implicitly offers a new valuation analysis of a firm. We assert inferentially that success in business will depend on wise stewardship of stakeholder relations. Profit for owners results in – and does not precede – good service to stakeholders and, through them, to society at large. Profit is compensation for a job well-done. Thus we challenge valuation theorists and economists to develop new metrics by which the value-added, or risk, assumed by a business regarding its stakeholders can be included in the analysis of profit quality.

For example, Enron attracted considerable debt financing and kept its stock price up after its profit from

'Ethics can no longer be a marginalised academic discipline aligned principally with moral philosophy. Virtue must be integrated with profitability'

operations began to dry up in 1999. But the quality of the earnings it then reported with the help of special purpose entities and 'sales of product with an obligation to repurchase' was abysmal. Enron's reporting of profits was essentially a fraud perpetrated on everyone. Betrayal of its stakeholders destroyed the company.

The genuinely valuable company, according to our analysis, is one that turns every stakeholder relationship into a supporting value driver of sales. In this way profits flow down like a mighty stream and substantial wealth is created for society.

Under AACSB rules, business schools must update their accreditation every five years. If our report is adopted, business schools will have an obligation to inform the association about how they are teaching their students to manage stakeholder concerns and interests.

The balancing by managers of conflicting stakeholder interests presents a challenge for prudential judgment and reasoning. No formula or cookie-cutter approach exists – or can be created – to solve these conflicts mechanically. Managers must resort to moral reasoning. Thus our task force report also specifies that somewhere in a programme of business education, students must be exposed to the dialectic of considering alternatives.

From the perspective of stakeholder management, this is no simple *reductio ad singularum* or bottom-line financial target to ensure the principal aims of the firm are achieved. Under new AACSB guidelines, the principal mission of the firm is to relate to stakeholders, not just to earn short-term cash profits. Under the new approach, the calculation of short-term financial profit becomes a supporting discipline for strategic planning, a discipline that is integrated into other longer-term considerations. Short-term considerations should not consume the heart and soul of management.

The report also has implications for corporate governance. First, it calls for corporate governance to be taught as a central component of business education. This aims to bring stewardship and fiduciary thinking into day-to-day management decision- making.

Knowing the principles and practices of sound, responsible corporate governance can be an important deterrent to unethical and socially irresponsible behaviour of managers. For senior managers charged with lowering risk and enhancing corporate reputations, an understanding of the complex interdependencies between corporate governance and institutions such as stock exchanges and regulatory bodies will ease their way to success.

Second, the concept of a company promoted by ethics and corporate social responsibility is a long way from the one based on Wall Street stock-jobbing. The practice of elevating stock prices as set by market-makers disturbs stakeholder analysis in favour of one stakeholder set: those who can sell company shares. Self-interest will ensure these stakeholders slight the interests of other shareholders to the detriment of long-term profitability and social advantage.

On the other hand, it must be acknowledged that there is no greater power of correction for poor management and crass rigidities than the wholesale market rejection of a company's share price.

Finally, the AACSB report speaks unusually frankly in terms of moral leadership. Business, we assert, must be muchmore than management. Business embraces stakeholder and community values and values fall within the purview of leaders. So, leadership – namely speaking of and acting with a view toward, values and visions of the future – is essential to the success of enterprises.

Executives become moral persons by applying their ethical decision-making skills to organisational decisions in ways that are transparent to their followers. Executives must accept responsibility for acting as ethical role models in their organisations. They must 'manage ethics' by communication about ethics and values on a regular basis and also by holding organisational members accountable for their conduct regarding the organisation's ethical goals and aspirations.

Stephen Young is Global Executive Director, The Caux Round Table, a global network of senior business leaders committed to principled business leadership www.cauxroundtable.org

*www.aacsb.org

A Letter from America

By David Vidal

Dear Europe,

Word in America has it that just about everyone over there is upset with us for one reason or another, whether for a governmental or a business policy reason. You regard our government as too unilateralist for its own or for the world's good. You see our giant global firms as deep on economic but shallow on social performance. Your leading executives see sustainability, corporate citizenship, corporate social responsibility and climate change as critical strategic issues. Meanwhile, our executives are barely catching on to what those terms mean. What, if anything, do these term have to do with the never-ending 'business case' question? There goes our American obsession with the 'bottom line', and we don't mean 'triple' either.

Maybe the picture that best describes this gulf in perspectives is one from a recent web newsletter headline which said: 'Most US Companies Revealed as Corporate Social Responsibility Deadbeats by new Echo Research study.'

Ouch! But, sad to say, there is probably much truth to that. That said, I am glad to report, Dear Europe, that faint signs of change are appearing on the horizon. Most of these signs are like radio waves emanating from a distant galaxy. But they are increasingly bombarding US businesses.

US corporations are receiving insistent requests to sign up for this, report on that, tell us what your stakeholders feel about this. The requests stand out because for the most part they originate from non-traditional civil society, NGO or other sources external to companies and their usual accountability structures. Perhaps more than any other source, these external factors – framed as voluntary codes, business conduct guidelines, expanded reporting guidelines or social and sustainability performance indexes – are drawing US enterprises ever closer toward the great rest of the world and 21st-century debate on the role of business in society.

The intensity of the drive towards China and that nation's growth are another overarching force, one that packages and delivers these external factors to businesses whose ambitions point eastwards.

In the US context, the role of these exogenous factors is important because of the sharp contrast they offer with Europe. Unlike the EU, where business performance in 'CSR' is officially encouraged as a source of European global competitiveness, no US governmental body exists to pressure domestic business to adopt CSR as standard procedure. Yes, there is plenty of structure and pressure to comply with the law, and the legal framework is equally sophisticated and extensive. But no, there is not an emphasis and a structure to match it on business conduct principles.

For example, the idea of having a cabinet minister with a portfolio including corporate responsibility, as the UK does, would be a sheer fantasy in the US today. Yet this official omission has been more than made up for by the constellation of non-official codes, guidelines, standards and global principles that are making themselves heard in executive suites.

One of the best examples of the new US response to this boisterous climate of expectations occurred during March 2003 in North Carolina. There, a home-grown forum of CEOs, including Warren Buffet and Sir Mark Moody-Stuart , former Chairman of Shell, gathered in Charlotte. Together, they issued a statement of 'collective intentions' that identified their aspirations for 'the sustainability, responsibility and values of our corporations and the world'.

The intentions paper echoes sentiments expressed by European and world counterparts in venues such as ISO or through the EU's green paper on the role of CSR in achieving sustainable development. ISO is in the process of considering whether promotion of managerial standards for CSR is either desirable or necessary.

The Charlotte group, known as the Forum for Corporate Conscience, has continued its corporate citizenship and sustainability efforts in 2004 and seeks to remain a focal point for CSR in the future.

Meanwhile, the Global Reporting Initiative, the Dow-Jones Sustainability Index, SA 8000, the UN Global Compact, The Future 500 and many others keep knocking on company doors. The sheer volume of requests is focusing attention on key points including:

- Can the 'business case' for CSR/sustainability/ corporate citizenship be strengthened and made more attractive to sceptical US managers? This would include strong arguments for and against the case. Performance measurement issues are a key component of this question, especially because of the strong shareholder primacy approach of US corporate governance.
- Can the proliferation of standards be stemmed by their consolidation into a coherent framework, while not eliminating the benefits of innovation by new standards-setters? After all, businesses prefer voluntary standards to governmental regulation. Seen through this lens, standards-setters and other stakeholders who are in the business of creating unofficial rules provide a valuable R&D function that companies themselves would be unable to credibly conduct.

What next for CSR in the US?

First, a reminder that the historic core of US corporate citizenship has been corporate community cash contributions, sometimes called corporate philanthropy. The question remains open as to how and whether traditional US corporate contributions will mesh well with the Brave New World of global citizenship, sustainability and CSR. Also, whether the norms, standards and guidelines for other, 'non-philanthropic' company conduct spread into corporate contributions?' If not, why not? And if so, how so?

Second, if the standards-setters are playing such a pivotal role in the positioning of 21st century global business, can standards for the standards-setters be far behind?

Yes, Dear Europe, there *is* a future for CSR in America.

Yours,

David Vidal

David Vidal is Director of Research, Global Corporate Citizenship, The Conference Board, New York