Redefining CSR

From the rhetoric of accountability to the reality of earning trust

Mark Goyder

Tomorrow’s Company
Introduction

The Superficial Victory of CSR

Corporate Social Responsibility (CSR) is on the march in the UK, in Europe, and throughout the world. Every self-respecting company has a CSR policy and more than 75% of the FTSE 100 produce CSR reports. Over the last year there has been a 200% increase in media coverage on CSR. The Global Reporting Initiative (GRI) has moved from the fringes into the sights of major companies. Brussels has produced its green paper and set up its Multi-stakeholder Forum, organising a marathon of CSR events across the EU. The International Standards Organisation (ISO) is even rumoured to be preparing its own CSR standard.

In the UK there have been several Ministers for CSR; membership of Business in the Community continues to grow. There is a new corporate responsibility index, which scores companies on how well they measure and integrate business practices affecting the environment, the marketplace, the workplace and the community. There is FTSE4Good which claims to base its selections and exclusions upon a consensus view of corporate responsibility. There is much discussion of the links between CSR and business performance, and much irritation with the proliferation of different questionnaires and criteria for CSR.

But is this a victory to celebrate? It all depends. For the same CSR practices can be understood in two different ways. One view of CSR is to see it as the expression of a company’s purpose and values in all its relationships. If all companies were to subscribe to this view, there would be a new dimension to their competition. There would be a marketplace in corporate personality, in which companies would tell society what they stood for and what they aimed to contribute to society, while inviting stakeholders to join them in examining how effectively they had acted on these intentions and lived up to their own corporate values. Not every company would have the same level of commitment to society, but there would be no pretending: companies would be free to say that they cared for no-one except their shareholders if that suited them. The process of reporting and dialogue would not be burdensome but it would particularly expose those companies which paraded their consciences without having the deeds to match. This is what I call conviction or values-led CSR.

The other way of understanding CSR is to see it as a process by which companies are required by social pressures to comply with a widening range of social expectations. If all companies were to subscribe to this view, CSR would become like a fashion parade, where companies would win applause for wearing the right clothes and saying the right things in their reports, but where actually meaning what they said would not be important and CSR would be well isolated from “real” business activity. This is what I call compliance CSR.

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1 Ethical Corporation Magazine [www.ethicalcorp.com](http://www.ethicalcorp.com)
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My worry is that the CSR which is emerging looks more like compliance CSR than conviction CSR. The majority of companies may state their compliance with the expectations of society. Only a minority communicate a clear sense of the strong purpose and values that differentiate a company from its competitors.

In their pursuit of CSR many big companies today remind me of the character of Papageno in the Magic Flute. Papageno is a servant. He allows himself to be subjected to a series of increasingly bizarre tests in order to gain admission to an exclusive brotherhood which his master insists on joining. Papageno endures this ritual because he is told to. Yet at the end of it all his basic drives and appetites remain unchanged. Unless CSR comes from the heart of the company, it is an empty exercise.

The willingness to be accountable can so easily degenerate into telling every stakeholder what he or she wants to hear. As companies take CSR more seriously something is being lost. Call it what you like - the personality, the authenticity, the soul and character of the company is masked by pro-forma statements of compliance with every external expectation. And an illusion is being fed, the illusion that as investors we can create a cocoon economy, in which our savings can be untainted by wars, low wages, and carbon emissions.

I heard a presentation last year from a major multinational with a long history of controversy over the impact and marketing of its products. This company offered an impressive case study. They had a triple bottom line. They had published their first social report. They supported sustainable development. They were working to increase the world’s access to their products. Millions of people around the world drew their livelihood from their activities. They had their own environmental management system. They were phasing out CFCs. They had a community programme which supported health, employment and the arts.

The first question from the audience was deceptively gentle.

“This sounds so impressive. Is there not anything you have done that is wrong, or open to criticism?”

"Of course we are not perfect” replied the company spokesman. “We have a long way to go”. But she could give no example of imperfection.

A few months later newspapers carried a report that lawyers for the same company were pursuing the Ethiopian government through the courts for millions of pounds compensation at a time when that government was seeking more world help to fight a serious famine. What a pity companies are unable to communicate to us about their dilemmas and mistakes.

The suspicion grows that CSR’s victory has consisted more of winning the silence of its sceptics than the affirmation of those who can weave it into everyday business practice. The champions of CSR are claiming victory too soon - before they have even properly identified the battleground or the enemy.

This may sound destructive. It is intended to be constructive. If the building that is corporate social responsibility is to be robust and enduring, the site must first be cleared of confusion and hype. The unique purpose and values of each company and not the expectations of society, are the only enduring foundations for CSR.

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3 Clorofluorocarbon - compound used as refrigerant, aerosol propellant, etc
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I long to hear more companies say. "Here’s what we are. Here is what we will think about changing. And here is what is not for negotiation."

The issue, ultimately, is trust. Companies face a crisis of trust. Trust depends on relationships. In every relationship, boundaries need to be set. Trust is not restored by ritual compliance: trust is restored by integrity - which literally means wholeness. It is the task of leaders to inspire and lay the foundations for trust.

This paper is in 5 parts. The first part is intended to put CSR in a historical context, and to define its place in the building of a successful business.

The second is about language. The way we use words like “sustainable development”, “sustainable” and especially “triple bottom line” reflect and reinforce confusion.

In the third part I offer a common sense agenda for companies which want to make genuine progress on the practice and reporting of corporate responsibility. At the heart of this agenda is the need to remember that every company is different. Responsible business practice - and its communication - should reinforce rather than bury the communication of a company’s unique personality. And in the UK, at least, the new Operating and Financial Review is the ideal vehicle for doing this.

The fourth part is about the “business case”. There is a difference between the serious business case and the spurious claims often made.

In the fifth part, I make an appeal to those who are making the rules by which companies will have to abide in the future. I explain why Tomorrow’s Company believes that there should be little mandatory imposition of social or sustainability reporting, and I point to limitations in the current thinking which informs the Global Reporting Initiative (GRI).

I would like to thank all those colleagues, members, partners and friends of Tomorrow’s Company who have helped me with the development of this paper and the work that stands behind it. They are too numerous to name but very much appreciate their interest, help and hard work.

Mark Goyder
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1. Defining CSR

What is corporate social responsibility?

Let’s strip the words back to their essentials. As is increasingly recognised, the word that really counts is the word “responsible”. Corporate simply means “as applied by or to organisations”. Social, means “towards society”. Corporate Social Responsibility is the responsibility we expect companies and other organisations, including governments, the EU, religious organisations, and NGOs for that matter, to show in being part of society. It means, in short, that we expect companies, like other organisations, at the very least to behave responsibly, not only towards their shareholders, but in all their relationships with people, the natural world, and the planet, which makes life possible for both. Nor is this simply a matter of passive duty. A well-led organisation will always seek to create the optimal value in all its relationships. In a way, that is simply good leadership. The most impressive corporate leaders have always been those whose vision of a successful business stretches beyond the product and the profits to their positive impact on the world around them.

Nothing new there! Society’s expectations of business have been changing for centuries. The best businesses have adapted voluntarily to those changing expectations, and shown leadership by example. Others have dragged their feet, until compelled by law. The Factories Acts in the nineteenth century and the Equal Opportunities legislation in the second half of twentieth century offer examples from the UK.

Social push and leadership pull

Corporate progress towards greater responsibility has always been the result of both push and pull. Visionary leaders in business pull their organisations to higher standards. People like Gottlieb Dutweiler in Switzerland, Karl Zeiss in Germany, Robert Owen, the Cadburys, the Levers and the Rowntrees, or John Spedan Lewis in UK, the Swartz family who founded Timberland, the de Prees of Herrmann Miller in the USA, and more recently Ricardo Semmler in Brazil.

The push comes from society, from anti-slavery campaigners like William Wilberforce, from leaders of trades unions, from consumer leaders like Ralph Nader, from environmental activists like Greenpeace.

The current debate on CSR therefore represents a particular milestone in the timeless tension between pull and push.

So what has changed? The new interest in CSR arises because corporate responsibility now takes place in a context which business is more

- International
- Powerful
- Visible and accountable through the media
- Under pressure for results from institutional shareholders
- Mistrusted by large parts of the general public
- And under pressure from powerful NGOs
One of the easiest ways of understanding this has been the concept, popularised by the RSA Tomorrow’s Company in 1995, of the “Licence to operate”. Think of the company as occupying a bounded space. The boundaries for its actions are set, not simply by laws and regulations, but by the combined attitudes of all those people with whom it has contact. If the company communicates its purpose and its values and increases trust in all its relationships, its room for manoeuvre grows. If it disregards the feelings of its stakeholders, its freedom of action is reduced. This is true at a micro level, of the individual company. But it is also true, at a macro level of the whole population of companies. Earn more trust through your behaviours, and there will be less regulation and political interference. Forfeit trust and there will be more. For individual businesses, and for the population of businesses as a whole, the licence to operate is the space within which the pull of business leadership and push of social pressure are played out. The more effectively business pulls, the less it will need to pushed. That is the value of the leadership by example shown by business-led organisations such as Business in the Community and the World Business Council for Sustainable Development.

The “Licence to operate” can be a very good way to stimulate the process of thinking about CSR. It focuses on risk rather than opportunity. It is a language that investors find easy to connect with their own sense of self-interest.

What the best companies have always done is to go further than this. They are not just talking about “aligning stakeholders”. CSR is, to these companies, a natural and practical expression of values for which they have always stood: provided that they stick to these values they are confident that they will continue to earn the trust that is essential to their ability to compete.
Compliance vs Conviction

This takes us to the heart of the question about what we mean by CSR. To some people, CSR is no more than a set of external behaviours by which a company ensures that it fits society’s template and thereby earns and retains its licence to operate. This is compliance CSR.

To others that is not enough. They use the term CSR to describe their approach to business leadership as a whole. To these people, CSR is synonymous with what Tomorrow’s Company would call an inclusive approach to business - an approach in which every behaviour flows naturally from the company’s purpose and values.

Tomorrow’s Company: an inclusive approach

Tomorrow’s Company

- Clearly defines its purpose and values, and communicates them in a consistent manner to all those important to the company’s success
- Uses its stated purpose and values, and its understanding of the importance of each relationship, to develop its own success model from which it can generate a meaningful framework for performance measurement
- Values reciprocal relationships, understanding that by focusing on and learning from all those who contribute to the business, it will best be able to improve returns to shareholders
- Works actively to build reciprocal relationships with customers, suppliers, and other key stakeholders, through a partnership approach
- Expects its relationships to overlap and acts, with others where necessary, to maintain a strong “licence to operate”

From RSA Inquiry Tomorrow’s Company 1995 p1

CSR used in the first sense - minimising risk and aligning stakeholders - will quickly lose its appeal, and be looked back upon rather cynically as a passing fashion. CSR in the second sense - having convictions and having the courage to act on these in all your relationships - is not new but will always be important.

But the words Corporate Social Responsibility are not the only ones that cause problems.
2. Sharpening up the language

“Your campaign is the living proof that business companies may play a substantial part in meeting the challenge of exclusion, while at the same time enhancing their productivity and profitability targets.”

Romano Prodi

The CSR debate is bedevilled by unconvincing rhetoric, like the above bland and unsubstantiated statement attributed to Romano Prodi by the European Business Campaign on Social Responsibility.

Sustainability

The words “sustainable development”, “sustainable”, “sustainability” and “triple bottom line” are particular examples of once-clear terms being stretched so far, as to become nearly meaningless.

Sustainable development remains a reasonably precise term. It has been the underlying principle informing the debate first at the Rio Earth Summit of 1992 and more recently the Johannesburg summit of 2002.

By contrast, the terms “sustainability” and, even more, “sustainable” are used in conflicting senses. Sometimes, as with Rio and Johannesburg, the word “sustainable” is being applied to the health of the planet.

But it is also used at the level of the individual enterprise. The key test here is the performance of the company. The implied question is: can this performance be maintained? Is this a company that will be around and creating wealth in ten years time? It was that definition of sustainable that we used, ten years ago, in the Tomorrow’s Company Inquiry.

Both kinds of “sustainability” - of the planet and of the enterprise - are important. But let us be clear that they are different! In the long run you cannot have enterprise sustainability on an unsustainable planet. But in the short and medium term you can find all kinds of examples where the enterprise prospers as a result of behaviours that endanger the survival of the planet. We need a new and more precise vocabulary. That is why in our report on ‘Twenty-First Century Investment’, Tomorrow’s Company started using the word “durability” to describe the enterprise focus - i.e. companies that can continue to create value and remain competitive in the face of rapid change.5

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4 in a foreword to CSR “It simply works better!” Campaign report on European CSR excellence pp 11-13

5 Twenty-first century investment: an agenda for change. Tomorrow’s Company 2001
The triple bottom line

"Companies themselves require the tools and skills to report efficiently on their triple bottom lines."  

There is further confusion around the use of the term "triple bottom line”. This term can be interpreted in two quite different ways. Again, the ambiguity arises because enterprise focus and societal focus are confused. It is reasonably straightforward when people use the triple bottom line to describe a company’s account of its total external impact expressed in the three categories of economic, social and environmental impact on the outside world.  

The real confusion starts when people introduce an enterprise focus into the middle of this societal measurement. For example, some companies claim that the economic part of the triple bottom line is where they show the creation of shareholder value. But this does not add up.

Consider the example of employee indicators. In some triple bottom line reports, the typical economic indicators cover job creation, employment diversity and training as a contribution to the wider economy. That’s fine. That’s part of what we now understand by sustainability. That’s part of what the company has created for society. But in order to understand the value a company can or will create for shareholders, we need an enterprise focus, for which there are different employee indicators needed; such as employee loyalty, company-specific knowledge, productivity, commitment, and so on.

Before you adopt a "triple bottom line” approach, you have to decide what you are measuring. Is it your contribution to the well-being of all your stakeholders - the 'society focus’ - or the value that the company is gaining by the relationship which it has with its customers, employees, suppliers and communities - the 'enterprise focus'.

We need a coherent logic to guide us through the confusion created by the rhetoric of the triple bottom line. This logic becomes all the more important because, in the UK the Department of Trade and Industry is now proposing a new and mandatory Operating and Financial Review (OFR) which will force every large and every listed company to map out clearly all the pieces in their "success jigsaw” and publish all the measures that the directors in good faith judge to be material for these.

Wise companies will restrict their use of the phrase "triple bottom line” to a description of the economic, social and environmental impact of the company on the world around it: they will not use it as an umbrella term to describe the totality of everything that they measure and report. They may also find it helpful to think and speak about "durability” rather than "sustainability” when talking about the long term prospects of the enterprise. This is better than stretching the term "sustainability” so far that it loses its meaning.

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6 “CSR on the Move” by Niels Hojengard and Ayo Wahlberg in “It simply works better!” Campaign report on European CSR excellence  p.12

7 But there is already some confusion. For example, is employment creation an economic or a social impact?
3. A common sense agenda

An inclusive approach to business success

*Tomorrow’s Company* is a business-led organisation, which has attempted to take, on behalf of business, a perspective of enlightened self-interest. In other words, we represent the business voice of those who want to strengthen the “pull” forces, leading by example, and so reduce the regulatory dependence upon “push”. Our work started with the RSA Inquiry *Tomorrow’s Company*, findings of which were published in 1995, and has continued through the development of an inclusive approach to enduring business success, which is simply summarised in the chart below. In a nutshell, we believe that every well-led organisation starts by being clear about its purpose and values, identifying all the relationships that are key to its success, and then creating the greatest possible energy for its wealth creation activities by mobilising the loyalty, commitment and trust of people in all those relationships. An inclusive approach means including in your definition of success all the elements that contribute to success, and recognising that only if you comprehensively manage and measure these, will you build enduring shareholder value. Those who want to make a success of CSR should start by making a success of an inclusive approach.

![An Inclusive Approach](chart)

Where to start

A company’s approach, to CSR as to everything else, must begin with clear purpose and values. The box below shows an example from Cadbury Schweppes – an example which becomes all the more significant in the light of the recent UK controversy about the company’s programme to reward those who buy more chocolate, with sports equipment for their schools. The preface to the colourful brochure, entitled, “Cadbury Schweppes Purpose and Values” reads as follows:

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8 Tomorrow’s Company: the role of business in a changing world, 1995
"Who we are
We are an international company; proud of our long heritage; respectful of the social and natural environment in which we operate; supportive of our consumers, customers and colleagues; and passionate about success.

We make, market and sell unique brands which give pleasure to millions of consumers around the world every day.

We have successfully done this for over 200 years. This success has been built upon understanding the needs of our consumers, customers and colleagues and by operating to a clearly defined set of values.

But around us the world changes. The obligations of business to society have broadened. We want to recognise this as well as ensure the continuation of our own heritage. This statement of purpose and values provides a clear framework for our strategic intent and how we will conduct our business in today’s world."
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Attached to this clear statement is an employee booklet setting out the company’s business principles, all of which flow from the purpose, values and character of the company. This takes the broad values and objectives described in the brochure, and turns them into quite specific guidance by which employees are expected to act and by which the company expects to be held accountable. Taken together, the two publications offer not only employees but any stakeholder the clearest basis for challenging the company if they feel it is not acting responsibly.
The employee booklet covers:

“Our responsibility, as a group and as individuals, is to:

- promote ethical business practices
- respect the environment and communities in which we operate
- assure equal employment opportunities
- value diversity in the workplace
- provide healthy and safe working environments
- respect human rights and trade ethically”

It sets out in detail how employees are expected to behave, covering everything from confidentiality, fraud, intellectual property, government relations, product integrity, advertising, whistle blowing, supplier relationships, ethical business practices, and the responsibility of Group Human Resources to ensure that the principles are being complied with. The booklet refers to international standards which the company intends to honour, but the reader is left in no doubt that the CSR being described here flows from the leadership’s insistence that everyone honours the values that have defined the company over 200 years. This is values-led and not compliance-driven CSR.

The first question to ask about your CSR policy is whether it flows naturally from your statement of purpose and values. If it does, then people will find it easy to implement in the course of doing business. If it does not, then CSR is likely to be seen as a luxury.

This is not simply a matter of words on the page. It becomes obvious quite quickly whether one is dealing with a company in which social responsibility is a natural extension of the company’s activities, or a form of lip service. I can think of companies which boast about CSR but where board members have privately confessed that in spite of the public statements the only conversation they ever have with the CEO is about EBTDA.² I know a company whose Annual Report makes much of employee volunteering - yet inside the business everyone knows that this is not something on which an ambitious manager would think of spending any time. On the other hand I was impressed some years ago when trying to get hold of the Corporate Affairs Manager of IBM UK, Sarah Portway, to discover that she was out on site with her whole team laying concrete for a local community project. Equally, I remember hearing a senior manager in Timberland say that the company had for some time been trying to persuade him to join them, and what convinced him was attending the ceremony which celebrated the achievements of Timberland employees in community service volunteering.

Key relationships
The next step is to be clear about the company’s key relationships, both from an enterprise and a societal focus. First what are the relationships upon which the company depends if it is to create enduring shareholder value? Conversely, the relationships in which the company has impacts - whether positive or negative - upon

² Earnings Before Tax Depreciation and Amortisation
society? How does the company communicate its purpose and its values by what it says, and does, in all these relationships?

It is only if managers and representatives of the company are really clear about the purpose and values, that they are equipped to deal realistically - and without constant reference back to some policy manual - with the many demands that society may place upon them, and thereby collectively earn the trust of society.

For example, Cadbury Schweppes was recently criticised for using an educational sports-related campaign to promote the sale of chocolate - and therefore, said the critics, promote obesity. Its defence was that the aim was to promote exercise; the target for the promotion was not children but communities banding together to redeem vouchers; and the issue was about exploiting existing consumption of chocolate, not promoting more. But behind that the company made a strong link between its past social heritage and this particular campaign: it was, in other words, saying that it had not changed its values and it saw the new promotional campaign as wholly consistent with them. ¹⁰

Whatever people may feel about the social impact of Cadbury Schweppes’ policy, the company’s chosen defence showed a confidence and a self-belief. This is the language of values-led CSR. Companies with clear values do not have to fit in with every social expectation: what they must do to earn trust is to describe the values by which they are operating, and let stakeholders form their own judgements.

Success model
The next step is to be clear about the company’s whole success model. As is argued below in the section on GRI, social reporting cannot be dealt with in isolation. Social reporting or sustainability reporting is a subset of inclusive reporting. CSR policy is a subset of corporate communications overall. The indicators that will be used in CSR reporting cannot be derived in isolation from the indicators that will be used in shareholder reporting.

Even if in the past companies could get away with the waste and confusion of having separate compartments dealing with shareholder and social reporting, in the UK the arrival of the OFR will make this impossible. The OFR will mean that companies have to be inclusive in the way they map out their critical success factors, and from this work out all the indicators that are, in the judgement of the directors, material to the people reading their reports and making decisions about the value of their investments. ¹¹

Thus reporting, and verification, and stakeholder dialogue fall into place only when you have worked three quarters of the way around the virtuous circle of governance.

The virtuous circle is simply a joined-up way of thinking about success. It means linking every conversation about business planning, measurement, the boardroom agenda, the production and audit of the annual report and every other report, the annual meeting, and stakeholder dialogue as part of the same logic. It means guarding

¹⁰ Letter to the Editor, Financial Times, 10 May 2003
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against the danger of being hijacked by the technocrats who only live for one part of this cycle.

Beware of any manager who announces that he or she is engaged in a project to find the key performance indicators (KPIs) or to introduce a balanced scorecard. The exercise will fail unless it has started with this holistic view of a business and all its relationships and impacts.

The challenge of inclusive reporting

Reporting is merely one link in the total chain of responsibility and good governance. Once a company is well down the road of responsible behaviour, it is natural that it should communicate its achievements and its plans and targets for the future. A separate social report is one part of doing this, although a more convincing way would be to capture the key promises in the annual report in which the company has made its commitment to shareholders. This inclusive approach to reporting is more likely to convince the doubters that responsibility flows through every vein in the company’s bloodstream.

Inclusive Reporting is the term used by Tomorrow’s Company - and the term that has now been adopted by the UK’s Department of Trade and Industry in its proposals for the new OFR. This means ensuring coherence in the total impact of your reporting and communications. For the sake of clarity in language here is a modest suggestion to clear up the confusing use of language in the content of reports:

**Durability** reporting: the measurement and reporting of **all the factors that make up the past performance and future prospects of the enterprise in creating economic value.**

**Sustainability** reporting: the measurement and reporting of **all the factors that comprise the enterprise’s impact upon society, the planet and future generations**
Inclusive reporting: the totality of measurement and reporting, embracing both the separate elements of durability and sustainability, but presented coherently so as to make sense of the linkages and overlaps between the two.

For investors, reporting starts with the enterprise and the things the enterprise needs to measure, manage and report in order to be successful for the longer term, including the company’s impacts on society and the planet. Investors need more than financial reporting if they are to have some basis for assessing the prospects and the performance of the company, recognising that it has to earn its licence to operate in society as part of present and future performance. Investors’ primary concern is durability: but they cannot make sense of the company’s prospects without understanding its approach to sustainability.

For external stakeholders, such as NGOs, regulators and the providers of social and ethical ratings, reporting starts with a focus on the things that the enterprise needs to manage and measure and report in order to understand the external impact it is having, and meet the expectations of society. But, while the starting points are different, the interests of these different constituencies increasingly overlap.

The challenge for communicators is to devise an overall communication and reporting strategy which recognises that these two purposes are different, but also acknowledges this overlap. The challenge for investors is to develop frameworks for business analysis in which leadership can be better assessed.

The work Tomorrow’s Company has done on reporting shows companies how to bring it all together into an overall picture of what the company stands for, where it is going and what its impacts are. The thinking behind this work is reflected in the new proposals under Company Law for an OFR - something every major company needs to start preparing for now.

The primary users of this document, and the audience for which it is legally intended, are the shareholders. But because the law will require the company to have thought through all its impacts, opportunities and risks, and because the document will naturally start with the overall purpose, values, strategy and objectives, this will become the focal point of all corporate communications, the starting point for any stakeholder wanting to understand the company.

In the future companies will need an inclusive framework for all their reporting. In our own work on reporting over the last five years, Tomorrow’s Company has argued that at the centre of all printed communications will be a core document of no more than 16 pages. It will tell the reader what the company is for, what its values are, what its strategy and KPIs are, and what progress it has been making in all of its key relationships to achieve the strategy. Actual or potential investors, employees, customers, suppliers and partners will all be able to form an overall judgement of the company, its personality, its performance and its integrity. And remember - in tomorrow’s company stakeholders have an interest in shareholder value, just as shareholders have to be interested in societal value.

This is the direction in which all reporting will be moving in the years ahead: the task for each company is to work out how to get there in stages. Starting from where they are, each company will need to chart its own way through the reporting minefield as the demands from shareholders, corporate reporting regulators, and from stakeholders and society intensify. Last year Shell made a partial move in this direction by sending their Sustainability Report out to shareholders under the same cover as their Annual Report and Accounts. Camelot, a British company, went further, placing a summary of their social report as the central 8 pages of their shareholder report.
4. Is there a business case for CSR?

"Is there a business case for CSR at the macro-level of Europe? Can CSR be at the heart of competitive advantage at the level of nations, economies and regions?"  

There is a business case for CSR. But it is not in the superficial form that is often claimed. The convincing and enduring business case, set out below in seven steps sees corporate responsibility as one of the outputs you can expect from a well-led company. But, while particular companies in particular circumstances may enjoy business benefits from particular CSR programmes, you cannot make the leap which somehow argues that because companies adopt CSR programmes or practices they will as a result be more successful. There is, on the other hand, evidence to support the view that well-led companies, which are clear about their purpose and values will create more shareholder value than companies which simply and expediently talk about making money.

Seven steps in the real business case

The real business case goes like this:

1) Companies are started by entrepreneurs. In their early years that drive may come from one individual leader. But if they are to grow and last, and retain that entrepreneurial drive, the qualities of that entrepreneur need to be embedded in the habits and attitudes of the whole organisation.

2) In every company which is built to last, a common outlook develops, which makes it easy for people to work together and trust and challenge each other. New people who join see quickly by example what is expected of them. A culture is developed. The personal qualities of the leader still matter. But the organisation takes on its own personality.

3) Every company needs to create economic value to distribute to its shareholders. But the creation of that value happens through the relationships the company develops with customers, employees, suppliers, communities and shareholders. Companies are only as successful as the quality of these relationships. The relationships overlap, and much of the value that is created is at the interface between relationships - for example in the impact that loyal employees have upon the customers they meet, or the impact that excellent community activities has upon the motivation and skill levels of employees.

4) You cannot have successful relationships unless you have clear purpose and clear values. The first role of the leader is to ensure that, in all the relationships of the business, there is a clear and consistent idea of why the company exists and what it stands for. This is how trust and loyalty are created. This is how leaders influence the achievements of thousands of employees in different relationships without personally being present in every conversation. It is this combination of clear purpose and values and a focus on relationships as the foundations for success that is described as an inclusive approach.

5) Because relationships overlap, the messages cannot be compartmentalised. You cannot send one message to the shareholders and another to other stakeholders. One of the prime

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13 Helle Dossing in "It simply works better!" Campaign report on European CSR excellence  p. 43
14 For a summary see “The Inclusive Approach and Business Success” Tomorrow’s Company 1998
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The task of leaders is to ensure that the behaviours and the messages remain consistent at a time when shareholders and society are making strong and often inconsistent demands. This can include saying no to today’s shareholders in the interest of tomorrow’s, and saying no to other stakeholders - be they demanding customers, employees who feel they should be paid more, neighbourhoods or NGOs making demands the company cannot afford or does not agree with.

6) Responsible business practice is an important part of the inclusive approach because it helps strengthen relationships and build trust. Responsible corporate behaviour in all relationships is one aspect of a well led company. The others include its overall strategy, the quality of its products and its marketing, the effectiveness of its investment and innovation, and its ability to learn and adapt faster than its competitors to changing conditions. Just as you can tell a lot about a person from their friends, you can tell a lot about a company from its relationships.

7) The adoption of CSR practices is, therefore, not a predictor of business success. Effective leadership, based upon clear purpose and values which permeate an organisation and its relationships, is. A close examination of a company’s relationships is essential to the assessment of its leadership, and therefore of its future ability to generate economic value.

The search for a universal business case

It is pointless to seek a direct and general link between particular CSR practices and behaviours, and corporate success. There are many attempts to link good practice in areas such as equal opportunity, good employment practice, and environmental responsibility to the bottom line. The flaw in these attempts is that they ignore the role of leadership in setting the total climate for the success and the bottom line contribution of these practices.

The award-winning retailer B&Q can make a powerful business case for the business benefits that have flowed to them as a result of reaching out to the disabled. But that case is specific to B&Q, and the people who pioneered it will admit that until they had taken the initiative as an act of faith, they could not “prove” the case.

What is clear is that for this or any CSR policy to work, it has to go with the grain of the company’s attitudes and beliefs. The effectiveness of community involvement policies depends upon the staff who implement them. Any CSR policy in B & Q will only work if people reflect the company’s overall values in the way they behave towards their customers and other stakeholders. It cannot be assumed that another company operating the same policy will enjoy the same benefits. CSR is one part of an overall impact that flows from the total philosophy and strategy of the business. And it is leaders who lay the foundations for that philosophy, strategy and culture, and whose example ensures that those foundations are secure.

Discussions of the business case become superficial when they lose touch with the entrepreneurial realities of business. It is not possible to claim that any business which behaves responsibly in all its relationships will therefore be successful. It depends

what is meant by responsible behaviour and it depends whether that behaviour forms part of a coherent overall approach by the organisation in question.
**Business ethics: the business case**

What, then, are we to make of the recent study by the UK’s Institute of Business Ethics entitled “Does Business Ethics Pay?”  

The research shows a strong correlation between ethics policies and business results. It covered a 4 year period to the end of 2000, and identified companies which had a well established code of ethics and operated ethics policies sufficiently strongly to earn high marks in external risk and “Most Admired Company” ratings. It then looked at their performance in terms of Economic Value Added, Market Value Added, Price Earnings Ratios and Return on Capital Employed.

This investigation could not be accused of being superficial, but there are those who will interpret it in a facile way. Indeed, on the day the research results were announced, I found myself at a seminar with a group of business leaders some of whom were happy to claim that the business case for CSR had now been “proved”.

The study proves no such thing. For a start, there is a different between business ethics and CSR. A company’s CSR policies are one reflection of its values: having a clear code of ethics and ensuring that this is followed is another.

The research confirms a link between ethics codes, risk ratings, reputational standing, and various economic indicators over a particular four year period. But it would be superficial to claim that the reason for the economic outperformance was the presence of a code, and even more dangerous for a company which lacked a business ethics code to conclude that if it now adopted one, it would improve its performance. As the report’s authors themselves conclude, with admirable objectivity:

“The general conclusion from this study is that there is strong evidence to indicate that larger UK companies with codes of ethics, e.g. those who are explicit about business ethics, outperform in financial and other indicators those companies who say they do not have a code. Having a code of business ethics might, therefore, be said to be one hallmark of a well-managed company.”

The IBE study was about companies which were serious about ethics - not companies which were strong on CSR. Indeed, one of the sponsors of the study, and one of the founding supporters of the IBE, is Exxon Mobil, a company against which many stakeholders have been campaigning because of what they regard as its irresponsible attitude to climate change. Having a strong code of ethics may be a good sign that your company has strong convictions. Having strong convictions which guide your company’s behaviour is a vital element in leadership. So the research may be said to give encouragement to the view that companies will perform better if their strong convictions are reflected in their definition and application of a code of ethics. But it tells us little about the "business case" for adopting particular CSR policies in compliance with the expectations of stakeholder groups.

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16 Ibid p.10
Redefining CSR

We also have to be cautious because, as the IBE authors acknowledge, Enron had an ethics code - until the board voted to suspend it! Enron also won several environmental awards in the last year of its life, but that did not make it a more successful or a more acceptable business. Once the disconnection between different areas of Enron’s behaviour became clear, the “business benefits” from that good environmental behaviour were nil if not negative.

You cannot understand a company by taking one isolated slice of its behaviours. You have to get under its skin. You have to find ways of distinguishing the companies who are “faking it” from the companies for whom responsible behaviour is important. That means following what I have described elsewhere as the “behavioural audit trail” and learning to detect how the purpose and values of the organisation work in practice. 17

Where is the CSR manager to start?

Managers who want their leaders to take CSR seriously need to start with the purpose and values of the organisation. If the purpose and values are clearly stated, then CSR advocates need to challenge those leaders to think through what they mean in practice in the relationships the company has with its customers, its employees, its suppliers and its communities. And they need to ensure that there is an emotional and practical commitment to those values which is reflected in the way the leader behaves and allocates time in the diary. If the purpose and values are not clearly stated, then that is the place to start. If they are clearly stated but not clearly applied, then that is the place to start. The real agenda is about the company’s personality and its trustworthiness, not the “selling in” by CSR managers of particular initiatives or the pursuit of particular rankings by ratings agencies.

17 “Lessons from Enron” Mark Goyder, Tomorrow’s Company 2002
5. A plea to the rule-makers

Every company is different. It seems obvious to say so, yet the implications are profound. Companies are like people. Our parents learned the hard way that if they wanted to influence us, there was only so much that they could achieve beyond the age of about three by way of strict rules and lectures. There came a point when, having instilled a fundamental sense of right and wrong, and passed on important rules about safety, survival and social conduct, they had to get us as children emerging towards adulthood thinking about the kind of people we wanted to be and the consequences of our own behaviour.

The inclusive approach implies that we take a rather similar approach to companies. Compliance can be imposed by social or governmental dictate. But if responsibility is to mean something in the everyday behaviours of a company it has to be voluntary and part of what that company wishes to be.

There is another reason to allow voluntarism to lead regulation. Businesses are started by entrepreneurs and only thrive if they take risks. We need to prize the individuality and the uniqueness of businesses. Every time we use centralised methods to require business to be more responsive to the needs of society, we need to be aware of the cost we may be paying in terms of inhibiting the entrepreneurial instincts. Like wise parents the best governments are those who stimulate business to reason their social impacts through for themselves, and to work out what commitments they are willing to make that are consistent with their entrepreneurial drive.

It is no secret that there is a difference of emphasis between those parts of the European Commission that are concerned with competitiveness and market efficiency, and those that are concerned with employment rights and social cohesion. Europe cannot afford to make policy on these issues in separate compartments. We need an inclusive approach by the whole of the EU in its view of companies, their governance and their place in society. That means joining up in a single vision the work on:

- corporate governance (e.g. the Winter Report)
- harmonisation of capital markets
- stakeholder dialogue and social and environmental reporting (e.g. the Green Paper on CSR and the Multi-stakeholder Forum)

The best businesses remain entrepreneurial and the best business will be entrepreneurial in the ways they choose to be socially responsible - like the famous example of David Varney when at British Gas (BG), going on a prison visit and hearing the governor of the prison complain that what his inmates really needed was the opportunity to find employment when they came out. British Gas were short of forklift truck drivers, so he got a course set up to train prisoners as forklift drivers.

The danger is that in society’s desire to accelerate the social responsibility of business at a time of intense shareholder pressure, we will pressurise businesses to be “me-too’s”. We will take the freedom and innovation out of CSR, and leave it as an exercise in compliance and conformity.
Nowhere is this danger more acute than in the area of reporting. People seem to think that having a well designed printed social report is somehow a guarantee of social responsibility! Reports are parts of a cycle that starts with clear purpose, values, strategies, policies and clear measures of performance against each, and that ends with the dialogue and the learning that good reports stimulate.

The limitations of GRI

It is because every business is different that I have such doubts about the direction being taken by the Global Reporting Initiative - GRI. Overall, it is of course, a welcome development. It begins to bring together the many different requirements of society into a single, coherent framework. But there is a danger, a conceptual flaw at the heart of its process that will, if we are not careful, inhibit its effectiveness. The flaw lies in the ambiguous use of the phrase "sustainability reporting". GRI is ambiguous because it is not based upon a clear definition of sustainability, or a clear recognition of the distinction between enterprise focus and societal focus that was described in Part 2. At times GRI appears to see sustainability reporting as encompassing both sustainability and durability. For example, to achieve the mark of being in accordance with GRI guidelines, the CEO must sign a Sustainability Report that:

"Represents a balanced and reasonable presentation of our organisation’s economic, environmental and social performance.”

The implied claim is that a really full Sustainability Report would give shareholders all they need to judge the company’s future ability to serve shareholders. But this is nonsense. To judge the company’s economic performance, shareholders and the analysts who serve them - let us hope with less conflicts of interest - need to understand the whole success jigsaw.

Durability reporting: how shareholder value is created
In its definition of the economic element of a sustainability report, the GRI does not do this. Most of its language is addressed to the needs of sustainability, not durability. Here is how GRI defines sustainability reporting:

"GRI uses the term ‘sustainability reporting’ as synonymous with citizenship reporting, social reporting, triple bottom line reporting and other terms that encompass the economic, environmental, and social aspects of an organisation’s performance."

In its definition of economic performance indicators, it says:

"The economic definition of sustainability concerns an organisation’s impacts on the economic capacity of its stakeholders and on economic systems at the local, national and global levels. Economic impacts can be divided into direct and indirect impacts. (They include but extend beyond financial performance as presented in financial reports.)"

It is clear from this that GRI is not attempting to cover the whole crucial issue of intangibles reporting. Its focus is not, and cannot primarily be, on helping shareholder value analysts better understand where the future wealth of the company will be created.

So companies will still need to develop other measurement and reporting mechanisms beyond the scope of GRI’s thinking once shareholders wake up to the importance of relationships and leadership to the future success of their investment. That is that the only problem. If you look at the social and environmental indicators of GRI, many of them are based on the external, societal codes that business is expected to comply with. For example, under the heading “Labour relations” the indicators include: "participation in tripartite bodies, percentage of organisations represented by independent trade union organisations, and policies for formal worker representation."

These, and many more examples, are areas where views around the world will differ about what represents progress in social responsibility. If the number of worker representation mechanisms increases, is that a good thing or a bad thing? Does it imply a reduction in entrepreneurship or an increase in involvement? What is worrying is the assumption that in areas of social or ethical accountability we can expect to have any consensus on what progress looks like.

At a recent conference in London, the Vice President for Sustainability for ABB talked about his company’s experience of GRI. He said that they had tried at one stage to produce a sustainability report based upon GRI. They found that it was impossible because the indicators being imposed from the outside did not fit with giving a meaningful account of ABB and its unique character and progress.

The choice here is between a values-led approach and a compliance-led approach. In Tomorrow’s Company we are in no doubt that it is the first we want to encourage. We want to see a world in which critics can challenge companies and those companies will vigorously defend their own actions against their own values. We want to avoid an insincere competition between companies who feel obliged to tick the boxes and fill in questionnaires, to which, at heart, they feel no commitment. In GRI there is the risk that there will be a huge and potentially burdensome expectation for reporting.

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18 GRI 2002 Sustainability Reporting Guidelines, p.5.
that extends beyond financial performance without laying the foundations for explaining that performance.

GRI is coming fast, and it is a welcome codification of many of society’s expectations and needs - in those areas like carbon emissions where there is very little doubt what society wants and needs from companies. It is in the areas where there is not, and sometimes never will be, consensus about social progress that we have to amend and limit the ambitions of GRI, and of the EU, when it turns its attention to reporting. At the same time, we have to get those framing GRI to recognise the difference between sustainability reporting and durability reporting. And we have to get those people in the EU who deal with corporate governance to talk effectively to those who deal with social responsibility!

Implications for the EU
Because of the international situation, relationships between leading EU members are currently under strain. It has never been so important to find a shared basis in the EU for tackling the issue of CSR. In the Lisbon Declaration in March 2000 the EU stated this goal:

“To become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.”

In the Gothenburg declaration the EU committed itself to:

"Long-term economic growth, social cohesion and environmental protection."

There is much discussion of the need for a competitive Europe. There is also much talk of the need for social cohesion. The task, as always, is to square the circle between the two.

An EU directive on reporting: the risks
Last year I took part in a CSR conference in Brussels. One of the contributions to that conference vividly reinforced my belief that it would be foolish to attempt an early EU directive to make reporting mandatory or for any more individual member governments to go this route. It reminded me that many of those prescribing the contents of the reports have not really thought about the costs.

The speaker came from a well known international environmental organisation. He set out, in its full glory, the process companies should go through to develop a sustainability report. Before reporting they should analyse all their business impacts, identify the key sustainability concerns, identify the right balance between social and environmental concerns, get the right geographical balance in issues, and identify external expertise for helping with the report. There should be full stakeholder involvement as this process developed.
Next, they should develop a strategy to start them on a sustainability path. Then, they should define the key areas of sustainability, integrate social and environmental issues into business strategy. They should report targets, report shortfalls against targets, and show how the sustainability strategy is being implemented. Again, extensive consultation with stakeholders would be necessary.

I spoke to the presenter afterwards. I found this an impressive and comprehensive list of actions. I wondered how much it would all cost. Was he, perhaps, describing a model that could be applied only by the large multi-nationals?

No, he said, these principles should apply to businesses of any size. After all, once the initial work had been done, it could form a regular part of the measurement and reporting regime.

Surely, I asked, this was not appropriate to organisations employing 5 or 10 or 50 people?

Well, maybe not that small, but definitely for companies larger than this.

I then asked him if his own organisation had themselves produced such a sustainability report. He said “we are working on it”. I asked him how big his organisation was. He said it employed 5000 people.

It is important to stay realistic in what we demand of companies. Companies can do all the things in the sustainability reporting textbook, and still not convey the real character and the real issues for dialogue between a company and its stakeholders.

The opportunities

The really important thing is to get companies telling their own story, in their own language, while remaining free to use their own chosen communication methods. In its proposed reform of company law, and the proposal for a new, inclusive, OFR, the UK government is doing this. The EU, having first ensured that it is thinking about governance and CSR as part of the same process, should be promoting a reporting environment in which companies clearly declare the values and principles by which they wish to be judged. They can then use their measurement, reporting and dialogue to test their actions against their values. That is the real way to promote responsibility and build trust between companies and society.

Over time, we will begin to develop a common language which helps the reader compare one report against another. But let us be cautious and avoid over-prescription. It has taken financial accounting 500 years to reach its present, incomplete, state of harmonisation.
Conclusion: making progress in a world of push and pull

Trust is now a central issue for business. A recession will not make the issue of trust go away. It just makes it more important that we find flexible rather than bureaucratic mechanisms for making sure that business earns public trust and is responsible.

We are approaching the stage in the push and pull between business and society where business needs to demonstrate that it is listening to the concerns of society. Equally, society needs to ensure that it is dealing with business on the basis that it is a business, not a social agency.

Typically, the innovation of leading companies in response to society’s expectations gradually moves the threshold of acceptable practice. By the time legislation is changed, it can be based upon a realistic standard of behaviour, which leading companies have proved to be workable. Standard setters and legislators need to respect the balance between the push of society and the pull of enlightened business leadership.

The danger from an over-zealous push by GRI, the EU or national governments is that it might allow societal concerns to be reflected in crude and expensive reporting regulations. The result would be an increase in the “push” of compliance, but no accompanying “pull” by businesses internalising the values society seeks to promote.

Much has been made, lately, of the benefits of the UK’s principle-based accounting regime system over the USA’s rule-based regime. The same is true in areas of social responsibility. The UK’s Health and Safety at Work legislation is a good example. It requires each company to set out their own policy on health and safety, and to state who is responsible for its operation. Alongside this, it sets out a machinery of accountability, by which employees may hold the company to account.

This is why statements of values, ethics, and business are so important. No company can meet every safety concern of every employee. The Health and Safety at Work Act does not require this. It does expect the company to do everything that is reasonably practicable to fulfil its duty of care to employees. And it creates a process by which people can have a dialogue about what reasonably practical may mean in a given circumstance.

This is what we in the UK have come to call an inclusive approach to leadership and governance. This is an approach in which businesses enjoy a wide degree of flexibility, but have to earn it by their accountability. It recognises that every business is different. It does not attempt to impose a rigid template on business. But it does create an environment in which every business is expected to say what it stands for, and to measure and report its behaviours and its progress against this. It is an approach on which the UK is just embarking in its recent Company Law Reform White Paper. Here, in the proposals for an OFR is a flexible and inclusive approach to reporting.

It is an approach which deserves far more attention from those who are shaping the international framework of accountability. There is no other way of reconciling the twin imperatives of legitimacy and enterprise.
Appendix One: The CSR Agenda

Some questions to the CEO

1) Is there a clear and public statement of the purpose and values of the organisation? Has it ever been endorsed by the board?

2) Is your organisation consistent in the messages you give to different stakeholder groups about purpose and values? For example, do you talk to shareholders about the contribution your business makes to society, and do you talk to NGOs and stakeholder groups about the importance of creating shareholder value?

3) Do you have a clear success model - a comprehensive but simple summary of the all the key drivers of your success? Does this clear overview form the basis for your board agenda, your measurement framework and your overall communications and reporting strategy?

4) How do you see CSR? Do you see it as flowing from the purpose and values and the success model of the organisation? Or has it developed as a reaction to series of demands by NGOs and outside groups?

5) By what criteria do you decide when to say no to the demands made on you by shareholders or other stakeholders? Would you accept that companies sometimes need to say no to the demands made by stakeholders? What reasons would be acceptable reasons for saying no? Conversely, do you have effective dialogue with stakeholders which actually causes you to change what you do?

6) Do you see corporate social responsibility as a desirable end in itself, or only something that you will do when it can be demonstrated that it will pay? Is what you say publicly about this consistent with what you say privately?

7) What are you doing to prepare for the new OFR?

Some questions to the leaders of NGOs, and other stakeholder groups

1) What is your view of CSR? Is it primarily about getting companies to comply with the demands of society, or is it more to do with getting companies to be clear about their own unique purpose and values and holding them accountable against these?

2) Is it important to you that companies make money for shareholders? Do you consider the connection between the issues you want companies to act upon and the achievement of their business objectives?

3) Have you thought about the importance of purpose and values to the success of companies. Do you challenge companies about their purpose and values?

4) What is your strategy for promoting the adoption of responsible behaviours by companies? Will you be more successful if you get companies to adopt responsible behaviours and practices which flowing from the purpose and values and the success
model of the organisation? Or by developing a series of codes by which all businesses are expected to comply? Or by some combination of the two?

5) Would you accept that companies sometimes need to say no to the demands made by you? What reasons would be acceptable reasons for saying no? Conversely, do you have effective dialogue with stakeholders who actually causes you to change what you do?

6) Do you see corporate social responsibility as a desirable end in itself, or only something that companies should do when it can be demonstrated that it will pay? Is what you say publicly about this consistent with what you say privately?

Some questions to reporting regulators and standard-setters (e.g. accounting regulators, GRI, EU, and national departments of industry)

1) What is your overall view of the future of corporate reporting? Do you recognise the distinction between enterprise reporting and societal reporting, and between durability and sustainability?

2) Do you agree that it is important to join up the process of regulation which affects shareholders and corporate governance with the process which affects reporting on societal impacts?

3) What is your view of CSR? Is it primarily about getting companies to comply with the demands of society, or is it more to do with getting companies to be clear about their own unique purpose and values and holding them accountable against these? Or is it some combination of the two?

4) How much freedom should we offer companies? When is it appropriate to let companies experiment, and when is an area of measurement and reporting ready for regulation? How do you ensure that the best practice is ultimately reflected in the setting of future standards?

5)

• (for all except the UK’s Department of Trade and Industry)

Have you considered the relationship between the differences in approach to accounting (rule-based vs. principles-based) and the differences in approach to CSR (compliance-based vs. values based)? Have you looked closely at the approach being taken in the UK with the proposed Operating and Financial Review?

• (for the UK’s Department of Trade and Industry)

Have you considered the relationship between the work you are doing to promote the quality of business leadership, and the recommendations of the recent report which you commissioned on the potential for a CSR academy? Should these activities be happening in separate compartments?