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From the Desk of...

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What next for corporate social responsibility?

This is a challenging time for businesses that aspire, as growing numbers claim is their aim, to "do well by doing good". A growing number of difficulties face executives seeking to sort out a strategy for being good corporate citizens.

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For one thing, it's hard to know quite how to describe this area of corporate activity. "Corporate social responsibility" (CSR) is still probably the commonest name for it, but it has a rather dull and dutiful ring. More recently, "sustainability" has become the fashionable word, thanks to its association with green virtue, but it is used to describe so many things that it is often meaningless. So executives have to grope around in an area that lacks clear definition and even a proper vocabulary.

What's more, they are groping at a time when the overall business environment is becoming much tougher. As profits are squeezed budgets for CSR may come under pressure. This may be healthy, a time for sorting out which companies and projects are serious and which have been for show, but it is likely to make life harder for the advocates of even well-thought-out programmes.

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All the more so because some of the firms that have been considered leaders at CSR are going through rough patches. These include Marks & Spencer, a retailer that trumpeted 100 worthy initiatives and grouped them under what it called "Plan A" ("because there is no Plan B"), and whose chief executive, Sir Stuart Rose, is chairman of Business in the Community, a charity which champions corporate virtue. M&S's share price recently took a dive as its sales slipped and it became clear that virtue is no guarantee of business success. Starbucks, another star of CSR, has just announced it would close 500 stores in America and cut its workforce by 5%. General Electric, hailed as a prime example of integrating CSR into core business strategy through its "ecomagination" programme, has also been struggling: in April it missed its profits target and saw its share price plunge $47 billion in a day.

Clearly, "doing good" doesn't automatically pay. A huge academic study recently reviewed all the research on CSR and financial performance over more than three decades and reached a rather mind-concentrating conclusion. The good news for CSR fans is that companies that strive to be good social citizens do not typically destroy shareholder value (as Milton Friedman famously thundered that they would); overall there does seem to be a positive link between good social performance and good financial performance. The bad news is that this link is only very weak. All the effort involved might be better deployed increasing shareholder value in other ways.

Yet the pressure on firms to be virtuous—indeed to be seen to be virtuous—seems to rise relentlessly. Within companies, employees are increasingly demanding it, and business-school graduates are ever fussier about the "values" of the companies they are thinking of joining. CSR has thus become a part of the war for talent.

The world outside, too, is more and more demanding. A survey last year by McKinsey showed that fully 95% of CEOs think society has higher expectations of business taking on social responsibilities than it did five years before.

Scrutiny is intensifying not just because of an ever-expanding army of NGOs but because of the ever-present possibility of publicity via the internet. Companies have to manage their reputations right across their global supply chains, because what happens in one corner of their operations can nowadays, in the flash of a camera phone and with the click of a button, be broadcast around the world. And they find themselves having to spend more time explaining their CSR policies to investors, whose interest in this has grown not just because of a rising demand for "ethical investment" but because some analysts—at Goldman Sachs and elsewhere—reckon firms' performance on sustainability can be a useful guide to the quality of its management overall.

Companies should not lose sight of the main way they contribute to the well-being of society: through conducting profitable business

And there is a further twist. CSR, like so much else, is going global, with growing interest and activism in emerging markets, including parts of Asia and Latin America. But it takes distinct forms and comes with different priorities depending on the country. So companies have to navigate a complex set of expectations around the world.

Faced with difficult and sometimes contradictory demands on CSR, what are smart executives to do? Clearly, the appropriate response will vary from business to business and from place to place. But very broadly, businesses should do three main things.

First, they should take a strategic approach to CSR. This sounds ridiculously obvious, yet in practice it is the exception rather than the rule. In too many cases companies' policies are a poorly co-ordinated mish-mash of pet projects—from support for the local opera house to community projects in Africa—without any serious thought about how they relate to the firms' goals and priorities. Often the programmes are led by the PR performance, and are driven by puffery rather than performance. A recent report from the New York-based Committee Encouraging Corporate Philanthropy, based on research by McKinsey, suggested that only 11% of companies surveyed are truly efficient at these activities, in that they maximise the business and social impact.

Taking a strategic approach does not necessarily mean that firms should aim to be CSR leaders, and strive (as plenty of companies claim to do) to make it "part of their corporate DNA". On the contrary, in many cases it may make more sense not to be too visible, but to get on quietly with the business of reputational-risk management. What it does typically mean, though, is that a company should involve the top management in thinking through and owning the strategy, ensuring that is aligned with overall business strategy, and putting in place metrics that help to monitor and manage the effectiveness of these efforts.

Second, and closely related to the choice of strategy, companies need to decide which of the emerging trends in CSR they want to embrace, and which they choose to ignore. One of these trends is companies doing their bit to combat global warming. Of course, cutting energy consumption looks all the more attractive as the oil price soars, but pretending to be greener than you really are also carries risks (accusations of "greenwashing" will soon fly). There may be some quick wins to be had in energy-saving, but a proper examination of a firm's carbon footprint and initiatives to improve it tend to involve sustained effort and a serious commitment from the top.

Another trend is to seek ways of replacing confrontation with NGOs with co-operation with them and with international agencies. Thus, Coca-Cola works with Greenpeace on refrigeration and with WWF on water issues; TNT has a partnership with the World Food Programme on disaster relief; Standard Chartered collaborates with the Bangladesh Rural Advancement Committee on microfinance. Companies are also co-operating with each other to try to establish common practices in potentially troublesome areas. For example, they have got together to limit corruption in the mining (through the Extractive Industries Transparency Initiative), to manage social initiatives in project finance (through the Equator Principles), to ensure that businesses respect human rights (through the Business Leaders Initiative on Human Rights). Again, such relationships—whether with NGOs or with commercial competitors—can be valuable but they are not for the faint-hearted.

Lastly, amid all this companies should not lose sight of the main way they contribute to the wellbeing of society: through conducting profitable business. In doing so, they provide employment, create wealth and deliver goods and services that people want. Perhaps the corporate world has tended to be too defensive about the value of this, their core function, as if something on the side labelled "corporate social responsibility" is a price that needs to be paid for doing business. On the contrary, doing business should need no excuses. If CSR is a way of managing risks and remaining responsive to changing social expectations so that businesses can remain successful and—yes—"sustainable", all well and good. But this needs to be helpful to the core business, not a distraction. A thoroughly responsible but bankrupt business is no good to society at all.

About Daniel Franklin and The Insight Bureau

Daniel Franklin is the Executive Editor of The Economist. He has spent over 22 years observing, analysing and forecasting global economic developments and interpreting the impact of political and economic forces on business. During the past ten years, he exercised intellectual leadership in the role of Editorial Director of the Economist Intelligence Unit. His previous time at the newspaper involved writing on East-West trade issues, he was Europe Editor, Britain Editor and Washington Bureau Chief.

Samples of Daniel Franklin's presentations are:

- The World in 2009: a strategic view of the environment in which businesses will compete
- Just Good Business: how companies strive to do well by doing good
- Always On: the changing role of media and what it means for business

http://www.insightbureau.com/insight_speakers/profile/Franklin.pdf

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