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**LEADERS**

## Ethical capitalism

### How good should your business be?

Jan 17th 2008

From The Economist print edition

**Corporate social responsibility has great momentum. All the more reason to be aware of its limits**

Illustration by Ian Whadcock



HOW wonderful to think that you can make money and save the planet at the same time. "Doing well by doing good" has become a popular business mantra: the phrase conjures up a Panglossian best-of-all-possible-worlds, the idea that firms can be successful by acting in the broader interests of society as a whole even while they satisfy the narrow interests of shareholders. The noble sentiment will no doubt echo around the Swiss Alps next week as chief executives hobnob with political leaders at the World Economic Forum in Davos.

For these are high times for what is clunkingly called corporate social responsibility (CSR). No longer is it enough for annual reports to have a philanthropic paragraph about the charity committee; now companies put out long tracts full of claims about their fair trading and carbon neutralising. One huge push for CSR has come from climate change: "sustainability" is its most dynamic branch. Another has been the internet, which helps activists scrutinise corporate behaviour around the globe. But the biggest force is the presumption that a modern business needs to be, or at least appear to be, "good" to hang on to customers and recruit clever young people.

Thus for most managers the only real question about CSR is how to do it. Our [special report](#) this week looks at their uneven progress in that regard. But it is also worth repeating a more fundamental question this paper has asked before: is the CSR craze a good thing for business and for society as a whole?

Begin with business, where the picture is mixed. Much good corporate citizenship is a smug

form of public relations. Public relations is part of business. A bad name has seldom been more expensive, especially when there is a war for talent and customers can look at your supply chain in Vietnam on YouTube. Public companies, remember, are creations of the state. In return for the privilege of limited liability, society has always demanded vaguely good behaviour from them. The cost of this implicit social franchise, whether shareholders like it or not, has risen. Companies as varied as Nike in clothing, GlaxoSmithKline in pharmaceuticals and Wal-Mart in retailing have had to change their ways quickly to avoid consumer or regulatory backlashes.

And it is not just a question of fending off disaster. CSR has got more focused: there are fewer opera houses, more productive partnerships with NGOs. Greenery, in particular, has paid off for some companies' shareholders. Toyota stole a march on other carmakers by appearing greener. European power companies which helped set up the continent's carbon-trading system did extremely well out of it.

Some people complain that this sort of "good corporate citizenship" is merely another form of self-interest. Correct—and good. They should be happy that this category has grown. The difficulties with CSR come when companies get it out of proportion. For instance, there is a lot of guff about responsibility being at the core of a firm's strategy. But even the business gurus who promote the idea admit that examples are scarce. And being a champion at responsibility does not guarantee great financial results, as recent setbacks at Starbucks and Marks & Spencer have shown.

An inconvenient truth for advocates of CSR is that the connection between good corporate behaviour and good financial performance is fuzzy at best. The latest academic research suggests that a positive link exists, but that it is a weak one. Of course, it's not clear which way the causality runs—whether profitable companies feel rich enough to splash out on CSR, or CSR brings profits. Either way, there is no evidence to suggest that CSR is destroying shareholder value, as Milton Friedman and others feared. But nor is it obviously the most productive way for managers to spend their energies. Caution is especially called for at a time when the CSR bandwagon is on a roll.

## **Caveat voter**

If companies need to be vigilant about the limits of CSR, the same applies even more to society as a whole. A dangerous myth is gaining ground: that unadorned capitalism fails to serve the public interest. Profits are not good, goes the logic of much CSR; hence the attraction of turning companies into instruments of social policy. In fact, the opposite is true. The main contribution of companies to society comes precisely from those profits (and the products, services, salaries and ideas that competitive capitalism creates). If the business of business stops being business, we all lose.

Most of the disasters have come from politicians seeking to offload public problems onto business: American health care is one sad example. But companies are increasingly keen on public policy. Take for instance, the vogue for "multi-stakeholder initiatives"—firms getting together with competitors, activists and others to set rules for a particular area of business (diamonds, project finance, extractive industries and so on). In some impoverished places such "soft law" helps to fill a void. But be wary: businesses do not always adhere to voluntary rules; they naturally want ones that help them make money. Above all, it is governments, not firms, that should arbitrate between interest groups for the public interest.

So the apparent triumph of CSR should prompt humility, not hubris. There is money to be made in doing good. But firms are not there to solve the world's political problems. It is the job of governments to govern; don't let them wiggle out of it.

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## SPECIAL REPORTS

## Just good business

Jan 17th 2008

From The Economist print edition

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

Illustration by Ian Whadcock



IN THE lobby at the London headquarters of Marks & Spencer, one of Britain's leading retailers, the words scroll relentlessly across a giant electronic ticker. They describe progress against "Plan A", a set of 100 worthy targets over five years. The company will help to give 15,000 children in Uganda a better education; it is saving 55,000 tonnes of CO<sub>2</sub> in a year; it has recycled 48m clothes hangers; it is tripling sales of organic food; it aims to convert over 20m garments to Fairtrade cotton; every store has a dedicated "Plan A" champion.

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

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

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

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

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

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

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

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

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

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

## Too much of a good thing?

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

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

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

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

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

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

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

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

contribute to society.

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

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

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



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## SPECIAL REPORTS

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### **The feelgood factor**

Jan 17th 2008

From The Economist print edition

#### **Helping others to help yourself**

WHEN catastrophic floods hit Bangladesh last November, TNT's emergency-response team was ready. The logistics giant, with headquarters in Amsterdam, has 50 people on standby to intervene anywhere in the world at 48 hours' notice. This is part of a five-year-old partnership with the World Food Programme (WFP), the UN's agency that fights hunger. The team has attended to some two dozen emergencies, including the Asian tsunami in 2004. "We're just faster," says Ludo Oelrich, the director of TNT's "Moving the World" programme.

Emergency help is not TNT's only offering. Volunteers do stints around the world on secondment to WFP and staff are encouraged to raise money for the programme (they generated €2.5m last year). There is knowledge transfer, too: TNT recently improved the school-food supply chain in Liberia, increasing WFP's efficiency by 15-20%, and plans to do the same in Congo.

#### **Balm for the soul**

Why does TNT do these things? "People feel this is a company that does more than take care of the bottom line," says Mr Oelrich. "It's providing a soul to TNT." In a 2006 staff survey, 68% said the pro-bono activities made them prouder to work at the company. It also helps with recruitment: three out of four graduates who apply for jobs mention the WFP connection. Last year the company came top in the Dow Jones Sustainability Index.

TNT's experience illustrates several trends in corporate philanthropy. First, collaboration is in, especially with NGOs. Companies try to pick partners with some relevance to their business. For TNT, the food programme is a good fit because hunger is in part a logistical problem. Standard Chartered, a bank, is working with the Bangladesh Rural Advancement Committee on microfinance and with other NGOs on a campaign to help 10m blind people.

Coca-Cola has identified water conservation as critical to its future as the world's largest drinks company. Last June it announced an ambitious collaboration with WWF, a global environmental organisation, to conserve seven major freshwater river basins. It is also working with Greenpeace to eliminate carbon emissions from coolers and vending machines. The co-operation is strictly non-financial, but marks a change in outlook. "Ten years ago you couldn't get Coca-Cola and Greenpeace in the same room," says Neville Isdell, its CEO.

Second, what used to be local community work is increasingly becoming global community work. In the mid-1990s nearly all IBM's philanthropic spending was in America; now 60% is outside. Part of this involves a corporate version of the peace corps: young staff get one-month assignments in the developing world to work on worthy projects. The idea is not only to make a difference on the ground, but also to develop managers who understand how the wider world works.

Third, once a formal programme is in place, it becomes hard to stop. Indeed, it tends to grow, not least because employees are keen. In 1996 KPMG allowed its staff in Britain to spend two hours a month of their paid-for time on work for the community. Crucially for an accountancy firm, the work was given a time code. After a while it came to be seen as a business benefit. The programme has expanded to half a day a month and now adds up to 40,000 donated hours a year. And increasingly it is not only inputs that are being measured but outputs as well. [Salesforce.com](http://Salesforce.com), a software firm, tries to measure the impact of its volunteer programmes, which involved 85% of its employees last year.

All this has meant that straightforward cash donations have become less important. At IBM, in 1993 cash accounted for as much as 95% of total philanthropic giving; now it makes up only about 35%. But cash still matters. When Hank Paulson, now America's treasury secretary, was boss of Goldman Sachs, he was persuaded to raise the amount that the firm chipped in to boost employees' charitable donations. Now it is starting a philanthropy fund aiming for \$1 billion to which the partners will be encouraged to contribute a share of their pay. No doubt that is good for the bank's soul.

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**SPECIAL REPORTS**

## The next question

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### Does CSR work?

Illustration by Ian Whadcock



"THE theological question—should there be CSR?—is so irrelevant today," says John Ruggie of Harvard University's Kennedy School of Government. "Companies are doing it. It's one of the social pressures they've absorbed." Three years ago a [special report](#) in *The Economist* acknowledged, with regret, that the CSR movement had won the battle of ideas. In the [survey by the Economist Intelligence Unit](#) for this report, only 4% of respondents thought that CSR was "a waste of time and money". Clearly CSR has arrived.

Mr Ruggie and others claim that the real question about corporate responsibility today is "not whether but how". But the debate has not entirely vanished, and it is worth pausing to consider some of the arguments of those who question the whole point of it.

Within companies, the few sceptics still matter, especially since they seem to be found disproportionately at the top end of management. And from time to time the debate surfaces noisily in public. Last summer, for example, Robert Reich, a former labour secretary under Bill Clinton, now at the University of California at Berkeley, launched a broadside against CSR in his book, "Supercapitalism". The CSR industry had learnt to shrug off criticism from free-marketeters such as Milton Friedman (whose seminal critique of the concept, "The social responsibility of business is to increase its profits," appeared in the *New York Times Magazine* in 1970) or, for that matter, this newspaper. But here was a cruel cut from a Clintonite.

More importantly, those who doubt whether CSR is worth having raise points that have a significant bearing on how it is done. Take three of the main objections: that it encroaches on what should be the proper business of government; that CSR is a sideshow; and that it involves playing with other people's money.

Mr Reich argues that the energy spent on CSR diverts attention from establishing rules that advance the common good—rules that help to prevent oil spills, say, or protect human rights abroad. In a democracy, he says, that should be the job of elected governments, not profit-maximising companies. It is easy to see the potential for a corrupt bargain: lobby groups find it more rewarding to put pressure on corporate executives because they respond faster than governments; governments are only too happy to duck the issue or let business pick up the bill.

In practice, however, it is often the absence of government rules that makes firms feel they have to fill the void—for example, by cutting carbon emissions or setting labour standards. And as businesses go global, they face a complicated patchwork of rules. Mr Ruggie, who serves as the UN secretary-general's special representative for business and human rights, is particularly concerned about parts of the world where conflict or corruption means there is no effective government to do the rule-setting. Still, it is surely right to keep a wary eye on whether the things firms do in the name of good citizenship are truly in the best interests of society as a whole.

The “sideshow” objection takes issue with the assumption, all too common among executives and activists alike, that the pursuit of profitable business is not a socially responsible thing in its own right. Yet there is nothing wrong with making money: more than anything else, that is how companies do good. The welfare they create in the form of jobs, products and innovation dwarfs anything firms are likely to do explicitly in the name of CSR.

In 2004-05 Oxfam, an agency devoted to poverty relief, and Unilever, an Anglo-Dutch consumer-goods company, jointly conducted a detailed study of the economic impact of Unilever's operations in Indonesia. The conclusions were eye-opening, especially for Oxfam. Unilever in Indonesia supported the equivalent of 300,000 full-time jobs across its entire business, created a total value of at least \$630m and contributed \$130m a year in taxes to the Indonesian government. The lesson for firms is that they have been far too defensive about their contribution to society. If efforts to do good become a distraction from the core business they may actually be downright irresponsible. After all, a socially conscious but bankrupt business is no good to anyone.

## Spending other people's money

The most fundamental criticism of CSR is that what executives spend on it is other people's—ie, shareholders'—money. They may mean well, and it may give them satisfaction to write a cheque for hurricane victims or disadvantaged youth, but that is not what they were hired to do. Their job is to make money for shareholders. It is irresponsible for them to sacrifice profits in the (sometimes vain) pursuit of goodness.

Thoughtful practitioners of CSR understand this. Executives overseeing the environmentally minded Plan A at M&S stress they are running a business, not a green charity. Marc Benioff, the boss of [salesforce.com](http://salesforce.com), is an evangelist for corporate philanthropy but keeps a clear sense of priorities: “First and foremost my shareholders are the most important thing.”

The simple solution is that businesses should concentrate on the sweet spot where initiatives are good for both profits and social welfare. This is the sort of “win-win” situation that executives love to talk about: the smart thing to do as well as the right thing to do. Green policies currently offer lots of opportunities for win-wins, which is why so many firms are eagerly embracing them: cut fuel costs and you



help both the planet and the bottom line; expand your range of organic food and increase your market share. The same logic should lead senior management, faced with a bewildering spectrum of socially worthy activities, to select those that are most relevant to their business.

Yet people on both sides of the barricades tend to dismiss this argument. Sceptics say it renders CSR meaningless. If it amounts to nothing more than good management, it does not count. NGO activists, too, often look for some element of sacrifice on the part of business, if only to demonstrate a degree of moral commitment—without which, they fear, a company's worthy programmes may disappear with the next downturn.

Both arguments are too narrow. If corporate antennae are more keenly tuned to social trends and sensitivities, alerting managers to risks and opportunities they might not otherwise have spotted, so much the better for business. As for the activists, they of all people should like the idea of "sustainability": if a business benefits from a CSR initiative, it is more likely to last, and its involvement may be more dynamic and innovative too.

To be fair, attitudes are changing, both in business and among NGOs. A growing number of companies are working with NGOs, especially those with operations on the ground and a commitment to getting things done. Both sides now see CSR as offering what Mr Porter calls "shared value": benefits for both business and society. Georg Kell, the director of the UN Global Compact, says that the case for engagement has changed from a moral to a business one.

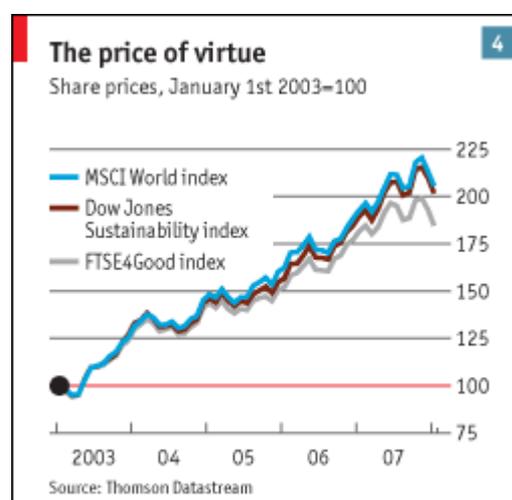
On this view, the best form of corporate responsibility boils down to enlightened self-interest. And the more that firms embracing it are seen to be successful—through astutely managing risks and recognising opportunities—the more enlightened their leaders will be perceived to be. But do such policies really help to bring success? If not, the whole CSR industry has a problem. If people are no longer asking "whether" but "how", in future they will increasingly want to know "how well". Is CSR adding value to the business?

## An inconvenient truth

At present few companies would be able to tell. CSR decisions rely more on instinct than on evidence. But a measurement industry of sorts is springing up. Many big firms now publish their own sustainability reports, full of targets and commitments. The Global Reporting Initiative, based in Amsterdam, aspires to provide an international standard, with 79 indicators that it encourages companies to use. This may be a useful starting point, but critics say it often amounts to little more than box-ticking; worse, it can provide a cover for poor performers.

Sustainability rankings and indices of various kinds also help to concentrate corporate minds by shaming firms or helping them shine. But they also point to a problem. Two of the best-known indices—the Dow Jones Sustainability index and the FTSE4Good—underperform the market. AccountAbility, a British think-tank, admits to the inconvenient truth that its 2007 ranking of the *Fortune* Global 100 companies by their progress on building sustainability into their business shows no connection with their financial performance.

Even so, interest in socially responsible investment (SRI) is on the rise, along with the general surge in interest in anything to do with climate change. The signs are many: more executive time spent on managing relations with SRI investors; financial institutions with over \$10 trillion under management signing up for the UN's Principles for



Responsible Investment; an “explosion of interest” in related research, according to Peter Kinder, the president of KLD Research & Analytics, which specialises in benchmarks for social investing.

A new, exhaustive academic review of 167 studies over the past 35 years concludes that there is in fact a positive link between companies' social and financial performance—but only a weak one. Firms are not richly rewarded for CSR, it seems, but nor does it typically destroy shareholder value. Might cleverer approaches to CSR in future produce better returns?

“There is no evidence that ESG [environmental, social and corporate governance] or SRI investing on their own add value,” say analysts at Goldman Sachs. But they reckon that by incorporating an ESG perspective into their long-term industry analysis they can beat the market. Their model, called GS SUSTAIN, includes ESG analysis as “a good overall proxy for the management of companies relative to their peers”, hence indicative of their chances of long-term success. But these factors need to be put into the context of companies' financial performance and the circumstances of individual industries. A company's attention to environmental, social and corporate-governance issues is only one factor among others in determining its long-term success.

The Goldman Sachs model is an intriguing attempt to capture the complex interaction between social-responsibility issues and the many other things that businesses worry about in the real world. An integrated view of the role of CSR happens to be what leading companies are striving for too.

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## SPECIAL REPORTS

### A stitch in time

Jan 17th 2008

From The Economist print edition

#### How companies manage risks to their reputation

BUSINESS leaders embrace corporate responsibility for a number of reasons. Lee Scott, the CEO of Wal-Mart, was converted to it by the aftermath of Hurricane Katrina (which showed his company's full potential to serve "not just our customers but our communities, our countries and even the world"). Others are lured by the glamour of making pledges at the Clinton Global Initiative. For some, though, it is public embarrassment and lawsuits that concentrate the mind.

Take Yahoo!, a technology company that ran into difficulties over the jailing of two Chinese dissidents after the company handed data on them to the Chinese authorities. In November Yahoo!'s chief executive, Jerry Yang, and its top lawyer had to listen to Tom Lantos, a congressman, denounce them as technology giants but moral pygmies. The following week Yahoo! reached an out-of-court settlement with the families of the jailed men.

Trouble seems to come in waves, pounding industry after industry, each time for a different reason. It has hit the oil business because of spills and explosions. Mining companies have come under attack for collusion with corrupt governments. Clothing companies have faced scandals over the use of sweatshop or child labour. The petfood industry was pilloried after cats were killed by tainted imports from China. Mattel and other makers had to recall millions of toys made in China on safety grounds.

Most of the rhetoric on CSR may be about doing the right thing and trumping competitors, but much of the reality is plain risk management. It involves limiting the damage to the brand and the bottom line that can be inflicted by a bad press and consumer boycotts, as well as dealing with the threat of legal action.

In America, the legal instrument of choice (as in the Yahoo! case) is the Alien Tort Claims Act, which allows companies to be taken to court in America for violating human rights abroad. Under international law only states can be held responsible for violating human rights, but allegations of complicity in state abuse can provide a hook for legal claims against companies. Even if it does not get as far as a trial, this can be embarrassing and costly for companies.

Three years ago Unocal, a Californian oil company, settled out of court (reportedly for some \$30m) over allegations of complicity in abuses by government soldiers against villagers in Burma during the construction of a pipeline in the 1990s. However, the company denied any

Illustration by Ian Whadcock



responsibility. Another oil company, Talisman Energy, discovered that being Canadian was no protection against a legal claim in the United States. It was facing a lawsuit by the Presbyterian Church of Sudan alleging complicity in genocide in Sudan, where Talisman had invested in the Greater Nile Oil Project—even though Talisman, under pressure from human-rights groups, had sold its stake back in 2002.

Time and again companies fail to see the problems coming. Only once they have had to deal with, say, a lawsuit or strong public pressure do they start to change their thinking. The CSR industry believes that a broader understanding of the world in which they operate can help companies manage these risks better (and, if they are lucky, grasp some opportunities too). “Much of the work we do is to get big incumbents to recognise a different future,” says John Elkington of SustainAbility, a consultancy.

What might the next wave of trouble be? Corporate corruption, perhaps, speculates Toby Webb, the editor of *Ethical Corporation* magazine. In South Africa, for example, corruption is very much part of the CSR agenda. At two of Germany's biggest companies, Siemens and Volkswagen, heads have rolled because of corruption scandals. Mr Webb reckons this could become a much bigger trend over the next couple of years.

## Chain reaction

For the moment, though, the biggest problem many companies have to deal with is something that has sprung from rapid globalisation. It is the risks associated with managing supply chains that spread around the world, stretching deep into China, India and elsewhere. For some, this is a challenge on a grand scale: Nike's contractor network, for example, involves some 800,000 workers.

Firms can set standards of behaviour for suppliers, but they do not find it easy to enforce them. Unscrupulous suppliers may cheat, keeping two sets of records, one for show, one for real. Others, under intense pressure to keep costs low, may cut corners—allowing unpaid overtime, for example, or subcontracting work to other firms that escape scrutiny.

And on top of the need to guarantee labour standards and product safety across an extended network, a new demand is starting to emerge: companies have to consider the environmental “sustainability” of their suppliers too. So inspection regimes are set to intensify, at a time when audit fatigue has already become a problem for suppliers. Surveys suggest that a typical garment factory may expect to be inspected 25 times a year. Levi Strauss, Timberland and others in the industry are starting to collaborate on inspections to reduce the burden on suppliers.

Each industry has its own specific issues, but there are some common themes in how firms are approaching the risk-management side of CSR. One is to put in place proper systems for monitoring risk across the supply chain, including listing who the suppliers are, having well-established channels of communicating with them and auditing their compliance with ethics codes. Basic as it sounds, even many big companies fail to do this: 60% of the 2,000 large companies surveyed recently by Integrity Interactive, a risk consultancy, said they did not require suppliers to enforce a code of conduct. Only 42% regularly assessed ethics risk in the supply chain, and just 12% had a web-based portal for their suppliers.

Beyond the basics, prudent companies include a CSR perspective when considering new projects. In such cases CSR is not a public-relations exercise but part of systematic due diligence for new investments. The social and economic impact of the firm's existing operations is also closely monitored to reduce the risk of a backlash from local communities, activists or national governments.

Anglo American, a mining company, is among the most sophisticated in its approach to managing its social impact. It has developed a “socio-economic assessment toolbox” to identify

local stakeholders, see how projects affect them and draw up plans to improve the outcome and develop trust. The company says this provides a better understanding of local interests and helps it to avoid potential conflicts. Last October Cynthia Carroll, Anglo's CEO, announced at the annual conference organised by Business for Social Responsibility in San Francisco that "as a contribution to spreading good practice" it would make the basic version of its toolkit publicly available.

Involvement in social programmes, especially in poor parts of the world, is an increasingly fashionable way for a company to burnish its brand and, with luck, protect itself from attack. Which self-respecting CEO these days wants to be caught doing nothing for Africa? But sometimes these programmes also have a clear business rationale. Anglo American, for example, says the \$10m a year it spends on HIV testing and treatment in Africa is starting to pay for itself through reduced absenteeism and longer lives for skilled workers.

The big drugs companies, for their part, were greatly embarrassed by accusations of ignoring the needs of Africans dying from HIV/AIDS, so GlaxoSmithKline and others decided to make HIV drugs available for no profit. Merck has entered an innovative partnership to fight AIDS with the Bill & Melinda Gates Foundation and the government of Botswana, where the proportion of sufferers being treated is now the highest in Africa. Since 1987 Merck has also donated 1.8 billion tablets to treat river blindness, reaching more than 60m people a year in Africa, Latin America and the Middle East. All this helps to quieten the critics. The involvement in emerging markets may even prove a good investment in future growth.

Novo Nordisk, a Danish company that supplies a big share of the world's insulin, has written the "triple bottom line"—that is, striving to act in a financially, environmentally and socially responsible way—into its articles of association. It reckons that having the creed anchored so firmly is making it more alert to both risks and opportunities.



## Comfort in numbers

But risk management can be a lonely business. Mattel's monitoring of its suppliers is said to have been state-of-the-art, but that did not save it from costly embarrassment in China. With the best will in the world and the most energetic efforts to create codes, talk to stakeholders and support hospitals and schools, companies can still find themselves uncomfortably exposed, especially as what is expected of them can vary so much from country to country.

The answer, many have decided, is to spread the risk. Groups of them are getting together to agree on codes of conduct—usually within a particular industry, but also across industries and in consultation with governments, UN agencies and NGOs. This has become one of the most striking recent trends in CSR.

The mining industry, for example, has joined with governments in the Extractive Industries Transparency Initiative (EITI), launched in 2002 by Tony Blair, then Britain's prime minister, to tackle the problem of government corruption in resource-rich countries. Britain, America, Norway and the Netherlands, together with a number of NGOs and big energy and mining companies, have signed up to a set of Voluntary Principles on Security and Human Rights. The finance industry has adopted the Equator Principles, a benchmark for managing social and environmental issues in project financing.

There's more. Diamond producers encouraged the Kimberley Process, a certification scheme to combat trade in blood diamonds. The Forest Stewardship Council provides certification for the forestry industry and its products. A group of companies that want to find pragmatic ways of applying human rights in global business have formed the Business Leaders Initiative on Human Rights (BLIHR), which now has 14 members. Technology companies in America are working on a code of conduct on human rights, not least to avoid the sort of trouble that Yahoo! encountered in China. In Britain the Ethical Trading Initiative brings together retailers, trade unions and NGOs to support corporate codes that improve working conditions across global supply chains.

Such "multi-stakeholder initiatives" tend to involve companies that have elevated CSR to a strategic level. Some initiatives will not work: sitting down with competitors, let alone NGOs, is not easy. But the effort can be worth it. When Gap encountered a problem over child labour in India last October, the damage proved a "two-day wonder", according to Mary Robinson, the president of Realising Rights: The Ethical Globalisation Initiative. She reckons this was due to Gap's swift response and its involvement in initiatives like BLIHR (which she chairs). When Gap joined BLIHR three years ago it admitted it had some problems—and found itself winning praise for transparency rather than being pounced on for its transgressions.

Whether these initiatives always serve wider interests (as opposed to those of particular firms) is harder to tell. Some companies may benefit more than others: for De Beers, for example, the Kimberley Process reduced a threat to the industry and if anything increased its own brand's dominance. The introduction of more humane conditions for textile workers in places like Bangladesh risks losing them their jobs unless productivity can be improved at the same time, stresses Alex MacGillivray of AccountAbility, a think-tank involved in a multi-stakeholder initiative called the MFA Forum. As for the EITI, there is some evidence that it has reduced corruption in Nigeria, according to Mr MacGillivray, though it may be just shifting the graft to other ministries. Some NGOs would prefer hard law rather than the "soft" rules involved in many of these initiatives.

How committed are companies to the rules they claim to live by, whether their own or an industry-wide code? "What concerns us," says Daniel Feldman of Foley Hoag, a law firm with a CSR practice in Washington, DC, "when most corporate-responsibility effort is on PR and communications, is that we don't know whether firms are actually implementing the rules." Is there a reporting requirement? Is the CEO keen?

For a few companies that want to be leaders in the world of corporate citizenship, the answer to those questions is clearly yes. And even if such companies first discovered CSR the hard way, by suffering a knock to their reputation, many now see it as more than just a tool of risk management; they are convinced that it can be a competitive advantage and a source of growth in its own right.

Nike, for example, came to the subject in defensive mode: it was attacked in the early 1990s, when the idea of corporate responsibility had barely surfaced. Now Hannah Jones, the vice-president of corporate responsibility (who reports to the chief executive), talks of "return on investment squared": to investors and to the community. She sees corporate responsibility as providing a fresh source of innovation. She no longer bothers to attend CSR conferences full of other corporate folk; these days she prefers to network with social entrepreneurs. And like many in the CSR world she has high hopes for more emphasis on "sustainability".

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## SPECIAL REPORTS

### A change in climate

Jan 17th 2008

From The Economist print edition

#### The greening of corporate responsibility

AL GORE has done a wonderful thing for corporate bosses. By helping to propel climate change to the top of the global agenda, he has opened up a world of new opportunities for them. Opportunities for rhetoric, for a start. The green theme allows chief executives to adopt a planetary perspective. "It's what survival will be about in the 21st century," proclaims Coca-Cola's Neville Isdell, talking of his company's plans for water conservation. Over at PepsiCo, Indra Nooyi stresses the importance of companies embracing "purpose" as well as performance, with products that "contribute positively and responsibly to human civilisation".

Beyond the lofty talk, reducing a company's output of greenhouse gases and encouraging "responsible" use of resources can also mean cutting waste and saving money. Whether it is discouraging the use of plastic bags in a supermarket or switching off a law firm's computers at night, there are plenty of quick wins for most companies. This is doubly satisfying—doing well and doing good—and therefore extremely popular.

For some companies the gains to be had from cutting waste and improving energy use are very large. United Technologies Corporation (UTC), whose products range from aerospace to air-conditioning systems, has reduced its carbon footprint by 19% over the past ten years even as it has doubled its output, according to George David, the CEO. "We've had an explosion of doing more with less," he says. In 2008 UTC is aiming for growth of 10% while cutting carbon emissions by a further 5%.

Looking ahead, some companies think the demand for efficient and clean energy use is an opportunity not just for savings but for growth. Mr David thinks that in 30 years' time conservation and related areas could make up 30% of the company's business, from nothing today. DuPont, a chemicals giant, is starting to set targets for increasing revenue from "non-depletable" products and services. At the Clinton Global Initiative last September Standard Chartered, a bank with big operations in emerging markets, pledged to spend \$8 billion-10 billion over five years on financing renewable energy projects in Asia, Africa and the Middle East. Peter Sands, the chief executive, says that since enormous amounts of money will have to be deployed in this area in the coming years, "we want to be active leaders."

#### Sootless in Seattle

Illustration by Ian Whadcock



But leadership on "sustainability" is not easy. Some of the companies that set themselves the goal of becoming carbon neutral by 2010 or 2012 will struggle to find a way to do it. For those that are serious about changing their impact on the planet, it will be something of a voyage of discovery. The starting point is to find out the size of their current carbon footprint. "We find with energy and greenhouse gases, if you start to measure, people reduce the usage," says Linda Fisher, the chief sustainability officer at DuPont. Measuring is not a simple task, but once a company has a proper baseline it can see what can be changed. Commitment from the top is crucial.

What are the truly committed companies doing? Three examples—an outdoor-goods business, a logistics company and one of the world's biggest conglomerates—give an idea of what is happening at the cutting edge.

If your business is equipping people for outdoor adventure, then careful stewardship of the environment seems a natural. Sure enough, outdoor-goods companies such as Patagonia ("every day we take steps to lighten our footprint and do less harm") and Timberland ("our love for the outdoors is matched by our passion for confronting global warming") are among the most ardent champions of sustainability. The same goes for Seattle-based REI, America's biggest consumer co-operative with over 3m members and 80-plus stores.

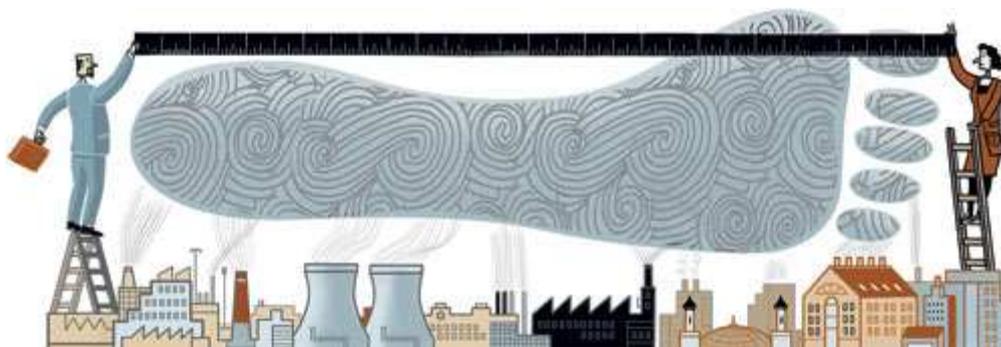
As a co-op, REI enjoys the luxury of not having to worry about Wall Street's expectations each quarter. It can think long-term. Four years ago it decided it had to aim to be climate-neutral and brought in consultants to establish a baseline and help produce a plan. The target date is 2020, with a one-third reduction by 2009 against the 2006 baseline.

REI was shocked to find that more than a quarter of its carbon emissions came from flights associated with the adventure travel it organises, so it started to buy carbon offsets for these trips. One-fifth of its emissions comes from electricity consumption, so it shopped around for renewable sources, such as hydro power in Washington state. It opened a second distribution hub in Pennsylvania to cut energy waste in transport. It also looked at ways to reduce greenhouse-gas emissions from employee commuting, which account for about a fifth of the total, so it is providing incentives for its people to cycle to work. "Our team is really getting granular," says Sally Jewell, REI's chief executive.

The company is also working on the carbon footprint of its buildings, its use of paper, its packaging and the eco-friendliness of its products. Together with other manufacturers, it is looking at eco-sensitive materials, which need to be natural but also to do the job in hand well. Green labelling will follow.

The lesson from REI is that going seriously green involves a lot more than setting a target date for zero emissions. It requires measuring and managing. That turns out to be hard, intricate work which stretches right across a company's operations, and perhaps beyond. At present, REI counts the carbon once it owns a product: for example, it takes responsibility for its own brands' transport from the factory. It does not include its suppliers' operations in its carbon calculations because it has yet to work out how to do it. "But I think that's coming," predicts Ms Jewell.

Illustration by Ian Whadcock



## The non-flying Dutchman

You know a boss is serious when he gives up his private jet, swaps his Porsche for a hybrid Prius and drives rather than flies all the way from Amsterdam to Davos. Peter Bakker believes that being on top of the climate-change issue is a prime business need for TNT, the Dutch logistics company he heads. He thinks customers may well shorten their supply chains to stop shipping so many parts around the world by air. Regulators may impose new rules, such as a carbon tax or carbon labelling, which could affect TNT's business model. Investors are asking questions about sustainability. "Only those companies that can make the shift to manage this as an integral part of the business will be able to respond fast enough," he says.

Last year Mr Bakker launched "Planet Me", a campaign to change the company's carbon trajectory. TNT's carbon footprint has been measured, targets for reducing it will soon be set and efforts will be made to help employees lead greener lives both at work and at home. For starters, the travel budget is being cut by 20% (a saving of €3.2m a year, which more than covers the €2.8m spent on installing state-of-the-art desktop video-conferencing systems). In 2010 TNT will move its headquarters to what is designed to be a carbon-positive building that will be producing green energy to spare.

TNT intends to monitor its carbon emissions assiduously, giving customers a tracker to show CO<sub>2</sub> emissions of the services they are buying. Reporting on emissions will follow the same rules as financial reporting, so there could be warnings of poor performance just as a company might issue profit warnings. Bonus schemes will be linked to this.

But there is no escaping the fact that, as a global transport company with a big fleet of aeroplanes and trucks, TNT churns out greenhouse gases. In 2006 it produced 826 kilotonnes of CO<sub>2</sub>. To cut down on emissions from the trucks, it is introducing hybrids and electric vehicles. The 44 aeroplanes are trickier. They account for half of all TNT's emissions, and there is little the company can do but try to run these as efficiently as possible. It says it is prepared to invest in promising aircraft technologies.

Its fleet includes two Boeing 747s which fly back and forth between Liège in Belgium and Shanghai, accounting for half the company's fuel consumption. "Two years ago we didn't think of climate change when buying 747s," says Mr Bakker. "Today it would be a main item if we were considering buying two more." But would TNT really forgo increasing its business with China?

The logistics industry provides the arteries of globalisation, and TNT's experience suggests that pressure for more responsible strategies on carbon emissions will spread through those arteries. Some of TNT's customers in Scandinavia, for example, have started to inquire about the carbon impact of transporting their parts. TNT is asking its own suppliers and subcontractors to be committed to the environment too, and selects them with that in mind.

The list of big companies that have put the environment or other aspects of CSR at the heart of

their strategy is not very long, but one name usually tops it: GE. In 2005 it launched "ecomagination", a vigorous push to invest in green technology and expand sales of products and services with measurably better environmental performance. Products range from light bulbs to gas turbines to railway and jet engines and have to offer a sustainability improvement of at least 10% to be included.

## General Eclectic

Like most such initiatives, ecomagination is partly a packaging and public-relations job, bringing together a number of things the company was doing anyway. Some say it is not even particularly ambitious, given the gains in energy efficiency that technology is producing across the board. Part of the plan involves a cut in greenhouse-gas emissions in 2012 of 1% compared with the 2004 baseline—not bad for a company that also expects to grow strongly over that period, but hardly stretching. Sure enough, GE is beating its targets, with emissions already down by 4%. There are no targets yet for saving water (though GE says these are on their way).

Still, GE is big, and ecomagination has scale. R&D investment in cleaner technologies is to rise from \$700m in 2005 to \$1.5 billion in 2010. By then the company expects revenues from ecomagination products to be at least \$20 billion.

This is turning out to be a good bet. "We've sold out in eco-certified products to 2009," says Bob Corcoran, the vice-president for corporate citizenship. You can't buy a GE wind turbine before 2010. Employees like the green focus and have come up with initiatives of their own that are worth some \$70m a year in energy savings. All this has helped to polish GE's reputation. The company still gets bad marks for its response to the toxic mess it poured into New York's Hudson river long ago, but it now has fans among environmentalists too.

GE has not forgotten that it is in the business of making money, not doing social work. "No good business can call itself a good corporate citizen if it fritters away shareholder money," says Mr Corcoran. GE has 6m investors, and "it's their money too." The company is simply moving in the direction in which it thinks social pressures will push it anyway.

In doing so, it is also behaving in ways that would have been hard to imagine a few years ago. It has joined together with other big companies and NGOs to form the US Climate Action Partnership to lobby for national legislation in America to cap carbon emissions. Europe already has a cap-and-trade system, and GE would like a more uniform set of rules across the world.

There is no doubt that the greening of corporate responsibility rings a bell with many companies. They can cut costs, delight employees and burnish their brand. By preparing their business for the expected demands of customers and regulators they may also be giving themselves a competitive advantage. But if it is to involve much more than public relations, it will be long, hard work. As companies' claims of green virtue multiply, so will the efforts by organisations such as Climate Counts to monitor them and hold them to account. Few customers will buy green at the expense of price or quality, and it is early days for much of the research and investment in clean technologies. Besides, the demand for sustainability varies greatly from place to place. Europe and Japan have mostly been ahead of America. And in China the dash for growth comes first.

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## SPECIAL REPORTS

### The good consumer

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#### Buying ethical is not as straightforward as it seems

WHAT'S a label worth? A lot, it seems, when it comes to towels in an upmarket New York shop. In 2005 ABC Home Furnishings allowed two Harvard University researchers, Michael Hiscox and Nicholas Smyth, to conduct an experiment on two sets of towels. One lot carried a label with the logo "Fair and Square" and the following message:

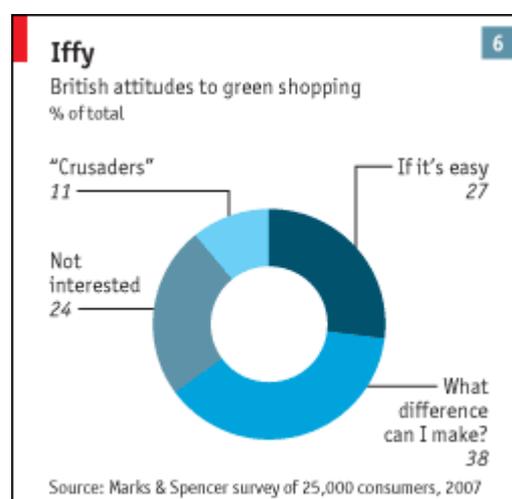
These towels have been made under fair labour conditions, in a safe and healthy working environment which is free of discrimination, and where management has committed to respecting the rights and dignity of workers.

The other set had no such label. Over five months, the researchers observed the impact of making various changes such as switching the label to the other set of towels and raising prices. The results were striking: not only did sales of towels increase when they carried the Fair and Square label, they carried on increasing each time the price was raised.

No wonder companies are keen to appeal to ethically minded consumers, whether on labour standards or green credentials. Timberland, a New Hampshire outdoor-gear company, is introducing detailed "Green Index" labels on its shoes. Sainsbury's, a British supermarket, now sells only Fairtrade bananas, with the assurance that poor farmers have received a decent price, and all its own-brand paper products come from sources approved by the Forest Stewardship Council. Tesco, M&S and Wal-Mart have all launched initiatives that bet on the rise of the ethical consumer.

On greenery, M&S reckons that British consumers divide into four broad groups. About one in ten is passionately green and will go out of their way to shop accordingly. At the other end of the spectrum one-quarter are not interested. In-between are those who care but want green consumption to be easy, and those who are vaguely concerned but don't see how they can make a difference (see chart 6). In M&S's view, that represents an opportunity: three-quarters of British consumers are interested in the green theme in some way.

But even the keenest ethical consumer faces complicated trade-offs, and sometimes the apparently obvious ethical choice turns out to be the wrong one. Surely it must be greener for Britons to buy roses from the Netherlands than ones air-freighted from Kenya? In fact, a study at Cranfield University showed the carbon footprint of the Dutch roses to be six times as large because they had to be grown in heated greenhouses.



Consumers are right to be suspicious of the ethical claims made for many products. A recent study of the labels of 1,018 products in big stores in North America by TerraChoice, an environmental marketing agency, found that almost all of them were guilty of some form of "greenwashing". They did not tell outright lies, but nor did they tell the whole truth.

## **A conditional shade of green**

Joel Makower, the executive editor of [GreenBiz.com](http://GreenBiz.com), says that, given a choice, most consumers will be happy to choose the greener product—provided it does not cost any more, comes from a trusted maker, requires no special effort to buy or use and is at least as good as the alternative. "That's a high hurdle for any product," he notes.

So shoppers will still flock to shops that sell cheap products of decent quality, without asking how these are made. They will often buy more if a product is attractively presented, never mind that the packaging may be wasteful. And when companies try to do the right thing, consumers will not always go along with them. Airlines that invite their customers to buy carbon offsets have seen only minimal uptake.

The lesson for companies is that selling green is hard work. And it is no good getting too far ahead of the customer. Half a step ahead is about right, according to Stuart Rose, the chief executive of M&S. Much more, and you won't sell. Any less, and you won't lead.

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## SPECIAL REPORTS

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### Going global

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From The Economist print edition

#### **CSR is spreading around the world, but in different guises**

"THE British brand of corporate responsibility is seen as the gold standard," says Julia Cleverdon, chief executive of Business in the Community, which for 25 years has been championing the cause in Britain. And it is true that Britain, especially London, has been a hive of innovation in CSR since the mid-1990s, thanks to a creative cluster of think-tanks, NGOs, consultancies and inventive bosses. But according to Simon Zadek of AccountAbility, a think-tank that has been part of the cluster, this is also a repeat of a familiar British business story: superb innovation, poor implementation.

By contrast, when American firms get serious about CSR—Wal-Mart on sustainability, for example—the execution is generally impressive. The Japanese, for their part, see the roots of CSR in the traditions of Japanese business, such as *shobaido* (the way of doing business) and *shonindo* (the way of the merchant), and Japanese firms pay a lot of attention to the environment and to relations with local communities. The lead on CSR could even shift from the rich world to the big emerging markets, each with its own traditions and priorities.

For global companies this means that a one-size-fits-all approach to corporate responsibility may not work. What is right for Europe may not be appropriate for India. Such differences in priorities (see table 7) are bound to grow in importance as the BRIC countries—Brazil, Russia, India and China—and other emerging markets gain in economic clout and confidence.

**The things that matter** 7

*Which issues will be the most important in the next five years? Select three:*

Global rank	Issue	United States	Britain	Germany	China	Brazil
1	The environment	2	1	2	2	1
2	Safer products	5	4	6	3	2
3	Retirement benefits	4	2	1	4	7
4	Health-care benefits	1	5	8	1	8
5	Affordable products	6	3	3	5	3
6	Human-rights standards	8	8	9	9	4
7	Workplace conditions	9	10	4	7	6
8	Job losses from outsourcing	3	6	5	13	13
9	Privacy and data security	7	7	7	6	10
10	Ethically produced products	10	9	10	8	9
11	Investment in developing countries	16	11	14	12	5
12	Ethical advertising and marketing	12	12	16	11	11
13	Political influence of companies	11	14	12	14	14
14	Executive pay	15	16	11	10	15
15	Other	13	13	15	16	12
16	Opposition to freer trade	14	15	13	15	16

Source: McKinsey survey, September 2007

Among the BRICs, Russian companies seem the least interested in the idea of corporate citizenship, but Brazil has a lively CSR scene. Some 1,300 companies are members of Instituto Ethos, a network of businesses committed to social responsibility. "We are developing a unique process in Brazil," says Ethos's founder, Oded Grajew. Ethos tries to influence public policy and corporate behaviour "to establish a socially responsible market". A few Brazilian firms—such as Natura, a cosmetics company, and Aracruz, a pulp and paper producer—are widely known for their CSR efforts.

India has a long tradition of paternalistic philanthropy. Big family-owned firms such as Tata are particularly active in providing basic services, such as schools and health care, for local communities. For the rich, who have prospered as the economy has boomed in recent years, generous philanthropy is also a way of heading off a backlash against business. A broader culture of ensuring decent working conditions has been slow to spread.

## One BRIC at a time

China has become the new frontier for the CSR industry. Ms Cleverdon says Chinese visitors are piling into her organisation's London offices. Aron Cramer, the CEO of Business for Social Responsibility, a San Francisco-based lobby group, points out that his outfit has increased its representation in China from two to ten people over the past 18 months. Call Mr Zadek on his mobile phone and he answers in Beijing, where he is talking to Chinese think-tanks about CSR and trade policy.

It is still early days. For Chinese companies that serve the home market, the relentless focus on growth leaves little room for worrying about the niceties of corporate citizenship. And the lack of political freedom means there is no network of NGOs to persuade them to do more. Yet pressure to take corporate responsibility more seriously is nevertheless growing.

From above, the government is starting to make noises about environmental responsibilities. From outside come the codes and inspections of foreign investors and global companies that want to apply their ethical standards across their supply chain. And from within, Chinese companies that want to go global themselves are starting to realise that they will have to pay attention to CSR as part of their effort to gain acceptability and build their brand. It was a shock for China National Offshore Oil Corporation to see its plans to buy Unocal, a Californian

oil firm, scuppered by American politicians; and, more recently, for PetroChina to find itself targeted by campaigners for disinvestment in Sudan.

The first signs of a fledgling corporate-responsibility industry are beginning to appear. A few Chinese companies have started to issue CSR reports ("beautiful books, not much inside," says a Chinese critic). In Shanghai in October 2007, 13 foreign and domestic companies launched the Chinese Federation for Corporate Social Responsibility. These are baby steps, but the Chinese are quick learners.

"I would bet that within five years they'll be deeply involved in the management of standards," predicts Mr Zadek. "Then they'll build their own, and they'll become exporters of standards." If so, China may in time begin to challenge Western ideas of CSR. Mr Cramer reckons that Chinese companies will want to redefine corporate responsibility in ways that suit their own priorities.

Competing models of CSR are already at work in Africa. Chinese investment is pouring in to secure access to raw materials needed for China's turbocharged economy. The Chinese may show little interest in the rights of workers or opening a dialogue with "stakeholders", but they build roads and other infrastructure. To some African leaders, this no-strings approach has its attractions. Western companies, under closer scrutiny from activists, have to be mindful of codes of behaviour and transparent reporting. Sometimes pressure from NGOs on Western companies has the perverse effect of forcing them out of countries such as Sudan in order to stop alleged complicity with government abuse—only to be replaced by Chinese or Indian companies that do not give a damn about human rights.

But NGOs can also be a conduit for corporate responsibility in emerging markets, working closely with business to reach what C.K. Prahalad of the University of Michigan's Ross School of Business calls "the bottom of the pyramid". There is a convergence of interests between NGOs trying to improve lives in poor communities and companies keen to reach consumers in markets with huge growth potential.

Many NGOs have moved beyond acting merely as watchdogs to co-operating with big companies on joint projects. And some, as Mr Prahalad and Jeb Brugmann, a sustainable-development specialist, noted last year in the *Harvard Business Review*, are setting up innovative joint businesses as an effective way of providing services and reaching consumers.

They point to examples such as BP's arrangements with NGOs to distribute stoves in rural India and ABN AMRO's collaboration on microfinance in Latin America with ACCION International, an NGO that is itself beginning to develop a multinational business. "CSR started as a way for companies to gather intelligence about NGOs and manage their reputations," they write. "It has wound up providing them with the tools they need to pursue business opportunities in untapped markets."

So will influence in CSR continue to trickle down from rich countries to poorer ones, or could it even be the other way round? Emerging countries might bridle at simply importing an agenda from the rich world, carrying echoes of colonialism. And as more investment flows to developed countries from Russia, China and the Middle East, this may colour attitudes in Western boardrooms too. How much will sovereign wealth funds care about corporate responsibility?

Amid so much uncertainty, multinational companies yearn for predictability and want to see

Illustration by Ian Whadcock



the global playing field levelled, as they are so fond of saying. Yet they do not want intrusive rules either. When NGOs supported binding global norms for firms' human-rights responsibilities, businesses objected and the effort collapsed. Instead, since 2005 John Ruggie, the UN secretary-general's special adviser on business and human rights, has been carrying out a painstaking consultation with all the parties concerned.

Mr Ruggie is due to make his final recommendations in June. He says he wants "effective outcomes, not feelgood outcomes." For governments, that may mean a reminder of their legal responsibility to protect human rights. For companies, it could mean further encouragement and greater accountability for the sort of "soft law"—such as voluntary codes and multi-stakeholder initiatives—that has helped to improve the behaviour of companies running into trouble for various abuses.

## **A forest of figleaves**

Companies can select from an extensive menu of standards and guidelines to remain up to scratch, on human rights and much else. There are guidelines from the ILO and the OECD, as well as standards such as ISO 14001 (for the environment) and SA 8000 (for human rights). A very soft "guidance standard" on social responsibility, ISO 2600, is in the works.

A soft code that is proving popular is that of the UN's Global Compact. To sign up, companies need only commit themselves to ten broad principles—such as promoting environmental responsibility and working against corruption—and report on their progress once a year. Yet the compact is toothless. Critics say it just provides cover for companies from China and elsewhere which cheerfully sign up to it and then even more cheerfully ignore it.

But on one thing Georg Kell, the compact's perky executive director, is no softy. CSR is a child of openness, he says. Corporate responsibility in recent years has been driven by globalisation. If markets stay open, it will continue to spread. But openness should not be taken for granted: "The day markets close, CSR is over."

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## SPECIAL REPORTS

### Do it right

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#### Corporate responsibility is largely a matter of enlightened self-interest

THE CSR industry, as we have seen, is in rude health. Company after company has been shaken into adopting a CSR policy: it is almost unthinkable today for a big global corporation to be without one. Climate change has added further impetus. Investors are taking an ever greater interest. New and surprising sorts of co-operation are springing up: with NGOs, with competitors, with other companies. The message is moving across supply chains and spreading around the world.

What has helped to make all this possible is globalisation—which has also been responsible for much of the general wealth-creation through which companies, let it not be forgotten, make their main contribution to society. A sudden bout of protectionism, which is by no means out of the question, could put it at risk. So activists who press for various forms of protection should be careful what they wish for. An economic recession would also be bad news for the CSR industry, parts of which might be seen as a luxury companies could live without.

But assuming that corporate goodness continues to flourish, how will things evolve? The next wave, some believe, will be one of disruptive innovation, featuring a new breed of "social entrepreneur" that will take over from the established big companies as the driving force. Mr Benioff of [salesforce.com](http://salesforce.com) reckons that social entrepreneurs have "cracked the code" of the next generation of corporate responsibility: it will be for-profit and self-sustaining. Mr Benioff himself plucked philanthropy into his company right from the start by committing 1% of equity, profits and employees' time as a contribution to the community.

The extraordinary wealth-creation of recent years has produced a large number of extremely rich people, many of them from the software and finance industries, who are interested in a new kind of philanthropy: a smart, capitalist kind. It involves using money for maximum impact by investing in potentially disruptive technologies (in the environmental field, for example) and in social enterprises that can be scaled up as required.

This kind of enterprise has several advantages over established big business. It has focus, rather than being a sideline, as CSR often is for large companies. It involves people who are using their own

Illustration by Ian Whadcock



money and are interested in measurable results: "real good" not "feelgood". It brings financial rigour as well as an appetite for risk, and it can teach the big companies a thing or two about how to measure the success of social investments.

The sums involved are not trivial. That is partly thanks to Bill Gates, who in June will leave his full-time job at Microsoft to work at his fabulously rich charitable foundation. This will aim to be giving away \$3 billion a year by 2009, more than any other foundation anywhere. Money also pours in through innovative charities such as Absolute Return for Kids in London, which invests donors' money with entrepreneurs on the ground in developing countries.

The entrepreneurial model of tackling social and environmental problems is likely to stir up the CSR world. It may over time produce transformative technologies and creative new business models. But for now it is still big businesses that can make a difference. Large companies will find ways of working with—and sometimes absorbing—successful social ventures. In the next few years CSR will be mainly about "how large corporations steer a sustainable growth strategy in a very complex environment", as Jane Nelson of Harvard University puts it.

## **Few leaders, many laggards**

This report has looked at some of the companies that are doing interesting things, both to manage their risks and to exploit opportunities. But such examples are relatively scarce: the same few familiar names pop up again and again. Like most industries, the corporate-responsibility business has a handful of leaders, a large number of followers and many laggards.

You can recognise the leaders partly from the way they are grappling with particularly tricky issues, such as how to apply codes of practice across global supply chains or how best to convey accurate environmental information on product labels. The leaders typically have a committed CEO who champions the policy, a chief officer for corporate responsibility—or sustainability or whatever—who reports to the boss, and a cross-functional board committee to ensure that strategy is co-ordinated throughout the company. Non-financial measures of progress often play an important part in the overall assessment of the company's performance. These are companies, in short, that are seeking to "embed" CSR in the business.

Not every company can be a leader, nor should they all want to be. Being a high-profile early enthusiast carries the risk of overpromising. First-mover advantage soon passes. After a while, for example, everybody turns green, and the winners are the companies with the best execution. One large consultancy advises its big clients to be number two or three on corporate responsibility rather than number one. Thoughtful firms may pick and choose across the spectrum of CSR activities where to be ahead and where merely to comply with the rules.

The followers in the CSR industry are many. By now they probably produce a glossy report which lists numerous worthy activities—too many, in fact, when it would be better to concentrate on those that really work and benefit the business. The companies concerned may have little idea whether their carbon-offset scheme is effective or their ethical-purchasing plan costs jobs. Their real motive is public relations, and the telltale sign is that the person responsible for CSR sits in the corporate-communications department.

And the laggards? There are two types. Companies in the first group have simply failed to pay much attention to CSR; they risk being attacked as "late adopters". Those in the second group, more cynically, think they can afford to ignore CSR, at least for now. Perhaps they are in an industry with a low profile, or operate in countries where scrutiny is minimal. They do not mind being viewed as freeloaders by competitors who spend time and money on trying to be good corporate citizens. Over time, though, this could also be risky if they find themselves subject to greater scrutiny or miss out on opportunities.

## Doing what comes naturally

One way of looking at CSR is that it is part of what businesses need to do to keep up with (or, if possible, stay slightly ahead of) society's fast-changing expectations. It is an aspect of taking care of a company's reputation, managing its risks and gaining a competitive edge. This is what good managers ought to do anyway. Doing it well may simply involve a clearer focus and greater effort than in the past, because information now spreads much more quickly and companies feel the heat.

So paying attention to CSR can amount to enlightened self-interest, something that over time will help to sustain profits for shareholders. The truly responsible business never loses sight of the commercial imperative. It is, after all, by staying in business and providing products and services people want that firms do most good. If ignoring CSR is risky, ignoring what makes business sense is a certain route to failure.

It is the interaction between a company's principles and its commercial competence that shapes the kind of business it will be. A company that is weak on both values and commercial competence is simply a bad business. One that has strong values but is badly run, without proper attention to translating values into profits, will plainly not do well. In contrast, a company that is highly competent commercially but does not bother with corporate responsibility may work just fine, but it could also prove increasingly risky. Lastly, a combination of a strong commitment to CSR and strong commercial competence gives a good chance of success.

If it is nothing more than good business practice, is there any point in singling out corporate social responsibility as something distinctive? Strangely, perhaps there is, at least for now. If it helps businesses look outwards more than they otherwise would and to think imaginatively about the risks and opportunities they face, it is probably worth doing. This is why some financial analysts think that looking at the quality of a company's CSR policy may be a useful pointer to the quality of its management more generally.

True, much of what is done in the name of CSR is nothing of the sort. It often amounts to little more than the PR department sending its own messages to the outside world. Yet in a growing number of companies CSR goes deeper than that and comes closer to being "embedded" in the business, influencing decisions on everything from sourcing to strategy. These may also be the places where talented people will most want to work.

The more this happens, ironically, the more the days of CSR may start to seem numbered. In time it will simply be the way business is done in the 21st century. "My job is to design myself out of a job," says one company's head of corporate responsibility.

For the moment, though, chief sustainability officers and their ilk remain in high demand. No doubt there will also be growing opportunities for ones that speak Mandarin or Hindi as the fashion for corporate social responsibility spreads around the world. And it will be quite a while yet before they all become redundant.

Illustration by Ian Whadcock



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