



CORPORATE SOCIAL RESPONSIBILITY: A COMPETITIVE ADVANTAGE FOR BUSINESS

This edition of the FAL Bulletin is about Corporate Social Responsibility (CSR), as a new approach to business that offers competitive advantage for companies in the transport and logistics sector. Silvia Scopelliti, international CSR expert, is the author. For more information, please contact: Trans@ECLAC.org

1. CSR: A DEFINITION

With the Anglo-Saxon environment having led the discussion on corporate social responsibility and having developed tools to explain it, CSR has now become an established concept in its own right. The idea that the common good results from contributions at all levels is widely accepted.

The CSR definition set forth in the European Union green paper of 2001, entitled "Promoting a European framework for corporate social responsibility," is the one most commonly used in recent years. The key points of the definition include the following:

- CSR and its integration into business practice is voluntary.
- CSR, therefore, is not a question of compliance with laws or legislation.

In the knowledge economy, human capital and intangible assets have become crucial. They require negotiating, listening and balancing opposite interests under common objectives, which are the essence of corporate responsibility.

The need for profit is not questioned anymore: companies need to make a profit in order to exist. What is new in CSR is a focus on how companies make that profit. What the 2001 definition

has shown, over time, is something that was not clear at first: the importance of integrating CSR into the business. This has led to products, services and awareness that were previously not possible.

The modern CSR agenda can be best traced back to the early 1990s, when globalization began to slowly re-take its partial former hold after the dramatic collapse of the soviet empire. Since those heady days notions of what it means to be a responsible business have been evolving quickly.

By 2008 CSR had evolved from basic business environmental management and employment conditions into something both much broader and deeper, at least for the world's largest companies. Business sourcing, risk management and expansion plans now mean companies are beginning to think harder about where all their supplies come from, how they are made, and what impact both the supply and use of them might have on society.

CSR is now complex business. The CSR agenda is now increasingly about what companies do every day, rather than after working hours.

2. STAKEHOLDERS: WHO THEY ARE

Business ethics - the idea that business requires principles- is not new to economic theory; in 1984, Robert Edward Freeman elaborated the concept of responsibility in business. He offered economic theory a new framework where responsibility is measured against the expectations of all those who hold a stake in the company's activities. Everyone who is affected by the company, or who affects it, holds a stake and must be taken into account. This assumption is a break from the traditional view: it holds that companies need more than just capital to survive. They need to establish and maintain positive relationships with all their stakeholders—and what is new is that companies can no longer decide whom to deal with.

The reason why employees, for example, are important in companies reputation is that they invest their time, passion, enthusiasm, devotion and loyalty in the company. In most cases, they spend their entire life with it. And their opinions contribute up to 60% to company's reputation.

Employees are what we call primary stakeholders, since they are crucial to the survival of the company (such as shareholders, who invest their capital, employees, or the State giving its guarantee of legitimacy). All other stakeholders are nonetheless just as important. In this new perspective, what counts is the awareness that maintaining positive relationships with all stakeholders can increase the value generated by the company.

Each relationship involves tradeoffs, which means that it is impossible to keep all stakeholders 100% satisfied and have the company meet all its objectives. The goal of CSR is to find the best feasible balance between the legitimate expectations of stakeholders and the company's profit agenda.

3. ...AND WHAT THEY EXPECT

The need for companies to interact with their external environment is not new. Companies are 'social' by definition and they have always had to open dialogues and maintain relationships with their environment in order to survive. What has changed in recent years is how complex and intricate these environments have become. Companies today, regardless of where they are based, have to interact with their stakeholders. Those stakeholders, since they invest capital, resources, time, trust, etc. in the company, expect to be satisfied. Following are the main categories of primary stakeholders that every private company has:

- Employees require healthy and safe working conditions; they require decent wages and respect for their rights; they ask for equality and that their complaints and requests be heard.
- Shareholders expect a return on the money they have invested, with minimal exposure to risks that affect their investments.
- Customers pay for products and services. They expect quality (especially in such industries as food, automobiles, information technology, etc.). They also expect reliability (especially in communications services), trust, transparency and respect for human rights.
- State and governmental institutions essentially require transparency and compliance with the law.

If a company is pictured as being at the centre of a network, then the more the circle is widened, the more stakeholders it includes. The stake they hold may not be primary, but they nonetheless can affect (or be affected by) the company's activities.

The community itself is a wide and diverse stakeholder that is represented by multiple associations, each taking charge of representing one interest or another. They expect job creation in return for legitimacy (i.e., giving the company permission to work in the area) and contributions to local progress, in various forms (typically, charity, philanthropy, education, etc.).

In recent decades, the influence of associations that advocate for the protection of human and basic rights has grown radically. These non-governmental organizations (NGOs) expect transparency, accountability (that institutions will give an account of the effects of their actions and decisions) and respect for the environment.

The environment is a unique case: while each of the above stakeholders can stand and be heard because it has a voice, who can speak on behalf of the environment? Associations at all levels, from civil society to local communities and NGOs, as well as individuals, can be considered to be environmental stakeholders. What they all require is accountability and protection of the environment.

Companies decide to become socially responsible, by implementing voluntary actions that go beyond what they already do in terms of compliance with the law, because of how the world has changed over the last 20 years. Three forces have completely changed the way companies run their activities:

- Liberalization of capital. With the liberalization of the market, capital can now invest wherever there is a higher return due to lower local costs or taxes. As is well known, this has created gaps in terms of equality of access to higher standards of living. In consequence, the need to compensate for the side effects of globalization is at the top of the agenda of the United Nations; see, for example, the Millennium Development Goals.
- Environmental awareness. Associations like Greenpeace, with their campaigns in the last few decades, have increased awareness of the need to protect the environment from the effects of human activities. Little by little, the world has developed an environmental awareness and thousands of associations work actively today, regularly engaging other actors from various sectors (business, local communities and governments) to defend the environment and improve environmental education.
- The Internet. This is the last, and most powerful: the Internet has provided the fuel for the above two forces to reach their full potential. Everything that happens anywhere in the world affects virtually everyone, thanks to the Internet. Individuals and companies must act as if they were in a fishbowl, as news of their actions can be circulated all over the world in seconds.

This does not mean that total liberalization of access to information has been achieved yet, but the consequence is that anything the media, customers, competitors, etc. think or say can potentially affect companies, and what has taken years to build can be destroyed overnight.

Companies have found themselves exposed to the combination of these three forces in recent decades. They have realized, through campaigns and by experiencing the power of word-of-mouth and of the Internet, that achieving profit without consensus is no longer possible. Companies need to be accepted; they need legitimacy.

4. FINANCIAL MARKETS REWARD CORPORATE RESPONSIBILITY

In a few years time, through experiencing scandals and other incidents, companies—with multinationals leading the way—have learnt that taking external concerns into account is not only good for a company's image, but is also profitable.

Listening to stakeholders' expectations in fact implies an ongoing negotiation, which helps companies prevent crises that could affect their operations. External requests, when not satisfied or managed, are potential crises; hence they are risks for those who have invested capital in the company. Everyday practice proves that the lower the risks, the higher the value.

In 2000, Dow Jones Indexes, at the New York Stock Exchange (NYSE), announced the first global Sustainability Indexes, to track the companies with the best performance in terms of sustainability by region, sector and industry. Soon, the Financial Times Stock Exchange followed. Today, the two indexes track investments of trillions of dollars.

To be listed, companies must meet criteria showing that they take social and environmental issues into account over the long term; companies strongly compete on this. Transparency and accountability in corporate governance are among the main cross-items requested.

Required criteria include the type of products developed, attention to social issues, working against corruption, improving energy efficiency and reducing impacts on the external environment, as well as respect for human rights and labour standards. Companies that invest in products such as tobacco, arms, or nuclear weapons are not taken into consideration for the final assessment.

Financial markets—investors, sectors, opinion leaders and the media—reward socially responsible companies. From 1999 to 2005, socially responsible investing funds increased their investment in the United States by 11% and in Europe by 41%, to a total of US\$ 201 billion and € 35 billion, respectively.

Regardless of market sector, analysts and regulators now acknowledge that responsible business is profitable in the long term. Listed companies increase their market value up to 40% (NYSE 2004). The difference between market valuation and balance sheet value comes from the company's enhanced reputation and perceived value, since the market expects that socially responsible companies will enjoy continued growth in the long term, thanks to the way they manage external concerns.

What is described above can be also seen on another level. Customers and civil society, generally speaking, have become more aware. The consequence is that they reward or punish companies that are seen as responsible (or not). Health and food on the one hand, and the local environment on the other, are the two main issues people engage on. The backyard dimension makes the difference: that means, for example, that people care more and more about what their health and the community in which they live rather than feeling themselves engaged by far and global issues.

5. CSR PROVIDES A NEW BUSINESS MODEL

The above factors have totally changed the environment in which companies carry out their activities. Financial scandals, environmental incidents and climate change effects have produced an increased expectation that companies will be more transparent.

Civil society, investors and the media pay increasing attention to whether companies really deliver what they claim. This has forced companies to progressively change the way they work. Although regulations and standards vary, depending on where each company is located, these changes affect every sector at every level in the world.

The way companies engage their stakeholders is now completely different from what it was as little as ten years ago. Today companies are expected (and, more and more often, required) to provide information about the long-term effects that their activities have on the environment and to distribute this information as widely as possible among all their stakeholders.

They are expected to use the Internet in order to demonstrate reliability and transparency; the Internet has become the medium through which companies speak, both because it shows reliability and because it allows two-way communication.

When companies have refused to answer specific requests for information relating to some delicate aspect of their operation—such as health and safety procedures for their employees, external certification, negotiations with trade unions, etc.—they have experienced the

cost of their silence in terms of damage to their external image.

The key word for companies has become dialogue. Dialogue prevents crises in the media or in employee relations (such as a strike, for example) and helps companies take advantage of all their involvement and support for communities at the local level. Companies have found that being responsible and transparent leads to a competitive advantage in the market.

Ten years ago the situation was totally different. For example, employee requests for better work conditions could be neglected because there were no external controls or independent sources of information. Health standards were lower, as was attention to the environment. Company communications were limited to the publishing of financial figures, and these were only published to their shareholders. Companies kept tight control over information, and open dialogue with civil society or community associations was inconceivable.

Associations have also learnt the transparency lesson: being transparent and reliable pays off. In turn, transparency and reliability help them to better promote initiatives to their associates.

Corporate responsibility, within a wider social and environmental context, has become a new business model. Along with it, a voluntary standard has been developed for delivering consistent information and progressively raising the bar for companies' compliance. The Global Reporting Initiative (GRI) is the most widely adopted standard that companies use for reporting non-financial information—i.e., communications which are not already compulsory by law. It has become a sort of seal, certifying consistency in the achievement of sustainable development.

The standards are undergoing continual development and improvement, with specific chapters for reporting critical information from each sector. In finance and banking, for example, the main issues are transparency, corporate governance, anti-corruption initiatives and equal opportunity provisions; in the transportation and infrastructure sector the main issues are social impacts, direct impacts (such as waste and pollution) and environmental impacts. The hottest topics overall are certification, labour standards (essentially health and safety standards) and respect for human rights.

Several interesting points are worth mentioning here:

- The United Nations—as well as various governments and institutions (e.g., the European Union)—has joined the process of further improving the GRI and supporting its adoption by a large number of companies throughout the world.
- Several international NGOs today are part of this process: as external independent actors, they assess the real situation and performance of companies.
- There are many regional fora trying to develop specific standards that match the diversity of small to medium-sized enterprises, whose performance cannot be adequately described by the GRI.
- Investors and the media have become familiar with terms used in the GRI and the issues it tries to map, and have become, almost as a sort of watchdog, very attentive to companies.
- Companies have changed how they communicate on sensitive issues such as labour standards, protection of health and safety, respect for human rights and the environment.

6. WHY CSR IS SO IMPORTANT TO COMPANIES AND THEIR LONG-TERM LEGITIMACY

Companies have changed their approach, strengthening their links with communities at all levels (local, regional and international) in order to understand their interests and satisfy their needs. This is a radical change of perspective: although the profit agenda is not questioned, there is a new need to balance profit objectives with the agendas of those who may be impacted by it (or who may impact it).

It is also worth noting that such attention is not actually that new: companies have traditionally played an important role in the development of their local communities by supporting education, social assistance, charity programs, cultural investments and through donations. What, then, is new? What makes CSR so relevant?

Companies have learnt that engaging with stakeholders—beyond the immediate benefit of preventing complaints and damage to their reputation, through ongoing dialogue—provides an opportunity to improve their business model.

This is because implementing coherent behaviour requires the development of an effective and well-tuned internal system of controls and procedures. Implementing two-way communications requires an increase in shared internal information and accurate planning, in order, for example, to improve products and services in response to customer complaints. That, in turn, increases efficiency and leads to innovation by developing new products that respond to customers or to the needs of other stakeholders.

Companies that adopt such a business model, with its assumption of wider and more participatory governance, have improved their long-term performance and increased the value they generate. Socially and environmentally responsible companies succeed in improving the way they control and manage potential external risks to their reputation, by turning them into business opportunities.

Although CSR was initially seen as a driver for strengthening a company's image through PR, charity programs, etc., today it is recognized as a source of leverage for improving long-term value. Beyond increasing legitimacy, CSR is profitable: it attracts investors, provides competitive advantage, improves efficiency and supports innovation and business development—and, of course, as a result of all that, it also improves a company's reputation.

A company's reputation is the same as that of an individual: it derives from the image that others form, through dealing with that individual. That image comes from a person's behaviour over time.

Companies have learnt that CSR requires commitment—beyond that required by legislation—to keep their attention tuned to the expectations of the external environment. This decreases their litigation and conflict costs. Strikes and lawsuits, due to lack of respect for labour standards or for the law, often result in fines or damage to the company's image in the media.

The worst scenario occurs when civil associations take charge of individual cases where human or basic rights (rights to assistance, respect, decent wages and freedom from discrimination based on race) are neglected. The same

is true in cases related to the environment: failing to comply with legislation often leads to increased financial and operational costs. This extends to supply chains as well: companies now require certification from their suppliers, so they can be sure they are not taking indirect risks through outsourced production.

All the above is still voluntary. Companies have realized that CSR is an opportunity that can turn into a competitive advantage: it increases value by improving internal business models and reducing the cost of managing risk. Countries, also, have begun to adopt some specific provisions—related to labour rights and to the environment (e.g., waste and efficiency)—into legislation, in order to increase accountability and to enhance their national reputation in the international arena.

7. CSR IN THE MODERN LANDSCAPE

For many businesses, complying with national laws and perhaps adding some basic philanthropic activity on top is often the norm. The CSR leaders are a mix of the highest profile international companies and some smaller, values driven innovators located all over the world.

Companies such as Patagonia, Ecover, the Body Shop, Natura and Grupo Nueva are among the group of smaller firms who have led the way on CSR. Among the larger firms the list of leaders might include Nike, Novo Nordisk, Heineken, Unilever, HP, BP, Danone, BT and Marks & Spencer. Businesses such as these have undoubtedly had a major influence on the CSR movement.

The influence on CSR of European and US civil society and the media should not be underestimated. Their raising of the bar in terms of expectations on companies has been probably the largest factor in the recent development of CSR. Historically companies have been largely on the defensive over social and environmental issues. It is only recently that a small handful of companies have begun to regard CSR as a chance to win back genuine trust from customers, rather than fend off critics.

Outside the EU, the global corporate social responsibility picture is a mixed one. China says it will raise both its wages and its labour standards. But in China, as in many other nations with laws not far away from many EU benchmarks, law is one thing; real enforcement of them is another. Still, across the world companies with export markets are beginning to grasp that CSR is important to their future. Brazil has always led the way in Latin America, and in India the Tata conglomerate's reputation is becoming increasingly important as it expands. In the United States and Canada environmental concerns are driving innovation in companies such DuPont and Pepsi. Some US companies are better connected to their communities than their UK counterparts, and remain the quickest innovators and leanest managers in the Western world.

CSR by all means have proved to represent a powerful driver for improving local environments, becoming a common ground where the governments, profit companies and communities widely defined, could meet. Companies have alternatively played the leading or the chased role, in this story. There is still a long way to go for the lesson to be spreaded across diverse environments.

No doubt it is up to companies to understand which part to stand: whether be part of the problem or become part of the solution.