

Corporate Social Responsibility: Business Future or Future Business?

“You are responsible for the rose you tamed.”
(Antoine DE SAINT-EXUPÉRY)

World leaders are under increasing public pressure to alleviate endemic hunger and rural poverty in the world; the trust in capitalism and multinational companies has hit a low. Corporations have to react. “Businesses are not asking why anymore; they are asking how,” says Mads OVLISEN, the present CEO of Novo Nordisk and Chair of the Copenhagen Centre. Corporate Social Responsibility (CSR) practices offer an answer to this question. But it is not easy to turn the CSR concept into a daily business reality, since integrating CSR in a company is an issue of organisational change.

Taming the Rose

Each individual has responsibilities in different fields of life. We feel responsible for things we can influence in some way. Today a very heavily discussed topic is Corporate Social Responsibility. This seems easy to define: it is the responsibility of the corporations, businesses, multinational companies. We feel ourselves far away from it. However, what we often forget is that a corporation does not act by itself, but it is based on the opinions and behaviour of individuals.

According to Antoine DE SAINT-EXUPÉRY, “to be a human being means exactly to be responsible”. In the second half of the twentieth century it became clear that a person is not only a rational human being who can exploit the resources of nature, but she or he became such a mighty force that she or he could endanger not only herself or himself, but her or his whole community. Immanuel KANT says, we should act in such a way that we could wish the motivation, the principle behind our acts to become common law.

There is no clear-cut recipe for companies to succeed in socially responsible decisions. As each company is unique, each company has to find its own way. CSR will only make a visible difference if it is fully integrated into corporate principles and if the process is continuously monitored. Additionally “the societal benefits of CSR practices will remain limited unless they can be integrated into broader strategies, and public policies certainly have a role to play in this respect,” says Pascal LAMY, the present European Commissioner for Trade. The aim is to develop a new agenda for business which respects staff, shareholders, society and environment.

Defining Corporate Social Responsibility

What does CSR exactly mean? Corporate Social Responsibility means business practices that are “based on ethical values and respect for employees, communities and the environment. It is designed to deliver sustainable value to society at large, as well as to shareholders.” This subject is as broad as it is complex. Responsible business practice is a very dynamic and a very pressing topic which corporate leaders face today. It is becoming more and more important to balance the economic, social and environmental components and to increase shareholder value additionally.

There are many Corporate Responsibility Clusters, which refer to the way in which companies compete, collaborate and respond to responsibility demands. Three different clusters are identified: *confrontational*, *multi-sectoral* and *statutorial*. *Confrontational* responsibility is achieved by the campaigns of non-governmental organisations (for example, against Shell and BP in the late 1990^s) where because of the external pressure, new business policies are adopted in the company.

Multi-sectoral initiatives are characterised by the efforts of governments and public agencies to enable and support private voluntary agreements which satisfy social and environmental aspects and promote them in different sectors and in different parts of the world. The *statutory* dimensions include regulatory developments and all incentives associated with social responsibility (such as export credit guarantee and public procurement).

Inequalities in the World

However good and relevant it may be to talk generally about CSR, it is more important to learn how it affects us and what our role is in this question. We are always happy if we can buy a product at a lower price. But what does it cost for others? How far does our responsibility reach?

According to Oxfam International, nearly twenty-five million coffee farmers in Latin America, Asia and Africa have seen prices fall by seventy percent in the last five years. Coffee farmers sell their beans under the production costs which means that free trade has failed. Justice has failed. There are many other data supporting this fact: 1.2 billion people world-wide live on less than one US dollar a day, and 2.8 billion on less than two US dollars a day (*Human Development Report 2001*). Inequalities in trade strengthen these inequalities: for every US dollar generated through exports in the international trading system, low income countries account for only three cents.

The rapid globalisation of trade has a huge impact on people and environment. A big concern is that as a result of globalisation inequalities between the rich and the poor are widening both between and within countries. European Trade Commissioner Pascal LAMY summarised the problems related to the globalisation process in the following way - Firstly finance and trade liberalisation is happening so fast that there is not enough time to elaborate on an international regulatory framework for these changes; secondly there are big differences between the economic and social regulations between the industrialised and developing countries, and thirdly there is a big imbalance between the well-developed economic pillars of global governance (the International Monetary Fund, the World Bank and the World Trade Organisation) and the social and environmental pillars of this system.

But voluntary social and environmental efforts (going beyond the companies' legal obligations) could mitigate these drawbacks. Corporations can make contributions to poverty alleviation (first of all in developing countries) by providing access to capital (Foreign Direct Investment, FDI), technologies and markets as well as through the improvement of quality, employment practices and working conditions, and through knowledge and technology transfer.



Fair Trade

The idea of Fair Trade is one of the efforts to do something against the imbalances resulting from globalisation. Fair Trade certification was developed in the Netherlands in the late 1980s with the aim to guarantee fair wages to producers of coffee, chocolate, bananas and some other commodities, which are widely used in the developed world, by buying directly from the farmers (bypassing intermediaries who took the main share of the profit) and paying them a higher price. More than fifty developing countries depend heavily on primary commodities, usually two or three of them account for the half of their exports. By means of this 'fair trade' farmers are given a fair chance to compete on the market, even if they depend on the one or two goods they produce.

There are many social and environmental criteria which have to be fulfilled to receive the fair trade certification for a product. International sales in 2002 for Fair Trade products amounted to four hundred million US dollars, being sold in more than 50.000 supermarkets and 70.000 other stores and cafes. This shows that there is a big demand for high quality products that respect producers, their communities and the environment and this affirms the willingness of people to pay for such products.

Financial Sector

In the financial sector Ecobanks and Environmental Banks are new phenomena where investors' money goes to countries in the developing world, or to finance projects which take measurements to protect the environment. For the "double dividend" (benefit for the poor and the environment and for the investor at the same time) most of the people are willing to take more risk into account. According to a questionnaire, some of them would not regret losing their investment if they knew that their money was used to reach the defined goals.

One example is the GSL Gemeinschaftsbank which offers a "green account". This means that by using the investors' money they provide credits for different projects in fields such as bio-agriculture or improved efficiency in the use of energy and natural resources. In Europe social and the ethical funds have grown by 58% in only eighteen months over the period of January 2000 to July 2001 (CSR Europe, *Avanzi Study 2001*).

On the international level corporations should try to follow the existing CSR guidelines such as the "Code of Conduct for Multinational Enterprises" or the United Nation's *Global Compact*. It is not easy to adopt guidelines which were created on a very theoretical level, but corporations should try to find the best combination of contracts, agreements and business decisions from which everybody can make some kind of financial or moral profit.

Morality and Reputation

Let us examine the national level now, our country, and look at the companies we are in a daily contact with. Why should companies care about their social and environmental responsibilities? They have both financial and moral reasons. The moral ones tend to be clear but what about the financial ones? We must hope that responsible business decisions toward society and environment can make a business more competitive, resistant and well-performing and that they can keep both consumers and good employees more easily. Additionally, as socially responsible investment is growing, a socially responsible company may be more attractive to investors, banks and insurers.

Moreover, one of the most valuable assets of a company can be improved: its reputation. Consumers' trust can be won. 94% of company executives believe the development of a Corporate Social Responsibility Strategy can deliver real business benefits (*Ernst & Young Survey 2002*). More than a hundred empirical studies published between 1972 and 2000 showed that in 68% of the cases there is a positive relationship between the social and financial performance of a corporation (*London Business School 2001*).

This is the point where many of us might think that all of this is just some kind of manipulation, a new and very effective business strategy. It is a strategy. The question is, however, whether it is just a marketing strategy or whether there is a real conviction or at least practice behind the strategy. There is a way how to find it out, but at times it might not be easy to follow. We have to take a look at the annual report a company is obliged to publish. Nowadays we can usually do it even via the internet which makes the procedure much easier.

We have to turn our attention also to the role of employees. How can an average person influence the social performance of the company she or he works for? According to a Cherson Group study in 2001, 78% of employees would rather work for an ethical and reputable company than receive a higher salary. CSR can have a big effect on attracting, motivating, winning and retaining good employees. Remuneration is not the only motivation for employees. People want to feel proud of the company they work for.

Values as Motivation

Motivation is often based on values rather than cash. In the case of multinational companies, however, it is not easy (not even for employees) to find out where the money comes from and where it is going (of course there are ways of inspection, e.g. records). Yet surely if an employee works for a company, she or he must feel in the atmosphere, what is going on and how decisions are made. Ethics has to come from the top, from the management.

If an employee feels that the company is not working on creating a fair and sustainable environment, she or he should quit. That would be the ideal situation. People leave the companies that are socially and environmentally irresponsible and they then go slowly bankrupt. Unfortunately this scenario is not very realistic. At a time when most European countries are struggling with high unemployment rates, people are happy to have a job and are afraid of being fired. But we can do our best in the company and take at least those decisions seriously that are up to us.

Sometimes it might seem illusionary that CSR as part of the business strategy would bring financial advantages. Let me briefly mention potential advantages of CSR. Practising CSR can result in a higher efficiency in operations (and a reduction of operating costs), for instance in the use of energy and natural resources, by reduction of waste, by selling recycling materials or simply by reducing labour turnover costs (because of the employees who feel proud of their company and do not quit). A good example is Dow Chemical Co. which invested \$3.1 million to reduce the production of twenty-six toxic chemicals and is now saving \$5.4 million a year.

The Consumer Decides

But who are the most important players in the business? All of us – the consumers. Some companies seem to be really unchangeable, but there is one thing that motivates them to change quickly: the market. And a huge share of the market belongs to the consumers. Our job is to influence trade by responding to the companies in the way we buy, work and invest on a daily basis.

70% of European consumers say that a company's commitment to social responsibility is important when buying a product or service

(CSR Europe, *MORI 2000*). One out of six shoppers says that they frequently boycott products because of the bad reputation of a company. These figures show that consumers do not only want good and reliable products, but they want to know that what they buy is produced in a socially and environmentally responsible way. This is very optimistic and it is clear that many consumers try to act in a responsible way; the question is, however, what their decision actually costs.

Fair Trade products, for instance, have at least by 50% higher prices than similar products in the market. What people buy depends heavily on the wealth of the society and of the individuals. In Western European countries people tend to be willing to pay more for products which respect people and environment and this idea is getting more and more influential, while in poorer regions most of the consumers just try to find the best quality-price combination. Thus this matter in practice concerns not only one's idea of moral credibility but also one's purse.

Framework and Strategy

Corporate Social Responsibility can only make a visible difference if it is fully integrated into the business strategy, principles and practices and if progress is monitored over time. Supplying information to the employees, consumers and other parties through internal and external reporting plays a significant role in this process and the involvement of these parties can improve credibility. Third parties that are interested and involved in the implementation of CSR practices are mostly the government and the non-governmental organisations.

Governments have to create the legislative and economic policy frameworks for CSR. Increasing globalisation (which makes us responsible for almost the whole world), however, makes it more difficult for governments to drive healthy competition into the market and drive out those forms of competition that have damaging social and environmental consequences. The government of one state cannot monitor all happenings of the international market. That is why it is important and necessary that international organisations also take over this job: "Let us choose to unite the powers of markets with the authority of universal principles." (ANNAN Kofi, UN Secretary General: *UN Global Compact*).

Non-Governmental Organisations

It was the non-governmental organisations (NGOs) that first tried to put pressure on businesses to adopt CSR practices. They used to have a confrontational role (e. g. organising campaigns). Now most of these organisations try to bring about positive societal change in a different way. They are emerging as vital ingredients in the market with having a huge advantage: they are more trusted than any other market factors and participants, which means that they have a bigger impact. Of course these advances go with new challenges.

If NGOs engage with business and governments to reform markets and search for solutions to different problems, they have to face growing financial, competitive and accountability pressures and react fast. They have to become more similar to their business partners in terms of funding and disclosure of information about effectiveness. Because of the growing competition, they have to establish themselves as good investment targets (they cannot always wait for money of people who feel guilty) and they need more commercial understanding to be able to work in partnership with businesses and government.

Open Future?

With things changing fast, we do not know what business will look like in ten or one hundred years. But we can influence it, since we have the chance to educate future leaders. Courses like “business ethics” or “social policy” are not new phenomena, but they are still too often found among optional classes. Facing increasing social and environmental challenges, companies will need more people familiar with CSR, an argument which will hopefully move educational institutions to integrate it more centrally, giving it an appropriate place. It seems crucial to learn at school the triple responsibility of business: economic, social and environmental. Additionally, CSR should become a research topic, too. By doing this we might regain trust in economy, economists and business as a science.

What Corporate Social Responsibility practices really want is to balance inequalities in the world. There remains the question ‘how’? It is difficult to find the right way to help, but it is a crucial issue. A vital

principle is “helping people help themselves”. This means that helping efforts should be able to concentrate on long-term solutions to the problems of the society. Education and information are conditions of socio-economic developments in a country. The HOPE project for instance focuses on supporting education of health care professionals on five continents in order to enable them to improve the health care system of their own country.

Besides the transfer of know-how, many other things can be shared in the field of environment, social affairs and cultural consciousness in a two-way direction. One should not forget that exporting knowledge and experience is not everything, import is needed too. Living in the *first world* we sometimes think that we should only ‘give’. But why don’t we look for things we could receive and learn from those who have a different experiential background? They might know better in certain cases. Who knows?

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