A GLOBAL OVERVIEW OF CORPORATE SOCIAL RESPONSIBILITY

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By Barry Gaberman[1]

INTRODUCTION

Corporate Social Responsibility is an emerging field which has garnered increased attention in recent years, a development which displays a changing mindset about the role and responsibilities of the for-profit sector. This paper looks at where Corporate Social Responsibility (CSR) is today, who is involved, how and why. As businesses turn their eye towards the many stakeholders involved in their activities, and the public discovers its role in keeping those with financial power accountable, a field has emerged around the definitions, methods and standards for the relationship between corporations and their environments. At this point, it is important to develop an initial map of this field to highlight the development that has taken place, the resources now at hand, and the challenges that remain to be confronted.

The first task is to place CSR in the broader context of philanthropy. There are many definitions of philanthropy, some linguistic in nature, some tracing back to the Greek Classics, some grounded in religious principles. The root of the word suggests a love for mankind; and the responsibility to share one's possessions with others has been a central component of all major religions for thousands of years. On the practical level, however, it may be most helpful to utilize a simple definition: "Philanthropy is the voluntary capture of private wealth for public purposes". While philanthropy primarily connotes the distribution of financial wealth, it importantly includes non-financial components such as gifts-in-kind, voluntary services and knowledge.

Philanthropy comes in two broad categories, individual - whether the sums are large or small - and organized philanthropy. Some forms of philanthropy may be either individual or organized, such as faith-based philanthropy, while other forms, such as

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giving circles, essentially form a hybrid between individual and organized giving. These forms of giving have existed for thousands of years and in all parts of the world. Philanthropy is not a modern invention, nor was it ever solely a western concept. It existed well before the founding of United States and long before Europe was broken down into a cluster of nation-states. But it is true that each society puts its mark on this work in progress called philanthropy.

While individual and organized forms of philanthropy are not new, there has been a particular explosion of models in the past 20 years in the field of organized philanthropy. Where once the independent grant-making foundation, endowed in perpetuity, was the hall-mark of modern organized philanthropy, today this space has given way to other models such as: Community Foundations, organized by either a commitment to place or as a community of interest that are being built all over the world at such a dizzying pace that to many it has all the markings of a global movement; Family Foundations, where the desires and interests of the donor are carefully guarded; Operating Foundations, either endowed or ‘pass-through’ organizations that run programs themselves rather than make grants; and Commercial Gift Funds that aggregate donor-advised funds with simpler rules and lower costs than Community Foundations and therefore have become fierce competitors to Community Foundations in some cases.

Recently, vehicles for social investing have emerged which try to apply business principles and/or venture capital practices to the world of philanthropy. All of these changes have affected the traditional form of the independent foundation, which has begun taking account of new ideas such as those that impose a ‘sunset’ provision on the life of the foundation or new donors that believe you should “give while you live” and let others do the same for their time. Both of those notions have undermined the traditional wisdom that foundations should guard their assets in perpetuity. Finally, there is Corporate Social Responsibility, a category of organized philanthropy to which we will now turn.

FORMS OF CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) has undergone significant changes in the past several decades. A perspective on how far the CSR concept has advanced is provided by two examples, one from 1970 and the other from 2002. In the earlier instance, Nobel Prize-winning conservative economist Milton Friedman wrote that 'corporate social responsibility, and the nonsense spoken in its name by influential and prestigious businessmen, does clearly harm the foundations of a free society.' Friedman asserted that the single-minded function of corporate managers is to serve the financial interest of the firms' owners. Thirty-two years later, the PricewaterhouseCoopers Sixth Annual Global CEO Survey of nearly 1000 chief executives from Europe, Asia and the Americas found a very different corporate environment. The survey noted that 71 percent of CEO's would sacrifice short-term profitability in exchange for long-term shareholder value when implementing a CSR program.

While Friedman's view has theoretical merit, and should not be dismissed lightly, that position is no longer widely shared by the global business leaders of the 21st century. Today's visionary business leaders advocate a concept of multiple obligations to a broad range of *stakeholders* in their enterprises—including not only stock owners but also such constituencies as employees, host communities, customers, government bodies, civil society groups, media, even future generations.

Let us pose a tentative definition of Corporate Social Responsibility. CSR consists of the voluntary activities of a company, often at the risk of short-term adverse effects on profitability, but with the expectation of enhanced long-term shareholder value. CSR is intended to produce benefit for society. Unlike in some forms of individual or institutional philanthropy, however, it can be argued that altruism is not the primary motivation. Ultimately, CSR is assumed to be 'good for business' and good for society.

CSR in practice has evolved through several phases in terms of understanding what constitutes 'true' social responsibility. Some would now argue that the set-aside of a fraction of profits for public purposes is in fact closer to traditional philanthropy but not

CSR. The following are a few ways in which corporations use a share of profits to engage in public good.

First, a corporation can set up an independent corporate foundation to receive annual shares of profit or, in some cases, choose to endow the foundation's work. In the United States, of the more than 70,000 foundations of all types, 1,000 are corporate. A number of corporate foundations are emerging in Egypt and around the Arab region. It has been noted that corporate foundations are often professionally managed and tend to have a more formed substantive agenda than independent foundations in general; they can also be more stable than other CSR forms mentioned below.

Second, and perhaps the most prevalent model of corporate social action is to conduct a corporate giving program where each year an agreed upon amount is channeled from the corporation to its social giving program. It is important to note that what is donated might consist of financial assets or it might consist of donations of equipment and supplies. Many prefer this model because it enhances the corporation's control over its giving, but it may also encompass a greater degree of volatility as managers and priorities shift.

A third model (which may be concurrent with the second) is to run a social giving program through the public affairs departments of the corporation. This is where one finds the technique of 'cause-related marketing' most often employed. A sportswear company might sponsor sporting events, or a soap company promote hygiene awareness. While cause-related marketing aligns the business purpose with the social purpose of a corporation, it tends to be the narrowest approach to CSR and suffers from a growing consumer cynicism about who benefits from the effort.

A fourth CSR approach is to put the philanthropic interests of the corporation's employees at the center of the giving program rather than those of the corporation's senior management. Employee matching gift programs are one such vehicle, where the employee makes the choice and the corporation matches the employee contribution - often two or three-fold. Loaning corporate executives to civil society organizations for a specified period of time is another form in this category. Increasingly in places like the United States, offering employees paid time-off to engage in voluntary civil society activities or provide pro-bono services is necessary to attract and retain the best talent.

A fifth way of engaging in CSR, and the one that is emerging as the currently most favored way of thinking about social responsibility, is to infuse the values of CSR into the everyday policies and behavior of the corporation itself. For example, a company might agree to voluntarily comply with the standards set up to proscribe forced or child labor. Otherwise attractive business opportunities might be avoided if they had long-term negative impacts for global warming or the local environment. In this understanding of CSR, a corporation could also consider social impacts through the decisions it makes regarding the placement of assets. It could decide to site its plant in a depressed area, using that plant as the cornerstone for revitalizing the area economically. To some, this is the ultimate form of CSR— the integration of business and social purpose. To others, these are purely good business decisions and not CSR at all.

As impressive as some of these 'evolved' CSR programs are, it needs to be acknowledged that there are daunting social, environmental and public welfare challenges in today's world that no company acting voluntarily can overcome. Meaningful reductions in greenhouse gases, corrupt business practices, human trafficking, or reliance on fossil fuel depend on the actions of national governments and international bodies, the institutions of civil society as well as the corporate sector. Nevertheless, the participation of the private sector, with its business skills and assets, is a major step in forming the kinds of partnerships that will ultimately be needed.

THE DEVELOPMENT OF CSR: WHO IS INVOLVED AND WHY?

If CSR is to have potential as a way to address social and environmental challenges, it must be supported by a public that holds companies accountable. There must be enough motivation and momentum in the field to keep the social responsibility of corporations a priority. Recently, there have been significant conversations that have laid a foundation for the standards and measures of CSR.

One such venue is the Geneva-based World Business Council for Sustainable Development, which consists of some 180 leading international companies from more than 30 countries and 20 major industrial sectors—including such brands as AOL, Time Warner, Bayer, BP, Coca-Cola, Dow chemical and Shell—that share a commitment to sustainable development through economic growth, ecological balance and social progress. The Council articulates its philosophy this way:

> We define sustainable development as forms of progress that meet the needs of the present without compromising the ability of future generations to meet their… environmental, social and human needs… Pursuing a mission of sustainable development can make our firms more competitive, more resilient to shocks, nimbler in a fast-changing world and more likely to attract and hold customers and the best employees. It can also make them more at ease with regulators, banks, insurers and financial markets.

The CSR model is perhaps more developed among Western corporations than elsewhere, but the concept is, I would predict, irreversibly extending itself to other regions. The website of CSR Europe, a network of corporate CSR professionals working to shape the business and political agenda on sustainability and competitiveness, contains links to some 200 business-related organizations around the world that seek to motivate and assist companies to manage their businesses in a socially responsible manner and become participants in building a fair and sustainable society. Many of these groups work not only with corporations but also with graduate schools of business to incorporate CSR concepts and practices into their MBA curricula.

There is at least one such business-driven collaborative organization on each continent, including such groups as the Association for Sustainable and Responsible Investment in Asia, the Aspen Institute Business and Society Program in the U.S., and Ethos Institute—Companies and Social Responsibility in Brazil. In the Middle East, the Dubai Ethics Resource Center focuses on integrity standards, and the Institute for International Research recently held their third Middle East Corporate Social Responsibility Summit, featuring sessions on such topics as integrating CSR with the business strategy to increase company value and the effects of CSR on employee retention.

The UN Global Compact, a voluntary corporate citizenship initiative, includes some 2900 participants from 90 countries that pledge to observe universal principles in the areas of human rights, labor, the environment and anti-corruption. The Global Reporting Initiative, formed in 1997 and based in Amsterdam, promotes the use of sustainability guidelines developed by some 300 organizations from 39 countries including businesses, labor groups, governments, civil society organizations, and regional and national CSR alliances. The goal is that "reporting on economic, environmental and social performance by all organizations is as routine and comparable as financial reporting". The guidelines are now used for reporting by one thousand organizations worldwide. KPMG's 2005 review of the top 250 companies in the Fortune 500 learned that 52 percent publish reports on CSR.

Many companies, governments and NGOs believe that it is necessary to move beyond reporting guidelines and adopt a universally-recognized set of specific standards. To achieve the goal, the International Organization for Standardization (ISO), a Geneva-based network of the national standards institutes of 157 countries and the world's largest developer of standards for products, services, processes, materials and systems, has begun work on what will be the first global standards in this field. In assuming this task, the ISO observed that "The need for organizations in both public and private sectors to behave in a socially responsible way is becoming a generalized requirement of society."

Consumers are also increasingly paying attention to corporate behavior. A 2004 study by Cone, a brand strategy and communications firm, found that 86 percent of respondents would switch from one brand to another, all other things being equal, if the brand is associated with a cause. The study also found that 90 percent would consider switching to another company's products or services if they were to find out about a company's negative practices.

Many companies have adopted CSR policies as a response to public protests. Wal-Mart, the largest employer in the U.S. and the world's largest retailer, built its business with what some might call a ruthless application of the principle of maximizing shareholder value, missing no opportunity to cut costs and deliver products at low prices. In the process, employee wages, working conditions and benefits suffered, mom-and-pop retailers were put out of business and there was little engagement with the communities where stores were located. As a result, the company is the defendant in a sex discrimination class action case, the largest private-employer civil rights case in history, and community groups have blocked development of new stores.

A McKinsey & Company study commissioned by Wal-Mart in 2004 concluded that such challenges were likely to grow more severe, and the company's stock price fell by 14 percent in the first three quarters of 2005. In response, Wal-Mart has taken steps to overcome its negative image. Its corporate website features information on employee diversity, health insurance benefits, opportunities for employee advancement, corporate contributions to communities and nonprofits, and recycling of plastic bags. Recently, Wal-Mart announced plans to purchase all of its wild-caught fresh and frozen fish for the North American market from fisheries certified by the Marine Stewardship Council, an NGO that promotes sustainable fishing practices.

As the above example demonstrates, strengthened CSR practices can reposition a company in the eye of the public. Another prominent example of this kind of re-positioning is provided by BP, formerly known as British Petroleum. In a 1997 speech, the company's chief executive, John Browne, announced his decision to part ways from other large oil producers and acknowledge the reality of climate change and his company's contribution to it. Following its 1998 merger with Amoco, BP re-cast its image from a local oil company into a global energy company whose brand is accented by the slogan "Beyond Petroleum". The company's logo--- a bright yellow, green and white sunflower--- conveys its engagement in solar and other forms of eco-friendly alternative sources of energy and lubricants and its effort to control pollution. BP is part of an industry initiative not to pay under-the-table commissions to achieve business deals with developing country governments (Say What You Pay). Some close observers feel that BP's green reputation helped it withstand even worse negative fall-out from the recent shutdown of its Alaska pipeline because of maintenance problems and the 2005 explosion at its Texas refinery that killed 15 workers.

A growing number of financial markets and institutional investors pay careful attention to CSR practices of publicly-held companies. According to estimates by the Washington-based Social Investment Forum Foundation, as much as $2.3 trillion in capital is invested on the basis of social responsibility indicators. Examples of the use of these indicators include:

- Dow Jones Sustainability Indexes that track the financial performance of leading sustainability-driven companies worldwide;
- KLD (Kinder, Lyndenberg, Domini) indexes that provide guidance to investors who integrate environmental, social and governance factors into

their investment decisions. For the ten-year period ending this June 30, the KLD flagship DS 400 Social Index posted an annualized average return of 8.64 percent versus 8.33 percent for the S&P 500. (Other comparisons, covering different indexes for different time periods, show different results, making it impossible to say conclusively that the social indexes outperform overall market averages);

- The London-based FTSE4Good Index Series measures the performance of companies on CSR criteria; and
- Focusing on the Middle East, Dow Jones and the Zurich-based SAM Group, a pioneer in sustainability investing with about 2 billion euros under management for institutional investors and private clients, recently launched the world's first index that merges Islamic investing principles and sustainability criteria covering 105 companies.

Numerous Websites and publications report on CSR issues. *SocialFunds.com* features over 10,000 pages of information on socially responsible mutual funds and community investing. *Rainforestweb.org* features "green business" links to eco-friendly enterprises in fields such as tourism, herbal production and transportation. And in the Middle East, AME info, the Dubai-based provider of online business information about some 300,000 companies in 14 countries, including Egypt and Jordan, features on its Website a page devoted to CSR issues and links to worldwide sources of information and best practices.

This overview shows that the CSR movement has become an integral part of the world economy. But is there any evidence that it pays off? The most comprehensive study to date of the link between profitability and CSR, published by two business school professors in 2001, involved a meta-analysis of 95 empirical studies conducted between 1972 and 2000 that sought to answer this question. The authors noted that there was heightened scholarly interest in this subject, reflective of what they characterize as the "increasingly urgent need to reconcile wealth creation and human welfare".

The 95 studies measured financial performance primarily in terms of return on equity, return on assets and return on sales. Social performance indicators were taken from 27 different data sources and covered 11 different spheres of corporate activities, including the environment, human rights, community involvement and charitable contributions.

Most of the 95 studies asked the question this way: Do corporations that have good CSR records produce good financial performance? In just over half of the studies (53 percent) there was a positive relationship, that is, firms do well by doing good and social initiatives contribute to the bottom line. There was a negative relationship in five percent of the studies, and no relationship in 42 percent.

The causal relationship question was reversed in some of the 95 studies, by asking whether financial performance produced positive CSR outcomes. In 68 percent of the studies in this group, there was a positive relationship, suggesting that firms that make money have the ability to devote resources to social initiatives.

Evaluation of bottom line impacts is hindered by lack of uniform definitions and measures. Some of the efforts listed above should help overcome this deficiency and facilitate a new generation of studies with more robust evidence. Increasing the amount of attention given to CSR through studies, reports and general public awareness is an important component to the on-going development of these practices.

CONCLUSION

While great strides forward have been made in mapping CSR and establishing means of accountability, there is still much that is unknown in this field as well as many issues that remain controversial and problematic. Our discussion to this point has been most relevant to large-publicly-held corporations. We know very little about CSR in small and medium sized firms. There is also a degree of volatility in CSR programs that can be harmful to their effectiveness. This volatility comes from the cyclical pattern of the economic cycle as well as the importance of CEO leadership. CEO changes often cause changes in the effectiveness or focus of the CSR program.

Furthermore, there is some evidence that the attempt to limit CSR to a branding exercise is meeting with increasing stakeholder cynicism. To many, there is a contradiction between the demand for short-term economic indicators of profitability and the long term value of CSR. There may also be a contradiction between a corporation’s

CSR policies on the one hand and its continued engagement in harmful business practices on the other hand. Finally, while many corporations are willing to take financial risks in their CSR efforts, they are often quite timid when it comes to supporting even slightly sensitive public policy and advocacy efforts. An exception was the consortia of multinational companies that made early conscious efforts to encourage steps toward a post-apartheid era of governance in South Africa.

Despite the issues which remain to be evaluated and explored, the hopeful and important point which the evidence this paper presents is that it is increasingly difficult for businesses, whether operating in a national or an international setting, to ignore the triple bottom line of profitability, social benefit and environmental impact of their work. Going forward, CSR will play a significant role in the fields of business and philanthropy as the mindset around business practices comes to include the responsibility of businesses to their communities and to future generations.