

# 3<sup>rd</sup> CSR Summit

## Profiting Through Corporate Social Responsibility

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# Defining the Terms

## Corporate Social Responsibility

“A concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis.”

(EU 2001)

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# Sustainable Development

“Meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

Brundtland Report – 1997

Sustainable development – the activities across society aimed at achieving sustainability



# Sustainability

Sustainability – a goal for society as a whole where economic development, environmental impact and quality of life are balanced.



# Defining the terms

## Corporate Citizenship

Corporate Citizenship is a way that ensures companies develop positive, sustainable relationship with key stakeholders eg. Customers, employees, suppliers, contractors, shareholders and community at large to ensure attainment of business objectives while making a positive contribution to the wide community in which they operate.



# Reputation Management

***Reputation:*** What people remember and say about an organization. What they identify with that organization. Sometimes called the “corporate brand.”

***Reputation Management:*** “Recognition – and consequent policy formation and performance – that reputation can be a key enhancer, a differentiator, or accelerator for business results.”



# Corporate Governance

The implementation of policies, procedures and reporting arrangements to ensure a company understands and manages its risks effectively.



# PROACTIVATE

- Price natural capital
- Radically increase energy efficiency
- Opt for minimalist lifestyle
- Adopt close loop & zero waste systems
- Cost environmental impact of each activity
- Turn to renewables
- Invest in green issues
- Vigorously pursue market mechanisms to punish polluters
- Activate women and teenage groups for driving change
- Train yourself to eco-innovate
- Execution is the key. So begin with yourself



# Corporate Social Responsibility

For real ?

Forever ?

For Us ?



# Elements of Corporate Social Responsibility

- Human rights
- Working conditions
- Equality and diversity
- Consumer protection
- Environment/Health
- Economic development
- Community relations
- Ethical business practices
- Corporate governance
- Lobbying/political influence
- Business' role in conflict zones
- Strategic Philanthropy



# Development of CSR

- First: Philanthropy of the Industrial Era
- Second: Environment/ Limits 1962-72
- Third: Sustainable Development 1992 – 2004
- Fourth: Responsible Globalization 1999-2001
- Fifth: Fiduciary Capitalism 2002-2004
- Sixth: CSR To Look Good 2003 -
- Seventh: CSR is the Business Goal 2006-



# CSR - The US Context

- 1800 – 1870      Largely Laissez Faire
- 1870s – 1920    Era of the “Progressives”
- 1900 – 1920     “Trustbusters”
- 1930s             The New Deal
- The 60s/70s      Nader, Enviros, Consumerism
- 2000              Globalization, Governance



# The Evolution

*“Capitalism’s most daunting characteristic is its ability to co-opt the reforms, even the radical changes, of the opponents of the system.”*

— The late Michael Harrington  
(Lifelong American Socialist)



# Capitalism's Metamorphosis

Lester Thurow wrote 40 years ago:

At precisely the time when capitalism finds itself with no social competitors – its former competitors, socialism or communism, having died – it will have to undergo a profound metamorphosis.

CSR is that “profound metamorphosis”



# The Evolution II

## *The 21<sup>st</sup> century global challenge:*

- *“Let us choose to unite the power of markets with the authority of universal ideals.*
- *Let us choose to reconcile the creative forces of private entrepreneurship with the needs of the disadvantaged and the requirements of future generations.”*

— Kofi Annan

Secretary-General of the United Nations



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# CSR as a “good business model”

*“ I believe in shareholder primacy. On the other hand, I firmly believe that, unless you are honest and take care of the other stakeholders in the business ...employees, customers, suppliers, community you will never create the profitability for your shareholders that you are required to under the law of fiduciary responsibility.”*

— Charles Elson, Director,  
University of Delaware Center for Corporate Governance



# Social Good as Competitive Advantage

- Management Practices 34%
- Quality 40%
- Corporate Citizenship 56%



# Paradigm Shift in the New Economy

- From tangibles to intangibles
- From capital to knowledge
- From objects to relationships
- From parts to the whole
- From domination to partnership
- From structures to processes
- From individualism to integration
- From short termism to long termism
- From growth to sustainability
- From confrontation to collaboration
- From shareholders to stakeholders



# The Evolution - III

## *The 21<sup>st</sup> century global challenge*

- How do we fit into the U.N. Millennium Goals (poverty, education, health, resources)
- What is my organization's "share"?
- What is the *nature* of its rightful role?
- The Purpose of the Business



# Stakeholder Corporations

**“During most of the 20<sup>th</sup> century in the UK and USA, stakeholder inclusive enterprises fared better than “shareholders – first” companies. Stakeholder inclusive corporations invariably lead to better long term business performance”.**

The Stakeholder Corporation:

A blue print for Maximizing Stakeholders Values (1997)

By Wheeler and Seelampaa



# Stakeholder Management

## Clarkson Principles

- **Listen to and Communicate with stakeholders**
- **Adopt Processes sensitive to the stakeholders constituencies**
- **Recognize the independence among stakeholders**
- **Work Cooperatively with Stakeholders**
- **Avoid activities that would jeopardize the human rights of stakeholders**
- **Acknowledge the potential conflicts between your own role and fiduciary responsibilities for other stakeholders**



# Stakeholder Management

## Wainwright Bank & Trust Company

- Loans to Socially Responsible Organizations
- Health Service Centres
- Breast Cancer Research
- Inner-City Business Development
- Affordable Housing
- Shelters for Homeless
- Special Needs Housing



# Glassman's Belief

**“I believe that it is important to use the platform the Bank affords me to inform, educate and introduce different constituencies to issues of social justice”.**

Robert Glassman  
Wainwright Bank and Trust Co.



# Maximizing Social Value

Pure Social Good

Social  
Benefit

Social and Economic Value  
Created

Protecting Culture and  
Heritage  
Empowering Marginalized  
Sectors  
Equal Opportunities

Gender Balance

Human Rights

Environmental Up-gradation

Health Care

Spreading Literacy and Education

Pure Business

Economic  
Benefit



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# CSR – Issues to be Addressed

- Sustainability
- Triple bottom line
- Employee and stakeholder empowerment
- Transparency
- Equity
- Accountability



# CSR – Issues to be Addressed

- Integrity
- Inclusivity
- Diversity
- Engagement
- Ethics
- Making a Difference



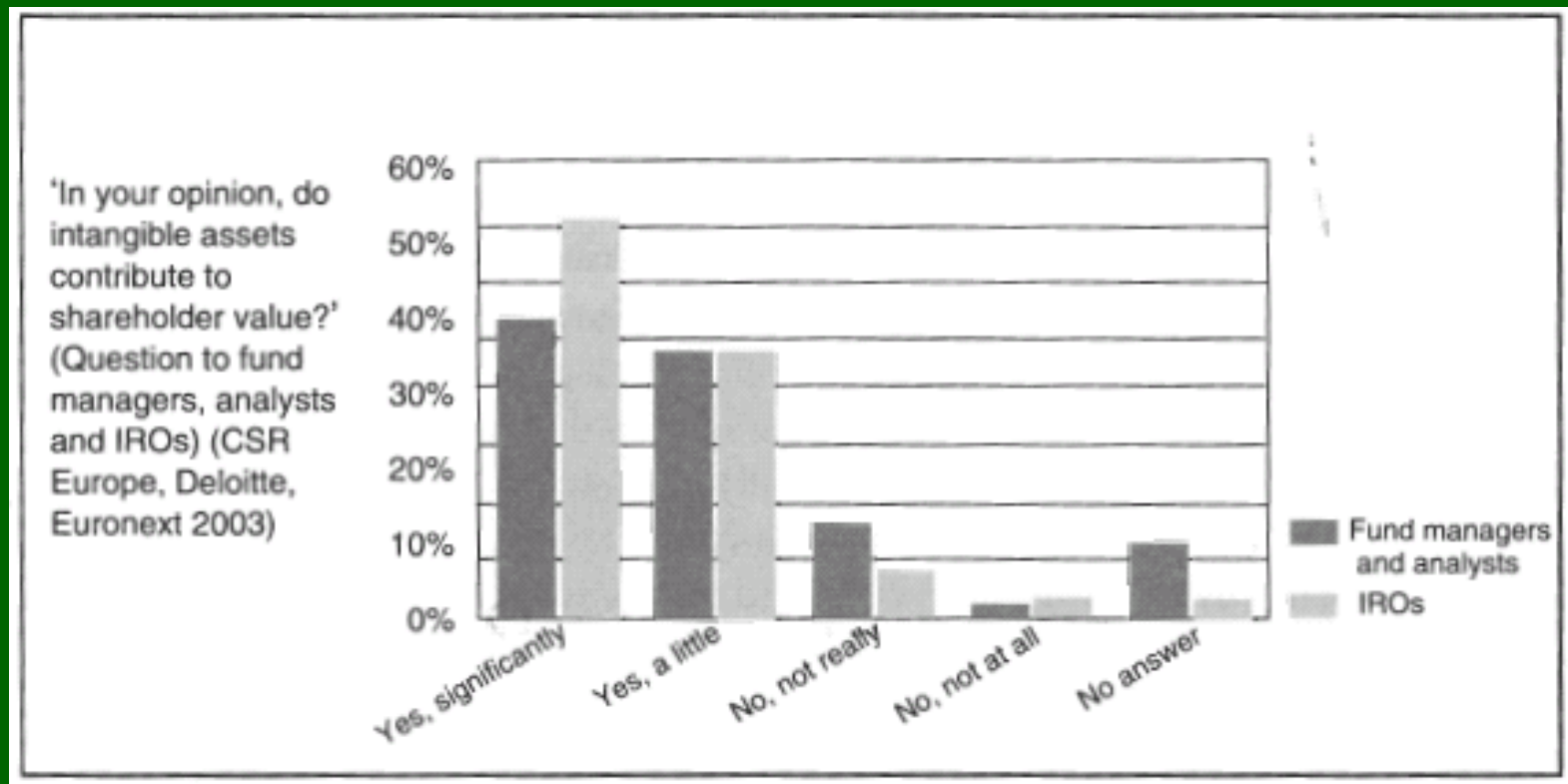
# Five D's for Value Creation

- Diversity
- Dissent
- Difference
- Dialogue
- Disclosure



# Intangible assets and shareholder value

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# CSR and profits: likely benefits and costs

## Stakeholder group

## Benefits

## Costs

Employees

Better HR policies lead to increased motivation: Good ethical conduct by superiors leads to improved productivity:  
Fewer labour relations disputes: Fewer strikes: better working conditions: Good CSR company leads to easier recruitment of high fliers and young people:  
Reduced costs of recruitment

Inclusion of ethics training: More intra-company communications:

More effort on labour relations: Will need to implement human rights policies

Customers

Increased attractiveness to concerned consumers:  
Fewer disputes: Advertising can cite CSR image: Enhanced reputation:  
Brand equity recognition

Cost of goods may increase in the short term



# CSR and profits: likely benefits and costs

## Stakeholder group

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## Benefits

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## Costs

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Directors

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More Independent non-executives directors

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More meetings and briefings

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Shareholders

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Increased investment from socially responsible investors

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Increased costs of reporting and transparency

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Managers

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Better HR policies lead to increased motivation: More awareness of ethical issues from focus group sessions lead to more confidence about employees

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Increased training in ethics: Focus group sessions and reporting

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# CSR and profits: likely benefits and costs

## Stakeholder group

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## Benefits

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## Costs

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Sub contractors suppliers

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better quality inputs Less harmful effect on “public image”

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Cost of inputs may increase in short term

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Community

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More willingness to accept new investments, Improved public image.

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requires continual interaction with communities: Will need to produce CSR report: Will need to monitor internal activities: Implement human rights policy

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Government

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More confidence in company:  
Fewer legal battles: No new potentially harmful legislation:  
More favorable trading regime:  
more willing to accept expansion or downsizing

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Costs of adhering to new regulations may increase

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# CSR and profits: likely benefits and costs

## Stakeholder group

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## Benefits

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## Costs

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Environment

Fewer legal battles: Improved public image: Contribute to sustainability of company

Investment in environmental damage control  
Certification to ISO14001/EMAS R



# CSR – The Investment Case

## Top Ten Pension Funds

Rank	Fund	Country	Assets (USD Millions)
1.	California Public Employees	U.S.	143887
2.	ABP	Netherlands	130391
3.	New York State Common	U.S.	106091
4.	Local Government Officials	Japan	98705
5.	California State Teachers	U.S.	95553
6.	Federal Retirement Thrift	U.S.	93328
7.	Postal Savings Fund	Taiwan	91043
8.	Florida State Board	U.S.	88514
9.	General Motors	U.S.	82500
10.	Texas Teachers	U.S.	75109

Source: Pension and Investment Magazine (Sept 2002)



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# CSR performance as a proxy for management quality

'In general, good performance in CSR is considered a key indicator to quality management. A strong reputation for CSR is seen as a binding agent for the intangible assets that deliver shareholder value such as people management skills, management quality, brands trust, product quality and emotional appeal, among other assets.'

**Deloitte Touche Tohmatsu**



# What are **SEE** Risks

The Equator Principles

The Investor's Statement of Transparency in the Extractive Sector

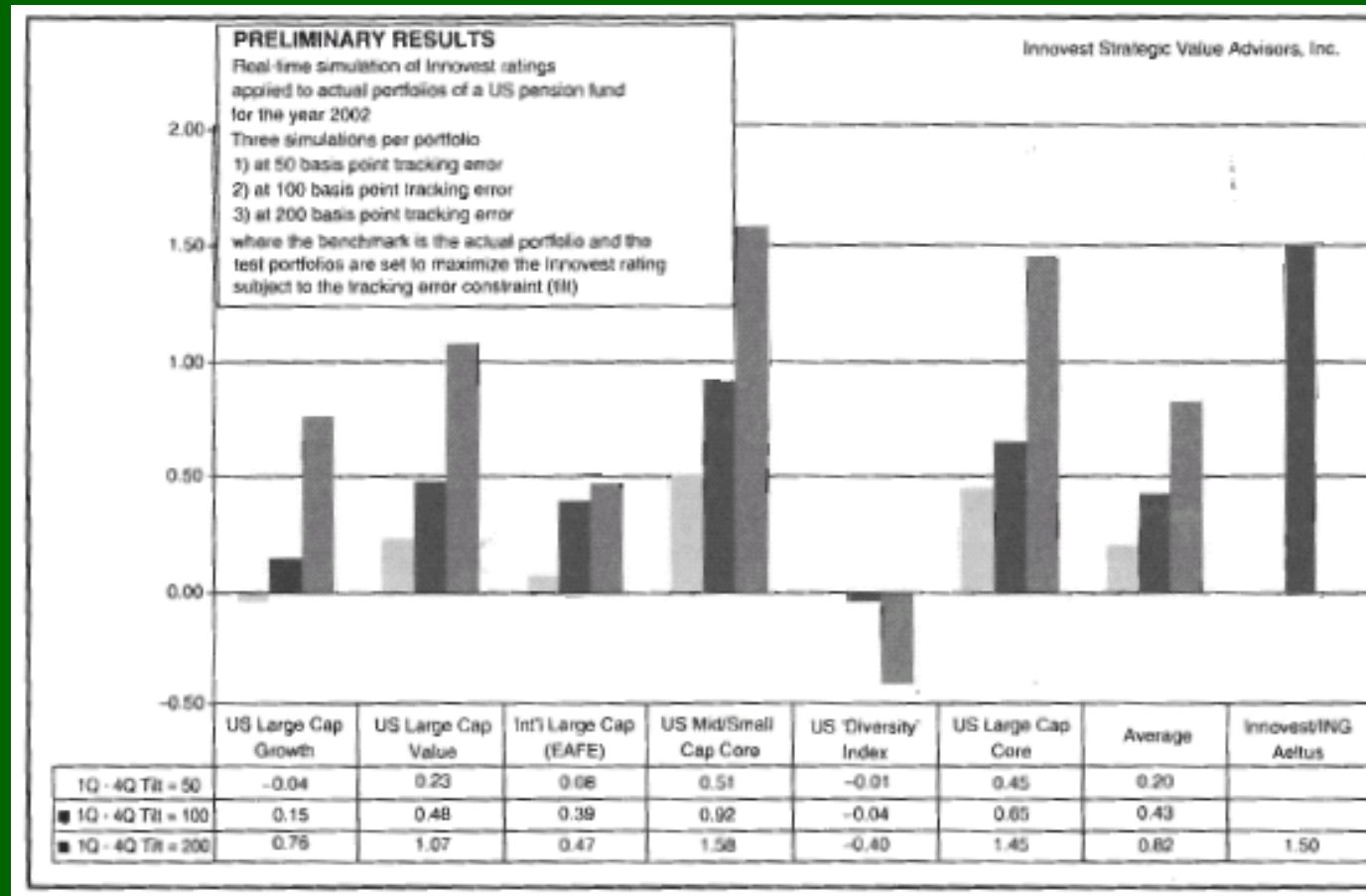
Biodiversity and the Palm Oil Industry  
Wal-Mart and Non-Discrimination

Glaxo Smith-Kline & Director's Remuneration

ITV's "Green" Policy



# Contra Costa County pension fund study: first year



# Relative performance versus FTSE All Share Index, 1990-1999.

Index	Relative Performance
The Charities Avoidance Index	+0.000
The Environmental Damage Avoidance Index	+0.016
The Responders Index	+0.005
The Ethical Balanced Index	+0.003
The Environmental Management Index	-0.006

Source: Spratt, EIRIS (1999)



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# UK, SRI assets, 1997-2001, USD bln

	1997	1999	2001
Church investors	18.75	21	19.5
SRI Unit Trusts	3.3	4.65	5.25
Charities	12	15	37.5
Pension funds	0	37.5	120
Insurance companies	0	0	154.5
<b>Total</b>	<b>34.05</b>	<b>78.3</b>	<b>336.75</b>

Source: Spratt, Sparkes(2002)



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# Global SRI assets, 2001, USD Bln

United States	2332
United Kingdom	326
Canada	31.4
Europe	17.6
Japan	1.9
Australia	1.1
<b>Total</b>	<b>2710.6</b>

Source: Spratt, Sparkes(2002)



# Key Issues for UK SRI Investors and SRI Screening categories

Issues	Importance %
Global development	97.7
Fair employment	97.7
Openness	96.7
Efficient material use	94.8
Environment pollution	93.2
Community relations	92.3
Repressive regimes	91.8
Sustainable materials	91.4
Animal test for cosmetics	89.3
Director remuneration	79
Political donations	66.8
Charitable donations	59.4

Source: Spratt, Sparkes(2002)

<i>Generally Used (At least 50% of portfolios)</i>	<i>Commonly Used (30-49% of portfolios)</i>	<i>Rarely Used (less than 30% of portfolios)</i>
Tobacco <b>Environment</b> Human Rights <b>Employment equality</b> Gambling Alcohol Weapons	Labour relations Animal Testing Community Investing Community Relations	Executive pay Abortion Birth control ILO standards

Source: Social investment Forum (2001)



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# Increased Market Capitalization

Market Value

Financial  
Capital

Human  
Capital

Environmental  
Capital

Customer  
Loyalty

Organisational  
Capital

Health  
Capital

Staff Loyalty  
Loyalty

Brand  
Value

Increased  
Output

Relationship  
Capital

Culture  
Capital

Lower  
Costs

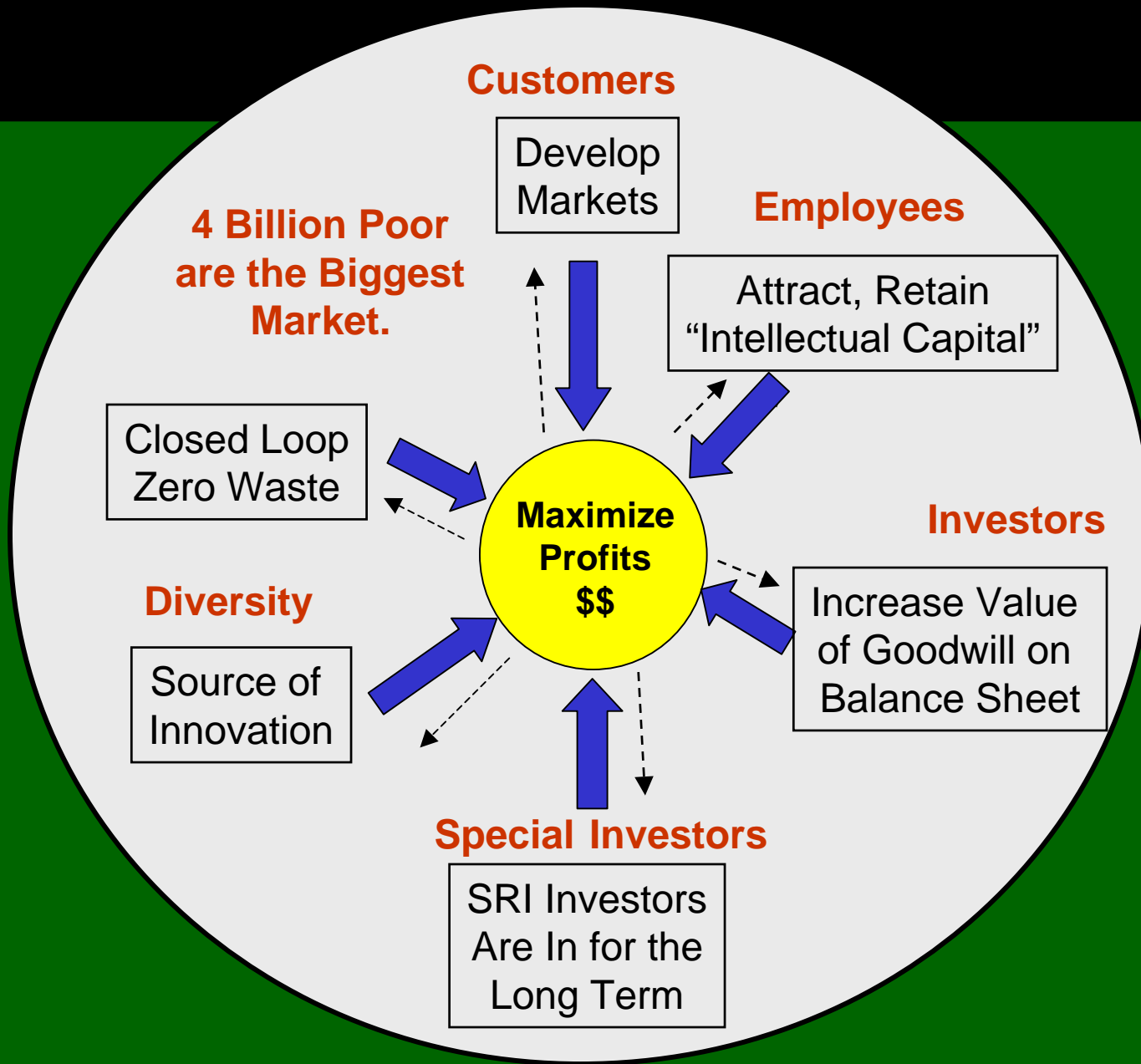
Reputational  
Capital

Innovation  
Capital

Long term  
Value



# The 21<sup>st</sup> Century Circular Business Model



# CSR – The Way Forward

- Increasing evidence of nexus with enhanced performance
- Environment Responsibility reduces costs
- Changing demographics putting premium on CSR
- Bottom of the pyramid drives innovation and profits
- CSR companies better at risk management
- CSR regarded as legitimate fiduciary responsibility
- CSR acts as an armor for the naked corporation
- Embedding CSR in business enhances long term value



# Conclusion

There are now compelling reasons why CSR is not just good business, it is **the business**



**THANK YOU**



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