



Corporate responsibility is a much-discussed topic. But how well are companies doing – and what does acting responsibly do for them? **Emmanuel Perakis** examines the evidence

Corporate responsibility: a business driver or an ethical obligation?



Over the past decade, there has been a lot of talk about corporate responsibility (CR), corporate social responsibility (CSR), corporate citizenship, responsible competitiveness and many other terms that are used to describe the same concepts:

- a corporation aiming at profits while – at the same time – taking into account the impact of its operation on the community, the environment, the market and its employees
- a corporation's effort to reduce its negative influence (for example on the environment) and increase its positive influence (for example through its products and services).

If you look up “CSR” on Google you will be directed to more than 24 million pages while the corresponding figure in 2006 was 16 million and in 2000 just under one million. This does not mean that CR is new (in fact it has existed for as long as corporations have) but it certainly indicates that the term is attracting increased attention.

So what is the reason for this exponential increase? Is it simply increasing pressure from NGOs, the escalating importance of CR to the public, the anticipated involvement of government or the hesitant interest of investors?

All these play a part but none alone is sufficient. The underlying catalyst is the shift towards a knowledge- and information-intensive global market. Knowledge and information require open channels and transparency.

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7.2

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In parallel, corporate scandals, such as Worldcom, Enron, Siemens and others have put pressure on other corporations to indicate that CR is “an integral part of their operations”, publicising information about their impact, “exposing” themselves to the public and appearing accountable for more than just making money.

In a way, private corporations are becoming more and more “public”. Only a few decades ago it would have been unthinkable for a corporation to be asked to publicly disclose information such as energy consumption, accident levels, governance structures and so on.

To look more closely at the issue we need to acknowledge that CR is integrally linked to the concept of ethical behaviour and we therefore need to refer to ethics and philosophy to answer the question of whether CR is an ethical obligation or a business driver.

According to the American academic James March, there are two ways of justifying our actions:

- The consequential logic, where action is guided by the hope of favourable consequences. In other words, “I do things because certain good results will follow”.
- The logic of appropriateness, where identity (and the obligations associated with it) guide our actions: “I do things because of who I am, because it is the right thing to do”.

Before we analyse these fundamental ways of behaving it is proper to emphasise that whichever of the two rationales a company follows (or rather its management and employees follow, as it is a dangerous mistake to refer to “corporate ethics”, implying that a corporation has human attributes), if the result is in either case to incorporate CR practices into its operations then this can only be considered a positive step.

If we save energy, we reduce the operating expenses of our corporation and at the same time we reduce carbon dioxide emissions (therefore mitigating the problem of global warming). Whether the underlying driver is the cost-saving benefit or global warming is – one can argue – secondary.

Most corporations follow consequential logic and the truth is that there are business benefits in a corporation behaving responsibly:

Brand reputation

More and more consumers (consciously or unconsciously) choose products based on their image of the company. The extent differs from country to country but for the western world the ratio is estimated to be roughly 5%–10%

Cost reduction

Saving natural resources results in an almost proportionate reduction of operating costs. This saving can roughly reach the area (depending on the type of company) of 0.5%–5% of turnover

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Risk reduction

Being responsible means being a step ahead of legislation, being prepared when legislation (usually as a result of societal pressure and widely used practices) is enforced

Employee productivity

Increasingly, employees choose the companies they work for based at least in part on the level of their CR. It is not surprising that in the case of Enron most employees who did not believe that “the end justifies the means” were moved out of the corporation as a result of the corporate system itself (via appraisals, development and so on)

Stability

Being responsible increases the likelihood of long-term stability and survival for a corporation. This is rather important, considering the current financial crisis, which is largely attributed to greedy (if not illegal or irresponsible) management by heads of financial institutions

But are these benefits enough to justify a company striving to be responsible? Probably not. Seeking bottom-line business results by being responsible is not only unlikely to succeed but, moreover, may be considerably dangerous.

It is unlikely to succeed because there is no scientifically based study that indicates that a clear link between corporate CR and business success exists (at least the way that modern markets define success: through the stock price). Yes, there are examples of companies that have cultivated a sustainable profile that helped their success, but we are not looking at individual examples but a norm.

More importantly it is dangerous because what will happen if another concept is more beneficial for the corporation than CR? If being responsible brings 5% more sales, should CR be ignored when another concept brings 10%? Are ethics a matter of figures?

Although the underlying motivation for being responsible might be secondary, it is still important and critical for the way CR becomes (or does not) an integral part of corporate operations.

Following the logic of appropriateness, maybe the sustainable and long-term perspective is that although there are important – rather than success-defining – benefits in being responsible, the driving factor should be that “it is the right thing to do”. After all, who would say to a child “you have to be a good person, because this way you will make more money when you grow up”?

The truth is that much progress has been made in the last few years. Corporations are working towards more sustainable practices and some are performing well. But what about the majority?



Taking a look at the corporate responsibility reports for major *Fortune 500* companies is instructive:

- The average number of graphs in a CR Report is just 15 while the average number of photos is 42 (according to a study by Sustainability).
- The average score of *Fortune 500* companies is just over 34% (according to the Accountability Rating 2007).
- The average score of European corporations participating in the European Excellence Award for Society Results is 44%, 11% away from the second lowest area (People Results), and 12% from the third (Policy & Strategy).
- The average trust of the public in corporations is just over 30% (according to a survey by IMD), a percentage that will probably decrease after the current economic crisis.

Furthermore, the many CR Reporting Guidelines available (GRI, AA1000, EFQM, BITC) do not yet even tackle the actual quality of results produced, just the existence of these results.

The corresponding situation would be for an annual report to include financial results for only some parts of the business or a sales report to show results without trends, targets, comparisons and so on.

To be fair, it must be mentioned that the only management model that incorporates this aspect in its evaluation today is EFQM, and that purely by chance as the same rational (quality of results) is used in all other business sectors as well.

There is a tremendous difference between working and reporting on figures drawn from various places (usually cherry picking the positive ones) and keeping a consistency over the years, reporting on all activities, indicating all failures, covering all products and so on. In general, corporations have still quite a lot of work to do.

Focusing on insignificant awards, PR-related activities and statements such as “responsibility is our guiding principle” might be a good short-term solution but it is highly unlikely such practices will lead corporations towards long-term success. CR is important and critical for evolution, for improving the situation. However, the long-term need of this planet especially in areas such as natural resources, food supply and water availability is far more demanding and simple evolution is not adequate.

According to a study by WWF, an environmental charity, we are already exceeding the use of natural resources by 20%. And since 20% of the western world is using 80% of global resources, if the global population increases by 50% (before stabilising in 2012), this means that for all the world population to use resources as we do in the western world, we would need 7.2 planets like ours.

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Since it is highly unlikely to find the other 6.2 planets (or at least find them on time) we will have to go beyond evolution in the effective use of resources and move into revolution.

Unfortunately, the only other way of re-distributing global resources on this scale is a process called war (which followed on soon after the 1929 depression).

It is certain that corporations should and will increasingly be asked to play a significant part in this unavoidable effort as major consumers of natural resources. Hopefully some corporations will consider this fact as an opportunity rather than a threat just as they successfully do with market issues.

After all when Wayne Gretzky, the famous Canadian ice hockey player was asked what was the secret of his success (hard work, luck, talent?) his answer was “everybody goes where the ball is, I go where the ball will go.” **gf**

ABOUT THE AUTHORS

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