

Introduction

Corporate social responsibility (CSR) is now firmly on the business agenda for a significant number of firms. Some 2,000 international companies regularly report on their environmental and social impacts, and in some countries, such as France and Australia, reporting is mandatory. It is increasingly common for Fortune 500 companies to have a designated manager or department that has oversight of CSR. Many of these same companies retain management and public relations consultants selected from a growing pool of professional services firms offering CSR advice.

These observations reflect how, over the last decade, CSR has shifted from the margins to the mainstream of business practice. However, behind this apparently positive picture lie two problems that create an impediment to companies in realising the potential benefits of CSR. The first problem arises from the fact that one of the greatest drivers causing business leaders to adopt CSR is 'fear', with the emphasis on avoiding trouble rather than looking for opportunities. The second problem is that CSR is too often a 'bolt-on' to business operations rather than 'built-in' to business strategy, resulting in CSR becoming a distraction and hindrance to business purpose and objectives, rather than a help.

► The fear factor

As we all know, the fear of getting hurt is an important influence on how we behave. In a business context one of the biggest drivers behind the increasing attention given by management to CSR has been the 'fear' factor. Business leaders fear that their company could be a target of the next high-profile campaign by a non-governmental organisation, with allegations that the company is party to poor labour practices at its overseas suppliers; they may fear the consequences of a class action lawsuit filed against them, with litigants claiming discrimination in the workplace; or they may fear that a government, under pressure to demonstrate its 'green credentials', will pass legislation requiring adherence to even higher environmental standards, necessitating further non-revenue-earning investment.

Given that fear is a key driver, it is perhaps not surprising that CSR is increasingly associated with the business discipline of risk management, in which the objective is the avoidance of potential hazards and reduction of potential threats. As advocates for CSR we, like many others, have framed our arguments for why businesses should adopt good CSR practices in the vocabulary of risk management, highlighting the potential dangers to corporate and brand reputation, or the negative impact on efforts to recruit and retain the most talented employees, or the loss of the 'licence to operate' if the company gets the management of CSR wrong.

The promotion of CSR on a risk management platform has led to some success in shifting it from the margins to the mainstream of corporate practice. However, we observe that an over-emphasis on linking CSR to risk mitigation is somewhat hazardous in its own right. The consequence is that business leaders are being conditioned to regard CSR as synonymous with cost, burden, obligation and duty rather than associate it with possibilities of market growth, product or service differentiation and new business opportunities. To many business leaders, the language and tone of CSR has become earnest and dull. Therein lies the challenge. If the prevailing interpretation of CSR as essentially negative and limiting is left to dominate corporate thinking, it will serve only to define minimum expectations of business behaviour and performance.

After all, not many successful companies we know have achieved their success in an extremely competitive marketplace simply because they were particularly attentive to risk management (apart, perhaps, from firms in the insurance sector). Sound risk management may have helped a company *retain* a market leadership position, but not *earn* it. The driver for successful business is entrepreneurialism, opportunity and the competitive instinct, not fear. It is a willingness to take risks in order to attain goals and achieve objectives. It is a willingness to look for creativity and innovation from non-traditional areas — including CSR.

While sound and effective CSR policies and practices are very much needed, we are concerned that too many business leaders and managers regard them as the end game. Yet CSR can and should be much more than that. It has the potential to be an extremely positive force that can fuel the engine of business growth and development and contribute to social and environmental sustainable development.

► Bolt-on or built-in?

A second concern we have is the way in which CSR is integrated into companies. In our previous book, *Everybody's Business*,¹ we focused on the why of CSR. Feedback we received from managers around the world indicated that there is still a considerable gap between the corporate CSR rhetoric and actual practice on the ground because of difficulties in making it operational: 'Yes, we understand what it

1 D. Grayson and A. Hodges, *Everybody's Business* (London: Dorling Kindersley, 2001).

is. Our company has even made a public commitment to CSR. But how do we do it? How do we integrate CSR into our mainstream operations?’

A typical response to this challenge, and one we ourselves have advocated, is to segment the relevant CSR issues as they impinge on particular business operations and suggest changes in policies and practices accordingly. This is fine, to a point, but it is this approach that is leading to increasing dissatisfaction among business leaders and managers alike, who complain of ‘bolt-on’ rather than ‘built-in’ CSR. Rather than helping to integrate CSR into core processes, this approach can lead to a proliferation of initiatives and projects that become a distraction to primary business purpose and a drag on performance. All too often, CSR has consequently been seen as adding further layers of bureaucracy. As a result, it has been hard to find traction with busy middle managers preoccupied with keeping head counts low, reaching sales targets and contributing to next-quarter earnings.

The solution to this problem lies in integrating CSR not into operations but into business strategy. Because business operations serve strategy, not the other way round, this approach will help to determine which are the appropriate CSR policies and practices for the business, and which are potentially superfluous. CSR becomes ‘built-in’ not ‘bolt-on’.

Putting it another way, all our life experiences suggest that, by and large, ‘form’ should follow ‘purpose’. Business operations — purchasing and supply, manufacturing, marketing, etc. — are the means by which a company achieves its business purpose. That purpose is articulated in terms of business strategies and objectives. Hence it is perhaps not surprising that, if changes are made to business operations without reference to business strategies and objectives, divergence results.

► **Seven steps to integrating CSR into business strategy and generating corporate social opportunities**

In light of these concerns, how then can a business leader or manager build CSR into business strategy and, while not ignoring potential risks, exploit associated opportunities? And what are those opportunities?

We describe a seven-step analytical process which shows how the implications of CSR on business strategy can be considered and illustrates how it can be factored into decision-making at a point when new business strategies are being explored or existing strategies updated. In this way the repercussions of CSR for business operations can be considered and the pros and cons of alternative policies and practices weighed up. Final decisions are subsequently taken on the basis that form (business operations) serves purpose (business strategies and objectives).

As the book title suggests, we believe that, given the right approach, CSR can be made to work *for* a business. If companies can advance from regarding CSR as

primarily a risk minimisation process and learn how to integrate CSR into future business strategy, they will, we suggest, be able to capitalise on *corporate social opportunity* (CSO).

Here are three short descriptions of examples of CSO in practice.

Technicians in the research laboratories of IBM worked with colleagues from their community relations department in a collaborative project with SeniorNet, an American NGO promoting access to technology for senior citizens. As a result of the partnership, IBM created new technology to transform readability of web pages, and was able to utilise the technology in other web-based products and in support for Internet service providers. In addition, IBM was consequently well placed to respond to new US regulations on media accessibility.

The Bank of America has funded some \$4 billion-worth of mortgages in recent years thanks to borrowing arranged by community activists in low-income areas in US inner cities. One community partnership — the Neighbourhood Assistance Corporation of America — has some \$10 billion-worth of commitments from Bank of America and Citigroup combined. The banks reach new untapped markets that they otherwise would have difficulty reaching. Low-income families are advised by those they already know and can trust.

In emerging markets and less-developed countries, international food company Nestlé has a policy of investing over the long term in capacity-building for local suppliers, as a way of ensuring the quantity and quality of the supplies it requires. In Brazil the company provides technical assistance and loans supporting over 300,000 farmers in the dairy industry, with no accompanying conditions obliging farmers to sell to Nestlé. Local communities have seen significant rises in standards of social and economic development in areas where Nestlé operates these policies.

We see individual corporate social opportunities (CSOs) as commercially viable activities which also advance environmental and social sustainability. These tend to be based on one or more of the following: innovations in developing new or improved products and services; serving under-served or creating new markets; or organising the business differently in a new business model: for example, in how it conceives and develops the new products and services, or how they are financed, marketed and distributed (see Figure 1). The goal is to be able to create an environment where numerous CSOs are possible. When that starts to happen, you might also then use corporate social opportunity to describe the corporate culture, the mind-set, 'the way we do business round here'.

One company is, in fact, using the terminology of CSO to describe its approach to CSR. Speaking at the launch of Procter & Gamble's 2002 *Corporate Sustainability Report*, Paul Polman, President of P&G Western Europe, said:

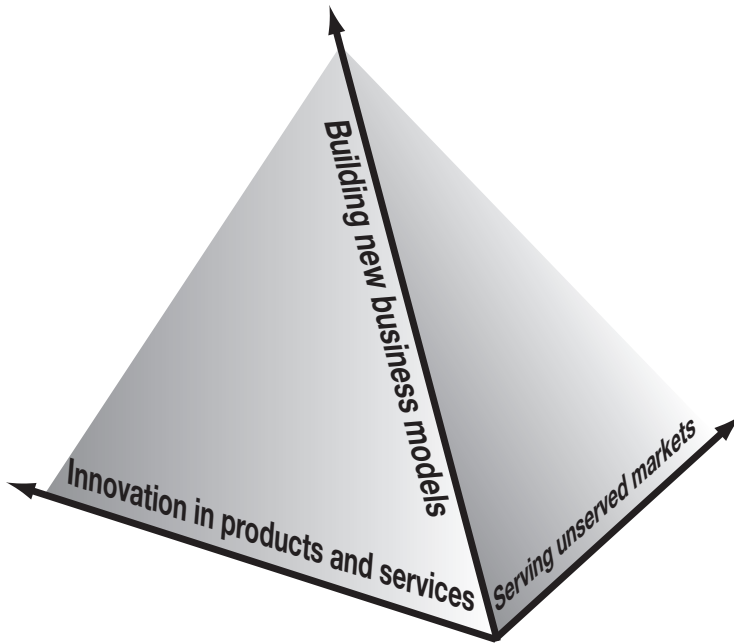


Figure 1 **The three dimensions of corporate social opportunity**

We can never lose sight of our responsibility to the outside world and our employees. But to be really sustainable in the long term, companies need to link business opportunity to sustainable development. By harnessing their creativity and innovation, companies can find new products, new services, new initiatives, develop new markets and business models that can deliver a better quality of life to all, for now and for the future. We need to move beyond Corporate Social Responsibility to embrace our Corporate Social Opportunity.²

► **Characteristics of a corporate social opportunity corporation**

How might we recognise a CSO corporation? How does a company get there from where it is today to become a CSO corporation? What are the critical success factors

2 Paul Polman, President of P&G Western Europe, speaking at the Euro-Environment Conference, Aalborg, 2–3 October 2002.

that will help ensure it builds on a 'have-to-do' CSR compliance-based approach to foster a 'want-to-do' CSO mentality?

In summary, the answer lies in achieving alignment of business values, purpose and strategy with the social and economic needs of customers and consumers, while embedding responsible and ethical business policies and practices throughout the company.

The individual corporate social opportunity examples listed above all reflect this concept of alignment. But achievement of this in a consistent way across a large international organisation over a sustained period of time is quite a challenge. As with most things in life, it is the journey that is as important as arriving at the ultimate destination: this book is designed to be a practical guide for the journey from CSR to CSO.

Our exploration of the nature and potential of the concept of CSO began with interviews during 2003 with a number of chairmen and CEOs. It struck us how quickly — and unprompted — many of them started talking about their own personal values and about the values of the company in order to explain the company's approach to social, ethical and environmental issues.

- Crispin Davis CEO at publisher Reed Elsevier explained how he had personally championed the articulation of the Reed Elsevier corporate values (see pages 145-46).
- David Varney at telecommunications firm mmO₂ referred back to the 'O₂' values (to be bold, open, clear and trusted) in order to explain why they had taken the approach they had to a particular business issue — that of children gaining unsupervised access to the Internet via mobile phones (see page 53).
- Hank McKinnell, chairman and CEO of Pfizer, talked about how corporate responsibility and citizenship were core elements of the pharmaceutical company's stated values and approach to doing business.
- Jeremy Pelczer, president and CEO of the largest private water company in the US, American Water (part of RWE Thames Water), stated his belief that adherence to their professed corporate values should be the critical test when making business decisions.

Informed by these perspectives, the issue of corporate values tops our list of defining characteristics for a CSO company (see Box 1).

► How to achieve corporate social opportunity?

It is important to note that in suggesting that companies aim for CSO we are not for a moment proposing that a sound understanding and compliance with CSR requirements are not still crucial. On the contrary, CSR is the foundation for learning and

Key characteristics of a corporate social opportunity company

- 1** The organisation aligns and articulates explicitly its purpose, vision and values consistent with responsible business practice. It is believed that a sense of shared ownership and commitment will be easier when purpose, vision and values are co-created by people throughout the organisation rather than being imposed from the top leadership.
- 2** The leadership and senior management team fully believes in and lives those values and purpose—and demonstrably so.
- 3** Purpose, vision and values are intensely and continuously communicated throughout the organisation and beyond.
- 4** Purpose, vision and values are constantly reinforced through culture, processes and rewards. This includes their incorporation into:
 - Recruitment and induction
 - Management and staff training
 - Performance objectives
 - Appraisal, reward and recognition structures
 - Promotion considerations
 - Procurement criteria and processes
 - Due diligence procedures for assessing business partners
- 5** In addition, there are effective mechanisms for whistle-blowing on any ‘values gaps’—that is, gaps between values espoused and values lived.
- 6** There are effective tools and processes for scoping and then prioritising risks and opportunities associated with corporate social responsibility and a framework for deciding how to reach decisions and to check for consistency with corporate values.
- 7** There are decision-making processes at the top of the organisation (in the board, board sub-committee and so on) for oversight and effective decision-making throughout the organisation and there is a means of capturing and codifying knowledge to ensure continuous improvement.
- 8** There are effective stakeholder engagement processes to seek proactively any corporate social opportunities and to build trust, openness and empathy, which encourage such opportunities to emerge.
- 9** There is an ethical code governing relations with stakeholder partners to determine the fair share of risks and rewards (e.g. in relation to intellectual property rights) in exploiting corporate social opportunities and opportunities for entrepreneurialism and creativity — a set of opportunities that is widened by the spirit of openness and by the culture of enlightened curiosity.
- 10** There is appropriate measurement and reporting of the company’s performance as well as processes for rectifying gaps and learning from the emergence of gaps.

Box 1 **Key characteristics of a company or organisation taking corporate social opportunities**

attaining the necessary competences through which CSO can be achieved. Most business leaders with whom we work accept and understand that minimum standards of environmental and social performance are necessary to reduce risks. Indeed, most believe these standards are also simply the 'right thing to do'. They are happy to fulfil their duty in ensuring that sound CSR policies and practices are in place. Much of the practical guidance we give in this book is about how to better integrate CSR into the business en route to CSO.

It will be of no surprise to the reader that we would strongly support a contention that a company should commit to CSR at the highest corporate level. But we understand that for most companies this commitment is the result of cumulative experiences over time of actions taken at the level of individual business units. We are confident that, when the consequences of CSR-informed and CSO-inspired business strategies are considered, the conclusion will be reached that they are unlikely to succeed without commitment within the organisation from the top. On the other hand, if the start-point *is* top-level commitment, then managers through the business are going to need to know how to translate it into decision-making at many levels of the firm — which again is where the seven-step process is useful.

The CSO approach we advocate is based on more than 40 years' experience between us, working with companies from many sectors and in many parts of the world. This is not always a story of black and white, of what is social, ethically or environmentally acceptable, what is right or what is wrong. Often it embraces apparently conflicting demands that require the application of judgement, guided by a clear sense of overall direction and corporate purpose. This book is designed to act as a compass for aiding navigation through such dilemmas and complex decisions.

In addition to providing diagnostic tools, we also aim to show where business leaders and managers can go for CSO inspiration and ideas: for example, to non-traditional sources of business know-how such as not-for-profit organisations, or to entrepreneurs who run small and medium-sized businesses and who can be an ongoing source of innovation for many larger corporations.

► Our world — everybody's world

This book is written first and foremost with the purpose of helping to improve business performance, because business is, after all, the principal motor for growth and development in the world today. We believe that a situation where companies adhere to best practice in CSR and take advantage of possibilities inherent in corporate social opportunity is good for shareholders, customers, employees and communities.

We do not shy away from focusing on business benefits, both short-term and long-term. We do not give equal space to identifying community needs or environmental challenges, not because we are unaware, unconcerned or insensitive to these issues, but because this is a book focused on business development, not

community development. We happen to believe that getting many more sustainably successful businesses is the best route to optimising the contribution that business can make to sustainable development and to some of the world's seemingly intractable social, economic and environmental challenges of poverty, inequality and disease. We would argue that the creative flair and can-do entrepreneurialism of business can best be harnessed for positive social and environmental impact by demonstrating the case for engagement rather than dragging a reluctant business kicking and screaming to the table with more regulations and mandatory CSR reporting.

The people we meet, by and large, want to do the right thing — to do what is fair and equitable: fair to their customers, fair to their co-workers and to their investors, as well as to the communities in which they operate. Increasing numbers are also becoming increasingly aware of the need for sustainable development. A sustainable business is a business that people value: its employees value it as a great place to work; its customers and suppliers value it as a great business to do business with; the community values it as a great neighbour (and, like good neighbours anywhere, they look out for you as you look out for them); and, as a result, investors and financiers value it as a business into which it is worth putting their money.

This book is for business people who take such a view. We are not attempting to address the issue of the minority of businesses and business people who don't care. Our very conscious purpose is to inspire a more 'can-do' approach — and share further and faster what seems to be working.

This is a fast-moving subject — so we very much welcome feedback, new insights and further examples from readers around the world.

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