features

Getting it straight

posted:03/08/2011

Gareth Pearce explores the basics of corporate social responsibility.

For those companies at the larger end of the spectrum, the idea of corporate social responsibility (CSR) is nothing new. Many of them will have helped their local community as they grew, likely from before CSR was CSR, back when it was just ploughing some of your profits back into the local community. What was remarkable in many of these cases was that the companies involved rarely did it because they were expected to do it, or because there may be significant marketing capital to be made, they simply did it because it was the right thing to do.

The story is very different now – the pure motives behind and areas of action in regard to corporate social responsibility have been blurred. There are now so many strands, aspects, viewpoints and stakeholders involved in CSR that it can be difficult for companies to get a grip on precisely what it is they are, or should, be doing. This is not something that can be shrugged off, or put on the back burner – those companies that fail to adequately address CSR issues could be putting themselves in the line of fire. Lord Sharman, Chairman of Aviva, made the following comment when he founded GoodCorporation's Advisory Panel: 'The business community is under the spotlight like never before. We either demonstrate that we operate responsibly or we risk losing our licence to trade. Corporate responsibility has become mainstream because the concerns of society about business behaviour are real and because businesses have failed to respond adequately.'

Naming names

What precisely do we mean when we say CSR? In its guidance on the topic, the Government's Business Link service offers the following definition: 'CSR is about understanding your business' impact on the wider world and considering how you can use this impact in a positive way. CSR can also be good for your bottom line. It means taking a responsible attitude, going beyond the minimum legal requirements and following straightforward principles that apply whatever the size of your business.' In other words, it's about what could more generally be called 'sustainable business practices'.

While this is useful as a general principle, it does leave rather a lot to the imagination. A better way of looking at what CSR means for businesses is to use a different name, 'ESG' or 'environmental, social and governance' to give it its full name. This starts to specify the kinds of areas that companies should be looking at if they aim to do business in a sustainable and responsible fashion. The breadth of activities covered by ESG also goes some way to showing that it cannot be considered in an isolated manner, but instead must be handled in an involved and distributed fashion right across the business. However, there is a stumbling block. Because many companies have, in the past, mistaken CSR considerations for a simple matter of appearing to do the right thing, rather than

RELATED ARTICLES

Companies falling down on corporate responsibility reporting
Only 6 per cent of companies fully integrate co...

Bigger companies show more focus on CSR, says survey
Companies with a turnover of £50 million or mor...

OTHER FEATURES

Known quality
David Allen looks at the financial pressures br...

Need to know basis
Wyn Derbyshire gives pointers on ensuring that ...

Joining forces
Andrea Thomas explains why joint ventures are w...

operating responsibly, the area has been farmed out to the communications or corporate affairs function. As Leo Martin, a director at GoodCorporation, notes: 'It is therefore explicitly or implicitly a part of the marketing and promotional activities of the organisation. This is usually a world away from the work of the company secretary, the risk and compliance managers and the internal auditors. It is this group that are often cynical about CSR, but who in fact grapple with the day-to-day implementation of responsible behaviour.'

This situation not only means that ESG concerns can be isolated from many working units within the company, but that any effort to embed them is written off by others in the company as only a 'matter of appearance', rather than being of operational concern.

Out loud

Of course, once you've identified or carried out your ESG activities, you must report them. The UK already has a multiplicity of laws governing disclosure in its various forms, and ESG is no different. In addition to the governance reporting requirements of the UK Code on Corporate Governance, companies are expected in their business review to mention environmental matters, the company's employees and social and community matters. In the next year or so, companies will be expected to report on their steps to monitor and reduce their overall carbon footprint, as well as having their directors report on the amounts of greenhouse gases the company produces.

There are a number of Government initiatives designed to improve reporting on ESG or CSR matters. Probably principal among these is the Corporate Responsibility Index (CR Index), a voluntary benchmark of corporate responsibility. This index is aimed at the larger end of the corporate scale – participants are generally required to have a turnover of more than £250 million. Interestingly, rather than simply having a panel judge companies, CR Index instead provides 'a structured framework against which to test the measurement and management of responsible business activities. The CR Index is focused on driving continuous improvement.' This way companies can constantly test themselves and receive a continuous stream of feedback.

In 2011, 145 companies participated in the Index, with 64 per cent of those reporting on their global (as opposed to simply UK) operations. While there is no single winner, companies are put into bands based on their overall performance. This year's CR Index noted that the average score has stabilised at 87 per cent, after falling during 2008 and 2009 thanks to the recession. In total, 30 companies qualified for platinum awards, 34 were in the gold band, and 25 and ten were in the silver and bronze bands respectively.

This does not mean that small and medium-sized companies are not encouraged to report. CR Index has produced a web-based tool that allows smaller companies (typically less than 1,500 employees) to benchmark themselves on their corporate responsibility performance against other similar-sized firms. As well as benchmarking, the tool identifies potential gaps in a company's corporate responsibility spectrum.

For those companies who wish to set their own standards, Business Link provides a number of tools to help assess companies. For instance, the Department for Environment, Food and Rural Affairs offers guidance on setting effective environmentally-based key performance indicators (KPIs), including advice on emissions, resource use, supply chains and products. Similarly, the charity Business in the Community offers the CommunityMark standard, which allows businesses of all sizes and forms to gauge the effects of the community investment. Again, even if your company is not ready to apply for the CommunityMark itself, there are a number of free tools available to judge progress and suggest areas for development.

The European Union has set out a number of CSR objectives as part of its Europe 2020 plans. This 'growth strategy for the coming decade' highlights three key strands for European member states and companies – smart growth, sustainable growth and inclusive growth. On top of these are overlayed a number of EU-wide and national targets for greenhouse gas emissions, renewable energy usage and energy efficiency, amongst other things. These stringent targets mean there is likely to be ever increasing pressure for companies to produce significant and detailed reports on ESG matters, especially as early milestone targets have been missed.

***

On a more positive note, a recent EU study of ESG reporting found that things are moving in the right direction in reporting terms. The report, the *State of Play in Sustainability Reporting in the European Union*, found that companies were making good use of new technology to reach the varied audiences that CSR involves. It also noted that while environmental and governance concerns still dominated reports, there was a distinct trend towards the inclusion of material on social concerns, or in the case of very large multinationals, human rights issues.

However, the research concludes with the point that there is still a distinct gap in CSR reporting. There remains a considerable disjunction between what stakeholders expect from CSR and CSR reporting, and the information that is provided by companies. While this conclusion is not especially cheering, it should at least be noted that this is a problem that is just as great for narrative reporting as a whole, and is by no means limited to the world of CSR.
Although it can occasionally seem like a dense knot of tangled concepts, acronyms, and multifarious stakeholders, the simple and positive truths behind the corporate social responsibility movement means that companies must embrace its vagaries, or be prepared to be left behind.

Gareth Pearce is Assistant Editor of *Chartered Secretary*.