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TOMORROW'S CHALLENGES

WHY NOBODY TAKES CORPORATE SOCIAL RESPONSIBILITY SERIOUSLY

DESIGNING A CREDIBLE CSR STRATEGY

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Why the cynicism? Consider this real setting: About 25 owners and top executives of medium-sized companies have come together to discuss sustainability. An executive for a major oil company presents his division's efforts in renewables such as solar and wind farms, which is clearly good from a sustainability perspective. But the group is not convinced. “You are only a small fraction of the sales of the company”, says one. “You are trying to make the whole company look good when you are just a side activity”, says another. “If you as a company believe so much in sustainable energy, why don't you exit the old fashioned oil business?” asks a third.

Today, it is not only the public who are cynical about sustainability, but also business people themselves. Even if companies clearly do more good in sustainability than before, and some do a lot more good, the overall sentiment seems to be that this is not enough. This is part of the overall challenge to the legitimacy of capitalism these days. No longer expect hurrah's for the positive externalities of what you do if the perceived negative externalities overshadow them (whether it is CEO pay, pollution, tax havens or regulatory influence). If business wants to be seen as the “good guy” in the age of increased transparency, it actually has to be the good guy. Firms cannot claim social credit for the positive impacts of shared value unless they do something about the negative impacts of rent-seeking and free-riding.

Today in many large companies, social responsibility is compromised by the significant part of net income from legal, but rent-seeking behaviour, such as monopoly behaviour and lobbying, as well as from free-riding on the environment and society. In the U.S. telecommunications industry, for example, social responsibility is undermined by lobbying that constrains competition so much that the profits of the largest players would essentially be wiped out if they had to compete at the rates charged by European mobile carriers.

Admit to the negative externalities

To create long term value and be socially responsible in a credible way, firms first need to understand the extent to which profits in the various markets they serve are not earned by true competitiveness but are questionable. How can companies assess this? By identifying their most truly competitive and best regulated markets and comparing profits earned there with earnings in more distorted markets, and by testing to what extent superior returns beyond the cost of capital can be explained by innovation and superior efficiency, or are better explained by rent-seeking and free-riding. Then they need to decide how to manage these questionable profits. We believe that this starts by walking the talk.

Exxon, for example, admits to the problems associated with greenhouse gases (which swamps its shared value and if accounted for would reduce its profits dramatically) and has campaigned for the introduction of a market-based price of carbon. Lego admits to the big impact of the environmental issues associated with its basic material, plastic, explaining what it is doing to find a substitute and how difficult that has been.

Show how positive externalities will exceed the negatives

Second, firms need to decide how they intend to shift the business mix away from rent-seeking and free-riding towards real sustainability. This requires (1) a business case for sustainability in which the positive externalities in shared value exceed the negatives and (2) the development of a credible action plan to manage the costs of foregoing questionable profits and growing revenue in a sustainable way that promotes long term profitability.

A good example has been provided by Unilever. Kraft Heinz in two waves tried to take over Unilever in what would have been the largest takeover yet in consumer goods, Unilever defended itself through the rationale of its sustainability strategy. Warren Buffett was part of the Kraft Heinz takeover bid, but when he heard that Unilever would fight the bid because its shareholders supported the sustainability strategy, he pulled the plug on the bid. After the bid collapsed, Kraft-Heinz announced it would invest $200 million in sustainability initiatives. From our perspective the Unilever defence was a turning point, as it showed how sustainability can be credible. While the Kraft Heinz proposal threatened to increase profits at the expense of negative externalities, Unilever demonstrated how it has shifted and intends to further shift its portfolio away from questionable profits towards both greater sustainability and long term profitability.

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