PERSPECTIVES FOR CORPORATE SOCIAL RESPONSABILITY

Where are we coming from? Where are we going?

By Professor Ulrich Steger, May 2008

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In this article I will try to place the current debate in Corporate Social Responsibility (CSR) in the context of developments over the last 25 years, based on my personal experience. I will also exhort academics to design less “holistic” concepts (which easily degenerate into propaganda used in political debate), and contribute to increasing transparency by providing sober empirical evidence, and to express more appreciation for marginal yet continuous incremental improvements in the business world.

Where are we coming from?

When I was Secretary of State for Industry and Technology in Hesse, Germany in the mid-1980s, I suffered from industry’s often clumsy response to the environmental concerns of citizens and green initiatives. In 1987, I took up a newly established academic chair for “Environment and Business Administration” at the European Business School (EBS). The new chair reflected a move away from regulation as the only solution, to ask instead how environmental management could be used as a tool for competitive advantage. In 1990, Volkswagen brought me in as a new member of the Managing Board when they wanted to reap a first-mover advantage by becoming the economic market leader with a view to ultimately becoming a “Mobility Company”. The first Earth Summit in 1992, prompting the creation of the World Business Council for Sustainable Development (WBCSD), brought together a first wave of industrial leaders proactively calling for workable strategies that would allow companies to assume responsibility for their externalities beyond regulatory compliance. However, this proactive stance was never the universal attitude in industry, but that of relatively few, often very visible “best-practice” companies. The majority expressed their view through industry associations by means of traditional lobbying.

I returned to academia in the mid-1990s, during which an economic recession (with persistent high unemployment and an emerging competitive threat from low-cost countries in Eastern Europe and Asia) pushed environmental topics down the agenda. During the late ’90s, the rich pickings of the “New Economy” dominated public discourse. The dominant environmental agenda was being extended to include the social dimension of Sustainable Development.

Subsequently, political resistance to globalization, the bursting of the dot.com bubble along with several revelations of fraud, conflicts of interest and misleading information changed the situation again: now ethics was “en vogue” and topics of CSR became more visible in public discussion.
Where do we stand now?

At best, global companies are interpreting their current business model in a more responsible way and choosing an incremental but continuous improvement path to increase their environmental and social performance (a rational approach since anything else would mean putting the company at risk and “up for grabs”). Over time this can produce some results, but the impacts of such efforts currently remain significantly below the widespread expectations of breakthrough innovation and new business models.

However, there are reasons for this risk-adverse behavior. The influence of financial institutions on companies has increased and with it, short-term financial performance has become even more dominant than a decade ago. Customers – the second most important stakeholder – have very limited interest in CSR-related topics. The same lack of social and environmental awareness applies to companies since they behave, towards their suppliers, like the customers they complain about.

Moreover, the more interest stakeholders have in CSR (e.g. NGOs), the less important (economically speaking) they are to companies. Mainstreaming has failed so far or – perhaps smartly – has not been tried, since it dispels the first-mover advantage that is so often claimed from CSR actions.

Where are we heading?

Powerful drivers to push developments in a new direction are required. One of the most important change drivers today – the emergence of Asian world-class competitors – is unlikely to have a positive impact on CSR. Countries like China, India and Thailand are in “catch-up” mode. Being suspicious of Western intentions, they tend to view the whole rhetoric on sustainable development more as a means of denying them what the West has already been enjoying for decades.

The required change of direction must therefore be triggered by negative impacts of current trends in the Western world, since organizational or human changes are rarely driven by reason but mostly by pressure. Financial institutions, governments and individual customers can bring them about if they set them as priorities. However markets wield tremendous power over companies today. Investment banks push for major M&A projects (invariably destroying shareholder value). Financial analysts dissect every corporate inefficiency and hedge funds earn money when others lose. Ethical investment is still a niche.
In the process of globalization, national governments – except the USA and China – are unable to fully ensure the well-being of their nation. Many drivers of this development are beyond their control. Alliances beyond the individual nation state have been formed – such as the EU – to secure more leverage, but at the price of cumbersome and slow decision-making processes, impeding them to be a driver.

Customers – individuals and organizations – are usually not willing to pay environmental or social premiums unless they benefit immediately and significantly from so doing. Two examples are bio-food (bringing personal health benefits) and the Toyota Prius (bringing the status of driving a cutting-edge hybrid car).

**In praise of incremental improvements**

In the absence of one or several major “external” events, we really do not know where the limits are and what the potential outcomes might be. Clearly, decision-makers will opt to be risk-averse in such circumstances. But we should look more positively on the marginal improvements that companies favor in their risk-averse approach towards corporate sustainability. Granted, it is far from the “holistic” strategies and the “leading the revolution” type of rhetoric that is favored by academics and – in even shriller tones – by consultants. But it is realistic and shows long-lasting results, even if attained sometimes over a longer time period than expected by players outside the company.

To support these developments from the academic side, we need to highlight the complex web of actions and impacts in a more transparent manner and input sober empirical evidence in all areas of academic research and not just from the “sustainability” experts.

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