

# Rebuilding trust

Every day, governments across the globe attempt to stave off the damage done by the credit crisis. The public is furious. Clearly, rebuilding shattered trust in the private sector, and particularly financial institutions, will require longer term thinking than is offered in any economic stabilisation package.

**Savita Iyer-Ahrestani** reports.

**F**or companies across the globe, the financial meltdown has been a golden opportunity to strengthen their commitment toward corporate and social responsibility (CSR). Those that are ahead of the curve have a real chance to stand out from the pack by proving that, despite the cash crunch, they can still remain socially and environmentally responsible.

Scores of companies will face severe cashflow problems for the foreseeable future. Yet it is also in their best interest to stick with responsible business practices, said Peder Michael Pruzen-Jorgensen, managing director in the Paris office of non-profit business association Business for Social Responsibility (BSR). Companies need to differentiate themselves in what will undoubtedly become an increasingly competitive marketplace.

CSR is a monetary investment that many cash-strapped companies may be unable or unwilling to continue making in the short-term, but Pruzen-Jorgensen believes action in this area will ensure the long-term presence and business viability of companies in a world where credit is tight and civil society's trust is an increasingly valuable commodity.

"Companies that don't appear to be managing their social, environmental and governance profiles will be looked at as having higher risk profiles, and won't be as eligible for much-needed funding, as their risk premium simply raises the cost of capital," Pruzan-Jorgensen said. It is in companies' best interest to stick with sound CSR because "there is a direct link between environmental and social consciousness and profitability, and the more you are concerned about them, the net impact on your business is profitable. This has already been proven in many instances, and the link is very clear in the present situation, where high prices for

commodities and natural resources emphasise the sustainability imperative of making wise and efficient use of energy, water, land and other critical resources."

Despite the duress they will undoubtedly face, the crisis may also prove an opportune time for many companies to get a better handle on what Jan Noterdaeme, senior advisor on strategy for the EU, and stakeholder relations at Brussels-based CSR Europe (the European business network for CSR) calls their "virtual value."

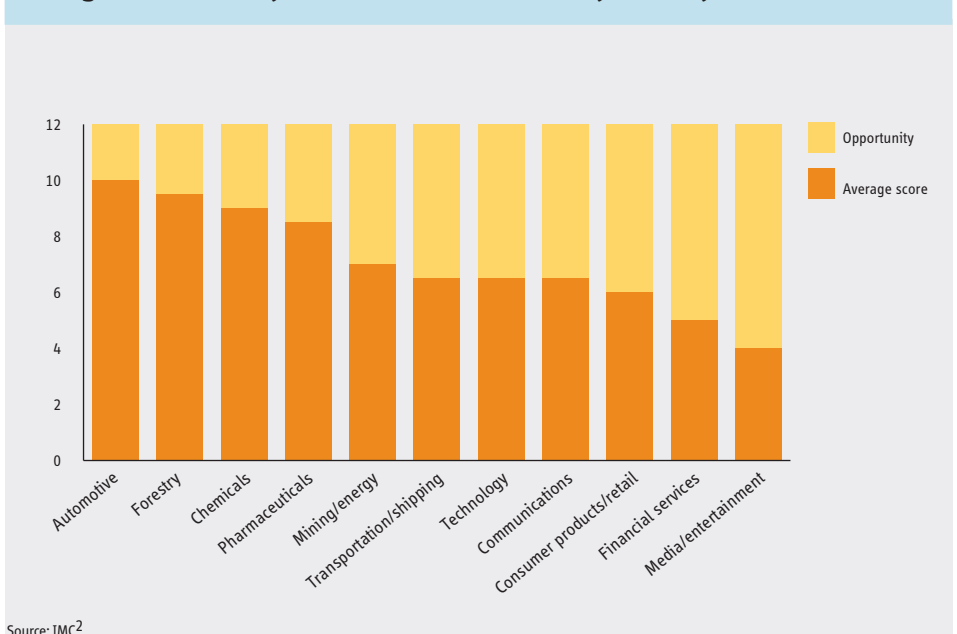
"We have always said that finance is hard but today, no one knows what's hard and what's soft anymore," Noterdaeme said. "Because of the financial crisis, companies now have the chance to prove that their virtual value – represented by their human capital, by innovation and customer relations and a host of other factors – represents their real value in the mid- to long-term."

## Measuring intangibles

Noterdaeme said recent events prove a company's financial performance is by far the least indicative trait of its overall potential. It is tough to measure the intangibles that constitute a company's so-called virtual value, but CSR Europe is working on a framework to help companies quantify that value, thereby reducing the gap between their financial and non-financial performance. It is joined in this initiative by a number of institutions, including Lloyds TSB, Telecom Italia, the European Academy on Business in Society and the European Federation of Financial Analysts. The product will be tested this December and finally launched in March 2009.

"The real value of companies is about those intangibles, and now more than ever, investors need to take them into account when making investment decisions," Noterdaeme said.

Average sustainability communications scores, by industry



## CORPORATE SOCIAL RESPONSIBILITY

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“If companies haven't thought about CSR strategically, this is where they will get caught out,” said Erin Loyal, executive director of CSR Asia in Singapore, a provider of information, training, research and consultancy services on sustainable business practices in Asia. “CSR is not something that should go to the wayside – if a company is committed to energy saving, for example, they should tell themselves that they'll be able to avoid a future credit crunch by sticking with that policy. Banks are going to be testing companies, and the way in which they do their business is going to determine future funding.”

Companies that have already started down the CSR path are not likely to backtrack from it – even in the current crisis – because many of them have aligned CSR with their core business strategy. Companies look on it as an investment for the long-term sustainability, viability and success of their business. Louise Gardiner, of the social responsibility environment and social development department of the International Finance Corporation, said that a greater number of companies in emerging market countries have been taking steps recently to implement specific plans for CSR.

It requires a change in mindset from focusing on how to spend money to how they make money, said Gardiner, taking into account the long-term positioning of businesses vis-à-vis the market, their products and the interests of their stakeholders. As such, CSR is, in an increasing number of cases, no longer companies doing ad hoc socially- or environmentally-positive projects, but really investing into a firm and sustainable management system for CSR.

“Many companies start with just a project or two and they do have an interest in doing more CSR, but they don't know how to pull it all together,” Gardiner said. “Through engaging them, we get an escalation of an interest and we can help them formulate a long-term strategy and map out where they want to be in, say, five years.”

### The friendly face of globalisation

Globally, the drive for sustained CSR is also resulting in a greater degree of cooperation from the different parties involved. Stakeholder panels are gaining ground in emerging market countries, and in many places, NGOs (non-governmental organisations) are changing their modus operandi from simply campaigning against corporations to campaigning and collaborating, said Adine Mees, CEO of Canadian Business and Social Responsibility.

“This can sometimes be confusing for companies, so work needs to be done in setting up guidelines, but we are seeing more and more organised partnerships and this can bring a fair degree of integrity to a CSR project.”

While CSR encompasses a range of different environmental, social and governance issues, one of the biggest areas at the global level is the integration of CSR policies into supply chain management. Europe is at the forefront of these issues: European companies are under huge pressure from investors and consumers to be transparent, said Noterdaeme. Companies then disseminate these values to their suppliers in different parts of the world. Companies like HP Titan, Volkswagen and L'Oreal, which have serious supply chain systems, are engaging more and more with their suppliers not just in terms of audit and controls, but also by ensuring training for supplier firm employees and through capacity building with their suppliers.

“The business-to-business pressure is even higher than any legislation, and the supply chain is the toughest pressure upon companies to get CSR into their business strategy,” Noterdaeme said. “Buyers want to rely on good products and European companies have to be accountable when they're selling in Europe.”

The supply chain issue is particularly important in Asia – “the factory of the world,” said Loyal – and a lot of companies there are being pushed into working on implementing a range of policies that fall under the supply chain umbrella by their foreign purchasers.

For any kind of CSR strategy to be effective, companies need to accurately

quantify their environmental and social impact. It is far simpler to measure environmental impacts than social ones, with many new tools available in this area. Recently, a group of organisations including Conservation International and the International Union for the Conservation of Nature, in partnership with the private sector, launched the Integrated Biodiversity Assessment Tool, designed to help companies integrate biodiversity considerations at the earliest stages of project planning.

Progress is also being made, albeit more slowly, on the social side. CSR Europe is part of a concerted effort to create a host of new instruments allowing companies to actually quantify the different facets of their CSR strategies. This will enhance these strategies and make them more comprehensive and meaningful, Noterdaeme said.

Mechanisms like the Dow Jones Sustainability Index have also really helped companies both in terms of monitoring their CSR performance as well as motivating them to continue along their chosen path, CSBR's Mees said. More and more companies are adopting the global reporting standards purported by the Global Reporting Institute.

“Year on year, we are seeing a great deal more sophistication with respect to reporting and other CSR standards,” Mees said.

Despite all the progress that has been made, there are many companies that still tout CSR as a pure marketing tool. In many parts of the world, the tendency to look upon CSR as a “soft policy” – particularly in face of the pressure to deliver dividends to shareholders and show profit – remains strong. There is nothing wrong in pursuing profit, BSR's Pruzan-Jorgensen said, but private sector companies are also responsible for making products and offering services that are useful to society, and they need to do that by limiting their effects on the environment and on society.

“Ultimately, the marketplace will decide for a company whether or not its CSR initiatives are genuine, and whether they are aligned with the company's corporate strategy,” he said.