Back to the Future of CSR

A Retrospective on ‘Fade, Integrate, or Transform’

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About this Occasional Paper

This paper was prepared by Allen L. White, BSR Senior Advisor, Vice President and Senior Fellow, Tellus Institute, and Director, Corporation 20/20. The author gratefully acknowledges comments on an earlier draft from Aron Cramer, Faris Natour, and Terry Nelidov of BSR and from Christi Electris of the Tellus Institute.

The paper draws on key developments in business, government, and the research community to assess three scenarios of CSR’s future. It seeks to provide BSR member companies and the broader readership with a framework for understanding the evolution of the field and for assessing the prospects for transformational change in business-society relations in the coming decade.

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A leader in corporate responsibility since 1992, BSR works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. With offices in Asia, Europe, and North America, BSR uses its expertise in the environment, human rights, economic development, and governance and accountability to guide global companies toward creating a just and sustainable world. Visit www.bsr.org for more information.
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Introduction

“We in Big Pharma should never take for granted our right to exist; our business model is not written into any country’s constitution. So we should be turning up to work every day with the mindset that we are earning the right to exist. We are earning it by meeting the expectations of society. When you start to think like this, you see the world differently.”

—Andrew Witty, CEO, GlaxoSmithKline

Where is CSR heading in the coming decade?

A half-decade ago, we asked this question and framed a response in the form of three scenarios: *Fade*—a future of marginalization in which CSR falls victim to neglect and stagnation within companies and is uninspiring in its capacity to galvanize innovation and disruptive change in business as a whole; *integrate*—a future of progress in which CSR makes significant inroads across sectors and functions, helping to shape everything from governance and strategy to product design and supply chain management; and *transform*—a future in which CSR morphs into a powerful force of disruptive change leading a new vision of corporate purpose and design.

With both the benefit of hindsight and a sense of new urgencies in defining business-society relations, now is a moment to journey back and journey forward to ask: What is the future of CSR? More than ever, the response should be framed not only in terms of how CSR *may* evolve but, more importantly, how it *should* evolve to meet the great sustainability challenges of the 21st century.

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1 Andrew Witty, as quoted in “GSK in Canada.” Available online here: http://www.gsk.ca/english/docs-pdf/Corporate%20eKit%2020%28Eng%29%20July2010.pdf
Setting the Stage

Economic and business historians surely will look back at the first decade of the new millennium as one of the most tumultuous on record. First, a boom and bust in the U.S. technology sector. Next, a housing bubble and crash. Then, a global financial crisis that brought the world economy to the brink of breakdown. And, finally, the onset of the Great Recession that challenged much of the conventional wisdoms of finance and business, including those associated with the most ardent advocates of self-regulating markets. The notion that capital markets self-correct and operate most efficiently (though not necessarily fairly) if left to their own devices came under intense scrutiny. This occurred not only in countries in the global North, but equally in the global South, which, by and large, avoided the most deleterious effects of the economic downturn.

In 2005, midway through the first decade of the new century and prior to the onset of the global recession, BSR convened a retreat of some 15 of its member companies to ponder a key question facing individual organizations as well as the CSR movement as a whole: What will be the future relationship between companies and society? The event mirrored a frustration among many CSR champions within companies that the pace of change, described by some as “bloodless incrementalism,” was falling well short of the expectations and opportunities the movement faced. Some participants saw the growing “bureaucratization” of the CSR function in many companies as a major impediment to discontinuous innovation, leading companies to focus on how to better do what they were already doing rather than nurturing ideas that drive breakthroughs in responsible business practices. The consensus among retreat participants was that, in the future, companies should help “…mold, rather than react, to the forces that propel [CSR] and the world in which we live.”

The bold thinking that permeated the 2005 retreat was, in retrospect, no surprise given the sea changes reshaping the global business landscape. The rise of major emerging economies, led by Brazil, Russia, India, and China (the BRIC countries), already was confronting the traditional economic hegemony of the Organisation for Economic Co-operation and Development (OECD) nations. The list of leading transnational corporations (TNCs) was undergoing dramatic shifts as Sinopec, China National Petroleum, State Grid (China), Gazprom, Petrobras, Samsung, and others ascended to the ranks of the world’s largest and most powerful corporations. Meanwhile, the availability and price volatility of mineral and food commodities, dramatic advances in information and communications technology (ICT) and social networking, and rising pressure on business to deliver traditionally public goods were creating powerful currents for change in how business contributes to the global sustainability agenda. Taken together, all signs were pointing to an era that would continue to challenge sacred cows and prevailing beliefs underlying the social contract between business and society.  

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2 In this paper, CSR is used interchangeably with sustainability, though many observers, including this author, view CSR as a means to the end of building sustainable enterprise.

The Emergent Landscape

Less than three years after the BSR convening, a global economic recession had replaced the exuberant optimism and seemingly boundless—though ultimately illusory—expansion of wealth creation as measured by company share prices, earnings, and other conventional indicators of financial prosperity. In the global North, a deep recession shook the confidence of citizens in their government and, more generally, in their personal and family prospects for the future. The gradual “hollowing out” of manufacturing jobs and threats to traditional social safety nets in the United States, much of Europe, and Japan raised profound anxieties among both government and workers: What would replace traditionally secure, high-paying production jobs in the next decades as the emerging economies continued to attract and create manufacturing enterprises in both traditional sectors such as autos and apparel and cutting-edge sectors such as green energy and ICT?

The transformation of the global business landscape is rapid and deep. Countries such as China, India, Korea, and Brazil are no longer satisfied with being the world’s factories for low-end products and services. Relatively insulated from the recessionary conditions in the North owing to a combination of prudent financial regulation, high prices for commodity mineral and food exports, and the emergence of strong domestic markets to complement export demand, these countries represent a frontal challenge to the economic dominance of the global North. In parallel, the business models in the emerging economies, often characterized as “state capitalism” to one degree or another, represent an alternative to the free-market ethos dominant in Western nations. Unabashed about exerting state influence on business to meet geopolitical objectives, the variety of managed and mixed capitalism models visible in emerging economies portend a direct challenge to the largely laissez-faire economics that dominated Western nations during the last three decades.

As these economic currents have accelerated, however, many of the world’s social vital signs are demonstrating disturbing trends, creating widespread disquiet among the TNCs that are failing to contribute adequately to the goals of eradicating poverty; providing affordable solutions to basic needs such as health care, literacy, and shelter; providing jobs and skills commensurate with 21st century needs; and protecting the world’s environmental commons.

The Millennium Development Goals (MDGs), the most widely recognized barometer of social progress among the world’s needy, shows mixed progress at best in regard to its 2015 goals. Eliminating preventable diseases has progressed impressively, poverty in Africa has declined 1 percent annually from 1999 to 2005, and China’s and Brazil’s robust economies have lifted some 300 million and 30 million people, respectively, out of poverty. At the same time, hunger has doubled in the Democratic Republic of the Congo, and progress toward improving child and infant mortality lag well behind the 2015 goals of reducing by two-thirds the mortality rate among children under 5, reducing by three-quarters the maternal health ratio, and achieving universal access to reproductive health. On the ecological front, so-called “safe operating spaces”—limits beyond which the planet’s ecosystems may suffer irreversible damage—already have been exceeded in the areas of climate, biodiversity, and the world’s nitrogen cycle.4

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While all of these shortcomings should not be ascribed exclusively to businesses, they are all directly or indirectly affected by the policies and practices of tens of thousands of TNCs—and an untold number of small and medium enterprises—worldwide. Pharmaceuticals, water and energy utilities, agribusiness, apparel, finance, and virtually every other sector impinge upon the well-being of the half of the world’s 6 billion who live on less than US$2.50 per day. The nature and impact of such influence via direct employment, supply chain relationships, commodity prices, and a multitude of other pathways is inseparable from the livelihoods and well-being of billions worldwide.

For those disillusioned with the inaction and/or inability of government and multilateral institutions to accelerate social justice and ecological protection in a tumultuous world economy, the private sector’s role is increasingly scrutinized for its performance and potential to achieve these goals. Indeed, the rise of a new generation of social enterprises that blend social and financial value in their definition of organizational purpose attests to both the frustration and hope of finding new ways to deploy business know-how to solve societal problems. At the same time, a burgeoning number of “new economy” initiatives that challenge conventional assumptions about the shape of the global economy and capital markets are further evidence of the nascent appetite for transformational change in the macro environment which must emerge in coming decades.


6 Examples of such initiatives are the Institute for New Economic Thinking (www.ineconomics.org), the New Economy Network (http://www.neweconomynetwork.org/), Corporation 20/20 (www.corporation2020.org), the Great Transition Initiative (www.gtinitiative.org), and various efforts connected to the Rio+20 theme of advancing the “green economy” (www.uncsd2012.org).
Back to the Futures

Spurred by the earlier convening, BSR released a paper in August 2005 aimed at challenging business to ponder the future of CSR within companies and as a broader movement across all sectors and regions. To frame the possibilities, the paper posited three scenarios that depict a range of CSR profiles in the year 2015.7

» The *fade* scenario: By 2015, a severe economic downturn, global recession, financial market failures, and dramatic downsizing have diluted company commitments to CSR, returned the movement to its origins as a legal compliance and philanthropic mode, and positioned government—not companies—as the principal agent for retaining the remnants of greatly weakened and increasingly marginalized CSR movement.

» The *integrate* scenario: By 2015, CSR has shifted from the extraordinary, to the exceptional, to the expected. It has evolved from a position of vulnerability and “bolt-on” practice within companies to a position of integration into company strategy, policies, and practices. Its success is attributable to a realization that CSR is inseparable from reputation, trust, and brand enhancement and risk management, as well as to the organization’s capacity to anticipate and act upon new business opportunities amidst shifting consumer and regulatory environments. By all indications, CSR is poised for the long term, woven into the fabric of research and development (R&D), finance, operations, marketing, communications, and other core functions.

» The *transform* scenario: By 2015, a major shift is unfolding in relations between companies and society. “Shareholder value,” the prevailing mantra during the prior three decades, is largely discredited for its short-term, myopic focus on share price and its deleterious effects on environmental and social stewardship. In its place is a new paradigm that is redefining corporate purpose from a focus on shareholder enrichment to a broader construct in which stakeholder (including shareholder) well-being and long-term wealth creation are the underpinnings of successful enterprise. Companies define, measure, and report their contributions toward enriching natural, social, organizational, and intellectual, as well as financial, capital. A coalition of progressive business leaders, NGOs, legal practitioners, and scholars, and a few enlightened state and national governments, are working to redefine the purpose of a 21st century corporation. This is occurring through both “hard law,” e.g., charter reform that elevates duties to company stakeholders, laws redefining directors' fiduciary duty, regulations mandating sustainability reporting, and “soft law,” e.g., sustainability-oriented stock listing requirements, business coalitions that champion international climate and biodiversity accords, and deepening commitments by companies to achieve 2020 Millennium Development Goals Version 2.0.

Now, as the first decade of the new millennium concludes, it is timely to assess to what extent each scenario is materializing. The picture is at once encouraging and disappointing. Encouraging because CSR has survived amid the worst global economic downturn in the post-WWII era. Disappointing because discontinuous change has been limited to relatively few leadership companies while the vast majority have fallen short in embracing sustainability at a deep and enduring level.

**Fade**

At one end of the spectrum, the *fade* scenario has not materialized to the degree one might anticipate during times of economic downturn and retrenchment. To be sure, the financial meltdown and economic dislocation continue to realign North-South and East-West relations. Western companies have made sweeping changes, most notably in reducing or freezing staff levels and continuing to outsource jobs and facilities to lower-cost countries and, in some cases—China, India, Brazil, Taiwan—to increasingly technically sophisticated emerging economies. As these trends continue unabated, the challenge of building and sustaining strong CSR programs throughout global supply chains becomes increasingly complex and costly. While these realities may well dilute commitments to responsible practices, leading companies—especially those that are consumer-facing—have in fact become increasingly sensitive to the risks of substandard practices within their supply chains. The formation of the Global Social Compliance Programme is one manifestation, reflected in its efforts to upgrade, harmonize, and enhance the efficacy of labor and environmental practices within global retailer and brand operations. 8

Amidst the economic downturn and global economic realignment, many companies report an enduring commitment to CSR. In a recent survey of 1,000 companies in 97 countries that endorse the UN Global Compact, 95 percent report that the "relevance of participation in the Global Compact did not decrease last year, with 25 percent considering the initiative more relevant than before."9 In a similar vein, 70 percent of 1,500 business surveyed by the Sloan Management Review reported that they maintained or increased their commitments to sustainability during the economic downturn.10 "Improved company or brand image" was by far the most frequently identified benefit of addressing sustainability within the organization, suggesting that, paradoxically, CSR is often viewed as even more critical to company competitiveness during periods of economic stress.

Juxtaposing these findings, one may conclude that while CSR is surviving recessionary times, it appears to be doing so in ways that fall short of creating deep impacts in the organization beyond bolstering its brand and reputation. Evidence is scant that firms view CSR through this more strategic lens in terms of its capacity for strengthening company performance by, for example, elevating employee satisfaction and talent retention, alignment of rewards and incentives with sustainability metrics, breakthrough product and service innovation, board training on sustainability opportunities and risks, and creation of new forms of stakeholder governance.

9 UN Global Compact, *Annual Review: 10 Years 2000-2010*, June 2010. These results should not be extrapolated to global business in general since they are biased in two ways; (1) those most committed to the Compact’s principles probably were most likely to respond to the survey; and (2) Compact endorsers by definition are more committed to responsible practices than the business community as a whole. Nonetheless, the results are striking in view of the intense pressures to remain competitive and profitable amidst a deep global recession.
Integrate

If CSR has not fallen victim to the marginalization posited in the fade scenario, to what degree has it penetrated the organization in the way depicted in the integrate scenario? Do, for example, the research and development, capital allocation, finance and accounting, and board committee structure for marketing, operations, and investor relations reflect an enduring, irreversible commitment to CSR and its sibling, sustainability? Here the evidence is, at best, uneven. The aforementioned MIT/Sloan study paints a mixed picture, indicating that concrete actions generally lag behind laudable intentions. Various impediments to the pursuit of sustainability were reported across business sectors. In automotive firms, the lack of resources is prominent. In construction, the value proposition is unproven. In health care, “outdated mental models” impair the integration of sustainability across the organization.

Overall, the gap between intent and action stubbornly endures. Sixty percent of Sloan/MIT respondents say they believe they are building awareness of sustainability in their organizations, but most lack an effective execution plan for translating awareness into measurable achievements. For many, sustainability remains a high-priority aspiration, but on the ground, efforts are most often defensive, tactical, and disconnected rather than proactive, holistic, and systemic.

Further evidence of a gap between aspiration and performance is reported in a UN Global Compact/Accenture study of Compact companies. Among respondents, 96 percent of CEOs say sustainability should be fully integrated into strategy and operations, up from the 72 percent reported in an earlier survey. However, 49 percent cite the complexity of implementation across business functions as the most formidable obstacle to achieving such integration. Some 88 percent say integration should reach beyond the parent to the supply chain, but only 54 percent report achieving such success.

The integration of sustainability strategy, policies, and practices is gradually emerging as a norm among many companies. But substantial impediments remain, even in firms that are most seriously committed to full-bodied integration. Companies most often cited as sustainability leaders are making partial progress, focused for example on its environmental dimension while falling short on the social and governance dimensions. In this sense, progress is discernible but uneven, leaving untapped the rich opportunities for positive synergies that can happen when environmental, social, and governance innovations occur simultaneously rather than sequentially.

Sustainability is taking root most decisively and in the most integrated forms in firms that are redefining their core business purpose and/or business model. Doing so sets the stage for moving toward transformational, or discontinuous, change through redefinition of corporate mission. This is sometimes referred to as “servicizing”; for example: manufacturers moving to mobility services, chemical companies to chemical management services, beverage companies to hydration, fossil-based electric utilities to energy service companies, sports apparel companies to sports performance organizations, and ICT hardware to information services and solutions. In a fundamental way, organizational

transformation of this nature represents a leading edge in moving sustainability from the margins to the core of business strategy.

In short, signs of the integrate scenario are visible, though more often in the form of awareness and aspiration rather than action and outcomes. These indisputably are positive signs. But are they enough to meet societal needs and expectations in the perilous decades that lie ahead, wherein the world ecological, social, and economic systems face immense threats to their integrity and stability?

**Transform**

The transform scenario conceived of five years ago depicted a future in which business—both through its own devices and through shifts in the external environment in which it operates—dramatically accelerates progress toward realizing its full potential as a contributor to the world’s sustainability agenda. To what extent is this scenario taking root? Glimpses of such transformational change are discernible, even if they collectively fall short of the sweeping changes embodied in the transform scenario. In the United States, states such as Maryland, Vermont, and California are creating new forms of corporate charters that provide a framework for decoupling governance and performance from a strictly shareholder orientation to a stakeholder model.13 At the corporate level, Intel has voluntarily decided (after persistent pressure from shareholders) to revise its charter to require its Board’s Governance and Nominating committees “… to report to the Board with regards to matters of corporate responsibility and sustainability performance.”14 Such an action, which only a few years ago was viewed with skepticism or ignorance by most in the corporate and legal community, has now achieved legitimacy thanks, in part, to research and advocacy by the UN Principles of Responsible Investment and the “Freshfields” reports it co-sponsored.15

Other signs of the transform scenario are visible in new ownership and governance structures that are challenging conventional practices and introducing new definitions of corporate purpose.16 Well-know examples of social enterprise such as the Grameen Bank/Groupe Danone (France) joint venture in Bangladesh exemplifies a new generation of blended business models that have at their core a social purpose, e.g., poverty alleviation, information technology literacy, and microfinance. These blended enterprises come in a variety of forms, including stakeholder-owned corporations (e.g., cooperatives, employee-owned); mission-controlled organizations such as the New York Times (“inform the electorate”) and Novo Nordisk (“defeat diabetes”); and nonprofit-trust-controlled ownership such as Bertelsmann (Germany), GrupoNueva (Chile), Tata Group (India), and again Novo Nordisk (Denmark). In the case of Tata, 90 enterprises are controlled by family trusts and bound by the 140-year-old legacy of its founder to advance social capital.17

Meanwhile, the ascendance of China as the world’s second-largest economy has brought to the world economic stage a new and assertive form of state capitalism whose principal shareholder is, in theory, also its principal stakeholder—China

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itself. The rise of Chinese enterprise worldwide in sectors such as mining, automobiles, and computer technology is moving the country well beyond the boundary of low-end manufactured goods into becoming a global player in both low and high technology.

All these examples indicate the various avenues through which transformation may occur: emergent hybrid models characterized by blended value creation, scaling up of existing business models rooted in social mission, and state-led models driving state-led capitalist development. The collective impact of these trends points to a period of diversity and experimentation in shaping 21st century enterprise. No company is immune to these changes. All will feel the scrutiny of a citizenry, empowered by the “radical transparency” enabled by modern technology, that expects business to adhere to increasingly higher standards of social responsibility. This will occur even in authoritarian settings such as China, where environmental and labor unrest, once suppressed by government, is gradually more tolerated—though still contained—as a safety valve for citizens and workers to vent their frustration amidst a volatile mix of economic opportunity, inequity, and stress.

While the coalition of progressive business leaders, NGOs, and enlightened state and national governments envisioned in the transform scenario has not fully materialized as a coherent force for transformational change, disparate components of such change are discernible. A unifying force to drive transformational change awaits the confluence of leadership, shared public grievance, and the right timing to catalyze a shift from latency to reality. This, in essence, is the future envisioned by Cramer and Karabell in their depiction of the 2020 Shanghai “First Global Business Summit on Sustainability.”

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Musings on the Future

Imagining the future is not new to the business community. Shell’s pioneering work in scenario planning some three decades ago heralded the beginning of a period in which such planning has become common practice among many large firms. Shell’s approach, like that of virtually all practitioners of scenario planning, is to forecast possible futures and to proceed to design strategies to adapt to such futures. The idea of backcasting, that is, articulating preferred futures and asking how to move from the present to such preferred conditions, has recently emerged as a practice only among a select number of large companies. The notion that the future is a matter of choice, not chance, is only recently permeating the business world, with a few companies at the vanguard. While observers hold widely different views on the long-term societal benefits of TNCs as agents of positive social change, few would question the power of such firms as Google, Facebook, Wal-Mart, IBM, and ICICI Bank to transform personal and organizational behavior, business-to-business and business-to-consumer relationships, and even the course of globalization itself.

Individual companies and business associations, as well as NGOs, are intensifying efforts to rethink corporate purpose and design, as well as the relationship between business and the global ecosystem upon which companies ultimately rely for their sustenance and prosperity. BSR’s recent report on sustainable consumption is one such example, challenging companies to rethink the meaning of value in ways that deliver well-being to society while dramatically reducing the adverse environmental and social footprint. The prospect of a global economy in 2100 that is 80 times the size it was half a century before is a future fraught with potentially catastrophic environmental and social consequences. Indeed, decoupling growth in well-being from growth in consumption of physical goods is arguably the most urgent sustainability challenge of the 21st century.

The World Business Council for Sustainable Development’s Vision 2050 confronts the same challenge in complementary fashion, challenging business to help create a world in 2050 in which “…some 9 billion people live well, and within the limits of the planet.” In this world “…economic growth is decoupled from ecosystem destruction and material consumption and recoupled with sustainable economic development and societal well-being.” Moreover, global governance institutions have emerged to deal with planetary-scale problems—fisheries, climate, biodiversity—that defy solutions at the regional, national, or local scale. Vision 2050 is noteworthy not only for the transformational change it advocates, but equally so because the vision—“a platform for dialogue”—is the work of a global alliance of some 200 leading TNCs. One may safely say that a report of this nature by an organization of this makeup would not have been released even a decade ago.

The nascent but growing movement toward transformational change in the purpose and design of business organizations comes amidst the continuing struggle of many OECD countries to shake off the effects of the Great Recession. For those who believe that necessity is the mother of invention, these efforts will proliferate in the coming years. Counter-currents are many and powerful, and include entrenched short-termism in capital markets; failure of the world’s governments to conclude aggressive and enforceable targets for ecological protection; and the spread of consumerist culture among the hundreds

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of millions of newly minted middle-class citizens in China, India, Brazil, and other emerging economies.

Whether the vision embodied in the *transform* scenario comes to life in time to avoid an ecological debacle is unpredictable. Undeniable, however, is the historical moment facing companies acting individually and collectively. It is a moment of immense opportunity and imperative to demonstrate sustainability leadership in the turbulent decades that lie ahead. A new social contract is waiting to happen. Are companies ready to constructively contribute to making it an instrument of true transformation?

The words of Vaclav Havel, first president of the Czech Republic and winner of the International Gandhi Peace Prize, offer an observation worthy of a foundational role to guide business leaders’ conduct in the pivotal next decade:

*Maybe we should start considering our sojourn on Earth as a loan. There can be no doubt that for the past hundred years at least, Europe and the United States have been running up a debt, and now other parts of the world are following their example. Nature is issuing warnings that we must not only stop the debt from growing but start to pay it back ... Technological measures and regulations are important, but equally important is ... a consciousness of the commonality of all living beings and an emphasis on shared responsibility.*