



# the inside track #08

Highlighting CSR Issues of the moment

## CSR – ever upwards or a growing commercial realism?

CSR-related political statements from David Cameron together with Gordon Brown's Budget initiatives such as excise duties for lowest emission cars, index linking the Climate Change levy and favourable taxation on biofuels, have been prevalent in recent weeks.

At the same time, CSR observers have expressed opinions that it is "on the up and up".

One US CSR consultancy in publishing its 2006 Corporate Social Responsibility Forecast suggests that:

- CSR will become a concern for stock exchanges
- More and more US companies would adopt CSR programmes
- CSR will grow rapidly in Asia
- The majority of Fortune 250 companies will have a CSR and ethics committee as part of the main board
- Corporate social opportunity (based on Prahalad's book – "The Fortune at the Bottom of the Pyramid") will become more significant than CSR itself.

All very worthy. Being US-based, perhaps their focus on the need to develop CSR is unsurprising - US companies seem now to be paying greater attention to CSR, having historically lagged behind other nations.

A European consultancy, celebrating 10 years in the CSR field, discusses "the rise and rise of CSR", suggesting that over the next decade:

- CSR will become more embedded - "part and parcel" of normal business practice
- SME's will adopt CSR
- There will be major inroads of CSR into the developing world.

All very predictable and a rather large "so what!".

However the EU's launch of a "European alliance for CSR", focuses on corporate-led schemes rather than new regulations or NGO agendas. This has largely been due to a concern to boost European competitiveness (particularly with the growth of China). Perhaps this suggests a sprinkling of commercial reality into the CSR focus.

This was reflected by comments we received from a FTSE50 company – one considered to be proactive in CSR. They were questioning the level of each of their CSR activities, the reasons for undertaking them, and the reactions of stakeholders. They were adopting this approach because of the lack of any significant comments – negative or positive – about several of their activities, causing them to question their value. Also, they were reverting to electronic CSR reports, there being little demand for previous hard copy versions.

Also public opinion seems to be plateauing as regards the importance of CSR, The latest MORI survey of purchasing behaviour shows 82% of adults claim that when forming a decision about buying a product or service, it is very or fairly important that the supplier shows a high degree of social responsibility. However, whilst significantly higher than in 1997, this percentage has declined over recent years with the decline being most significant in those rating it "very important".

So, there are differing views of the growth of CSR, some of which reflect the numbers of reports being produced rather than changes in corporate attitudes. There are commentators who suggest an ever upward spiral of the importance of CSR, whilst others are beginning to temper their views of CSR with commercial realism.

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# the virtuous circle comment: #08

One thing is clear from all the various commentators – CSR is now a familiar topic. Yet familiarity should not breed contempt – provided CSR is dynamic, and is seen to be integrated, rather than standalone.

For this to occur in a business, CSR needs to be championed by business leaders, such as the CEO. But getting their attention for CSR can be difficult. To be persuaded to be the CSR champion, a business leader requires a clear and unequivocal added value business rationale to incorporate CSR within their business planning and operations.

To evaluate the overall state of CSR, it is not sufficient just to consider the numbers of companies reporting. More relevant is to look at how and what they are doing - the FTSE50 Company's comment is consistent with others we have received over the past year.

What we detect is a CSR life cycle, moving from a focus on measurement and reporting to prioritising CSR initiatives, based on commercial value, as a company becomes more mature in its approach towards CSR.

Companies will be at various stages of CSR development. In some – typically larger listed companies - CSR can be sophisticated. In others – often smaller companies – it will be at an early stage. At each phase, the importance of CSR to the company will vary.

Those companies new to CSR tend to focus on external communication, with an agenda largely set by interest groups, often copying the style of what leaders in their industry sector have previously reported.

However, those companies more sophisticated or more mature in CSR have already achieved the milestone of their external CSR report. Now they strive to embed CSR and its values throughout the business. As a consequence, their agenda becomes more internal and CSR has become more relevant to the CEO and the Board.

The result is that they begin to focus on initiatives that address key risks and opportunities within the business, perhaps to the extent of managing down other CSR activities seen to be less of a priority because they do not deliver any added value.

The approach of a company in the later stages of the CSR life cycle will be based on risks and opportunities. Both relate to the content of any CSR agenda and the 'risk management' approach is the direction we believe CSR has to go. Given the need of corporate governance to have strong and effective risk management programmes, this focus ensures the CSR strategy addresses business critical issues that are at the core of every Board's focus.

The strong message from the Operating and Financial Review was for companies to consider non-financial reporting of those social and environmental factors that had the most effect upon the company's risks and opportunities. The fact that the OFR has yet to be reformulated should not stop CSR and other involved professionals adjusting their approach accordingly.

CSR will continue to grow in importance to business, particularly with progress in reporting amongst smaller companies. At the same time we advocate the need for the CSR agenda to adapt to life cycle development, using a risk management rationalisation to provide greater internal focus, which in turn enables better engagement with the CEO and Board. This provides the CSR strategy with a secure and continuing platform, ensuring it becomes a relevant and integrated part of business practices and business planning.

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