



the inside track #14

Highlighting CSR Issues of the moment

CSR - its role in a recession

At a time when every newspaper headline screams “crisis” or “recession”, it is right to question whether corporate social responsibility is only a “fair weather” phenomenon.

Ernst and Young recently reported that corporate profit warnings had reached their highest since the dot.com boom, and there are already signs of cutbacks within corporate departments. A recent report by the UK's Institute of Practitioners in Advertising said that “corporate marketing expenditure budgets had been revised down for a third successive quarter and to the greatest extent since the 9/11 terrorist attacks in late 2001 caused business confidence to plummet.”

The findings remind us of the old adage “marketing and training expenditure are always cut in times of business difficulty”. Will the same be true for CSR?

Based on our discussions about CSR with clients and business contacts, we have not yet identified the same degree of pessimism as within marketing departments. Businesses with multinational scope (either because of having global sales, manufacturing, or international supply sourcing) are finding pressures to demonstrate worldwide corporate responsibility to be even greater than previously. Perhaps this is indicative that the sources of pressure on these companies for CSR are far beyond just economic changes.

Similarly, we see that businesses relatively new to developing their CSR policies and activities remain in something of a 'catch up' mode. Consequently they see CSR just as relevant now as when they first commenced developing their approach.

In addition, we see new business sectors beginning to consider how they should develop an approach to the CSR issues that impact them. For law firms, CSR is moving higher up the agenda. But, we also see evidence that charities are considering how they should better report their CSR position. This is often

prompted by corporate donors asking for evidence of their CSR approach. That the organisation represents a good and worthy cause is clearly no longer sufficient.

At the same time, the enhanced Business Review reporting requirements for listed companies mean there is now even greater regulatory focus on non-financial issues - many of which overlap with CSR - which influence the company's business strategy. This has resulted in a heightened profile for CSR issues, even for smaller FTSE companies that have tended to ignore it in their annual reports. As a result, even at a time of economic pressure, CSR and its elements retain a more significant place on the board room agenda than was the case at the start of the decade.

Yet, given talk of gloom and despair in consumer confidence, and corporate profitability, there could still be a recessionary impact on companies' CSR initiatives.

Consequently, the question that CSR practitioners need to consider is whether they should refocus their CSR programmes in the light of the economic downturn impacting their own company - and if so, how should they prioritise?

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At a time of economic downturn, the imperative for CSR practitioners is to demonstrate that activities contribute positively to a company's performance. They will not have the luxury of exploring initiatives that “may” give a positive CSR outcome.

They will need to consider which CSR activities are high priorities and which are lower and, as a consequence, can continue without a high degree of management resource. In this respect, CSR has an advantage in that many of its elements are often part of the normal “day-job” of other functions, such as occupational health and safety, environmental management and employee development. Consequently, they are unlikely to suffer adversely in times of budget cutbacks, other than would normally be the case for head office support functions.

The key question for the CSR team was posed by the Chief Executive of one client to his head of CSR: “You don't need to sell me CSR, I get it - but what I want to know is what happens if I don't do any of it?”

This Chief Executive was asking what risk is there of not having a CSR agenda, or alternatively what value is added by focusing more intensively on all or specific parts of this agenda.

For most Chief Executives, resource management is a key part of their job. They rarely have the luxury of an overflowing pot of resources and need to prioritise between possible activities. Their decision making approach will focus on how each activity contributes to delivering the business strategy.

However, for a CSR practitioner to establish priorities on this basis, he or she needs to assess the extent to which CSR activities are relevant to all levels of company operations. We undertook, for the client mentioned earlier, a CSR risk management exercise that demonstrated the perception of priority CSR risks was different when considered at group and operating company level.

For those CSR practitioners working in listed companies, this prioritisation process is precisely what they should be doing as part of their support for the Business Review development.

For this, the key consideration is to what extent do various CSR elements impact the company's business drivers and strategy - and as a result contribute ultimately to the business performance. This would include considering both short term impacts on revenues or costs as well as longer term impacts in terms of supporting the company's reputation and risk management.

When looking at the business's overall strategy and the drivers that help to deliver it, there will be CSR elements that do not play a significant role - such as community activities. These should be omitted from the Business Review, and those that correlate closely to the strategic development should be a focus in the Review - perhaps such as in supporting the retention of key employee categories.

Selection of CSR priorities needs to go beyond considering just activities and move into reinforcing these priorities to stakeholder groups through more targeted communications. An economic downturn creates an even greater need to review CSR communications' strategy to optimise the reputation benefits.

Our view is that for this current downturn, it should not be a case of “batten down the CSR hatches”. Instead, it may benefit the CSR practitioner and the business because of the need for CSR activities to add value and be much more business performance focused. This will ensure that, by the time of general business recovery, the CSR function could well be seen as far more relevant to the business, with greater traction at executive level.

If you would like an objective and impartial view on addressing CSR risk management or business review reporting issues, contact Tony Hoskins - thoskins@thevirtuouscircle.co.uk or Ian Redington - iredington@thevirtuouscircle.co.uk