June 05

the inside track #05

Highlighting CSR Issues of the moment

CSR – what does the future hold in store?

Corporate Social Responsibility (CSR) has been around for some time. Shell Canada was amongst the earliest to produce a social report in 1991 and over the past year, there have been an increasing number of companies producing their "first CSR report". Yet, although those companies reporting still tend to be the larger ones, many others are starting to take more active approaches towards CSR - without as yet reporting on their activities.

Those companies in the vanguard of CSR, appreciate how it can influence their reputation, which in turn affects the companies' value. For them, good CSR is inexplicably linked with good business practice, which has a direct, and positive, effect on quantities and competitiveness.

Yet sceptics remain – as demonstrated by the Economist articles early this year – and there are possible legislative changes.

So how will CSR develop in terms of both reporting and activities?

Whilst the Government claims to be against legislation on CSR reporting, its introduction of the Operating and Financial Review (OFR), the enactment of the European Accounts Modernisation Directive and also the Summary Information Report in the Charities sector, means that it is laying down markers about the nature and transparency of reporting expected in both corporate and voluntary sectors. Clearly levels of CSR related reporting are likely to increase, but how?

The OFR has raised awareness about non-financial indicators (NFI) and CSR amongst smaller quoted companies - who have little or no previous experience of reporting on them. These smaller companies are querying the extent and relevance of CSR and NFI indicators to them and their businesses. But, this is often because they have not yet fully recognised the importance of understanding their stakeholders' perceptions or their impact on corporate reputation. Plus, many have yet to appreciate that CSR activity is already being undertaken in their company, although not under a formal CSR agenda.

For larger companies, the question is the extent to which they will develop their CSR activities beyond present levels of commitment? Those aiming at embedding and integrating CSR into existing business processes, will find one of the major challenges comes in recognising that such activity often represents a significant organisational culture change that requires full board commitment.

Much has changed in the 14 years since Shell Canada's Report. More and more companies are now taking the subject seriously in terms of developing CSR activities, and more are reporting on a voluntary basis. But how will CSR develop in the light of new legislative requirements? Will it continue as a high profile issue for CSR Directors, or will the OFR subsume it in the minds of the Board - and turn it into a legislative compliance issue?

In the next section we review how these questions may unfold.

TVC comment overleaf >

June 05

the virtuous circle comment: #05

CSR and the OFR approach non financial reporting from two different perspectives. CSR addresses how to respond to the needs of the stakeholders, external and internal. The OFR is designed to provide a better quality of company information to shareholders. Yet the introduction of the OFR may well result in a consolidation and refocus of CSR ....

1. It will bring attitudes of shareholder more strongly into the CSR arena. In turn, this will focus the Board's attention on the importance of providing good quality levels of information on non financial performance indicators which can build reputation - to differentiate better managed companies.

The number of companies reporting on CSR related issues (in the form of non financial information in the OFR) will multiply at least ten fold, as some 2000 companies will fall under the OFR legislation. With this will come greater transparency of activity within business sectors and lead to increased benchmarking of OFR indicators to produce sector based league tables. Corporate reputations will be affected as a result.

2. There will be greater focus on the commercial rationale behind CSR initiatives. The OFR's focus on materiality (to the shareholders) will cause greater questioning of the relevance of certain initiatives.

Companies will need to question how they benefit from community based activities, and in what manner these are best approached. A good example being the cash donations made by companies to the Tsunami appeal. With hindsight, and an unemotional business perspective, those companies who made donations of time and effort relating to their own operations in the affected areas had a better business rationale for their actions than those that made purely cash donations and, as a result, a more tangible business benefit.

In a similar manner, the subject of diversity may come under closer business scrutiny.

There will emerge a need to establish the business impact of such programmes, rather than simply comply with relevant legislation.

As a consequence, company CSR agenda is likely to become more business led than previously, other than where the issues are the subject of strong external lobbying, and give intensified focus and investment on the 'must haves'.

3. The gap between larger companies' approach towards CSR and that of smaller and medium sized companies will remain. Larger companies will continue to integrate CSR into their business, having seen it represent a significant factor in the development and protection of their corporate reputation.

Smaller and medium size companies will see CSR more in the light of the OFR – a compliance issue, rather than as a reputation issue. However, as benchmarking of OFR indicators becomes more prominent, the attitude of smaller companies towards the OFR and reputation is likely to change positively.

For companies with a more refined CSR approach, the importance of involving people management practices in CSR will take greater prominence. Initial unpublished findings from a research study show how the management of change is a key factor, and the role of HR and people management is essential to ensure effective implementation.

4. CSR reporting, will reflect the requirements of different audiences whether through separate CSR and OFR reports (for those companies already producing a CSR report) or communicating the CSR issues relevant to their business through the OFR report alone – probably for smaller companies first approaching the subject.

The introduction of the OFR legislation and its impact on CSR is by no means a bad thing. NGOs and other pressure groups will have to ensure they have a good business case for whatever issue they feel strongly about, otherwise their corporate lobbying will be less effective.

5. CSR will become more business driven than before but many more companies will consider CSR issues. The emphasis of CSR within a company will change as a growing number of executives become more focused on what is being said in their corporate reports and how this impacts on their company (and its share price).

6. The terminology used will not matter - the end result of this focus will ensure companies actions become more responsible and take greater account of the needs and the impact upon all forms of stakeholders.

CSR will evolve into a more business led context with the benefit of a greater number of companies addressing the issues facing them and their stakeholders.

If you would like more information or practical advice, please contact:
UK: Tony Hoskins +44 (0) 1189 262656
email: thoskins@thevirtuouscircle.co.uk
Brussels: James Wilson
email: jwilson@thevirtuouscircle.co.uk