Corprate social Responsibility

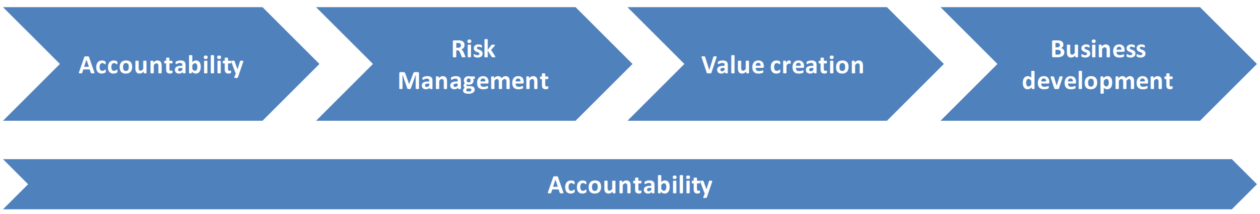
– from accountability to business

What is Corporate Social Responsibility?

Corporate Social Responsibility (CSR) is about minimizing the company's negative impact and maximizing its positive impact on society. The CSR strategy should address the following issues:

1. Establish the limits of the company's accountability
2. Evaluate the CSR-related risks that the company face
3. Value creation for the company stakeholders
4. How CSR can be integrated with the company's business.

The concept of CSR is not clearly defined and can be used with different content in different contexts. Here we refer to the company's entire social responsibility based on the seven areas defined in International Standard ISO 26000: Organizational governance, Human rights, consumer issues, community involvement and development, fair operating practices, the environment and labor practices.



Accountability

Level 1: Follow the law

How do you determine the level and extent of the company's responsibilities? A starting point is the national legislations in the countries where the company operates. Here you need to have some sort of systematic approach to check compliance with legal requirements. It is within the scope of the company's internal audit or by having the external auditors monitor compliance with legislation.

Level 2: CSR policy/policies

The next level after ensuring legal compliance is voluntary commitments on the basis of the company's own policies. This requires the company to define the social responsibilities it should assume. The senior management team often has a desire and an ambition emanating from the team members' personal beliefs and experiences. A first step is to clarify the senior management team's position, by formulating a short policy statement that clarifies the ambition level with key phrases such as "best in class", "world class" or "focus on compliance". Often there already exist a number of policies in the areas of CSR, such as an environmental policy and an HR policy that can be bundled together under the umbrella of a general policy on CSR. When a company produces new policies, these should be approved by the company's board of directors. Large companies usually have an audit committee that is responsible for its internal control. See more about the role of the board of directors under the heading Risk.

In addition to working on policy issues within the company, it is important to listen to demands and requests from shareholders, customers, suppliers, unions and other stakeholders. It is useful and instructive to conduct interviews or meetings with stakeholders where they can share their views on company policies and CSR work. If the company's idea of accountability differs from the views of its stakeholders, it will need to reformulate the CSR policy. Some help to identify which areas to take into account can be found in the international standard on social responsibility, ISO 26000, the UN Global Compact and the GRI standard for sustainability reporting.

Level 3: Determine the limits of responsibility

In today's global business, it is difficult to determine where the boundaries of corporate responsibility really are. Is the company only responsible for what goes on within its organizational boundaries or does the responsibility extend to suppliers or customers as well? There are many examples of cases in which outside parties have demanded that companies take responsibility for what happens outside their company walls. It is therefore important to determine where to draw the line of accountability.
A model that can be applied is the GRI decision tree which combines the company's influence over an entity with the social impact of the same entity. Depending on what influence the company has, one can identify different levels of responsibility: a) full responsibility of the entity's impact on society, b) responsibility to ensure that there are sufficient control mechanisms in place, or c) the responsibility to monitor progress and identify any problems.

Matrix to determine the limits of accountability

Your influence over the entity	Impacts of the entity	Actions
Do you have control of the entity? E.g. wholly owned subsidiary.	Does the entity have a significant impact on society? E.g. environmental impact, risk of corruption, important sourcing activities	The entity should be covered by the company's management system (i.e. ISO 9001/14001, OHSAS 18001). The activities should be included in the company's sustainability report.
Do you exercise a significant influence over the business? E.g. contractor, supplier, partly owned company	Does the entity have a significant impact on society? I.e. environmental impact, risk of corruption, important sourcing activities	The company should require that the entity has sufficient control mechanisms (i.e. certified management systems) and follow up by auditing. Any adverse events should be included in the company's Sustainability Report
Do you have influence over the business? E.g. supplier, customer	Does the entity have a significant impact on society? I.e. environmental impact, risk of corruption, important sourcing activities	The company should monitor the entity regarding CSR risks and have clear criteria for when cooperation should be terminated because of CSR-related problems

Tools for accountability:

Legal compliance audit
Legal compliance audit signifies that an expert goes through relevant legislation and develops a list showing which laws are applicable for the company.

CSR-policy/Code of Conduct
A CSR policy may be called sustainability policy or consist of a number of underlying policies in areas such as environment, human resources and equal opportunities. The Code of Conduct usually refers to ethical guidelines aimed at the company's suppliers. In some companies the Code of Conduct signifies the entire set of CSR-related policies.

Stakeholder dialogue
Stakeholder dialogue may be implemented in several different ways. One common method is to select representatives of key stakeholder groups and conduct interviews using a questionnaire, which can then be summarized in a report to management. A more ambitious approach is to arrange physical meetings with stakeholders. This method is applied for example in infrastructure projects and in the forestry industry which has a large direct impact on local residents.

Global Compact
UN Global Compact consists of 10 guidelines that participating companies agree to follow and to continuously report on. The guidelines indicate that the companies agree to work for tangible improvements in environmental impact, occupational and community health and economic development. Participating companies must write an annual report to the Global Compact Secretariat, where they report on their progress.

ISO 26000
ISO 26000 is an international standard on social responsibility, which covers seven areas: Organizational governance, Human rights, consumer issues, community involvement and development, fair operating practices, the environment and labor practices. ISO 26000 is in contrast to other ISO standards not certifiable, but functions as a framework for the company's work on social responsibility. A practical use of ISO 26000 is to perform a gap analysis based on the areas in the standard to identify how well the company meets the requirements for world class organizations. A tool for gap analysis against ISO 26000 is Goodpoint's iGap.

GRI
GRI - Global Reporting Initiative - is a standard for sustainability reporting that is used by many companies. GRI indicates how the company's social and environmental performance should be reported by key indicators. GRI reports are made according to different levels of ambition where there is also the possibility of allowing an auditor to verify the GRI report. A GRI report is a tool for performance management (according to the principle "what gets measured gets done") and a transparent way to communicate the company's performance.

Strategy for Corporate Social Responsibility - from accountability to business

Risk Management

Identify the CSR-related risks

CSR issues are largely about areas that pose risks for a company, both tangible risks like offenses that lead to criminal liability and more diffuse risks concerning crises of confidence and negative impact on the brand. As a basis for a CSR strategy it is necessary to identify the CSR-related risks. Examples of CSR-related risks:

Damage to health and environment	Business ethics risks
Work-related injuries	Legal offenses
Harmful products	Corruption
Emissions of toxic substances	Human rights
Noise	Labour issues
Radiation	Child labor
Fire	Forced labor
Emissions to water	Consumer law
Emissions to air	Trafficking
Emissions to soil	Lack of business ethics

To identify the CSR-related risks it is necessary to look at the entire value chain, from raw material extraction through processing, marketing and sales to waste disposal. There are many examples of CSR-related risks that companies have not deemed relevant because they occur outside its own walls, but where stakeholders felt that the company is guilty of a lack of ethics and morality. These include child labor and environmental degradation that has occurred in the supply chain and that has attracted attention because of media reporting.

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Analyze the likelihood and impact

A common model for risk assessment is risk = probability X consequence. That is, the level of risk depends on how likely it is that a certain event occurs and how severe impact the incident may cause. For each identified risk one should assess the likelihood of it occurring and the consequence if it occurs, and thus make it possible to prioritize risks. One way to quantify the risk is to have a points system with a scale of e.g. 1 - 5 for probability and for consequence. When risk scores have been applied, one can prioritize risks by, for example, determining that all risks that have a combined value of 4 and / or a consequence of three are considered to be significant risks. When assessing the risks, it is important to review the entire spectrum of risks, including risks to corporate reputation and brand confidence. Therefore, it is recommended to engage expertise from several departments, including representatives from quality, environmental, occupational health, finance, IT, marketing, HR and other areas included in the risk assessment.

Matrix for Risk Assessment (Simplified)

Area	Probability of an adverse event	Score	Impact of an adverse event	Score	Weighted Risk
Production	Risks of environmental pollution. Risk of injuries. Risk of quality deficiencies.	4	May cause serious damage to the environment and health	5	20
Purchasing	Risk of problems in the supply chain	5	There may occur fatal injuries	5	25
Subsidiaries	Risk of problems with subsidiaries	4	May cause serious damage to the environment and health	5	20
Real Estate	Risk of poor energy efficiency and safety risks of contractors	3	Negative impact on climate. Occupational health and safety issues for contractors	3	9
Distribution	Risk of poor energy efficiency and safety risks of contractors	3	Negative impact on climate. Occupational health and safety issues for contractors	4	12
Sales force	Risk of corruption and road accidents	3	Violation of our policies and legislation. Traffic accident can lead to disability and death.	3	9

Managing the risks

Systematic risk management is an essential part of a CSR strategy. The ultimate responsibility for risk management lies at the level of the Board of Directors. Today it is common that the board in larger companies have an audit committee which is responsible for internal control. The audit committee should also take responsibility for managing CSR-related risks. A global overview of the company's risk management system may be included in the corporate governance report. It is important that the CSR-related risks are included as well, as an important part of the company's risk universe. Today, risk management in large companies is often divided between the finance department that manages financial risks, the IT department that manages IT risks and the Department for quality, environment and health that manages other types of operational risks.

For risk management to be effective, efforts should be to have a uniform system of risk management. If there is a quality management system in place, it can be the foundation for managing operational risks. By using existing systems and avoid creating new subsystems for different types of risks, the capacity to manage risks in a systematic manner will increase. Ideally, the company will have one coherent governance structure where all management systems can be described and managed.

A fundamental part of any risk management system, whether you have a formal management system or not is to have an effective internal audit. The internal audit function can be operated by the company's own staff or by external auditors. For the internal audit to work well, the internal auditors should have a high status internally and have an independent position in relation to middle management. A way to raise the status of internal auditors and to ensure their independence is to let them be assigned by the Board of Directors. It is also important that internal auditors will have sufficient time for performing auditing if this is a part time assignment. Auditing is often perceived as costly, but one could consider this the cost of an insurance fee. Given the economic losses that can be incurred by customers losing trust in a brand, it is rational to pay a reasonable fee for the prevention of risks. It is important to ensure that the auditors have expertise in the various risk areas. To make sure that the competence demands should not be too onerous for a single auditor, the company may use an audit team where the team meets the various knowledge requirements.

Tools for risk management:

COSO
COSO is a system of internal control that was developed in the United States in the late 1990's as a way to improve internal controls after a series of financial scandals in American corporations. COSO is the basis for the Swedish Code of corporate governance that apply to listed companies and state-owned companies.

Standardized management systems
There are several standardized management systems that help companies manage operational risk. Among the most applied are ISO 9001 for quality management, ISO 14001 for environmental management and OHSAS 18001 for occupational health and safety. There is also a specific risk management standard, ISO 31000.

Internal Audit
ISO 19011:2011 provides guidance for the audit of management systems. It is an international standard that provides a good basis for creating an internal audit program within the company.

Value Creation

Value creation in the CSR perspective

CSR is essentially based on voluntary social responsibility by firms and the assumption that profit maximizing firms can create value for its stakeholders and society at large. The most obvious value creation is the financial value created by the dividends paid to shareholders, wages to employees and taxes to the state. But there is also value creation that goes beyond the direct financial values. Companies develop new technology that is valuable to society. The employees develop skills that are valuable to society at large. Businesses create direct and indirect jobs. A company may also be involved directly with non-governmental organizations and utilize its skills, technology and market presence for the purpose of public good.

The concept of CSR is sometimes seen as synonymous with charity, about companies donating money or time to various organizations for socially beneficial purposes. But value creation in a CSR perspective concerns all values created by the company, in which the financial value is the inner circle and value creation occurs widely in several stages and involves various stakeholders.

Value creation quantified

Value creation in relation to the various stakeholders can be quantified or described. An example is given in the matrix below. A help to find a way to quantify value creation is to use the GRI indicators or the ISO 26000 standard. CSR implies value creation in areas such as finances and employment, as well as areas like perceived brand value and self-actualization.

Stakeholder	Value
Shareholders	Dividend Share Risk Minimization
Employees	Salary Employment Competence development Self-actualization
Customers	Products Brand
Suppliers	Revenues Employment Competence development Self-actualization
The government	Tax revenues Employment Technology development Support for socially beneficial purposes

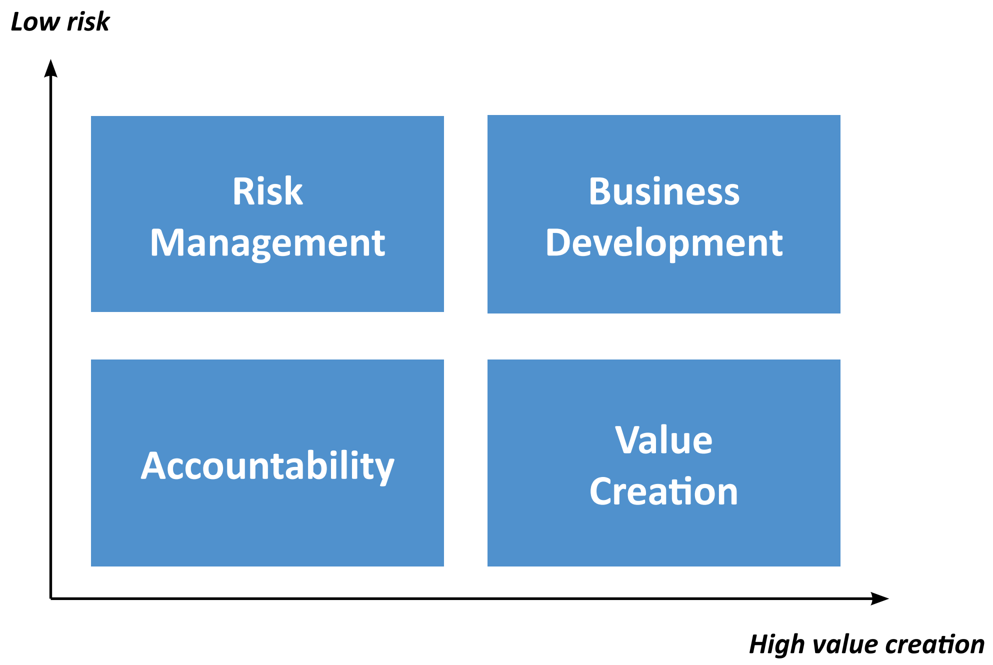
Tools for the quantification of value:

GRI - see description page 4
ISO 26000 – see description page 4

Strategy for Corporate Social Responsibility - from accountability to business

Business Development

In order to make the CSR strategy sustainable it needs to be integrated into the company's business concept, product development and business development. If CSR is regarded as an extra cost with no connection to the company's earning capacity, the CSR strategy will eventually be shelved. Business Development in a CSR perspective is about connecting the company's accountability with the risk perspective and value creation, to produce a business plan in which CSR is an integral part.



Accountability is the cornerstone of business development from a CSR perspective. Without defined accountability, there cannot be a CSR strategy. Next comes the risk perspective. For most companies, the aim of the CSR strategy is really to minimize reputation risks. After you have dealt with the risks, you can work proactively with value creation from a CSR perspective. If you work with value creation without dealing with the CSR-related risks, there will not be a sustainable foundation for CSR in the company. In order to ensure that the CSR strategy will lead on to business development and increased long term profitability, the company must work in concert with the different perspectives; accountability, risk management and value creation.

Reduced risk for shareholders

Increased accountability, reduction of CSR-related risks and higher value creation for stakeholders will not automatically lead to better business. One condition to achieve better business is that business risks can be reduced without reducing the company's revenues. A common misconception is that in a market economy there is an automatic relationship between risk levels and profitability by way of being compensated for higher risk levels by achieving higher revenues.

This is true in theory, on the whole economy, provided that markets are functioning perfectly. But for the individual company, there is no direct correlation between profit and risk. There are political risks and country risks that are different for different companies and that the individual company cannot control. But there are also a great number of company-specific risks that the company itself has control over and that can be reduced without reducing profitability.

The famous investor Warren Buffett has built his fortune by investing in companies with sustainable profitability over time, rather than companies that have a spectacular growth, but high levels of risk. The challenge for companies with a proactive CSR strategy is to gain understanding from shareholders and analysts of the connection between the CSR strategy and reduced risk. It is important to clarify the link in the corporate governance report, annual report and sustainability report, and through other communications with shareholders and analysts.

Higher profitability

In addition to risk mitigation, CSR efforts directly affect profitability through lower costs and higher revenues. Costs are affected by CSR measures that lead to decreased use of natural resources and prevention of adverse events. Active work on environmental issues leads to more efficient use of raw materials and energy, thereby reducing costs. Active work on other CSR areas such as consumer issues, health and safety and working conditions lead to lower costs by preventing product defects and the need for urgent corrective actions. Active work with employer branding through CSR makes the company more attractive as an employer and reduces long term costs of recruitment.

On the revenue side there is the possibility of finding new markets and new audiences thanks to the CSR strategy. Customers may introduce CSR-related contractual agreements, such as the demand for the company to have a certified environmental management system. Consumers may perceive an added value in CSR-profile brands, which strengthens brand image and lead to increased sales. In grocery stores you may see a tendency to give environmental and fair trade products better shelf placement, which directly impacts sales. The main benefits of CSR-profiled brands are usually the relationships these companies can build with their target audience, leading to positive attention, better margins and improved earnings over time. A Swedish consumer survey conducted a few years ago showed that the group “environmentalists” represent about 40% of the Swedish population, which shows that these values are important for a large group of consumers.

The following table summarizes some of the factors that can lead to better profitability over time:

CSR factor	Impact on costs	Impact on revenues
Environmental issues	Lower costs for raw materials and energy	Reinforces the brand
Consumer issues	Lower costs of quality failures	Reinforces the brand
Operational control	Lower costs for corrective actions	
Working conditions	Lower costs for corrective actions	
Employer branding	Lower costs for recruitment and lower staff turnover	Reinforces the brand
Environmentally and fair trade labeled products		Better in-store display, increased sales

Funding the CSR Activities

CSR managers often perceive the financing of CSR activities as problematic because the company management sees CSR as a cost rather than as an opportunity for increased profitability. One way to think in terms of funding CSR activities is to regard the cost as an insurance premium that should be related to the company’s total assets and the value of the brand. There are many examples of companies that have made huge losses due to CSR-related risk events, so the parable of an insurance premium is not so farfetched. There is research that has calculated the value of a CSR strategy with the idea that it acts as an insurance premium and concluded that it would be justified for the S&P 500 companies on average to invest 15 million U.S. $ per year in measures to prevent CSR-related risks . Higher brand value would justify a higher insurance premium. Another way of thinking is that the CSR activities should be cost neutral, i.e. that the cost of CSR activities will be offset by lower operational costs and increased revenues.

To facilitate the financing decision of CSR activities, the potential risks and associated costs for corrective actions should be estimated, as well as the potential cost reductions and revenue increases. Although it is difficult to calculate the total cost, you can look at examples from your own company or other companies affected by CSR-related risk events and what it cost by way of lost market value, lost market share and the cost of crisis management. Such a cost estimate makes it easier for management to make realistic decisions about the CSR budget and to justify the cost to the Board of directors.

Sample template for simple risk calculation

Examples of event	Potential business consequences	Examples of real events
Environmental discharges	Costs for remediation and crisis management Legal costs Negative impact on the brand	BP Deepwater Horizon (giant oil spill in the Gulf of Mexico).
Product safety	Costs for product recall and crisis management Legal costs Negative impact on the brand	ICA meat scandal (Some retailers within the grocery chain ICA marked the ground beef with the wrong date and sold ground beef past the expiry date).
Work-related injuries	Costs of damages Negative impact on brand and reputation	Damages for work related injuries within Combustion Engineering (damages of around 1 billion USD due to cancer caused by asbestos in a company that ABB acquired, but missed out on the potential asbestos damages in the Due diligence).

Implementation

Implementation of corporate governance

A strategy is worthless if it does not have an effect in reality. The first step in implementing a CSR strategy is that it is implemented in the company's strategic steering system - the business plan, the brand platform, the balanced scorecard and other strategic documents. Many companies devise stand alone systems for CSR management, for example by letting the process surrounding the sustainability report act as a steering system for sustainability. The CSR strategy becomes much stronger if becomes a part of the strategic steering system and CSR becomes a natural part of business development and product development.

A prerequisite for getting CSR into strategic management is that the core elements of the CSR strategy can be communicated to senior management in connection with the preparatory work to determine the business plan. One recommended way to do this is to prioritize the most important parts, especially those that have a clear business connection, and to make a brief presentation of prioritized CSR initiatives with a clear business benefit in terms of reduced risk, reduced costs, increased revenue or enhanced brand. There should also be a demonstration of quick wins, by showing how past CSR initiatives have led to increased sales, lower cost or higher brand recognition for the company.

For the company to take the CSR strategy seriously also requires that there is a strong sponsor in top management that can drive development. Ideally, the CEO or CFO should be personally involved in formulation and implementation of the CSR strategy to get a real impact in the organization.

Implementation of the CSR Strategy

Basically, there are as many ways to implement a strategy as there are strategies. One way of strategy deployment is to base it on three pillars:

- Strategy
- System
- People

CSR strategy

The first pillar is a clear CSR strategy that can be communicated throughout the organization. Especially for middle managers, it is important to know why they should prioritize CSR issues and what the connection is between CSR issues and the strategic business objectives. The CSR strategy should provide clear guidance as to why they should work with CSR issues, who is responsible for different parts of the strategy, and how to implement the strategy and the implementation timetable. If one does not have clear priorities and a CSR vision, the CSR efforts will remain weak, at least in large organizations.

Strategy for Corporate Social Responsibility - from accountability to business

Systems

Systems are fundamental to make it possible for people within the organization to behave according to corporate rules and values. Management systems and control systems are often constructed according to the PDCA wheel (Plan, Do, Check, Act). It's about having guidelines and goals, how targets are monitored, problems are rectified and corrective actions taken. Ideally, there is a unified management system within the company that makes it easier for employees to identify the requirements for different processes and helps them to comply. Management systems often functions poorly because they are inadequate to deal with complex requirements and the understanding of the management systems purpose and function is inadequate at the top management level. An effective management system is a prerequisite for systematic CSR work in larger organizations.

People

Ultimately, the objective of the CSR strategy is to involve employees in CSR efforts and to reach out to customers, shareholders and other stakeholders so that they will have confidence in the company's way of working with CSR issues. To create commitment and understanding of CSR issues, dialogue is a good form, in which employees are invited to discuss how CSR issues may contribute to business, what CSR issues are important and how to work with CSR in the company and in their own department. Besides a general dialogue with employees it is necessary to ensure that key staff acquires necessary knowledge about key aspects of the company's CSR issues. This applies to sellers, marketers, purchasers and other people who have a great influence on CSR issues and opportunities for reaching out to customers and shareholders with the company's strategy and message.

Tools for implementation:

Management system according to ISO standards
See description page 7

Co-creative dialogue
A method for allowing employees themselves to come up with ideas for how the CSR strategy should be implemented, based on open questions about things like customer value, the important CSR aspects and how to work with CSR within their own department. Co-creative dialogue should be complemented by involving the employees in developing local action plans on how to work with CSR within their own departments.

CSR campaigns
Communication efforts towards employees and customers are often effective in order to focus on a particular issue. As part of a CSR strategy, companies often collaborate with non-governmental organizations to support them financially. Such cooperation can strengthen confidence in the company's CSR efforts, but there is also the risk that the outside world will think it is all about "green wash". When carrying out a CSR themed campaign, it is important to evaluate both the message and the choice of partners and ensure that the message is brought forward in a way that will not provoke adverse reactions. A CSR campaign that is rooted in the CSR strategy and is in line with company values can have major positive effects on both employee engagement and brand reputation.

About Goodpoint

Goodpoint is one of Sweden's leading consulting firms in sustainable development and management of CSR-related risks. We are a strategic partner to businesses and organizations looking for innovative solutions, combining shareholder value with business ethics and sustainability know-how.

We have 20 consultants with extensive knowledge and experience in strategy and business development, administration and risk management, operations management, learning and communication. We have a unique breadth and depth in the area of sustainable development. Our solutions are time proven over our 30 years experience from assignments within Corporate Social Responsibility.

Goodpoint is certified according to ISO 9001 and ISO 14001

Since 1981 we have been driving the sustainability agenda in business and governmental organizations.

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