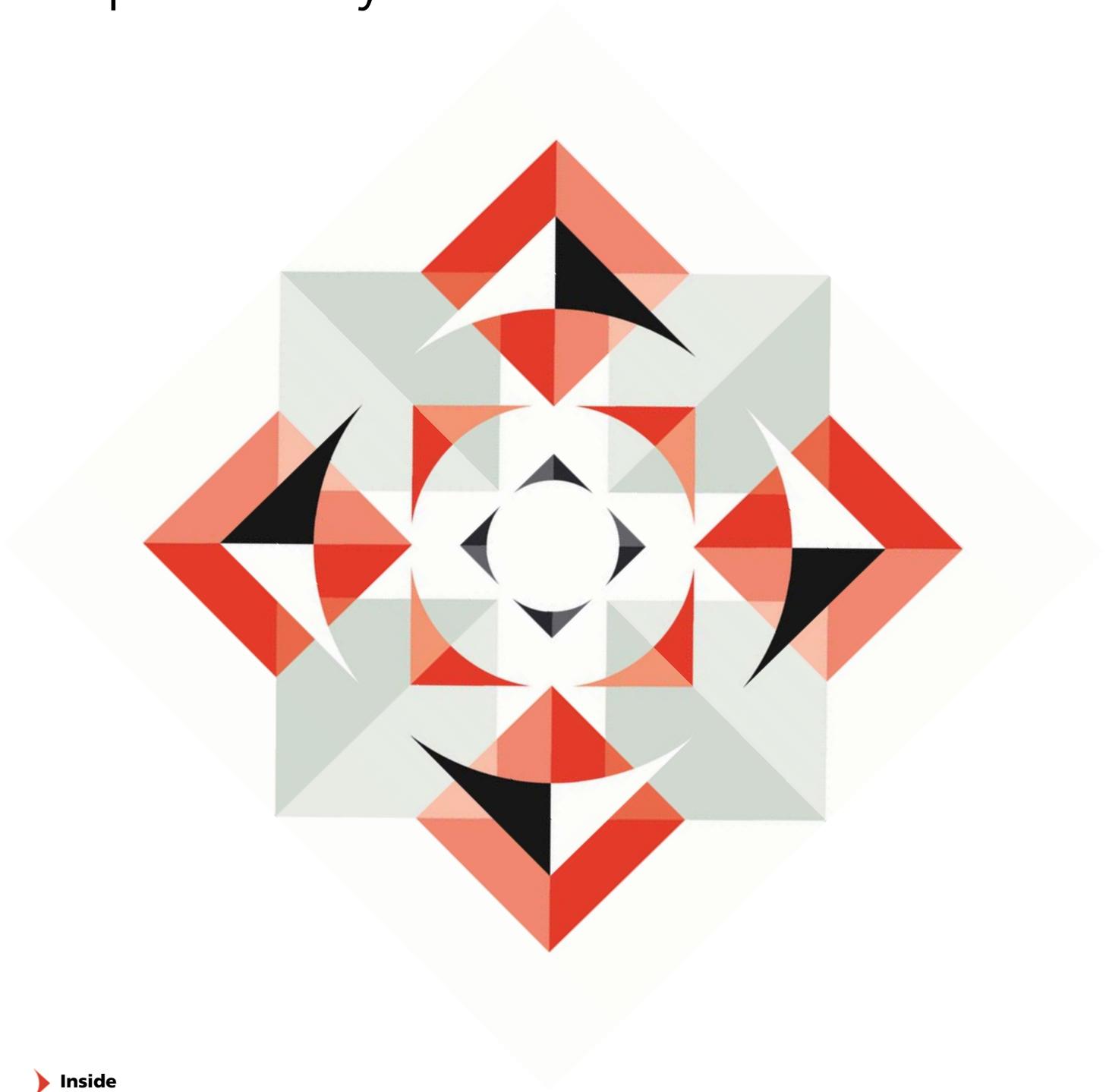
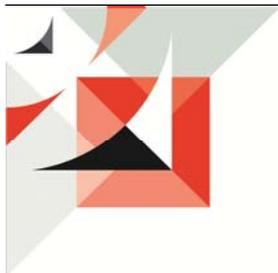


Corporate social responsibility



► **Inside**

What is CSR?
CSR and the law
Why bother?



Introduction

Despite the growing trend of academic and business interest in the subject, there is no single accepted definition of Corporate Social Responsibility. CSR means different things to different people - managing risk, adopting ethical policies, respect for human rights, accountability, community based initiatives or simply being 'green'.

A common theme to most interpretations of CSR is the emphasis placed on the many different stakeholders of a business: shareholders, customers, employees, suppliers and the wider community and how the functioning of the business affects them.

What is CSR?

CSR can perhaps best be summarised as businesses considering their role in relation to the community, their impact on the environment, the marketplace and the workplace. It is about identifying the stakeholder base and acknowledging, protecting and furthering the rights and interests of those stakeholders. Besides the commercial objective of delivering shareholder return, CSR encourages businesses to focus on the so called 'triple bottom line' concept of looking at environmental and social considerations as well as financial profit.

In other words, how will the way we operate our business affect each of our stakeholders in an economic, environmental and social sense?

Many companies already subconsciously undertake CSR activities with initiatives to reduce business waste, promote better staff retention or simply to support a local charity without necessarily regarding or labelling these activities as CSR. CSR is about coordinating these objectives, decisions and activities into a concerted policy and direction as part of a wider review of the company's activities.

Increasingly, CSR is also about managing risk. Companies who analyse risk and pro-actively take steps to minimise their exposure by incorporating CSR into their boardroom strategy and policies create a more stable platform from which to build their business.

So how does CSR interact with the law?

Whilst it is difficult to divorce the concept of CSR from the law entirely, a pre-requisite of CSR is a willingness by organisations to look beyond their legal obligations and commercial focus to take account of social and environmental factors. CSR is therefore about going further than the law requires, rather than simply complying with it. That said, the law is obviously evolving all the time and as society develops the bar of minimum legal standards will inevitably rise. Today's CSR objectives may therefore become tomorrow's law. Anti-discrimination measures are a good example of the law catching up with CSR and raising the bar.

CSR is more about soft law in the form of

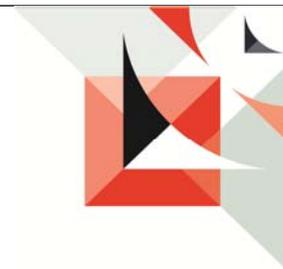
guidelines, declarations of principles and codes of conduct rather than binding, enforceable hard law. In the employment field, the ILO, OECD and UN have all published guidelines in relation to employment practices and the standards expected of multi-national enterprises. Within the European Union, CSR has risen up the agenda in recent years with various initiatives emerging from both the Commission and European Parliament.

In the UK, the Government favours light touch regulation in the area of CSR believing that businesses should be encouraged to adopt CSR through best practice guidance, low level regulation and fiscal incentives rather than by being legally compelled to do so. However, CSR and the law are certainly not mutually exclusive. The Pensions Act 1995, for example, requires trustees to consider social, ethical and environmental issues as well as financial ones in producing their reports. The Government set up the CR Academy to educate UK business managers in the ways and benefits of CSR (www.bitc.org.uk/cr_academy).

Although, strictly speaking, CSR is a voluntary code, in our view, it would be a mistake to regard it wholly as such. The proliferation of well organised pressure groups and the expectations of employees, consumers and investors of the highest ethical standards mean that companies who ignore CSR risk being left out in the cold.

Depending on a company's structure and perspective, corporate governance may form an integral part of its CSR policy or may instead be regarded as a separate but compatible initiative. Corporate governance and boardroom accountability is another area where there has been an increasing degree of regulation in recent years and other quasi-regulatory forms of pressure emphasising the need for accountability to stakeholders. This is particularly so in the US where the highly publicised Sarbanes Oxley legislation was introduced to clean up corporate governance following a number of financial scandals like Enron and Worldcom.

Whilst businesses that operate multi-nationally may want to consider rolling out a consistent CSR policy and programme globally, there will inevitably be a slightly different focus with



different risks, different achievable goals and different amounts of work to do from country to country. Many companies therefore favour the approach of having an umbrella policy with a 'mission statement' and common generic aims, but with different locally focussed initiatives in each country.

Why bother?

Companies embrace CSR for different reasons. For some CSR is merely window dressing to enhance their brand and to bolster their marketing efforts. For others CSR is driven by the principles and values of the company and its owners or by a desire to promote and achieve greater accountability and risk management. In most cases, the reality is probably a combination of many factors. Whatever the motives, there are a number of tangible benefits that can flow from a properly organised and focussed CSR programme.

Reputation and brand enhancement

For many companies, their 'brand' is one of their most valuable assets. With an increasingly affluent and choice-rich society, consumers are more likely to base their decisions on factors other than 'does it do the job'. Reputation is everything.

With clients and customers willing to support increased margins for the right label and with institutional investors under increasing pressure to adopt an ethical stance in their investment policy it is critical to ensure that the name on that label is not tarnished. Nike, for example, was badly hit when an international boycott gathered momentum based on allegations of bad employment practices in a number of developing nations.

Protection of brand value has become more difficult with easy and instant communication around the world. A labour dispute in a small village in India can be world news within hours. If that results in a number of potential clients deciding to give your business a miss, it can radically affect your profits.

CSR can be useful in two ways. First, it helps your company promote a caring image: the sort that the marketplace and investors are happy to be associated with. If this is strong, it can even help weather a storm if something has gone wrong. If your business has an accepted image

as a force for good and a one-off mistake is made, it is far more likely that the public will accept an apology and a commitment to try harder next time.

Second, and more importantly, if CSR has been embedded into a company's decision making process, the mistake should not happen in the first place. When placing a large order the company would have researched the labour policies of its potential sub-contractors and checked that they meet the company's own ethical standards.

Improved staff morale/retention

It is undeniable that, as with customers, staff would prefer to be associated with a company that is seen as a progressive employer with responsible financial, social and environmental values. An effective CSR policy and programme can produce such an association, helping to reduce the huge costs of poor staff retention in the form of fees to recruitment agencies, wasted management time in the recruitment process and loss of potential business following on from weaker customer-staff relationships. Companies with a positive external image and well thought out employment policies stand a far better chance of recruiting and retaining high calibre staff.

Stronger tender/investor credentials

CSR has a knock on effect on business to business relationships. Companies who commit to CSR are unlikely to want to forge key relationships and partnerships with others that do not. Such an association may not sit easily with the company's ethics and, perhaps more importantly, it may dilute or present a serious risk to the brand and reputation benefits that the company has worked hard to build up. Increasingly, tenders for commercial and public contracts require prospective bidders to outline their commitment to CSR or CSR type issues. To be in the running for such contracts not only do you need a commitment to CSR but also a track record of practising what you preach.

Investors too are increasingly looking at CSR credentials and 'soft' (non-financial) criteria in determining where to invest.

Reduced costs and liabilities

Operating an effective CSR policy can also help to reduce costs and liabilities. This can be

accomplished through sensible environmental measures such as improved use of raw materials, waste minimisation and simple energy savings and also by reducing the risk of legal action from disgruntled customers, workers and other stakeholders by engaging with them, considering their interests and formulating policies to minimise disputes. The implications on the bottom line are obvious and measurable with improved efficiency in the use of energy and natural resources potentially saving UK industry billions of pounds a year. In liability terms, most companies will be only too aware of the increasing cost and distraction of employment tribunal claims, customer complaints and other negative processes.

Better risk and crisis management/stability

Running a successful business is difficult. Many managers would argue that they have got enough work on their desk just doing what needs to be done today without looking for more. There is a risk, however, that such an attitude will mean that crises, when they hit, will be far worse. Embedding CSR into the decision process may go some way to reducing the likelihood of crises erupting - or at least reducing their impact. CSR can provide many of the key ingredients for a stable platform from which to build a sustainable business - helping to forge a loyal workforce and customer base, reducing the risk of damaging adverse publicity and promoting greater shareholder confidence, thus minimising share price volatility.

An array of household name companies have been practising CSR with very positive results. The briefest of glances at the web-sites of companies like Levi Strauss, BT, the Co-operative Bank and Starbucks show the importance attached to CSR by big business. An important ingredient of CSR is being open and accountable for the way business is run. This means reporting on progress made towards CSR goals as well as simply identifying them and 'having a go'. Developing a CSR programme and following it through is not an overnight task. The key thing, though, is to make a start and then, on a continuing basis, to identify areas where further change will make a real difference.

For further information on this subject
please contact:

James Davies

Partner

T + 44 (0) 20 7074 8035

james.davies@lewissilkin.com

Jonathan Carr

Partner

T + 44 (0) 20 7074 8497

jonathan.carr@lewissilkin.com

This publication provides general guidance only:
expert advice should be sought in relation to
particular circumstances. Please let us know by
email (info@lewissilkin.com) if you would prefer
not to receive this type of information or wish
to alter the contact details we hold for you.