

CSR: From Responsibility to Opportunity?

Research Workshop, École Polytechnique
 Chair Business Economics
 and
 Chair Sustainable Finance and Responsible Investment

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Executive summary

The workshop discussed implementation issues of CSR in firms from an academic and management perspective. It questioned the general argument that there has been a historical convergence of CSR approaches since the 2002 Johannesburg summit. Implications from an investor's point of view were also discussed.

Brief history of CSR			
Timing	...-1990	1990-2002	2002-...
Some key events	Acid rains ⁶⁸ , Bhopal ⁸⁴ , Chernobyl ⁸⁷	Brundtland ⁸⁷ , Rio ⁹² , Kopenhagen ⁹⁵	Johannesburg ⁰²
Main stream	Reaction to regulations and environmental constraints	Voluntary agreements Environmental footprint Social policies	From shareholder value to societal value ?
Niches	Philanthropy	Bop, Health programs, Child work..	

Presentations and discussions can be structured using a typology based on two polar approaches.

Typology of CSR strategies	Short term	Long term
Hypothesis	Firms involve in CSR to maximize profit	Firms involve in CSR to enhance reputation
Some characteristics	Firms do not seem to elaborate such strategies through a detailed cost benefit analysis but rather as a global reformulation of their strategy	Firms involve in such strategies as part of their core values, under financial constraint
Some questions	<p>Is this really a “win win” situation (Porter hypothesis)?</p> <p>Does State regulation efficiently trigger such a reformulation?</p> <p>Can such approaches be deployed on a sufficient scale?</p> <p>How are these strategies captured by rating agencies?</p>	<p>Can the firm manage such strategies within their main activities?</p> <p>Are these strategies an efficient substitute to poor State regulation?</p> <p>Are investors prepared to value such strategies?</p>
What to expect	Direct relationship between CSR and financial performance	Indirect relationship between CSR and financial performance

Cases illustrating this typology were discussed in details.

On one hand (Direct relationship between CSR and FP):

- Lipton, Unilever's leading tea brand, has committed itself to sourcing all its tea “sustainably” by 2015. Tea prices at the production level have gone down due to world oversupply. Population living from tea production have been particularly affected by this trend. It is important for Unilever to secure its suppliers. The challenge for Unilever is to drive the sustainability program on a mainstream scale, with unchanged or even increasing profits.
- Similarly, DuPont change from a chemistry-only company which was doing business with non renewable materials to a bio based economy, is an example of a move toward sustainability, first for responsibility reasons and then for business opportunities.

On another hand (Indirect relationship between CSR and FP):

- The Danone Grameen Food in Bangladesh is a social business which seeks to fulfil people's nutritional needs through the consumption of a yogurt, as well as enhancing the social value in the community (street vendors "Grameen ladies", small factories, development of milk producers capacities with microcredit, etc). This program primarily seeks to build reputation by implementing standards of action regarding environment and social aspects of business. The management of the program has been externalized from the main business of Danone.
- EDF's rural electrification program in Africa seeks to constitute a model for the roll out of the "Access to Energy" in many countries. It is structured along a public private partnership between Northern companies and Governments in developing countries, to sell electricity in rural areas through different technical solutions (diesel, photovoltaic, or mix). Until the years 2000, "Aid Cooperation" and solidarity characterized EDF's approach. At that time, it was clearly philanthropic. While it is no longer the case, it remains related to the social responsibility of EDF who has the knowledge and means to implement such programs.

This typology should be seen as a continuous line of differentiation to structure the analysis of a given situation. Indeed many approaches combine the two polar cases. For instance, the DuPont approach to safety is deeply rooted in the company culture, since its early stages with the explosion that shocked company's management in 1811. Similarly, CSR has been present in Lafarge since in 1833 because of the founders' catholic faith. For instance, Lafarge built schools, houses and churches in the Rhone valley. In Bangladesh, 170 years later, this approach for ethical reasons remains and encourages the acceptance of the foreign presence in collaboration with local associations.

Economists tend to focus only on one polar case (Direct relationship between CSR and FP). Even in this case, they do not fully recognize the complexity of decision making in organizations. Decision making needs to be sustained by appropriate procedures, targets, and performance indicators.

An organizational analysis explains why long term investors such as APG are reluctant to directly invest in BOP or microcredit activities (seen as indirect relationship between CSR and FP). Clearly a better evaluation grid would be quite helpful for this matter.

A roundtable concluded the workshop. Two important points were emphasized. First, State regulations are often at the very root of inefficiencies that CSR strategy seeks to mitigate, a clear example being agricultural subventions in industrial countries. Second, the current world crisis seems to question the validity of a mutually beneficial globalization between industrial and emerging countries: long term profitability of portfolio needs to be reconsidered in this regard.