

Corporate Social Responsibility (CSR) across the Value Chain as a New Form of Risk Management

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Corporate Social Responsibility (CSR) has rapidly surfaced as one of the most "strategic" areas in business management, yet most organizations still have a tough time proving the value it brings to their overall sustainability and financial performance.

No matter their size, sector or region of operation, organizations instinctively react to the positive influence community and environmental related initiatives attribute to their brand, but the issue remains the incapability to measure that influence and prove it has a direct effect in improving revenue and market share.

In my introduction, I purposely quoted the word "strategic" because it seems that everywhere I look I see it being used by most executives and associated to pretty much any effort that has a social or an environmental focus. "Strategic" certainly sounds like a strong word, characterizing any effort that has been thoroughly thought through, assessed and prioritized. But is that really the case for most organizations? The reality is certainly not, as one of the most common comments of executives is their incapability to secure funding for relative initiatives. If something (initiative/program) is of "strategic" importance then it has been extensively reviewed internally and received the necessary budgetary allocation needed to be apportioned for its sustained maintenance and monitoring. So this brings up the question, "why have organizations been unable to make the business case for Corporate Social Responsibility?"

The easy response to the above question is the lack of a systemic and clearly defined CSR Strategy that is developed in line with corporate goals and objectives. In most instances, CSR represents a branch of Marketing and Public Relations that includes the implementation of philanthropic and funding activities, via third parties (e.g. NGOs, CSOs). These initiatives, although good in that they support vital social issues, are not always associated to corporate objectives, nor do they enable the organization to engage with stakeholders as they do not correspond to their respective expectations and needs.

There needs to be a general acceptance of the fact that CSR is an internal tool enabling the organization to better manage and assess risk. It is not a tool for external communications, nor is it a tool for promotion of the organization. It is a management system that takes into consideration the internal and external operational environment and aims at positioning the organization with the least possible sustainability impact. Organizations that truly want to experience the benefits of CSR across the value chain must determine the sustainability context of their operations, assuring that CSR is integrated throughout the organization, is practiced in its relationships and takes into account the interests of stakeholders. In other words, there needs to be an assessment and an understanding of operational impact across the social and environmental spectrum as well as an identification of the stakeholder groups that are affected. Similarly, when assessing operational impact, most organizations identify the operational areas with the most impact, but they do not explore deeper into potential solutions that can significantly contribute towards achieving better operational efficiency and reducing operational cost.

With respect to the issue of stakeholder impact, most organizations proceed to identify their primary and secondary stakeholders. However, not much emphasis is placed on creating the appropriate channels to engage with stakeholders and receive their feedback via constructive dialogue. This becomes most evident if we examine some of the most common observations that surface as key issues that prohibit the effective application of CSR.

First is the lack of internal understanding and awareness of the CSR Strategy of the organization. The reality of the matter is that in most cases organizations may use the phrase "CSR Strategy" but in reality they are referring to individual "CSR initiatives" that are not tied to the Corporate Strategy, and are thus not trickled-down to the operational level. This results in lack of awareness by executive management and employees, as these initiatives do not affect their everyday tasks and ultimate performance. Most often, employees have no idea of their organization's CSR objectives and targets, let alone the actual definition of what "CSR" truly means. Thus, great emphasis must be given to inform employees of the reasons why the organization is investing in this effort and of the processes that they will need to learn so as to conduct their work according to the established CSR objectives and KPIs. The more CSR is embedded within everyday operations the more committed employees will feel towards supporting and representing the organization's CSR Strategy.

Second is the lack of external understanding and interest in the organization's CSR Strategy. This is actually an area that is most difficult to manage and the one that baffles most organizations. When designing CSR initiatives most organizations first consider their personal objectives in associating social or environmental characteristics to their brand, without placing much emphasis in what their external stakeholders need or expect of them. The result of this is a waste of resources (monetary and human) being invested in marketing campaigns that do not contribute at all towards minimizing stakeholder impact or attracting stakeholders to the organization. The root of this problem is the inability to detect what stakeholders actually seek out of the organization. Unfortunately, for most organizations the issue of "stakeholder engagement" only covers the external phase which entails initiatives the organization does to tackle Sustainability impact. There is no information provided as to how the organization reaches out to stakeholders and collects their feedback in order to conclude that the initiatives that are implemented are the correct ones.

This brings us to the third issue, the communication of Sustainability performance in order to assure that the organization obtains valuable information that feeds into improving its progress and ensuring that the organization operates as an accountable player within the overall spectrum of Sustainable development, via transparent policies and processes. A perfect example of how organizations can communicate their sustainability progress and collect stakeholder feedback is via their Sustainability report. Ironically enough, when most Sustainability reports are issued they are not used at all for any engagement purposes. What usually occurs is the Report is printed and distributed only to a small number of stakeholders (who do not even bother reading it) or uploaded on the Corporate Website where it is up to the individual interest of visitors to read it and submit their feedback (in some cases, stakeholders are not directed to a feedback form or do not have the means to send their comments). Furthermore, in several instances, Reports are developed without the use of internationally recognized Reporting Guidelines, thus not succeeding to communicate effectively the Sustainability performance of the Organization.

Using innovative, yet simple tactics, such as the implementation of Town Hall meetings inviting local community leaders and members to attend and engage in dialogue on specific areas of the Report, or the distribution of a synoptic version of the Report and providing incentives (discount or extra services) for stakeholders to submit their feedback, organizations can actively engage with their stakeholders. However, it is worth being mentioned that the type of communication and engagement tactic must consider the specific characteristics of each stakeholder group in order to assure that the information that is being communicated reaches recipients and is understood accordingly.

All in all, the potential of CSR to provide an extra layer of protection when assessing and managing operational risk is universally accepted. Nowadays CSR has evolved as the new method of conducting effective risk management. Economic prosperity is directly affected by social sustainability, while without environmental sustainability no entity or organism can survive in the overall context of Sustainable Development.