

CSR Gives Companies a Competitive Edge

By Wayne Visser

This is a translation of an interview for Capital newspaper in Armenia, conducted when I was recently there delivering training (hosted by the UNDP/Global Compact, British Council and Eurasia Partnership Foundation) on CSR and Marketing. The interviewer was Habeth Madoyan.

Question: *Mr. Visser, it is no secret that labour is cheaper in developing countries than in the developed world. Developing countries have weaker legislation on environmental issues, which gives them a kind of competitive edge in attracting foreign investment. Wouldn't the promotion of CSR in a developing country deprive it of this edge?*

Developing countries do have advantages as far as labour is concerned. To some extent, business and capital will go to those places where costs are less or standards are lower. That is why we need a system of CSR standards.

An interesting piece of research on Responsible Competitiveness, which covers 108 countries, has been published. This research shows that those countries where CSR is embedded in business and the government, and is also reflected in civil society, have a greater competitive advantage. In these cases, the link between responsibility and competitive advantages is always obvious.

So if developing countries have advantages based on lower costs, but do not have responsibility, then over time they will inevitably lose their competitiveness.

I think that, over the short term, it is possible to have economic growth without taking standards into consideration. But today, the CSR sector is seeing the integration into business of standards on quality, environmental issues and work conditions. So it is possible to sell a bad quality product at a cheap price and get to economic growth that way. But that is not a long term solution, because it leads to only short term economic growth.

After all, developed countries need more products of good quality. Their demand for responsible and ethical goods is constantly increasing.

Question: *How should CSR standards and principles be introduced to developing countries?*

The first path is through multi-national companies. In developing countries, they often use the same CSR principles and standards which are part of their operations at headquarters. This leads to the introduction of responsibility from developed countries to the developing world.

I think there is some pressure from the governments of developing countries too. China, for example, is saying that if the world wants it to become more responsible, then the world has to transfer the knowledge and technology necessary for this, preferably for free.

Today there is an interesting tension between the developed and developing world especially around the issue of climate change. The West has no moral right to tell developing countries that they cannot develop and grow or produce more and copy that which they have done. The West has no moral right to do this because it has already been on that path.

If the West is asking developing countries to adopt a new model of development and to produce cleaner, socially responsible and ethical products, then it should be ready to help them financially, through training and providing technology. Only through this kind of support does the West gain the right to demand a new model of development.

Question: *How can one find the middle path between CSR and profit maximisation?*

It is quite difficult to find the point of perfect balance between these two. Developing countries often find themselves faced with this problem. But it is necessary to seek and find the opportunities which allow cost reduction through steps aiming at environmental management. These are new business solutions that everyone is looking for today.

But in order to find these business solutions, it is important to have a strong system of governance, a well established civil society as well as pressure from the international community. In these cases, avoiding environmental issues could end up being more costly for companies.

One has to ask a simple question – what costs will I be facing ten years from now, if I avoid solving environmental issues today?

Economists have calculated that the money spent on climate change issues today could account for only about 1% of the world's GDP. But if we leave avoid those issues now, then the costs could come to 20% of global GDP. This is the logic that we need to explain to our business community – by avoiding these expenses now you face much larger costs over a long term.

A few developing countries are bringing forward the concept of “environmental justice”, i.e. they are linking social issues to those of the environment. Their governments are coming up with legislation which encourages companies not only to spend on social issues. They demand that companies implement environmental programmes as well.

After all, it is the poorest layers of society that bear most of the ill effects of a polluted environment and it would be only fair for companies to deal with environmental issues as well.

Question: *In our country, there are cases when companies are very active in philanthropy. Many people think that this is a “cheap” marketing ploy. How can one differentiate between them and draw the line between Marketing/PR and charity?*

One first needs to understand the concept of strategic philanthropy. This is the theory of American academic Michael Porter. He says that companies should be involved with the philanthropy that deals with their area of business directly.

When a company works in agriculture, its philanthropy could be linked to food security issues. When that company is Coca-Cola, then its philanthropic work should involve water issues. In those cases, it is less likely that philanthropy will be used as a PR or marketing tool, because in reality it helps the business itself.

Corporate Social Responsibility is a much broader concept.

CSR is not about how a company spends the money it makes, but rather about how it makes that money. The weaker the link between CSR and the company's main business, the higher the probability that it is being used for PR or marketing purposes.

There are a number of initiatives in the CSR industry that help us avoid these issues. One of these is the Global Reporting Initiative and its Sustainability Reporting Guidelines. These are very similar in nature to accounting standards. Accounting methods and standards are similar for all companies.

Through these, companies present their social activities, such that society also gets a chance to see and evaluate them. This would make it difficult for companies to use CSR as a PR or marketing tool.

Question: *In your opinion, how will the global economic crisis affect CSR? Should we expect companies to lower their standards?*

I think this question is linked to the last one. Those companies which are dealing only in philanthropy will suffer during the economic crisis. In these cases, philanthropic activity will lessen. Those companies which have strategic CSR will be less likely to reduce costs.

Coca-Cola will not be inclined to reduce its expenditure on water issues. They know that if the water situation worsens, the company would have serious problems.

Some time ago, that company had faced a conflict situation in India. They were accused of wasting water reserves there. It was not true, but that was the impression that people had there.

Coca-Cola is a huge consumer of water and, according to the people, they were responsible for water issues. That led to the problems for their brand reputation. But I don't think that the crisis will affect the standards of those companies which have strategic CSR and ethical operations in any way; that is their way of working.

On the other hand, I think that a lot depends on the stage at which CSR is in a specific company. We may begin to see a tendency where companies that have well developed CSR gain additional competitive advantages in times of crisis.

That is natural – they have implemented a number of social programmes and so have a greater share of the public's trust, which means better conditions of business for them.

Source:

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