

Reputational benefits of corporate social responsibility investment

The Inside Story has been interviewing journalists on the topic of corporate social responsibility (CSR) since the late 1990s. We have watched the topic change in importance, from a 'not really interested unless companies get it wrong' to some media now investing in specialist writers on the topic area. In June this year, we interviewed leading Australian business journalists to understand their current perceptions

How is CSR defined?

Journalists define corporate social responsibility as looking after the broad range of stakeholders a company deals with – from the society in which it operates, to employees and other stakeholders.

It is seen to be about going beyond the pure capitalist view of returning profits to shareholders to integrating business with ethical and social values:

"...broadly speaking it's to be seen as a good corporate citizen, not looking just specifically at the return for your shareholders but the return for your stakeholders...from their own employees to more broadly the communities within which they work and interact."

Most journalists don't see CSR as a new business activity, rather an existing focus for many companies which is increasing in profile and awareness.

It is thought to have a number of titles, all relating to the same activity:

- License to operate
- Corporate responsibility
- Sustainability
- Corporate citizenship

At a glance summary

- CSR increasing in profile yet has been around for a long while
- Leaders hard to identify – often those which shout loudest - financial sector stands out
- Leaders have integrated activities throughout business
- Many benefits from CSR – but not direct impact on share value
- Mixed feelings on publicity
- Thought to be long term payback – fund managers paying particular attention
- Essential to have some focus in future

The actual CSR activities undertaken vary by business but in general are seen to be an essential part of operating:

"...You can't continue to report profit growth while at the same time you're destroying the environment around you."

Why is it such a hot topic?

Corporate social responsibility has been reported throughout all media – some journalists describe it as "a flavour of the month."

"...you would hope a company was going to be sustainable anyway. I think people sometimes wrap themselves up in the CSR flag but actions speak louder than words."

The topic's popularity of late is felt to be driven by a combination of things:

- An increase in higher profile activities – a push from corporate Australia
- An increased interest among the general public – a pull from society

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"I think people are demanding that corporations that take so much out of the community in terms of profit give back...Corporations that do that, I believe, do so to their great benefit, if I may put it that way."

- The government's focus on climate change – raising overall awareness

The positive side of this is that companies are finding it easier than ever to push positive stories to the media; talk about the good they are doing, rather than journalists focusing on the negative:

"You wouldn't have thought that the Telegraph editor would have been saying 'We need to look at this... important environmental issue' five years ago but these days it's something that our newspaper editor will take into consideration about being a good story for close to the front of the paper because of what the general reader thinks."

The downside of the increased focus is that it drives a degree of cynicism – how much of the activity is being conducted for the right reasons rather than to generate good publicity?

"One wonders at times what's spin and what's commitment..."

Which companies lead in CSR?

It is hard for journalists to identify companies leading in this environment.

"The difficulty in this area is that the groups that are really doing very well at it are the groups that are not getting publicity...not that they avoid publicity – but it's not the primary driver to be able to turn around and say 'Gee whiz, aren't we good corporate citizens?' They're just basically getting on at a very low key level."

Most believe all companies are involved in CSR to at least some extent, and perceptions of leadership are based purely on knowledge ie the most recent company to talk about their activities tends to be most named:

"If we're talking about companies listed on the stock exchange in particular, there isn't one that wouldn't be aware of what corporate responsibility, social responsibility or sustainability is and the impact it's going to have on their business, if it's not already having an impact."

While companies which seek publicity gain kudos for their public involvement, there are some journalists aware of organisations which have operated in a sustainable way since their inception, or at least for many years. These companies are thought to be the real leaders.

Their lack of publicity means that among many, their actions go largely unnoticed:

"...a lot of companies do these things on the quiet, they don't overtly trumpet what they do."

The mining industry is thought to be one such area, with journalists naming many examples of good CSR, much of which is seen to be kept quiet and 'just part of doing business':

"I think the mining companies have been onto the big game for a long time... well before it became fashionable...things like the Land Rights deals they did with aboriginal communities...and in the case of Rio and BHP, they tend to have very good relations with the native people they work with...they actively try to minimise the impact."

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Some journalists are less aware of companies' involvement, and are unsure whether companies which are not publicising their activities are in fact making any CSR investment:

"I haven't seen much evidence of any other companies that really take it seriously...(Westpac and ANZ) seem to be getting their message out that that's what they're doing; whether or not there are other companies out there doing it, nobody seems to know about it."

Financial sector standing out

The banks are thought to be particularly active in this area due to their traditionally poor image in the community - active CSR is believed to counter some of this.

Westpac is named most frequently as a leader, along with its higher profile counterparts on the Business Roundtable for Climate change, Origin Energy and Insurance Australia Group.

"...They're no doubt genuine about it. They also subscribe to what's probably correct, that it's good business in the end to be seen to be taking the community's concerns seriously."

Westpac stands out as a company which has worked hard at its activities, with a wide awareness among journalists.

- Activities highlighted include:
- Working with indigenous communities
- Fair working practices for its employees
- Reducing waste and energy consumption
- Ethical investments

"Westpac has aimed to be carbon neutral. It has set up programmes in indigenous communities to try and work with people there. It has actively engaged in promoting women."

"Westpac...they've also been a leader in the staff practises, like longer paid maternity leave and actively recruiting older workers and stuff like that."

ANZ is another bank named frequently by journalists as a leading organisation in CSR. Like Westpac it stands out for its work with indigenous communities, but also for its new head office, seen to be cutting edge when it comes to reducing emissions and energy use:

"ANZ very recently announced that they were moving to new headquarters and would have a six star rating on the building which is one of the greenest type buildings that you can have in the current building market...it is becoming a much more important aspect of their business."

Insurance Australia Group is cited for its involvement in the climate change debate:

"IAG has taken on a huge part in the debate on climate change and how we need to be different. It's also very active in the community. Its staff is engaged in the community in all sorts of different projects."

Toyota is mentioned for its engagement with the community:

"Toyota likes to engage with communities at a real grassroots level. It thinks that by supporting local communities and local businesses it builds up a good connection with the community and can help...that way."

"...The community likes to think that companies think about other things than just getting through the day and making as much money as they can."

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What makes a leader?

Companies which are considered leaders in this area have guiding principles which underlie their activities – the work they are involved in is not just a ‘tag on’ to the everyday actions of conducting business, but fully integrates CSR philosophy throughout all actions:

"...what it thinks is important and what it expects of its employees, how it expects its employees to treat customers and suppliers and anybody with whom the business has contact. It's not just something they pay lip-service to and have introduced recently. It's a terrible cliché but they call it part of the corporate DNA..."

Allowing processes to be audited and openly reporting progress (or otherwise) is also thought to display leadership qualities:

"Well you'd have to say companies like Westpac are taking it very seriously in terms of actually producing audited, I think they're called sustainability reports, those sort of alternative annual reports which sort of record the average emissions per staff member and the number of sheets of paper each staff member uses on average and stuff like that. It maybe gets a bit silly but it's very comprehensive and it's audited."

"Obviously Westpac's going big on pushing themselves as a leader in this area. They seem to be benchmarking themselves on a range of issues, according to some global index..."

How do companies benefit from CSR?

Journalists believe all companies have some end benefit in mind when they invest in CSR:

"I don't think you'd find many examples of large corporations who are doing this kind of stuff and trying to keep it under wraps...ultimately I don't think that they would do this unless they felt it was going to in the long-term help them in some way."

CSR activity is felt to be beneficial in a number of ways:

→ All things being equal, people will favour a good corporate citizen – promoting a point of difference to potential customers:

"...People who are becoming much more aware and sensitive to the issue believe that if they're dealing with an organisation which has a sensitive approach to the environment then that's something they want to be associated with."

"Companies are becoming aware that they have to have...a green side to attract more customers. I think that's a good thing. I think they respond to their market demand in more green accountability if you like and I think it's working."

"I've seen a lot of companies trying to push their green credentials lately. It's as though many blue chip companies have realised that middle Australia has an increasing awareness of environmental issues and responsibilities and they seem to be tapping onto that, I presume for purely commercial reasons..."

→ Creates positive PR – company seen in a better light, therefore stakeholders may view decisions and proposals more favourably:

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"If you don't have the local community...or the local authorities on board, you know, there's instances where your operation can be closed down or is subject to protests or increased regulation, restrictions, whatever. So by being aware of that in the corporate social responsibility or license to operate, it means that those sort of threats are removed from the operation."

"You're looking at positioning yourself as a soft organisation with a soft reputation there which then may make it a little bit easier when you're negotiating with local government or state government to accommodate your wishes for a project or a plant or what have you that may be under negotiation."

- Workplace – retention and hiring – it is thought people prefer to work for a company which is giving back to the community:

"Most companies now – or at least the younger people want to work for a company that behaves better in the community so it's good in terms of retaining staff. It's good for having people who want to work for the company. It's a good hiring tool."

- Being considered by ethical funds managers and investors
- Saving money:

"There is the fact that they actually do save money. By using less energy, cuts their electricity and heating and air-conditioning bills, using less paper obviously means they're not consuming so much, so they can actually become more efficient, cost savings wise, within the organisation itself to operate."

"In the end...if in fact by being seen to do the right thing consumers reward them, and consumers' perceptions are improved to them...it's a good investment."

Some journalists believe the payback to companies is less tangible – heeding an 'ignore it at your peril' warning:

"I think it's demonstrable that companies that ignore it sometimes find themselves being penalised...the primary motivation is avoiding penalty runs and chasing paybacks..."

Companies such as Insurance Australia Group and ANZ have openly admitted a bottom line reason for their involvement in the climate change debate:

"They've publicly said that it's important to them because it's going to affect their financial performance, as well as being a good corporate citizen, but they're aware that if they don't play a role in the debate and try to initiate change then it's probably going to lead to more hurricanes, cyclones and global warming, etc, which will affect them."

Woolworths' National Drought Action Day held in January 2007, raising money for farming families in need, is felt to be a good example of an activity which had the combined impact of improving Woolworths' reputation in the community while motivating employees:

"I think Woolworths is quite a good example because it didn't always have a terribly good reputation but this thing really helped. I know from talking to people who were involved...it really helped energise staff, for instance, made them feel a part of it, feel good about working for the company so they've got good morale as a result of it all, or improved morale."

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"There is a hard-nosed economic argument to say that they're not just doing it because it's the right thing to do, they're doing it because it has a business result."

Bendigo Bank is thought to be receiving payback for its community involvement, attracting local customers away from the big four:

"...their involvement in community means that the community backs them and tends to prefer to go to them to do their banking than the big four banks. I think there is a return effort from it. I think...if you have a choice of four banks or five banks to go to, I think a lot of people would choose ones that have empathy and do things for the community rather than just turn out profits."

Should CSR be publicised?

Some journalists believe that some active company publicity is essential in order to achieve some form of payback.

However there is another group of journalists who argue that if the activities are worthy then publicity will happen naturally, with word of mouth felt to be the most credible form of communication:

"If you can get that word of mouth going within the various communities and you can be seen to have your local manager involved in say the local Rotary or the local Apex or all of those sort of things, there's a vast network in each community of the doers, and if you can get the doers on side, the doers are invariably the talkers."

"They don't have to make a big play of it, you just wish they'd well, just go and do it; be basically responsible, you know, you don't need a fanfare."

There is always a degree of cynicism with journalists, and some believe publicity is more about "...being seen to do the right thing." than doing it for the right reasons.

Most business journalists will not cover CSR activities in any great detail:

"...We journalists are going 'Whoa, is it remarkable business has got a social responsibility?' You know, there's probably a bit of 'Gee whiz!' journalism involved in it."

"I think companies tread a line sometimes between doing the right thing and being seen to do the right thing. I know I've had a couple of approaches recently to publicise tree planting and I think we've gone beyond the days where tree planting cuts the mustard."

"Everyone seems to be jumping on that bandwagon and it's losing a bit of its novelty factor..."

"People say 'Well you should be doing it anyway and it doesn't make us think much better of you because we know that you're really only in it for the television exposure'."

"If you're thinking overtly of the rewards then perhaps you're approaching it the wrong way..."

Fund managers and CSR

There is some feeling that performing well at CSR and being a successful business goes hand in hand, but are fund managers increasing their focus on corporate responsibility?

Although there are some ethical investment funds which have developed over the past few years, the bulk of investors are thought to be still looking more closely at returns than ethics:

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"Some obviously are not, some are still driven simply by the financial performance of what they're investing in."

"Fund managers who are just looking for a profit this quarter or this half really don't give a toss about corporate responsibility issues, they just want the business to maximise its short term profits at any cost."

"I suspect on the whole, no, not yet because for most fund managers their main job is to find the best deal for their investors. Of course you're getting more and more investment fund managers who part of the role and part of what they sell to the investors is that they will make only ethical investments, but I'm not sure that that's really reached critical mass yet."

It is suggested, however, the number of fund managers considering corporate social responsibility in their assessment of companies is increasing:

"You'll notice a number of superannuation funds, one that I know of because I'm a member, is the Journalists Union Super Trust, JUST – that has just introduced a sustainable investment option, which means it invests in companies that score well on the CRI front...you can guess that it's a far more widespread phenomenon than that."

"I think at the moment the ethical investment funds and the environmentally sustainable investment funds and that sort of thing, they're kind of marginal players in the overall scheme of things but over time you'll probably have greater pressure being applied in an investment sense for companies to be more proactive."

In general, CSR is currently not thought to be a key factor in assessing share value:

"Well it's not market moving. Like if we put out a headline saying 'IAG wants to go carbon neutral in ten years'...I don't think it's that long actually but it wouldn't move the market."

Superannuation, on the other hand, generally involves long term investments and returns. Fund managers and financial advisors operating in this area are seeking to invest in companies which will be around for the long term – sustainable businesses.

Fund managers are having to look very carefully at investments within Australia and overseas:

"A growing number...are looking more closely at how companies are tackling these issues – for a very simple reason – you can really no longer separate the financial performance of a company from how it's going on its corporate responsibility, because if it doesn't measure up on the CRI front its business isn't going to last. The fund managers who are doing it best are those who are managing money with a real long term perspective."

"The guys who are managing money with a longer term view, and a lot of the superannuation funds fall into this category for obvious reasons, are looking for companies to actually ensure that their businesses are still operating and still operating strongly 10, 15, 20 years hence and to ensure that they still have a good market position, good reputation, and businesses that are viable and sustainable then have to be paying attention to these corporate responsibility issues today."

It is thought to be hard for fund managers to assess companies at the moment – there is no standard global measurement and therefore a lot more work in researching background:

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"For a fund manager to actually get to the point of working out whether this is not just window dressing but actually is a serious policy...you have to spend more time in terms of researching the aspects of these people's policies, because then you need a set of measurements by which to judge how these companies are performing and whether year on year they're actually taking greater and more effective steps to improve their arrangements and their impact on the environment..."

"...the aspect here is actually for people to appreciate how complex the subject is sometimes, and that it's not just a question of saying, 'you can use x amount less paper', you actually have to have targets and methods and work out how people do their jobs so that whether they do need more paper or use less, whether they use recycled paper, even small things like that..."

In certain industries, such as mining, the investment market is insisting on environmental reports in order to be considered as an investment option at all:

"There's a lot more openness about most of the major mining houses now are producing annual environmental reports detailing the scale of their emissions. That's pretty much a standard now, driven largely by European investors apparently. If you haven't got one of those, there's some European investors won't look at you..."

What does the future hold?

All journalists believe we will be seeing more corporate social responsibility activity from companies in the future:

"I think it's all about sustainability, people don't like to invest in companies that are polluting and corrupting the place and people don't like to invest in companies that are treating their staff badly or...have a disdain for the society we live in."

It is thought business' short term financial focus will have to change in order to make CSR a higher priority:

"I think the performance requirements, performance hurdles built into pay these days means that everybody's running harder and harder to squeeze more out of the company than ever before..."

"Those that haven't already got their (CSR) principles in place and embedded into the corporate culture are in real strife, whether they realise it or not."

Some suggest government regulation will drive how far most organisations will commit to CSR, with the potential for the introduction of a carbon tax one of the key focus areas:

"I think the carbon trading scheme, if that comes in, that'll be key and that's going to be more of an impact on companies' bottom lines, more of a tangible impact; and a lot of companies are already moving to give us that, I think. So that will affect how companies act in terms of their environmental policies and it will also influence their bottom line."

"I think business will just follow government policy basically and if government policy doesn't penalise them and just creates this other network of traders who are going to make money out of trading carbon positives and negatives, it's not going to do much for the environment at all."

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Most believe the bottom line impact will encourage companies to invest in this area:

"Oh, I'd like to think it will continue. In fact I'd like to think it will grow, that the message will sink in. As I said, being seen to be and being a good corporate citizen does translate to the bottom line; if that message sinks in more and more I hope that more and more companies decide to go down that path."

"In terms of being socially responsible, having nice programs to help the disadvantaged, well I think that that will continue because a) companies might see some cachet in it and b) they might just genuinely want to give something back to the community. I don't know their motivations. You know, one would hope that it's the latter but it's probably the former."

"I think acting in enlightened self interest is the way we'll see more and more corporations come to swing behind the banner of corporate social responsibility."

It is felt it will be essential for all organisations to look at their CSR policies in the future and integrate them seriously into their business:

"Those that haven't already got their CRI principles in place and embedded into the corporate culture are in real strife, whether they realise it or not. There's been a lot of attention paid to the environment, particularly with Al Gore's movie and book and everything, and companies have moved quite quickly on the environmental front in many cases, but CRI or sustainability is much broader than just the environment. They're realising now that they have to integrate all these other issues into it as well."

About the Inside Story

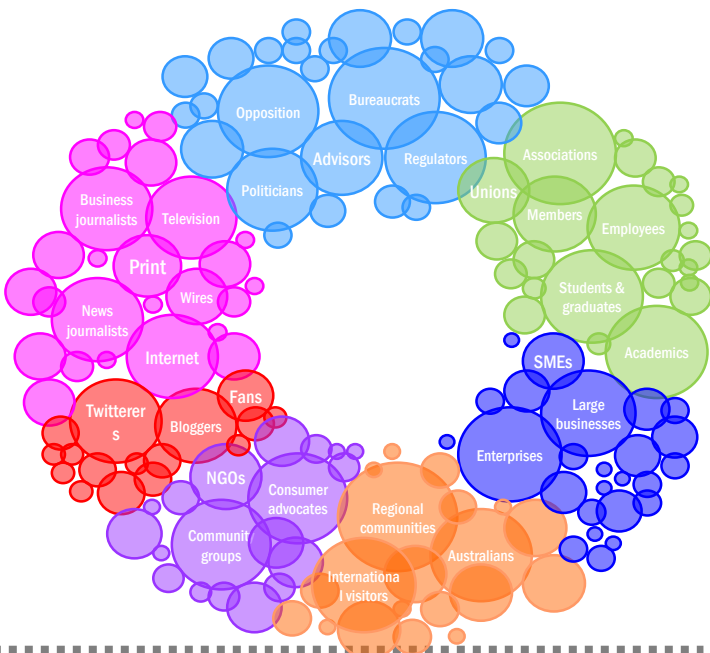
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In addition, we have spoken to many other stakeholder groups for our clients, including government, business influencers, financial analysts, key bloggers and of course the general public.

If you are interested in hearing more about our studies, would like to brief us on your research needs or just want a chat, please get in touch!

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