CORPORATE CITIZENSHIP: A POTENTIAL RESPONSE TO CORPORATE SOCIAL RESPONSIBILITY IN FINANCIAL SERVICES

Research Report for the Financial Services Research Forum

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Abstract

There is currently little dissent from the view that if not reversed, climate change caused by greenhouse gas emissions is likely to have catastrophic effects on large sectors of the world’s population. Two important reports (Stern Report, 2006; Intergovernmental Panel on Climate Change, 2007) have recently confirmed the scientific consensus that global warming is the product of human activity that since the 18th century has continually increased the volume of greenhouse gas emissions. These reports and the associated media coverage have strengthened the case for corporate social responsibility (CSR) and the timeliness of this research that critically examines the reports of a number of financial service companies with regard to CSR and discusses the issue with interested parties.

INTRODUCTION

Corporate Social Responsibility (CSR) has been described as ‘one of today’s core issues in management’ (Galan, 2006:1629). It is important to recognise that such a narrative is not independent of the ‘object’ that it claims merely to describe; that is to say, it represents a discursive hype that both anticipates and seeks to secure the very state of affairs it speaks about. In this sense, all discourses have a political intent and it is important therefore to acknowledge this particularly in discussing matters moral since we are more likely to be supporters or critics rather than neutral observers when choosing to research such topics as CSR. Here we admit to being in favour of CSR whilst at the same time critical of some of the approaches to it, both theoretical and practical. In particular, the paper is critical of stakeholder theory, which appears to be one of the most widely adopted approaches in both academic discourse and business practice concerned with CSR. An alternative approach is explored that involves understanding the corporation as a social citizen with appropriate public responsibilities. This is particularly appropriate for the financial services that have benefited perhaps more than most sectors of the private economy from government largesse due to their importance in oiling the wheels of the economy. Throughout their history they have enjoyed a variety of fiscal privileges and considerable government business through funding the national debt and in the case of the banks a degree of financial protection through the state bank. Because of the interconnections between social security, welfare and the activities of the financial services, there have also been considerable benefits deriving from a close relationship with government. It is not then unreasonable to expect the sector to behave socially responsibly as corporate citizens. Before going any further it may be useful to think about what is meant by social responsibility with respect to corporations.
Corporate social responsibility (CSR) is a ‘concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis’ (Commission of the European Communities 2001:3).

This definition summarises the basic premise that underlies much corporate social responsibility reporting (CSR). It has been suggested that CSR is about corporate governance and safeguarding consumer interests. Insofar as it extends beyond this, there is often philanthropic attention to the corporation’s role in the community involving – supporting local voluntary organizations, events and charities, for example. An alternative perspective would have it that CSR concerns corporate values and ethics as they apply to issues such as pricing policies and investment philosophies. An even broader view envisages a notion of corporate citizenship where the corporation has responsibilities that extend well beyond its immediate constituencies such as shareholders/customers or in the public sector – the electorate/employees. Since not dissimilar from citizens, they have been granted rights - for example to own property, to enter into private contracts, and to sue in the courts - corporations also have a responsibility toward society in general and in the current climate to the global environment. A major problem and this is particularly evident in our research on the reporting activities surrounding CSR is that it has often become little more than a public relations programme of building corporate image and yet to be effective; CSR must be more than an exercise in self-presentation – a Machiavellian desire to convince stakeholders that the firm is doing the right thing. (Roberts 2003). The ethical firm’s endeavour is to go beyond the mere avoidance of legal consequences of its action, or image creation; CSR should be embedded within the corporate culture or character of the organisation and manifested throughout the hierarchy. This research attempted to establish both the business case for CSR in terms of excellence in its procedures and practice and the perceived impact that these practices have had upon relations with the various actors involved.

Fifteen financial services organisations participated in the research: 2 banks, 6 insurers, 2 fund managers, 4 mutuals and an accountancy firm. In addition to interviews with 2 CSR directors and CSR managers in the remaining organisations, interviews also took place with individuals’ responsible for – environmental issues, health and safety, community affairs, diversity and a branch manager. Two consumer groups participated in the research, two consultants and one NGO. One of our interviewees occupied a dual role in his organisation and responded in his capacity of trustee of the pension fund. In addition to the qualitative research, background research took place into 30 CSR reports, NGO activities, representative bodies for the investment and pensions industries and investor groups.

While the CSR literature and many practitioners with such responsibilities predominantly adopt a stakeholder approach (Doh and Guay, 2006; Frederick, 2006;Werther and Chandler, 2006), we argue against doing so on the grounds that it plays into the hands of the image merchants who will spend their energies and resources on targeting particular stakeholders with convincing narratives. The stakeholder
approach gives the pretence that the corporation is a mere referee reconciling or arbitrating between the different interests – shareholders, customers, suppliers, environmentalists, etc. With such pretence it is easy for the corporation to conceal its own interests in forging a reputation or image rather than contributing substantively to CSR. Even though eschewing the stakeholder approach because it conceals more than it reveals, we nonetheless still need to focus on the various people that have a concern as to how corporations discharge their responsibilities, whether to customers, employees, business partners or to environmental sustainability including investing in projects especially in developing countries.

For the medium to large PLC, introducing CSR tends to be a gradual process of adding new elements to established HRM and marketing policies and practices or to their charitable activities. Originally CSR was the preserve of the larger corporations but since the Myners report on mutuality, these smaller companies are now in the process of introducing some elements of it. Four mutual organisations participated in the research and the method they have adopted shows many similarities to that of their larger peers. For financial service organisations, demonstrating some level of commitment to social, ethical and environmental principles is obligatory given the environment in which they operate. The hierarchy of reasons for adopting a formalised CSR policy, reporting structure and process, exhibit instrumental, ethical and systemic pressures. Instrumentally, in terms of investor relations as a matter of risk management, rebuilding reputation and brand value, competition and differentiation, complying with regulation and treating customers fairly as ethical commitments and responding to a changing societal agenda and external pressures from Government and NGOs as systemic issues. The table below summarises these dimensions of social responsibility.

Table One: Dimensions of Corporate Social Responsibility

| Systemic                                      | Addressing fundamental global, social and environmental challenges |
|                                               | Internally- fostering innovation and creativity                   |
|                                               | Environmental efficiency                                          |
|                                               | Innovative Relationships                                         |
| Instrumental                                  | Business partnerships                                             |
|                                               | Reputation                                                      |
|                                               | Means to a commercial end                                        |
|                                               | Societal Pressure                                                |
| Ethical                                       | Voluntary codes                                                 |
|                                               | Regulation and Restraint                                         |

Adapted from Wilson and Olsen (2003)

The report is organised as follows: first we seek to establish the business case for CSR in a little more detail than discussed above and in the face of neo-liberal economic critique before turning to our empirical research where the process of introducing CSR and the systemic and communicative challenges that this poses for CSR managers is examined. The systemic, instrumental and ethical dimensions of CSR are then discussed in turn in relation to the various interests associated with them.
MAKING THE BUSINESS CASE FOR CSR

Why should corporations be interested in anything other than their legal responsibility to maximise shareholder value? Surely it is other institutions including the state that have responsibilities towards society, human rights and the environment. If firms pursue goals other than financial profit or economic growth, they will become inefficient but also they have no right to do so since their very incorporation constitutes them as agents of their owners as principals. Of course, these principals or capital owners can mandate their corporation to pursue CSR goals but should they do so then they must be aware of the implications for economic efficiency. If we accept these arguments, then it would be impossible for our research to establish the business case for Corporate Social Responsibility (CSR). However, there are some flaws in Friedman’s neo-liberal economic theory. Of course, Friedman might not have been so absolute in his views today since he could not deny that the cultural and environmental climate has changed since his initial thesis. However, only 2 years ago Peter Drucker (2004) expressed almost identical views when he argued that CSR “is a dangerous distortion of business principles. If you find an executive who wants to take on social responsibilities, fire him. Fast”.

First, it fails to acknowledge how corporations historically were constituted and continue to be sustained as legal entities through Royal Charters, limited liability legislation, and various fiscal privileges and protection. In the case of financial services, these privileges and protections are considerable and without them there would be insufficient institutional and public confidence and trust for them to operate. Even the notion of economic self-interest and individual rationality as the fundamental ground of neo-liberal economics are historical legacies of 18th century Enlightenment philosophy and are socially sustained by economic theory, market exchange and government policy. Yet market and, even less, capitalist economies have not always existed or been so universally accepted as if they were merely institutionalised reflections of ‘human nature’. Their organizations and institutions are fully embedded in social life and cannot be seen as independent of society and politics nor, therefore, free of social responsibilities.

Second, how would Friedman’s theory deal with the fact that corporations engage in political lobbying (Crouch, 2006) to secure favourable conditions in which to operate? Presumably such behaviour would have to be proscribed but then organizations that violated the norm would secure a strategic advantage. But it is unrealistic to think that corporations would rely entirely on the marketplace to secure their sustainability when government is continually intervening to change the economic conditions in which they operate. Assuming that they do participate like ordinary members of the population in the political institutions, is it not reasonable to think of businesses as corporate citizens? If that is so then they have as much responsibility as ordinary citizens to secure the sustainability of civilised society.

Third, Friedman’s theory seems historically frozen in the past since it takes no account of cultural, social, and political changes that impact upon contemporary economic relations. As suggested, the Enlightenment was one such significant
transformation without which the capitalist enterprise as we know it, may not have arisen and thrived. Other social conditions, and not least asceticism, accumulation, and the work ethic associated with Calvinism and the protestant religion played their part (Weber, 1958) but many other factors too numerous to mention were important.

However, we would seem to be currently in a situation of dramatic cultural, social and political transformation as a result of climate change, globalisation, and the development of a post-modern culture. The sense in which Friedman's theory is entrapped in a time warp prevents its advocates from seeing how these changes impact on business in the 21st century. How do these transformations impact on business and is CSR the mechanism through which business can respond?

Finally, the theory simply neglects to consider how behaving responsibly may actually be a necessary condition of securing shareholder value particularly in the medium to longer term. Certainly larger numbers of investment analysts and fund managers are incorporating CSR issues when making their advice and assessments for clients. Given these weaknesses in the neo-liberal economic model, a business case for CSR can be made. The report begins from this position but demonstrates that there is still a tendency to slip back into seeing a conflict rather than compatibility between CSR and shareholder value.

SYSTEMIC CHALLENGES TO THE INTRODUCTION OF A CSR PROGRAMME

The challenges of a systemic kind are largely driven by national government or non-governmental organizations (NGOs) that often extend beyond state boundaries. Corporate responses will tend to vary, however, in relation to what is demanded by those in their operating environment, legal or regulatory requirements, and the internal power to develop CSR but will be constrained by as number of organizational rigidities.

- **The operating environment**, which includes suppliers, business partners, investors, government, regulators and the media. Companies have to meet the social, environmental, and ethical expectations of a variety of actors who have an interest in their business.

- **Compliance** – as yet there is no legislation affecting CSR beyond existing measures on UK Company law, on the sale of goods, advertising, employment, the FSA handbook, and health and safety at work. However, adhering to the various voluntary codes of conduct is a prerequisite for an organisation with any claim to be serious about CSR. Thus, even though the Operating and Financial Review did not reach the legislative statute book, respondents told us that they proposed to implement many of its principles. For companies operating in the US – the Sarbanes-Oxley Act 2002 has informed their global operations in addition to local legislation.

- **Capabilities and experience** – often CSR managers have only been in place for 2-3 years. We found that our respondents had received only a few days of
training in the area, bolstered by attending conferences, desk research and participating in best practice networks. Partly because of this but also due to the marginal status of the activity, gaining credibility with other functional areas is extremely difficult and rarely accomplished. The stumbling block to embedding CSR in everyday practice appears to be middle managers for which CSR issues do not come high on a time-scarce agenda, especially when a programme has simply been parachuted in by the senior management. This may account for the reporting that characterises some organisations where the central focus tends to be community activities, health and safety and easy-to-measure energy use, recycling and waste disposal. Often, but not exclusively, such reports suggest that the marketplace consists of little more than accessibility and cause-related marketing. While it is legitimate for companies to use ‘cause-related marketing’ as a means of improving their branding and positioning, does this amount to corporate social responsibility? (Frank et al. 2001). As one CSR consultant said, “the two things that really impress people are, if you have very obvious environmental issues. So reducing paper consumption, reducing water consumption, turn the lights off, you save energy, those are things that employees understand, if you have a good programme of employee volunteering, that can really engage people as well because there’s a sense of “I’m doing good, but on my employer’s time”. It is disappointing to see reports that state in glowing terms that they value their people, only to read further on that numbers of women or people from the ethnic minorities have made so little progress, despite the avowal in the report of one of the participating life and pensions companies, that they "believe that the diversity in our workplace should reflect the diversity in our local communities" (CSR report 2005). A CSR director who has responsibility for policy in his organisation told us that:

“It is a difficult one because most of our staff in Manchester travel in from outside of Manchester. So, we have been looking at that part of the business strategy. We have all sorts of problems, in some ways, if you just looked at the communities where you draw your staff; you are deliberately screening out communities where you don’t draw your staff. The reason you don’t draw your staff is because they are ethnic minorities” (CSR director, life and pensions company).

- Organisational Rigidities:

The difficulty for organizations is that they rigidly adhere to traditional objectives for reasons of existing legal requirements (e.g. shareholder value) and the embeddedness of these within a legacy of career systems, service agreements, and regulatory conventions. Delivering on agreed service levels consistently pushes ‘softer’ targets such as CSR lower down the list.

“It’s hard to see how they are going to be judged on this. We haven’t come up with any sort of system, but we’ve tried various things. We can build it into job descriptions, but, so what? How often are they referred to? We build it into behavioural competences by different levels, but for middle managers it’s still not as important as results in certain areas”.

(CSR Director, Life and Pensions Company)
CSR is often subscribed to in public statements made by Chairmen, Chief Executives or at senior levels but then at junior levels, where these commitments have to be activated there is a disconnect with the priorities of the business which tend to be more about focusing on revenue growth, or production programmes. Despite a general commitment to CSR, the issues tend to lose priority.

As one ex- CSR manager for a high street bank, now consultant told us

“There’s the argument, “ it’s not regulated, so why do we need to do it?” people within organisations don’t tend to be rewarded in relation to how well they manage CSR elements and, as such, while they may approach it with a degree of passion, if performance is being monitored in relation to financial performance, then other things will slip and unless it is included on people’s scorecards and unless senior managers and middle managers being challenged on the way they deliver this it’s always be a nice to have, it’s always going to be a sort of hobby within the organisation and doesn’t actually get in the mainstream of the organisation. Success in this is – “this isn’t CSR, this isn’t sustainability, it’s just the way we do business” (CSR Consultant).

But even when there is a degree of regulation or law as for example in the area of equal opportunity, we found cases, which fell short of what was expected. Data on equal opportunities cited in company reports indicate that there has been little change – in some cases, year-on-year figures indicate that there have been minor reversals in this area. One of the case study organisations states in its recent report, ‘doing the right thing in the workplace therefore means working with our staff to ensure the company is a safe, diverse and enjoyable place to work’, at the same time as reporting staff turnover that have risen from 26.5 per cent in 2004 to over 30 per cent in 2005 and that the percentage of ethnic minority staff in management positions has fallen for the last two years. While this openness in reporting is to be applauded, it does not give confidence that the current demand that companies include CSR issues in their reporting necessarily results in improved practices despite legislation and a CSR code of practice that requires them to do so. At the same time, we found that when it comes to other CSR related employment practices, most organisations meet expectations in terms of flexible working, job-sharing, and training and multinationals generally have signed up to one or another human rights index for their overseas employees.

THE INSTRUMENTAL DIMENSION

Community Work

All CSR managers and directors were eager to tell us about their community and charitable activities. Where the media is concerned, these are good stories and can easily be translated into building brand and reputation. Conversely, although there were many examples of small numbers of staff volunteering and carrying out fund-raising activities, we found little evidence of this type of activity translating into formal performance and reward structures. Only one respondent informed us that CSR activity in the community formed part of a balanced scorecard for the employees and the organisation. One CSR manager explicitly told us that involving employees in
community and volunteering activities had been a morale building exercise after large numbers of compulsory redundancies – hardly what can be considered a genuine commitment to CSR.

**Business Partnerships**

We found that the areas least covered in interviews and publicly available reporting were supplier engagement and distribution routes. More advanced and proactive companies – Aviva being an example – are now sourcing one supplier for all their global activities so as to guarantee agreed standards of CSR/governance.

Whilst supplier relations are now relatively established in terms of shared CSR/governance, distribution routes would appear to be less so. For example, in only a few instances, usually when the distributor is very large, have independent financial advisers (IFAs) become involved in the tendering process where CSR is an integral part of the process. This is an important issue for corporate reputation since if things go wrong at the distribution level, the cost in terms of compensation, fines, and image often tends to fall on the provider. One CSR director of a life and pensions company told us that they endeavoured to avert this potential problem by working with IFAs on training issues; people from their compliance department routinely audit chunks of IFA business. A number of providers have now acquired large IFA businesses, giving them the potential to establish a set of common principles. However, one of our research respondents pursuing this distribution route admitted that his company had not incorporated the IFA into the CSR system.

**Investors**

In a lecture delivered to the UK Social Investment Fund, Christine Farnish sets out the National Association of Pension Fund’s position on CSR and socially responsible investment. At the time, April 2005, pension fund assets in the UK were worth £750bn, thus representing a significant investor class. Around 71 per cent are invested in companies, either in UK equities (37%), overseas equities (29%) and 5 per cent in corporate bonds and it is the Boards of these companies that:

‘Should be mindful of the wider perceptions of the Company in society, bearing in mind that maximisation of short-term gain in a manner which is deemed unacceptable by society as a whole can seriously damage the long-term prospects of the Company.’

In this sharing out of the duties Farnish assigns responsibility to company boards for developing a CSR policy that is appropriate to the nature of the business and an obligation to disclose it to investors. Investment analysts should include consideration of this information as part of their mainstream business analysis. The duty of the trustees of pension funds should be to understand how their investment managers do research into all areas including CSR – especially in the analysis of long-term risks and opportunities. This is a tough stance on CSR contrasted with the one reported in a 2003 survey where only 52 per cent of fund managers/analysts and 47 per cent of investment relations officers believed that social and environmental concerns would
become a significant aspect of mainstream investment decisions in the next few years. Good practice in these areas has a positive impact not only on the company’s reputation, but also on the company’s long-term value, but limited impact in the short-term (CSR Europe, Deloitte Touche Tohmatsu and Euronext, 2003). In this context, it is significant that ethical and environmentally conscious institutional investments have begun to appear in the best performance charts of late.

According to a Future Forum spokesperson from the specialist financial services team, the fundamental problem is that in most cases, analysts are only focusing on one year at a time in terms of the performance of the company. They are probably extrapolating profits from that year without really thinking about the external drivers beyond the incentives being paid on that performance:

“So that talking about the business case, you’ve got a business case for the financial institution itself – which would be – you can pick the stocks that are going to outperform because you’ve got environmental and social and governmental embedded in your investment decisions. That can be a powerful driver for adding value, but that depends in turn on the business case of the company that you’re investing in being clear. Obviously if the companies that you’re investing in are not looking long-term because most of the analysts are looking at the short term movements in the prices of stock, then you, sort of fall down on the way that people are going to build long-term thinking into their strategic decisions.”

Organizations like Generation Asset Management are not going to report back to their investors on a three monthly basis on how their investments have performed. They are going to pick the stocks that look like they are thinking long-term, treating their employees, other stakeholders, their suppliers and other people involved with the company and treating the environment in a way that will stand them in good stead in the long-term. They will tell investors - in three years- whether it’s made good sense, or not, but the investor is not going to be beholden to short-term fluctuations

Socially responsible investment may still be a niche product targeted at a small market, but the underlying principles are being taken up in mainstream investments according to a senior analyst at Morley, who told us that:

There was a lot of scepticism among mainstream fund managers as to the relevance of what we are doing (in relation) to their role. Now there is a lot more research coming from investment banks on these issues and lots of companies are starting to be hit financially by some of the legislation and changes in consumer attitudes. There is a lot of interest from our mainstream team about energy renewables, nuclear and other developments. They are starting to recognise that there are investment opportunities. (Melissa Gamble, SRI Senior Analyst, Morley).

Investors are also demonstrating their concern about global warming through creating
climate-oriented investor groups. In November 2003, under the auspices of the Carbon Disclosure Project, 95 institutional investors representing over $10 trillion wrote to the FTSE500 companies, requesting that those companies disclose their carbon dioxide emissions. Thirty-one institutional investors requested the same information in May 2002, signaling their clear need for climate information in the financial decision-making process. Similarly, a few years ago a group of 19 institutional investors launched the Institutional Investors Group on Climate Change, a forum for collaboration between pension funds and other institutional investors on issues related to climate change (Institutional Investors on Climate Change, 2005).

THE ETHICAL DIMENSION- COMMUNICATING PERFORMANCE

It is an advantage for listed companies to appear on one or other of the following indices: Dow Jones, FTSE4Good, Business in the Community, Business in the Environment. It serves the instrumental end of securing or sustaining the appropriate ethical, corporate image thus rendering a company trustworthy as a safe investment prospect. The Dow Jones and FTSE4Good are regarded as valuable measures of an organisation’s commitment to CSR, but there are at least four problems with these indices. They:

1] represent only a subjective assessment of the organisation’s reporting;
2] may not be easily adaptable to the needs of smaller organisations or mutual organisations;
3] ignore the differential power relations between the organisation and those with whom it transacts business, its employees, and owners - in terms of shareholders, the investment community, regulatory bodies, governments and society at large;
4] can be little more than a bureaucratic exercise.

What Difference does it make to the Customer?

Taking a CSR approach to customers can create a paradox for the financial services firm. Traditional marketing theory deems that the customer is sovereign (Korczynski 1999) in the relationship. In practice this can mean attempting to control the situation by creating solutions to perceived needs allied to forms of loyalty creation through systems of reward or customer relationship marketing. In a perfect market, consumers can pick and choose amongst firms that appear to offer the best value at a cost that the customer is willing to pay. It is, in essence a combative relationship (Fitchett 2004). Financial services, especially products such as insurance, pensions, and mortgages, unlike most consumer goods involve long-term relationships, their success being based on events that occur over the lifetime of the product. Payment protection insurance, pensions or mortgages are not easily open to the ‘rate tart’ flitting that characterises credit cards. Even so, attempting to treat customers on a par with employees or shareholders creates problems for those responsible for CSR in the company and this is evident in CSR reports and interviews. They have dealt with this,
in the main, by tying the marketing model to service quality and compliance with industry tools such as ‘Forge’ and codes of conduct such as the FSA’s ‘Treating Customers Fairly’, and the ABI’s ‘Raising Standards.’ The opinions of spokesmen from two consumer representative groups suggest that this may not be enough of a change:

“The majority of developments are forced on the industry by regulation, or other external factors such as Ombudsman decisions.”

“CSR is no guarantee of fair customer treatment – hence the FSA intervention.”

“There are few examples of CSR leading to positive developments in the market”

“The focus tends to be on good deeds, not on the way consumers access and use products”.

Certainly, the rhetoric of CSR can be at odds with examples of less than satisfactory practice, such as:

- High overdraft charges;
- Mishandling of complaints;
- Payment protection insurance;
- High mortgage exit charges;
- Irresponsible lending.

Each one of these issues is under review by the regulator, or the Ombudsman’s office so may be resolved in the consumer’s favour in the near future.

As one of our respondents said, “Treating Customers Fairly, for example, you could just do what you need to do to satisfy the FSA that you’re being fair. You might not be doing as much as you can, are you playing fair to everybody” (CSR manager, life and pensions company). The results of a survey carried out by the ABI demonstrate that early consumer enthusiasm (usually linked to the identity of a person on initial purchase) can easily fade away over the life of a long-term product:

**ABI Customer Impact Survey 2006**

- 52 percent of customers rated service as excellent, or very good;
- 30 percent of customers rated return on investment as fair to poor;
- 36 percent agreed with the statement that the life and pensions industry has an excellent overall reputation;
- 44 percent rated companies as excellent, or very good at maintaining effective relationships;
- 78 percent rated companies as good to excellent at developing and promoting products and services.

“I still think there is a lot of PR. I look at other people’s reports and think, ‘this is just a marketing exercise, there’s no substance behind it and there’s no reason why you’d do it as a company, you’ve got no history of doing something like this.”

( csr director: Life, pensions and investment company).
These rather disappointing statistics could change as long as CSR can innovate and develop, rather than becoming a bureaucratic tick-box exercise that is poorly resourced, under-staffed and located at some distance from strategic decision-making in corporate communications. The growing interest in socially responsible investment products indicates that, alongside reliable and secure products and selling processes, marketers could ‘examine and implement and offer social, even moral innovations in a similar fashion to the way that new technology innovations are introduced into the marketplace’ (Fitchett, 2004). We could not easily have predicted the eventual success of organic and fair-trade products such that they would be found in most major supermarkets especially given they are marketed at premium prices.

We also found encouraging examples of innovative products and technologies in financial services:

- Flood mapping and providing information for customer, planners and government;
- Linking health and fitness to the cost of medical insurance;
- Combining an energy efficiency audit with the mortgage survey.

Seventy four percent of consumers agreed that if they had more information on companies’ social, environmental and ethical behaviour, this would influence their decisions on what to buy (Mori, 2003).

REACTIVE OR PROACTIVE APPROACHES TO ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

“There are two conversations here, one is about corporate social responsibility, the other is about sustainability, the environment and social sustainability and economic sustainability. As things stand, unless legislation changes, I don’t believe that organizations will do what they have to in order to be sustainable” (CSR manager, Large Mutual).

For this CSR manager, competition precludes sustainability and therefore, it is down to the Government to level the playing field by introducing legislation on sustainability. This quote from the CSR manager of a large mutual at a fairly early stage of introducing its CSR programme typifies the reactive approach. He went on to tell us that he anticipated that it would be an incremental process at the culmination of which he hoped he would be out of work in his present position. With reference to the model developed by Henriques and Sadorsky (1999:87-88), this mutual organisation is progressing from the beginner stage to that of fire fighter.

- Beginner companies - turn their back on the problem, or tack it on to another function - e.g. health and safety. Beginner companies make little effort to
There has been a growth phase in the people industry, we have become aware of how fragile the earth is and increasingly aware about how much influence we have on it and how interdependent the various pieces of the jigsaw are. NGOs, WWF and social NGOs work together – Oxfam and the WWF. So, in an organisation of any substance, you must be careful about how you dispose of your weight in society”.

Anthony Sampson, Group CSR director, Aviva

Taking a high profile position on CSR and sustainability undoubtedly draws the attention of NGOs and there have been campaigns mounted against some
banks around project funding for the construction of oil pipelines and hydroelectric projects and lending to regimes suspected of human rights abuses. Such news, whether based on fact or supposition, undermines the efforts of banks and other lenders to brand their companies as taking a holistic and proactive approach to social, environmental and ethical issues. Lenders are potentially exposed to liability for environmental damage related to borrowing and damage to their reputations if they are associated with environmentally controversial projects (Abbey, 2002). Rather than sniping from the sidelines, some NGOs have formed partnerships with financial service organisations to advise on integrating CSR into the company strategy. Abbey works with The Work Foundation, a not-for-profit organisation that brings all sides of working organisations together to find the best ways of improving both economic performance and quality of working life. The Forum for the Future works in partnership with Royal Bank of Scotland, Royal and Sun Alliance, Nationwide and Prudential amongst others. In 2003, HBOS joined forces with World Wildlife Fund (WWF) to work on the WWF’s One Million Sustainable Homes campaign, with the objective of encouraging the construction of a million new energy and resource-efficient homes by 2012.

REPORTING FROM THE PRACTITIONERS

Before completing this report we presented our findings to the Financial Services Research Forum on Nov 7th 2006 at HSBC, Canary Wharf, London and engaged them in seminars to discuss the issues. What follows is a brief synopsis on the discussion abstracted from presentations of the conclusions from the 5 groups:

Synopsis of discussions

CSR in Financial Services needs an equivalent to organic food in retail and would be easier to implement if there were real demand from consumers.

We need a CSR equivalent of Investors in People – CSR as a way of attracting employees – an issue for sustainability that analysts have noted.

There has been slow progress in linking remuneration and the balanced scorecard to CSR

CSR is a risky strategy for early adopters but also for late adopters since they have then lost the competitive advantage. However, it needs someone to take the lead and here is where the larger corporations can help the cause by pushing the industry to follow its lead.

Since CSR is a slippery concept it is difficult to assess its scope. It would be better if government were more explicit about what are the CSR priorities.

It is really important that CSR is embedded in the corporation
Clearly, the members of the Forum were on the whole positive about CSR and this was not because the meeting was packed with CSR managers – indeed there were only a handful of delegates directly responsible for CSR in their respective organizations. Generally their deliberations concerned how to transform the ideas about CSR into practical policies within organizations and ensuring that it was fully embedded in existing practices of balanced scorecards, remuneration, recruitment, and risk management. Our report demonstrates that the larger corporations such as Aviva and HSBC are taking a lead on CSR as our members expect but even so the large corporations do not always commit as much resource to the activity as might be expected on the basis of their verbal and written support for it. There is also a belief that government should take a lead in outlining the priorities and this, according to Stern, is planned after they have ensured that their own departments are fully compliant with CSR. On the climate change front where consensus about the problem seems most advanced, corporations are more likely to be pro-active whereas on other aspects of CSR they seem to respond better when there are demands made upon them with which to comply.

However, were business to adopt the values of corporate citizenship broadly defined perhaps the reliance on the law, regulation, compliance, and penalties for violations could be avoided. This is important because it can reasonably be claimed that laws and regulations simply displace ethics or morality onto an instrumental footing of complying simply to avoid punishment rather than disinterestedly behaving morally. In order to do the latter, there must be a situation of some uncertainty that is not merely bypassed by conforming to a rule or routine (Derrida, 1992). In short, morality is not easy but demands that we think deeply about the outcomes of our decisions. In this regard the responses below by one of our research respondents are enlightening particularly as they extend beyond the vested interests that might arise were we to see our citizenship as tied to any one single nation state.

The following response from Anthony Sampson (Group CSR director Aviva) followed a question as to whether CSR was Eurocentric.

‘Elements of it are better than others. Some things are more - it’s easier to translate some things into other languages. If you look at CSR issues, they are different in every country, in India, social deprivation and poverty and in Lithuania immigration. In the UK there is more public awareness. So the things that typify CSR vary, country to country. When it comes to understanding CSR – absolutely none in some countries like Lithuania, you’ve got to look at the history of the country as well. Upto fifteen years ago, it was a Soviet system. One of the things done there is to produce a dictionary of economic life for ordinary people to understand life assurance. You have to be sensitive to the starting point of different countries. For example, we talk about eight elements of CSR, at group level that is what we seek to run right round the group, however, if you’re in India, you discover that you can connect much more easily to people if you focus on the social level than if you focus on the environmental dimension because social needs are so vast it almost overshadows the environmental imperatives. We had a look at the UK – centrality of CSR, Europeans say that it comes from here.
France – there’s a general recognition that the thinking and the terms of CSR come from here. The UK has got to accept that it may well have started things off but if it wants to be seen to tackle truly global issues, there has got to be global input in terms of analysis and be responsive, especially in the multis. You’ve got to keep the corporate radar functioning very effectively, so we’re tuned into overseas interpretations of CSR management in all our businesses and stay in contact with them.

While climate warming and other environmental matters are central to CSR, it is clear that this is a long-term issue that might have to be overridden in the short term to enable large sectors of the population to climb above the poverty line. Otherwise in the name of protecting the globe, the west will be accused of cutting off the rungs of the ladder to avoid lesser-developed countries from catching up. Environmental concerns will only appear credible within an overall programme that tackles global poverty and deprivation.

CONCLUSION AND RECOMMENDATIONS

At the outset of this research, our objective was to establish whether there is a business case for CSR. During the course of the research we interviewed individuals from a variety of financial services from the small mutual to the giant multi-national, consumer representatives, fund managers and an NGO. Our findings suggest that CSR policies, in the majority of cases go beyond mere PR. Pressure from investors, fund managers and peers have enforced a level of conformity and the financial services company that neglects environmental and social issues may have to explain its position to investors, suppliers and business partners, potential employees and consumers.

When it comes to the actual policy and practice, however, proclamations on the organisation’s values in relation to those it deems to be significant stakeholders made on web pages and in the early pages of CSR or sustainability reports may not be borne out by data that is presented later on in the report. Interviews with CSR managers demonstrated that, although they may have the best of intentions, they are often under-resourced and there is often insufficient integration of the principles embedded in the CSR policy with product development, service delivery and project funding and this threatens the whole endeavour. That there have been recent instances where the regulator, or ombudsman, has had to take action to protect consumers demonstrates that there are still deficiencies in this area and consumer representative groups are cynical about the dedication of financial services companies to CSR when it comes to customers.

Based on this research, it appears that there is a strong business case for maximising the opportunities that a strong social, ethical, environmental and governance framework presents in terms of innovations and new technologies – particularly around climate change. This has been enhanced by the importance that the UK government has attached to seeking to lead the world in responding to global warming as evidenced by the Stern Report (2006) and his global tour to stimulate world leaders
to encourage interventions to reduce carbon emissions higher up the political agenda. Stern argued that if we fail to curb gas emissions the situation could be as devastating as the Great Recession of the 1930s. His report aroused dismissive responses from both ends of the political spectrum. The Cato Institute, for example, sees it as global warming alarmism built on junkscience and shaped by junkeconomics. Heavy-duty environmentalists, think the prescriptions are woefully weak. That Greenpeace was strongly supportive of Stern changing the terms of the debate from a pessimistic view that it will cost too much in terms of economic prosperity, consumer inconvenience, and slowing down growth in the developing world to arguing that doing nothing will cost even more suggests that he has perhaps secured the right balance. Still it is important to avoid the ‘amplification of risk’ where the gloom of an impending environmental crisis leaves people bereft of any sense that there is anything they can do. Following on from the Stern report came the declaration by the Intergovernmental Panel on Climate Change (2007) that global warming is most likely the result of anthropogenic (human) activity and that it will continue despite attempts to reduce emissions because of the long time scales of climate change (ibid: 17). One could have been excused for thinking that this was precisely an amplification of the risk and yet it has had a positive response in the form of forty-five nations supporting French President Jacques Chirac’s ‘call for a new environmental body to slow inevitable global warming and protect the planet, perhaps with policing powers to punish violators’ (Charlton and Borenstein, 2007).

CSR is one of the main vehicles whereby business can respond proactively. If CSR is perceived instrumentally only in terms of shareholder value and win-win situations, corporations fail to compensate for legal and corporate privileges. From an ethical perspective, corporations perhaps should be seen as citizens with equivalent responsibilities to the environment and society. Systemic responses can help to change consumer taste and behaviour along socially responsible lines. This may have long-term benefits for the firm but that should not be the driver. It has to look beyond tradable market flows of supply and demand to do this. Earlier we suggested that if corporations were to become citizens then CSR would no longer be as problematic as currently is the case. This is because it would be embedded in the organization in the same way that, for example, social respect is intrinsic to communities. For CSR to benefit fully from such citizenship, it would have to go beyond the nation state as was evident in our respondents answer to our question about the Eurocentricism of CSR reported above.

The principles underlying socially responsible investments are no longer solely the preserve of the ‘fluffy bunny mob,’ SRI units are regularly sitting alongside and advising mainstream fund managers. Other useful partnerships have been established with non-governmental organisations, for instance, as the way to improving the ethically and environmentally oriented relationships.

Our recommendations are that large organizations (and this would include government departments, public sector organizations, regulators, trade unions, NGOs, charities, as well as private corporations) in the future explore the feasibility of corporate citizenship of a global character. This may involve corporations securing
voting rights in global organizations such as the World Bank, the IMF, the World Health Organization, and other supra-national bodies that intervene on behalf of world populations in return for acting in a socially responsible manner in all of their business and/ or non-commercial ventures.

References


Annexe 1 Diag. 1 Future-Proofing Corporate Social Responsibility

The Fire-Fighting Approach  
Reactive

CSR agenda responds to external impacts
- Environmental
- Energy Use
- Waste Management
- Transport
- Recycling
- HR
- Regulatory

The Sustainable Approach  
Proactive

Forward-looking CSR agenda
- Ensure that the business is well-placed to respond to all the challenges;
- Pick the stocks that are going to outperform because you’ve got environmental and social and governmental issues embedded in your investment decisions;
- Treat employees, suppliers and other people involved with the company and treat the environment in a way that will stand the company in good stead in the long-term;
- Business, economy, government all have a role to play.

Cases

- HSBC – anticipated the risk posed by climate change and the opportunities offered by Carbon Trading
- Toyota - Five years ago people were thinking about putting money into different types of engines and Toyota has the technology.
- Generation Investment Management - focuses on long-term, long-only, concentrated global equity investing process to provide better insight into the prospects for the company’s long-term performance.