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Global Financial Crisis and Economic Downturn: Implications for Corporate Responsibility

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The Centre for Social Impact (CSI) is a bold partnership between the business schools of the University of New South Wales, the University of Melbourne and the Swinburne University of Technology. It brings together the committed hearts and business heads of the philanthropic, not-for-profit, private and government sectors in pursuit of social innovation. It provides socially responsible business management education and research in the common cause of building a stronger civil society for Australia.

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Disclaimer

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Let me bring to your attention two stories that you may have missed in the extensive media coverage of the slippery slope from Wall Street financial crisis to global economic recession.

The first epitomises the manner in which the corporate world has increasingly invested in socially beneficial outcomes. It relates to a business-university partnership which established a Centre for Global Finance and Economic Development at Atlanta's Spelman College in 2006. The worthy goal is to prepare women of African descent for successful careers in the corporate world. It concerns, too, a more traditional philanthropic venture, which provided funding support in 2006 and 2007 to a New York City charity, City Harvest. The organisation delivers left-over food from restaurants to the needy.

There is nothing too noteworthy about these initiatives – other than that they were funded by Lehman Brothers. They are small parts of a much larger story. Indeed the Lehman Brothers Foundation gave US$39m to charity in 2007, in part through sponsoring a program of workplace giving. In addition, CEO Dick Fuld, through his Kathy and Richard S. Fuld Jr. Family Foundation, gave US$5m. Fuld, of course, is now much reviled as the man who, through vaulting ambition and unconstrained risk-taking, brought catastrophe not only to Lehman Brothers but "helped ignite the financial apocalypse".[1] Lehman Brothers is gone.[2]

This first story segues into the second. It relates to a media report of growing concerns that "as goes the economic downturn, so goes funding for corporate expenditures deemed non-essential, such as some corporate responsibility programs". The article suggests that businesses may see CSR as non-essential at a time of down-sizing and cutbacks. Again, there may seem nothing particularly attention-grabbing about this story – except for the fact that it is sourced from China.[3]

China has invested heavily in corporate responsibility in the last few years. An increasing number of Chinese domestic companies now release CSR or sustainability reports each year. Chinalco, the giant

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[1] Daniel Franklin, "Just Good Business", The Economist, 17 January 2008.

[2] So, perhaps, is the benevolence. According to Phyllis Fisher, from the Hospital for Special Surgery: "We got a $1million grant last year from Lehman Brothers when we honoured Richard Fuld … We got $400,000 so far. We don't know what will happen." See also Reenita Malhotra, "Financial Crisis: What Will the Collapse of Investment Banking Mean for CSR?" The Inspired Economist, 19 September 2008, inspiredeconomist.com>

[3] "Global Financial Woes May Impact Corporate Social Responsibility in China", 15 October 2008, ChinaCSR.com>. For a different Asian focus see my forthcoming article, "The Impact of Global Recession on Corporate Social Responsibility in Singapore", Social Space, 2009.

aluminium company that is likely to become the largest Chinese investor in Australia through its proposed equity share in Rio Tinto, has a CSR program that seeks to reduce energy consumption and improve workplace conditions. Indeed Chinese universities, such as the China Europe International Business School, have led the way in incorporating CSR ethics into their curricula.

The new focus on corporate responsibility in China has partly been driven by government commitment to the creation of a "Harmonious Society" able to balance economic growth with political and social stability. It has also been prompted by the need to persuade Western investors, consumers and journalists that Chinese manufacturing practices are healthy, environmentally sound and respectful of employee rights and that its products are safe. Indeed, in the view of Richard Welford at CSR-Asia, the Asia region "has been very much based on the prevalent outsourcing model where concerns over sweatshop labour has dominated".[4] Responsibility for the integrity of the supply chain acts as a global link between developed and developing countries, creating a nascent CSR network.[5]

At the same time multinationals operating in China have exported their philanthropic impulse: in 2008, for example, Estee Lauder partnered with the Department of Disease Control in Shanghai to promote a Pink Ribbon Campaign on breast cancer; Amway Corp., according to Chairman Steven Van Andel, is "very active in charity work in China"; and Kraft Foods provides nutritious school lunches in poor regions.[6] Such interventions accord strongly with the perspective and temperament of most Chinese companies. According to Elyse Chan, "CSR in China is still widely perceived as philanthropy … comparable to a donation rather than actively engaging communities". In her view CSR remains largely a series of charitable initiatives that "are only a bonus adding to successful operation and good reputation".[7] It is not surprising, then, that many Chinese managers responsible for the programs worry that CSR activities may be perceived as 'froth' that can be skimmed off in the face of significantly reduced economic growth. Chinese CSR strategy "is in danger of being laid to one side as a result of the global slowdown".[8]

Angst is global. The soul-searching evident in China is shared not only in Asia but in North America, Europe and Australia. The underlying caution of many not-for-profit organisations about the substance of CSR is at risk of being transformed into outright rejection. As the UK's Guardian asked, in an orgy of alliteration, "will corporate consciences crack under the credit crunch?"[9] Or, in the words of Adam Jones, the Financial Times On-Line Business Education Editor, will the harsh realities of cost-cutting be

[4] Richard Welford, "The Future for CSR: Issues for the Next Decade", csr-asia.com>

[5] Wayne Visser, "CSR in China: Cause for Hope or Despair?", CSR International, csrinternational.blogspot.com, 8 October 2008. See also CSR-Asia, "CSR Asia Business Barometer 2008. The State of CSR Disclosure in Asia", 2008.

[6] "Pink Ribbon's History in China", China Daily, 27 October 2008, www.chinadaily.com.cn; "Amway Meets Challenge in China Market", China Daily, 4 November 2008; and Rowan Callick, "Saving China's Harmonious Society", The Australian, 24 November 2008.

[7] Elyse Chan, "Challenges of Chinese Philanthropy", CSR Asia Weekly, csr-asia.com>
[8] Callick, op. cit.

[9] David Grayson, "Will Corporate Consciences Crack Under the Credit Crunch?", The Guardian, 28 October 2008, guardian.co.uk>

marked by "throwing the CSR priests out of the marketplace"?[10] In Australia, Phillip Adams, on Late Night Live, was quick to ask "Corporate Social Responsibility – Does It Work?"[11] Many commentators share the perspective of Robyn Charlwood, a member of the Centre for Social Impact's Melbourne Advisory Council, who "doesn't think corporations can say that they value CSR … and that it is an integral part of their business strategy, and then cut expenditure and activities around CSR due to budgeting constraints … I don't think this will 'wash' with the community and it may tarnish the reputation of those corporations".[12]

There are two alternative views about the impact of the GFC on CSR. To David Grayson, at the Doughty Centre for Corporate Responsibility at Cranfield University, economic stringency could actually improve the embedding of new behaviours.[13] He argues that corporate responsibility takes years to build and businesses will grasp the opportunity to differentiate themselves from their fair-weather fellow travellers. The Financial Times' Adam Jones shares this perspective. In his view it would be pretty dumb to dump CSR just "when the public mood is for more accountability and regulation, not less".[14]

At a moment when trust in market mechanisms (in general) and business leadership (in particular) are at a low point, it will be imperative – think the optimists - that commitment to corporate responsibility remains strong. "It takes twenty years to build a reputation", according to Warren Buffet, "and it can be lost in five minutes".[15] Now, as increased government regulation of corporate behaviours becomes legislated around the world, CSR will remain the cornerstone of providing the private sector with an implicit 'licence to operate'.

David Gonski, Chairman of Coca-Cola Amatil in Australia, and a forceful exponent of community-business partnerships, is persuaded that "if ever there was a time to balance the community's need for business and business' need for the community, it is now".[16] The head of Westpac's group sustainability and community involvement, Graham Paterson, agrees. "Our commitment is hardwired into how we do business", he contends. "We look at long-term decisions and know that now is not the time to downsize in sustainability or environmental commitments."[17] A straw poll of executives in the field,

[10] Adam Jones, "Will CSR Survive the Bust?", Financial Times, 15 September 2008, blogs.ft.com>

[11] Phillip Adams, Late Night Live, ABC Radio National, 23 October 2008.

[12] Robyn Charlwood, private email communication, 2 December 2008. Charlwood is a member of the Melbourne Advisory Council of the Centre for Social Impact.

[13] Grayson, op. cit.

[14] Jones, op. cit.

[15] Quoted in Grayson, op.cit.

[16] "Gonski's Five Lessons", Australian Institute of Company Directors, The Boardroom Report, Vol.7, No.3, 25 February 2009. Gonski is a member of the Board of the Centre for Social Impact.

[17] Keeli Cambourne, "Bottom Line: Do the Right Thing", Sydney Morning Herald, 14 February 2009.

undertaken by Ethical Performance, reported a generally resilient mood "with expectations of some belt-tightening but no visible fear that the global financial crisis will push CSR and SRI (socially responsible investment) onto the defensive".[18]

In marked contrast Jonathon Porritt, Chairman of the UK's Sustainable Development Commission, is persuaded that the hard reality of recession will show that CSR was "an increasingly empty and illusory notion anyway".[19] Howard Davis, Director of London School of Economics, believes that "desirable initiatives … will be a much tougher proposition from now on (when) … costs tend to come first".[20] A survey of 800 global business leaders undertaken by Booz & Company, and released earlier this year, found that businesses under financial pressure saw themselves as increasingly likely to view green initiatives as 'optional': 40 percent said they would have to pull back on CSR initiatives such as energy efficiency.[21]

Even before the great financial crisis, in a penetrating study of corporate philanthropy, Michael Porter and Mark Kramer noted that many CSR initiatives were "too unfocussed, too shotgun, too many supporting someone's pet project with no real connection to the business".[22] In the light of economic downturn many of those corporate responsibility activities have been exposed, argues Daniel Franklin in The Economist, as "often just a figleaf".[23] In this jaundiced view too much of CSR has been a public relations exercise in giving an environmentally-friendly spin to business activities and promoting peripheral charity ventures in order to present an image of responsible organisations working in a world of 'caring capitalism'. According to Scott McDougall, CEO of TerraChoice, 'greenwashing' is rampant. His company's annual Sins of Greenwashing study argues that 99 percent of claims about 800 purportedly green products in Australia are misleading or false.[24] Financial crisis – to the sceptics – has exposed CSR as a bold façade built on inadequate foundations.

It is important to distinguish between critical questioning and unconstrained cynicism. The policies and programs presented under the banners of CSR, corporate citizenship or corporate sustainability - just as many of the initiatives often disclosed in the past under 'triple bottom line' reporting - have to varying degrees been of benefit to the community. Whether undertaken directly, or through corporate

[18] Ethical Performance, financial crisis special, November 2008.

[19] Jonathon Porritt, "The Death of CSR?", Forum for the Future, 10 October 2008, forumforthefuture.org>. Porritt has been particularly outraged that a recent report by Salter Baxter, a CSR consultancy, lauded British American Tobacco as a leader in social responsiblity: he condemned it as "a sick joke". See Juliette Jowit, "Reviled Firms Lead Responsibility List", The Guardian, 28 October 2008.

[20] Jessica Stillman, "Will the Financial Crisis Kill Corporate Social Responsibility?", 17 September 2008, blogs.bnet.com>

[21] Ashley Midalia, "Green? We're in the Red", Australian Financial Review, 23 January 2009.

[22] Michael E. Porter and Mark R. Kramer, "The Competitive Advantage of Corporate Philanthropy", Harvard Business Review, December 2002.

[23] Franklin, op.cit.

[24] Scott McDougall, "Hanging the Greenwashers out to Dry", Ethical Investor, No.84, March/April 2009.

foundations, businesses have sponsored a wide range of virtuous activities with good intentions and beneficial outcomes.

Companies have engaged with community organisations, extended pro bono support, provided volunteers, encouraged payroll giving, established matching programs and 'dollars-for-doers' initiatives and served on the boards of not-for-profits. They have learned to build partnerships with community-based organisations keen to gain their financial support. Not infrequently they have chosen to act in areas in which governments and their bureaucrats have a history of failure: in Australia, for example, employers – particularly in the mining sector – have engaged themselves in the 'too hard' basket of indigenous education and employment. At the very least CSR has been an umbrella for "well-intentioned efforts at corporate do-gooding".[25] At best it has represented a fundamental shift in the way business looks at itself and interacts with the society within which it functions.

Sceptism should not blind us to the positive outcomes that have been achieved in areas as diverse as occupational health and safety, workplace diversity, philanthropic support, energy efficiency and human rights. I include in this embrace many of these organisations now at the centre of financial catastrophe. In the U.S., for example, the Starr Foundation, gave away US$198 million in 2006 on causes ranging from stem cell research to training teachers to work with the visually impaired.[26] It's now effectively owned by the US government. On a smaller scale, the Northern Rock Foundation, the charitable arm of the British bank, donated £2.2m to 25 community groups in 2008 to assist older people, carers, disaffected young people and victims of violence and abuse.[27] It's now 100% owned by the UK government.

The question is not whether CSR has been a good thing - it has. CSR has contributed to social welfare, support for the arts and environmental sustainability. At an organisational and individual level it has been embraced with good intentions. Rather, the question is whether CSR is perceived as valuable enough to survive sharp declines in business profitability and shareholder value.

Two facts are incontrovertible. First, that business leaders have believed, at least until the present dire circumstances, that corporate responsibility was growing in importance. An on-line survey undertaken by the Economist Intelligence Unit of 1192 global executives in November-December 2007 indicated that CSR was perceived to be of increasing relevance. It found that those business leaders who accorded a high or very high priority to corporate responsibility had increased from just over 30 percent three years previously to around 55 percent and, they believed, was likely to increase to almost 70 percent by 2010.[28] Similarly, a recent McKinsey survey of 536 C-level executives from around the

[25] Stillman, op.cit

[26] Fabrikant, op.cit.
[27] "Rock Donates £2.2m to Charities", BBC News, 10 October 2008, news.bbc.co.uk>

[28] "Just Good Business", The Economist, 17 January 2008.

world found that 84 percent believed that society now expects businesses to take a much more active role in environmental, social and political issues than they did five years ago.[29]

IBM's third biennial Global CEO Study was conducted in 2008. It surveyed 1130 business leaders from 40 countries. There was general agreement that customer expectations of CSR were rising. More companies felt that they faced increasing pressure from advocacy groups demanding that they report on CSR-related activities. They were "painfully aware of the regulators and nongovernmental organisations (NGOs) monitoring their every step".[30] More than two-thirds of executives avowed that they saw this as positive. Yet, tellingly, many indicated that they were finding it hard to work out just how to put CSR into practice.

Their confusion appears to confirm the view of Christopher Thorn, Executive Director of Philanthropy Services at Goldman Sachs JBWere, who argues that the purpose of CSR is often poorly communicated within an organisation. In his view "the CEO or senior executive 'gets' why the company should be involved in CSR activities … The trouble is the (implementation) team has no idea what they are being asked to do, why or where to go for help. I think there is a need for a 'middle management 101' of why companies do (CSR)".[31]

Appreciation of the value of transparency has also risen. In 2008 a worldwide survey by KPMG on the Global Reporting Initiative revealed a significant increase in corporate responsibility reporting. Some 79 percent of companies now issue a stand-alone corporate responsibility report compared to only 52 percent in 2005. In Australia, 68 percent of companies in the ASX top 100 publish information on sustainability, more than double the number just three years ago.[32] Clearly CSR, in its manifold articulations, has both captured the increased attention of business leaders around the world and been extolled by them with greater fervour.

The second fact is that although there is a great deal of fuzziness about the term, and confusion about how to implement it, CSR is seen by business to be beneficial for corporate enterprise. Doing good is good business, exhorts the well-worn cliché. You cannot run a successful company in a failed world, runs another. Yet, as Harvard Professor 'Dutch" Leonard opines, the value creation of CSR remains largely "an act of faith, almost a fantasy".[33]

At least at the level of rhetoric, there is a general sense that CSR benefits the company. Initially CSR was often perceived as a defensive strategy, designed to stave off regulatory intervention, legal challenge

[29] "The State of Corporate Philanthropy: A McKinsey Global Survey", The McKinsey Quarterly, February 2008.

[30] IBM, The Enterprise of the Future, Global CEO Study, 2008.

[31] Christopher Thorn, private email communication, 4 September 2008. Thorn is a member of the Melbourne Advisory Council of the Centre for Social Impact.

[32] KPMG, International Survey of Corporate Responsibility Reporting, 2008.

[33] Quoted in Franklin, op.cit.

or the media campaigns of consumer advocates and community activists. It was often a response to a bad news story. This is changing. Increasingly CSR has been recognised as a positive strategy, able to add value to longer-term corporate goals by providing comparative advantage over market competitors. It is as much a matter of good commerce as good conscience. Social returns on investment have proved hard to measure but so, too, let us remember, have traditional corporate indicators such as goodwill and brand recognition.

In Australia, the Prime Minister's Community Business Partnership has set out clearly the key premises of corporate benefit. Based in part upon a survey of locally-based Australian companies engaged in 'corporate community involvement', it has argued that 'social partnerships' increase the long-term commercial viability of business, facilitate proactive risk management, ensure compliance with regulatory standards, attract ethical investment funds and enhance employee relations and staff morale. At the same time community engagement increases brand identification and improves corporate image.

The fact that CSR has often been marketed for public consumption is not surprising. Many of those who head the business units responsible for CSR have previously worked in the area of public affairs. Indeed, presenting a 'social and environmental audit' of activities through vehicles such as the Global Reporting Initiative is a welcome contribution to corporate openness, even when they are written to present the most positive picture. The reports, at the least, indicate a belief that community activities provide "an opportunity for creative and powerful marketing and public relations programs" and, by doing so, have a positive impact on the satisfaction of customers, clients and suppliers.[34] Rather than criticising CSR as 'spin', perhaps it is best to extol the public presentation of activities as an indication that business genuinely thinks that social and environmental commitments bring economic benefits.[35]

Hand–in-hand with such community initiatives, and motivated by similar considerations, corporate responsibility has increasingly embraced the global issues of climate change and human rights. Corporate responsibility now often involves companies seeking to mitigate greenhouse gas emissions along the entire supply chain, reduce their carbon footprint and increase their use of renewable energy. Interestingly, it may have been in Asia-Pacific countries that concern about environmental issues has risen fastest. Indeed one CEO from China reported that over the past three years the company had "invested twice as much in CSR and environmental initiatives as … in the previous 30 years combined".[36] Green commitments, it is argued, can "help the business community regain the trust of

[34] The Prime Minister's Community Business Partnership, Partnerships – Making Them Work, Sydney, 2000. For a more detailed case see the Centre for Corporate Public Affairs and Business Council of Australia, Corporate Community Involvement: Establishing a Business Case, 2000 and, most persuasively, Corporate Community Investment in Australia, 2007.

[35] Corporates still find themselves criticised for the fact that their community activities do provide economic benefits to them. Commenting on a McDonald's free maths program, Professor Bobby Bannerjee, from the University of Western Sydney College of Business, noted that "there is a return to the company – they claim they are doing it to serve the community but that's not entirely true". Sky News Online, 20 March 2009, www.skynews.com.au>

[36] IBM, The Enterprise of the Future, op. cit.

consumers and investors". In the words of John Anderson, CEO of Levi Strauss & Co., linking sustainability and productivity "can save you money – and it's the right thing to do".[37] Business profitability and moral purpose are neatly intertwined. To do good is in the self-interest of the company.

These avowed benefits have at their heart a couple of broad interrelated characteristics. They are premised on the belief that CSR provides business with reputational advantage against competitors in the short- to medium-term and sustains corporate success in the long-term. At least in theory the corporate values that underpin these dual objectives have appeal to all the multiple stakeholders - from Gen Y recruits seeking purpose to baby boomer employees preparing for retirement; from customers and clients to suppliers and distributors; and from pro bono Board members to socially responsible investors.

At least before the global financial crisis it was believed that governments, and the media who influence them, may be persuaded by CSR that business is well-motivated, socially responsible and best left to regulate itself. Public trust may be sustained. Social expectations may be met. Even shareholders, notoriously wary of business-community initiatives undertaken with their funds, may be persuaded that profitability – and their returns – can be enhanced into the future. Good reputation is portrayed as a source of tangible value: the more loyalty a company can inspire in its customers by its community engagement or eco-friendliness, the more it can charge for its products.[38]

At its most grandiloquent, corporate responsibility now espouses its mission in terms of an implicit social contract between business and civil society, incorporating expectations of behaviour that must be met. In the words of Sidney Taurel, Chairman of Eli Lilly and Company, there is a "tacit understanding that as we fulfil our responsibilities to society, society will allow us the freedom to operate".[39] The challenge is to translate such stirring rhetoric into concrete terms.

Professor Geoff Gallop, former Premier of Western Australia, argues that CSR "should be part and parcel of private sector practice".[40] He's correct. The crucial question is whether business behaviour

[37] "Nearly 9 Out of 10 Business Leaders Believe US President-Elect Obama Will Help Advance the Corporate Responsibility Agenda", 6 November 2008, CSRwire, csrwire.com>

[38] Shiela Bonini and Jeremy Oppenheim, "Cultivating the Green Consumer", Stanford Social Innovation Review, Fall, 2008.

[39] McKinsey and Company, Business's Social Contract: Capturing the Corporate Philanthropy Opportunity, 2008. Conversely Dirk Matten, chair in corporate social responsibility at the Schulich School of Business in Canada, believes that the crisis will generate increased regulatory intervention that "may result in more embedded CSR by orienting corporate responsibilities … towards good governance of the long-term interests of society", Ethical Performance, op.cit.

[40] Geoff Gallop, "The Role of Business in Public Policy Development and the Political Process", Corporate Public Affairs, Vol. 18, No. 1, 2009.

actually reflects his view. Is CSR embedded into the organisation? Do companies really recognise "the materiality of environmental, social and governance (ESG) factors as long-term value drivers"?[41]

Many business leaders believe so. IKEA's Anders Dahlrig suggests that sustainability "is no longer an activity on its own, but … is totally integrated into everything we do".[42] Australia's distinguished banker and company director, Helen Lynch, similarly believes that business can no longer be separated from the community in which it operates. "CSR", she argues "is not an optional extra in good economic times. It is a source of competitive advantage."[43] Alcoa Australia's sustainable development manager, Tim McAuliffe, affirms that CSR "is core business practice for us".[44]

Another Australian director, John M. Green, formerly an investment banker, is less sure. In his view, "the CSR label has morphed into an easy grab-bag justifying spending with little alignment to a company's business, objectives or brand image".[45] Others argue that CSR is too often bolted on to business operations rather than built-in to business strategy. "There are still some people that think corporate social responsibility is about giving stuff away", Mallen Baker has written recently in Business Respect. "A bit of charity. Nothing to do with how you make your money."[46] In the most cynical view, CSR is little more than 'a launch, a lunch and a logo' and corporate benevolence just a pot-pourri of philanthropic activities and feel-good environmental initiatives cloaked in public relations – faith, hope and charity more than hard-nosed commercial benefit.

Certainly many critics believe that the present financial crisis has exposed the fragile underpinning of CSR and sustainability. Focussing on the related concept of socially responsible investment, Jon Entine at the American Enterprise Institute, has concluded that the advice of those who run ethical investment funds has been exposed as profoundly flawed. How can it be, he asks with the penetrating wisdom of hindsight, that Fannie Mae was named top corporate citizen in the United States between 2000-2004? How is it possible, he questions with some incredulity, that three of the top eight companies chosen by American SRI Funds, were AIG, Bank of America and Citigroup? How was it that well into 2008 "many ethical investment researchers were still handing out top ratings to the financial institutions that traded in the mortgage-backed securities at the heart of the crisis?"[47]

[41] Jeff Zelkowitz, "Sustainability and the Stock Market. A Game Changes for Company Value", 25 November 2008, the CRO.com>

[42] Ethical Performance, op.cit.
[43] Helen Lynch, "CSR When?", Caliburn Annual Review, 2009.

[44] Cambourne, op.cit.

[45] John M. Green, "Take the 'Social' out of CSR", Company Director, Vol.26, No. 1, February 2009.

[46] Mallen Baker, "Learning from Chaos", Business Respect, No. 137, 29 September 2008.

[47] Jon Entine, "Financial Crisis: Social Investment – Crunch Time for Ethical Investing", 28 October 2008, Ethical Corporation, ethicalcorp.com>

The reason, in Entine's view, is that social responsibility has too often been assessed on the basis of the equity and environmental initiatives undertaken by companies rather than on an examination of the actual business of their business. This is a tad unfair. The public recognition of Fannie Mae bore testimony to its efforts, as America's largest mortgage finance company, to extend the opportunity for home ownership to poor families: only recently has the characterisation of this policy moved from equitable to foolhardy.[48]

Nevertheless, Entine's argument is generally persuasive. The focus (of the investor just as much as the producer) has too often been on symbolic gestures rather than on the conduct, governance and accountability of the core business. Insurance giant AIG was recognised for its retirement benefits and sexual diversity programs. It also contributed to a wide range of causes worldwide, including providing cash to British charities every time Manchester United scored a goal. Bank of America gave away US$20m in 2007 and was a leader in reducing greenhouse emissions. Citigroup, amongst a plethora of contributions, was extolled because of its donations to schools and tying loans to environmental guidelines. Bear Stearns instilled a corporate culture in which senior managing directors were expected to give away 4 percent of their annual compensation to charity.

The issue is not that the community and environmental commitments of the financial institutions have been unworthy. Nor can it simply be translated into a morality play of greed triumphing over goodness. The problem lies far deeper. It is that the internal corporate behaviours revealed are too often antithetical to the goals of reputation and sustainability that avowedly underpin the various manifestations of CSR. At the very least, the core values and activities of major financial institutions did not reflect the CSR to which they were publicly committed.

The dimensions of the problem have been brutally exposed by recent experience. As the UN Global Compact office has pointed out, the obsession of financial institutions with immediate gain served to destabilise markets and, in doing so, undermine confidence and trust.[49] Their structures of remuneration were too often been designed to reward short-term performance. Instruments were developed to bundle 'securitised' debt and equity in opaque and complex financial products, inadequately rated, that could be hedged or (most important) sold on at grossly inflated value. Good banking practices of risk assessment were hopelessly compromised. Prudent management of interconnected risk was significantly weakened. The complexity of the derivatives served to hide the lack of return on the underlying assets. Markets failed to provide the information investors needed. Fundamentals were forgotten.

[48] Eric Lipton and Stephen Labaton, "Deregulator Looks Back, Unswayed", The New York Times, 17 November 2008.

[49] UN Global Compact Office, "The Global Economic Downturn. Why the UN Global Compact and Corporate Sustainability are Needed More than Ever", 17 October 2008, unglobalcompact.org>

The problem was not just that debt was cheap but that the price of risk was far too low. In that hot-house environment leverage took the form of excessive reliance on borrowed money. The impact was extraordinarily powerful in the short-term, with corporate super-profits in the financial sector being reflected in huge individual rewards. The destruction of wealth – and reputation – that would accompany deleveraging was put aside as a matter for tomorrow. Business was conducted that was implicitly premised on the indefinite postponement of economic reality. Perverse incentives that actively encouraged and rewarded excessive risk-taking were commonplace. Too often salaries and performance bonuses were calculated on immediate paper profits rather than sustainable operational cashflows.

Mortgage and securities brokers, together with credit analysts, had powerful financial reasons to understate risk in the shape of loan brokerage payments and financial commissions. Incentive payments vastly outstripped capital growth and the financial institutions failed to increase their capital holding to mediate the risk in a prudential fashion. In the words of Helen Lynch, a "cadre of calculating corporate cowboys abandoned prudent behaviour and got away with it".[50] The result was the creation of US$600 trillion of derivatives, including credit swaps, spreading the contagion globally. Deleveraging is now proving an excruciating form of redemption.

The lessons are all too clear. The internal business behaviours that contributed so greatly to the financial crisis can be characterised as a frenetic short-termism that risked enormous loss of corporate value and reputational damage, undertaken in ways that were largely hidden from view and poorly understood. Greed was as much an outcome of systemic failure as a cause of it. The roots of collapse were the antithesis of the values that underpin CSR (to which, it should be noted, many of the financial institutions subscribed).

As Hector Sants, CEO of the Financial Services Association in the UK said in a letter to corporate leaders, remuneration structures have been "inconsistent with sound risk management … (and) gave incentives to staff to pursue risky policies".[51] Combined with this, and perhaps crucial to it, was poor reporting. Australia's Association of Chartered Certified Accountants (ACCA), assessing the credit crunch, argued "that excessive short-termism, coupled with a lack of accountability … is at the heart of the problem".[52]

There is, as most not-for-profit organisations will readily recognise, a biting irony in this situation. The nature of the derivatives, mortgage-backed securities and collateralised debt obligations that were being traded, and the scale of the bonuses that were paid for their design and sale, effectively pulled a veil

[50] Lynch, op.cit.

[51] Financial Services Authority, "Remuneration Policies", letter from Hector Sants, Chief Executive, 13 October 2008.

[52] Association of Chartered Certified Accountants, "Climbing Out of the Credit Crunch", Policy Paper, September 2008.

across corporate finances. Opacity, it can be argued, was the distinguishing feature of the global financial network. Yet, as the Business Review Weekly editorialised only a few months ago, in reviewing the demands of business to be more involved in the charities they support, "they want to be assured that the investment they make will deliver the desired social outcomes. From the charities they expect good governance, accountability and transparency, sustainability and management rigour."[53]

It would be grossly unfair to tar all corporate enterprises with the same brush used to paint over the waterline cracks that have appeared in many financial institutions. Nevertheless the stark contrast between internal corporate behaviours (opaque, risky and unsustainable) and the external manifestation of corporate responsibility (transparent reporting, designed to ensure long-term success and provide reputational assurance) does have implications beyond the investment and commercial banks and financial service companies.

There are two key messages to take from this. First, that the aspirational goals of CSR have yet to be fully incorporated into the strategic planning of many businesses. The more closely tied a social or environmental issue to a company's business the greater the opportunity to leverage the firm's resources in ways that add corporate value as they benefit society. Yet too often there is little relationship between the business of the business and the framing of CSR. Indeed, for most business leaders surveyed by McKinsey on corporate philanthropy, the personal interests of the CEO and Board were perceived as more important (thought 49 percent) than alignment with business needs (only 23 percent).[54] A more recent McKinsey survey conducted in December 2008 among 238 CFOs, investment professionals and finance executives found high levels of frustration with trying to measure the extent to which CSR created shareholder value: 53 percent of corporate social responsibility professionals reported they did not know what effect social, environmental and governance programs had on shareholder value and, amongst CFOs, 21 percent believed they had no effect at all (and another 22 percent didn't know).[55]

Too often those who head the CSR unit are not integrated into the top business management team. Indeed a salary survey in 2007 found that half of CSR and sustainability managers had never worked in another corporate function.[56] Frequently they are located in public relations or corporate communications units.

The second message is that 'corporate responsibility' is too often located in a conceptual silo, separated from 'business ethics' and 'ethical investment'. The outward-looking and internally-focussed aspects of

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[53] "Give and Take", Business Review Weekly, 13-19 November 2008.

[54] McKinsey, op.cit. For the minority (11 percent) of 'efficient' philanthropists' the equivalent figures were 33 and 31 percent.

[55] "Valuing Corporate Social Responsibility", The McKinsey Quarterly, 2009.

[56] Ethical Performance, op.cit.

CSR need to be brought into alignment and complement each other. External engagement initiatives and internal management must be driven by the same strategic decision-making processes and corporate behaviour.[57] Only by doing so can CSR move from superficiality to resilience. Indeed John M. Green argues that the best hope for the future is to take the 'social' out of CSR, focussing instead on developing trusted relationships with employees, customers and suppliers and behaving ethically.[58]

The challenge to corporate responsibility brought by financial crisis and economic downturn, may - by putting CSR activities under the spotlight - revitalise the concept. To Wayne Visser, Founder and CEO of CSR International, the challenge is analogous to that of the World Wide Web: namely for business to transform "an old-style, philanthropy defined CSR 1.0" into a "more revolutionary" CSR 2.0.[59]

But how likely is this? I'm cautiously optimistic, with an emphasis on the adverb. Even among CSR professionals, who are likely to strike a more positive tone, there are significant doubts. A poll in October 2008 showed that while 44 percent believed that CSR would increase as a result of the financial crisis, 22 percent thought it would weaken. [60] In the following month a survey of 424 corporate professionals attending the Business for Social Responsibility annual conference, avowedly inspired by newly-elected President Obama, were far more positive: 11 percent were very optimistic and 66 percent optimistic, that global businesses would embrace corporate responsibility as part of their core strategies and operations in the next five years.[61]

I hope they are right. The truth is that CSR will only survive if it changes. Success in turning CSR into 'core strategy' will depend on increased recognition of the need to align corporate responsibility initiatives with the core business. Undertaken (and evaluated) in a planned and holistic manner, the diversity of CSR initiatives can build employee morale and consumer loyalty, create new markets, create new investment opportunities and deliver cost savings (particularly through energy efficiencies). Linked to competitive context, CSR can add value to the company while contributing to society.

However, the likelihood of 'CSR 2.0' reaching its potential will require more. It will need the goals of reputation and sustainability to be embedded in the organisational framework of corporate enterprise. In surveying Australian companies, Daniel Petre, Executive Chairman of Netus, has "a strong suspicion that creating a good corporate image ranks highly as a reason to undertake some level of CSR". In contrast, Petre sees the need to focus more intensely on increasing responsibility within the business

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[57] European Commission, Sixth Framework Programme, "Understanding and Responding to Societal Demands on Corporate Responsibility", Final Report (Draft).

[58] John M. Green, op.cit.

[59] Wayne Visser, "CSR and the Financial Crisis: Taking Stock", CSR International, 4 November 2008, csrinternational.blogspot.com> See also "Is CSR to Blame for America's Financial Collapse?" Management Thinking, 26 September 2008, management-issues.com>

[60] Visser, "CSR and the Financial Crisis", op.cit. In the survey only 26 percent believed that CSR would change.

[61] BSR/Cone 2008 Corporate Social Responsibility in a New World Survey, conducted 5 November 2008, www.coneinc.com> The survey results indicated that 70 percent of respondents believed that a leading way to advance the CSR agenda in the future would be to strengthen the alignment between corporate responsibility and business strategy.

itself by creating a sustainable work environment, sourcing products and services in an ethical manner and undertaking activities in an environmentally sound way. This is a CSR which focuses on the specific behaviours revealed within the company.[62] It is CSR that has made itself over.

In my view, businesses need to link internal workplace strategies (such as remuneration, employment diversity, fairness and safety, risk management and energy efficiency) to external activities (such as community engagement, social investment and environmental commitment). Ethical conduct needs to be regarded as central to corporate responsibility. Such a holistic approach may start with corporate headquarters but will need to scale-up to embrace tier one employees, the extended supply chain, customers and investors/shareholders. The diverse elements of corporate strategy need to be joined up, bound together by a coherent ethos of responsibility. CSR demands a leadership culture in which senior executives and Board members are united behind the goals of reputation and sustainability and oversight the incorporation of these values into the organisational structures, governance systems and reporting frameworks of their business. The strategic relevant of CSR needs to be transparent to employees, stakeholders and the wider public.

And here is my final provocative thought. It comes from my experience establishing the Centre for Social Impact, a collaboration across the business schools of three Australian universities (New South Wales, Melbourne and Swinburne). Much of the effort of the Centre focuses, entirely appropriately, on the need for not-for-profits to operate more like businesses. It seeks to improve the capacity of social enterprise. Across a range of functions – capital allocation, performance management, outcomes pricing, marketing and scaleability – the Centre's belief is that community organisations can become more efficient and effective, making best use of their scarce resources. They need to audit and report on their activities.

However learnings between business and community need to be reciprocated. Not-for-profits, with their complex array of stakeholders, have long faced the challenge of balancing financial returns with community benefit, of weighing carefully economic and social values. At the same time the emergence of social enterprises, which use accumulated 'profits' as surpluses that can be directed toward community benefit, are bridging the traditional divide between not-for-profits (many of which now run commercial operations) and private sector businesses. The experiences of values-based, mission-driven, socially-focussed enterprises may well hold the keys to CSR success.

Indeed the increasingly porous barriers between not-for-profit and for-profit ventures may offer opportunities for new forms of social and environmental responsibility, designed through collaboration and delivered by hybrid organisations and private-community partnerships. By "blurring the edges of what corporate social responsibility is", argues Hannah Jones, Nike's vice-president of corporate

[62] Daniel Petre, private email communication, 18 November 2008. Petre is a member of the Sydney Advisory Council of the Centre for Social Impact.

responsibility, it will be possible to turn CSR into "another engine of innovation" and "a force for massive social change".[63]

In Australia there are already glimpses of such a future. A qualitative survey of 153 not-for-profit organisations, undertake by the Centre for Corporate Public Affairs in 2008, has revealed that corporate-community partnerships are moving away from the philanthropic stage "towards an 'integrative' stage of collaboration", in which partners create new services and activities "producing mutual reputation and positive outcomes for society". A similar trend is evident in the United Kingdom and the United States.[64]

Let's hope that the opportunities that accompany crisis are seized. A publicly accountable CSR, built into the business of the business, and negotiated with the 'third sector' may yet evolve into a more powerful vehicle for building and sustaining a truly civil society.

[63] Hannah Jones, "Corporate Responsibility as Innovation Engine", Social Innovations Conversations, podcast at sic.conversationsnetwork.org>

[64] The Centre for Corporate Public Affairs, Relationship Matters: Not-for-profit Community Organisations and Corporate Community Investment, October 2008. Geoff Allen, the CEO of the Centre for Corporate Public Affairs, is a member of the Board of the Centre for Social Impact.

About the Author

Peter Shergold is currently the Macquarie Group Foundation Professor at the Centre for Social Impact. Peter has returned to the University of New South Wales to head CSI after 20 years during which he scaled the heights of Australian government administration, most recently as Secretary of the Department of the Prime Minister and Cabinet, the nation's most senior public servant (2003-2008). With a PhD from the London School of Economics, he moved to Australia from the US, joining the University of NSW in 1972 as a lecturer in economics.

He became head of the school of economic history in 1985. He began working for the Federal government in 1987, first as head of the newly established Office of Multicultural Affairs, and went on to hold senior posts including CEO, Aboriginal & Torres Strait Islander Commission (1992-95), Public Service Commissioner (1995-98), Secretary of the Department of Employment, Workplace Relations and Small Business (1998-2002) and Secretary of the Department of Education, Science and Training (2002-03).

He was previously chair of the Australia and New Zealand School of Government. He is on the Board of the publicly listed company, AMP Ltd, and is chair of the not-for-profit organisation, the Australia Rural Leadership Foundation. He is a Member of the Order of Australia and was made a Companion of the Order in 2007.

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