

Social Responsibility: The New Corporate Imperative

19 SEP 2016 -

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By Randy Myers

Not so long ago, corporate social responsibility was as much buzzword as serious corporate priority. Too often it referred to activities that companies would undertake to benefit the social good but with little direct connection to, or bearing on, the company's business operations. The idea of a genuine link between CSR and profitability, performance and revenue — involving more than just bolstering the corporate image or rebuffing criticism — met with skepticism.

Remnants of this attitude surely remain, but for leading companies around the globe, CSR has become a strategic imperative. As consumers increasingly demand more accountability from the companies they do business with, those companies recognize that aligning social responsibility initiatives with their business model can help them build a sustainable competitive advantage in the marketplace. The 2015 Nielsen Global Corporate Sustainability Report found that 66 percent of consumers were willing to pay more for environmentally sustainable brands, for example, up from 55 percent in 2014 and 50 percent in 2013.

“Today it very much has to do with markets and profit,” says Silvia Fernández de Caleyá, head of human resources and corporate social responsibility for Instituto de Crédito Oficial, the state-owned Spanish bank more commonly known as ICO. The bank's mission is to promote economic activities that contribute to Spain's growth and

development and to improve the distribution of wealth in that country. The bank pays particular attention to projects with social, cultural or environmental significance or that promote innovation.

“The growing awareness that social responsibility is intimately linked to profitability and to better business performance is changing corporations top-down,” says de Caleyá, noting that pressure to incorporate social good and sustainability into business models is coming from customers as well as other stakeholders. Consider ICO’s €1 billion (\$866.1 million) “social bond” issue in January 2015, which aimed at financing small- and medium-size enterprises in regions of Spain where GDP per capita is lower than the national average. The ultimate social goal is to create and maintain jobs. Among the purchasers were socially responsible investors (SRIs), who, de Caleyá says, are explicitly interested not just in the financial return on their investment but also in the social benefits it delivers.

“If you launch a social bond aiming to create or maintain employment in Spain’s most economically disadvantaged regions, you have to be able to report your results on that front,” she says. “SRI investors are not only interested in financial returns but in performance as well.”

China’s new environmental focus

While Europe has long been at the forefront of the social responsibility movement, China, with its intense focus on transforming itself into a modern, industrialized nation, has been viewed as a laggard. But in an increasingly global economy, that’s a distinction many Chinese businesses realize they can no longer afford.

“Traditionally, a Chinese company that wanted to earn money didn’t care whether or not it polluted the water or the environment in general,” says Zhou Min, CEO of Beijing Enterprises Water Group, a builder and operator of water treatment and sewage facilities that is 44 percent owned by the Beijing city government. “These days, it’s not like that. We want to run our business in a sustainable way. It must be environmentally friendly.”



Silvia Fernández de Caleyá, Instituto de Crédito Oficial

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For China and Chinese companies, this reflects a dramatic shift in thinking that began to take root among government officials at the start of this century. Soon state-run companies fell in line with the new focus on environmental cleanup and protection. Cleaning the air, bringing rivers back to life and encouraging development and adoption of alternative-energy vehicles now rank high on the national agenda.

Like many supporters of CSR, Min says Beijing Enterprises Water, which operates across China as well as in Portugal, Singapore and Malaysia, wants to ensure profitability over the long term, not just quarter to quarter. To be a truly socially responsible business, he argues, all of the company's stakeholders must benefit from its business model, including employees, corporate partners and society in general. "This is our concept of social responsibility," he says.

Increasingly, companies find that not embracing that approach can have a material negative impact. "We have important recent examples of how a company does instantly lose credibility, its solid reputation and business advantages when involved in environment, social or governance scandals," says de Caleyá, "and this has an immediate effect on a company's share value and sales." Although she does not mention it, an example can be seen in the explosion and sinking of British Petroleum's Deepwater Horizon oil rig at Macondo Prospect in the Gulf of Mexico in April 2010, which released an estimated 4.9 million barrels of oil into the sea. BP's stock tumbled in the weeks following the massive oil spill and to this day has not recovered its pre-spill highs.

A commitment to CSR pays dividends

Conversely, a commitment to corporate social responsibility can pay dividends in multiple ways. At ICO, de Caleyá says, "the fact that we are seen as a reliable, socially responsible partner makes it possible to obtain funds from the international capital markets." Meanwhile, issuing social bonds has widened the range of investors willing to support the bank's activities. ICO's commitment to social responsibility also has expanded its field of influence. "We are proud to say, for example, that we have been a very active participant, through our capital markets area, in the working group promoted by the ICMA [International City/County Management Association] in defining social bond principles."

Although it may be hard to quantify the impact on the bank's bottom line, de Caleyá

notes that a program in which ICO employees volunteer to work with specialized NGOs to provide job training to entrepreneurs, the long-term unemployed and other at-risk individuals boosts the morale of employees who participate as well as making a difference in the communities where the bank operates. That too has positive benefits for ICO, which is a certified Family Responsible Company and considers its people—to be its human capital—its most important asset.

Especially to the extent that it supports the goal of building socially sustainable businesses, CSR today is finally hitting its stride, de Caleyá argues. “In 2015 sustainability was in the epicenter of global agendas,” she says. “We could dare say 2015 was the year of sustainable development.” She points by way of example to the agendas and work done at three major conclaves: the third annual conference on Financing for Development of the U.N.’s Department of Economic and Social Affairs in Addis Ababa, Ethiopia; the U.N. Sustainable Development Summit in New York; and the sixth annual Paris Climate Conference.

Progress made at these gatherings suggests strongly that CSR is here to stay. “There is a global consensus that our planet’s future and sustainability require responsible business models and coordinated actions,” de Caleyá says. “Concern about how products and services are produced and disposed is growing, and not only among investors. When consumers and clients make a choice, it is an increasingly relevant matter, along with pricing.”

In short, corporate social responsibility is no longer just a buzzword or marketing tool. It is a strategic imperative.