

recession fears

CSR executives put brave face on financial turbulence

The consequences for corporate responsibility of an impending recession remain unclear, but many in the field are taking an optimistic view as business begins to grapple with redundancies and falling sales.

A straw poll of executives in the field has revealed a generally resilient mood, with expectations of some belt-tightening but no visible fear that the global financial crisis will push CSR and SRI onto the defensive.

On the contrary, many believe it could be positive for the sector, as the benefits of responsible behaviour become apparent. This view appears to be shared even by sometimes sceptical pressure groups and trade unions.

For now there seem to have been no departures of senior corporate responsibility executives even in financial services, although specialist recruitment agencies, while reporting continued strong activity in the job market internationally, have told *EP*

of some executives in the banking world registering with them in anticipation of losing their jobs.

There is budgetary caution, and the cancellation of one high-profile sustainability event is the direct result of tighter purse strings, but advisory firms report no immediate signs of a major slowdown – yet. ‘We’ve even had clients signing up and paying for next year’s business, including one that we expected to be in big trouble,’ said one well-known consultant.

One senior CSR executive at a global financial services company reflected the thoughts of many when she told *EP* that she was not overly concerned about significant retrenchment within her department.

‘Corporate responsibility isn’t a big budget item at most companies, so it’s unlikely to be an immediate target for cutbacks,’ she said. ‘I think the greatest vulnerability will be in those businesses

where the issue has been treated as an add-on, rather than integrated throughout the organization. If there’s been some level of integration, then it’s very difficult to step back from responsible behaviour, even in a recession, because it has become part of the fabric of the company. If CSR has just been bolted on, then it may be easier to jettison.’

In the UK, only around six per cent of CSR departments in companies have annual budgets in excess of £1million (\$1.59m), according to a survey of 145 companies carried out in 2007 by *Ethical Performance* with the Acona and Acre Resources consultancies.

In the short term the biggest casualty is likely to be corporate giving and community programmes, which are often directly linked to profits. Catherine Sermon, director of community at Business in the Community, said: ‘An economic downturn can become a societal filter for projects that aren’t working, making room for more valuable ones’.

editorial comment

the global financial crisis presents a challenge for CSR practitioners

Not the least important among the many issues raised by the turmoil in financial markets is the performance of the executives working in the CSR and sustainability fields. Within the corporate structure they have been, and remain, largely removed from the core of the financial crisis. Yet one can reasonably ask why a sustainability director has not been scrutinizing, at least, activities of the business that in some cases have caused its outright collapse. For a business to be sustainable it must first be viable; to be responsible, it must first be profitable. A lot of people seem to have missed that. CSR and sustainability directors therefore bear a share of responsibility for what has happened, along with regulators, company boards, senior managers, and investors.

CSR teams are not financial modellers. But they must understand enough of business basics to raise questions before viability is

threatened. Otherwise, all the talk of ‘integration’ and ‘embedding’ of the corporate responsibility function is just that – talk. Part of the problem is that they often lack knowledge of other business disciplines. Half of CSR and sustainability managers have never worked in another corporate function, last year’s CSR Salary Survey found. Bringing expertise into the business is no bad thing – but practitioners still need to focus more on what Peter Drucker called the ‘grubby’ areas of business: more on what makes money and less on what may be good PR.

Ironically, they took their cue from investment analysts who assess environmental, social and governance risks. Some ESG analysts indeed identified subprime risks at an early stage. Innovest’s Greg Larkin warned in 2006 of the risks run by banks ‘aggressively’ pursuing mortgage customers with impaired or no credit. But many ESG analysts looked for material risk

in the wrong place and over the wrong timescale. Big on climate change risks, they missed huge social risks building in the subprime market. If the financial crisis has one beneficial outcome, it will be to redress the balance between environmental and social risk. The latter is still a poor relation.

ESG analysts should not pack their bags, for their skills are required more than ever. They do, though, need to carry out a thorough review of criteria and procedures, remembering that ethical investors are interested in decent and secure returns like anyone else. In the longer run, ESG analysis will benefit from the financial crisis. Core concerns such as executive remuneration and business ethics will be part of any solution, and the issues driving change – global warming, diversity, increased information flows – may have been temporarily relegated by the crisis. But they have not gone away.

guest column

right now, business needs more walk and less talk

The financial crisis has shown that reporting is no substitute for firm action on ethics, says Leo Martin



Leo Martin

The rise and rise of corporate responsibility reports might make the casual observer think there has been a revolution in responsible business behaviour. But the storm in the financial markets suggests otherwise, and the curve of the graph showing the number of scandals involving mis-selling, bribery, corruption, and greenwash is rising strongly.

These events might be connected if we imagine that companies, in a determination to show they have put clear green water between themselves and these scandals, had written these reports to show their superior credentials. However, the same financial institutions and companies that are caught up in the scandals are also writing corporate responsibility reports – and even winning awards for them.

This must challenge our industry to question the value of these documents and, more importantly, to find a way of measuring genuinely ethical behaviour that is unmistakable for employees, customers, shareholders, regulators and suppliers alike. The danger is that these reports, and by default CSR itself, are becoming discredited because of the disparity between reported and actual behaviour.

No doubt efforts to own up to difficult issues and to tackle them head on now mark out the better reports. However, we need to move towards measurement of ethical behaviour that is easy to understand, differentiates good from bad and – crucially – limits irresponsible behaviour. We therefore need to move away from reports that are too much ‘after the fact’ and rarely link to improvements in behaviour and culture.

One key problem comes from the disconnect between communications people, who control reporting, and ethics officers and others who worry about behaviour. In the current crisis it is clear that the approach to reporting, with its emphasis sometimes on gloss rather than a real appraisal of responsible behaviour, should become obsolete. On the other hand, activities that embed responsible behaviour should now become the heart of our industry. Reports, if any, should focus on a small set of indicators that allow a reader to judge whether this embedding is working.

At GoodCorporation we have ploughed a sometimes lonely furrow trying to measure how well business practices work in reality and turning qualitative feedback and intelligent investigation into a quantified ‘grade’ of how well a business practice works. What is the real value in an honest assessment of business ethics? Hopefully the events of recent weeks spell out the answer in bold letters. Business ethics is at the heart of sustainable business and is most clearly in the interest of the shareholder.

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briefing

the financial crisis: will CSR survive the fallout?

Could recent events in financial markets be the death of corporate responsibility and responsible investment, or the making of it? Seven commentators give EP their views

Mark Goyder, founder director of Tomorrow's Company, UK

This is judgement day for corporate responsibility. A few years ago I remember challenging the CSR spokesman for a major bank about conflicts of interest in that bank's investment banking activities. He clearly had little knowledge, let alone ownership, of this mainstream issue around the way a large part of his company behaved. If CSR doesn't flow from the core values and through the core activities of a company it will not survive – and may not deserve to. If it does, then it should be closer than ever to the company's management of risk.

Dirk Matten, chair in corporate social responsibility, Schulich School of Business, Canada

In the short term, CSR might very likely take a hit, with ‘We have to tighten our belts’ the most popular excuse. Long term, though, what is virtually the nationalization of the banking sector in many economies might embed a broader social responsibility in the industry. Shareholders are no longer fat cats only, but middle class pensioners and home owners. New regulation and revised governance procedures may result in more embedded CSR by orienting corporate responsibilities not only to shareholders' short-term returns but towards good governance of the long-term interests of society.

Janet Williamson, policy officer, UK Trades Union Congress

In recent years companies have argued that CSR is not an ‘add-on’ to operations but integral to all they do. These challenging times will put that assertion to the test. One of the lessons from the financial crisis is the

importance of long-term, responsible decision making and the need to manage risk. There is no good reason why the credit crunch should lead companies to cut back on their CSR strategies, and if this is what happens, we will know that the corporate responsibility sceptics were right.

Simon Zadek, chief executive, AccountAbility, UK

With crisis comes opportunity. This is a once-in-a-lifetime chance to realign the investment community towards genuine responsible investment. This would involve, at least, (a) restructuring bonuses to incentivize long term investment behaviour and discourage short term trading; (b) refashioning pension fund governance to make decisions more transparent and responsive to the owners of capital; (c) building a suite of new credit agencies and auditors truly free of financial conflicts of interest. The future will assuredly be worse if we do not step up to the plate in demanding such changes. And the window is small. Once the pain retreats thanks to large chunks of tax dollars rather than any clawback of undeserved bonuses (hundreds of billions of dollars, let's not forget), the space to bring change will close.

Tom Peyton, managing director, EnAct Consulting, UK

Three key concepts have been highlighted in recent weeks – accountability, responsibility and transparency – all of which are fundamental to corporate responsibility. Stakeholders will want to see a return to these fundamentals, presenting an opportunity for companies to claim the higher ground. Companies and directors will feel exposed and will look to

corporate responsibility programmes to restore trust, add value and differentiate. Expect CSR to get much more focused.

Julie Gorte, senior vice president for sustainable investing, Pax World Funds, US

The credit crunch will affect most, if not all, sectors in the short run. In the medium and long terms, though, the drivers of corporate sustainability remain strong. An example of a medium-term stimulus is the recent renewal of the solar investment tax credit in the US, which allows homeowners to write off 30 per cent of the installed cost of a solar system from federal tax. A long-run example is climate change. Finally, the diffusion of information technology will heighten global scrutiny of corporations. Progress on climate change, gender empowerment and alleviation of poverty may be slowed by shorter term economic pressures, but it is worth remembering that availability of credit is merely a means to an end; the ends are unchanged by temporary variations in the means.

Matt Christensen, executive director, Eurosif, France

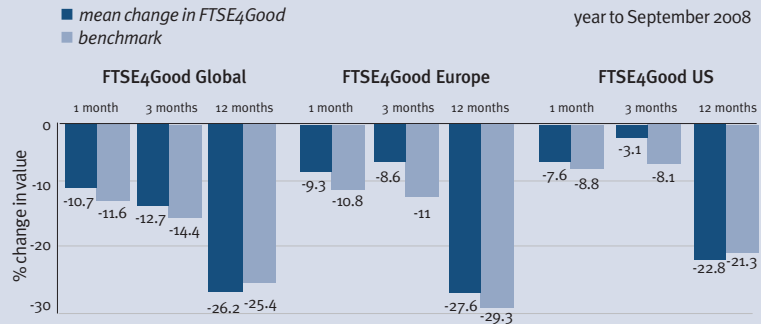
Recession and uncertainty will drive businesses to focus on urgent short-term challenges, and CSR may not immediately be top of mind for business leaders in the short term. In the longer term, resource constraints and under-built infrastructure across the world mean that environmental, social and governance issues will only grow as a business concern. Dealing effectively with CSR issues will become even more a part of mainstream business culture in the next three to five years, not less.

insideinvestment

TRENDS IN SOCIALLY RESPONSIBLE INVESTMENTS

This page shows the impact of the financial crisis on socially responsible investments. The graph *right* compares the performance of the Global, European and US FTSE4Good indices and their respective benchmarks. It shows that the FTSE4Good has outperformed its benchmark over the last three months, despite in most cases underperforming over the year. *Below*: German, UK and US mutual funds outperformed their benchmarks in the year to October 2008 in falling markets. *Below right*: In the UK, which is Europe's biggest SRI market, funds under management rose in value in the last half of 2007 but fell sharply in the first half of 2008. *Bottom*: Fund data over three years.

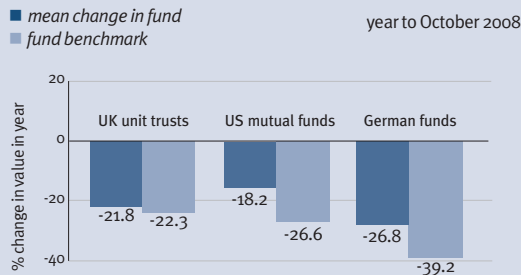
FTSE4Good performance: how selected markets have moved in the last year



Based on the following indices and benchmarks:
Global – FTSE4Good Global and FTSE Developed
Europe – FTSE4Good Europe 50 and FTSE Developed Europe
US – FTSE4Good US 100 and FTSE US

source: FTSE

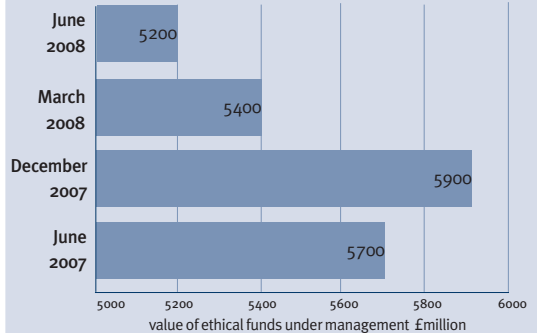
worldwide annual performance of ethical and ecological funds



The respective performance benchmarks are: FTSE All Share, S&P Total Market and Dax. Performance as at 01/10/2008.

source: Morningstar

value of UK ethical and ecological funds under management



source: Investment Management Association

UK ETHICAL & ECOLOGICAL UNIT TRUSTS/OEICs

	bid-bid, Basic Rate Tax, init £100 lump sum	3 years change	Morningstar rating	investment sector
FTSE All Share	19.22			Equity UK
1 Jupiter Ecology	50.5	★★★★	★★★★	Global Growth
2 CIS Sustainable Leaders	35.67	★★★★	★★★★	UK All Companies
3 AEGON Ethical Eq A	32.78	★★★★★	★★★★★	UK All Companies
4 Henderson Industries Future A	31.69	★★	★★★★	Global Growth
5 Henderson Gbl Care Grth Rtl	30.8	★★	★★	Global Growth
6 St James's Pl Ethical Inc	28.33	★★★★★	★★★★★	Global Growth
7 Aberdeen Ethical World A Inc	27	★★★★★	★★★★★	Global Growth
8 Henderson Gbl Care Mgd Rtl	25.65	★★★	★★★	Balanced Mnged
9 Halifax Ethical C Inc	24.95	★★★	★★★	Global Growth
10 Insight Inv Evergreen Rtl	22.43	★★★	★★★	Global Growth

UK ETHICAL & ECOLOGICAL PENSION FUNDS

	bid-bid, init £100 lump sum, UK pension tax	3 years change	Morningstar rating	investment sector
FTSE All Share	19.22			Equity UK
1 AIG PPB/Jupiter Ecology	45.76	★★★★★	★★★★★	Global Equities
2 Lincoln Green	44.16	★★★★★	★★★★★	Global Equities
3 Zurich/Henderson Ethical EP	34.31	★★★	★★★	Global Equities
4 Zurich/Henderson Ethical*	34.15	★★★★	★★★★	Global Equities
5 Scot Life UK Ethical	32.42	★★★★	★★★★	UK All Companies
6 Skandia/Henderson Ethical*	28.14	★★★	★★★	Global Equities
7 Halifax Ethical Pension Dual*	28.09	★★★	★★★	Global Equities
8 SJP Ethical	27.62	★★★★	★★★★	Global Equities
9 Clerical Med PP Evergreen	26.68	★★★	★★★	Global Equities
10 Halifax Ethical Pension*	26.39	★★★	★★★	Global Equities

* no longer available

UK ETHICAL & ECOLOGICAL INSURANCE FUNDS

	bid-bid, Basic Rate Tax, init £100 lump sum	3 years change	Morningstar rating	investment sector
FTSE All Share	19.22			Equity UK
Lincoln Green*	49.08	★★★★★	★★★★★	Global Equities
AIG/Jupiter Ecology	36.68	★★★★★	★★★★★	Global Equities
SJP Ethical	25.45	★★★★★	★★★★★	Global Equities
Halifax Ethical	25.25	★★★★	★★★★	Global Equities
Sterling/Henderson Ethical	24.27	★★★	★★★	Global Equities

US ETHICAL & ECOLOGICAL MUTUALS

	nav-nav, gross income, intl \$100 lump sum	3 years change	Morningstar rating	investment sector
S&P 500	11.4			Equity N. America
New Alternatives	51.19	★★★★	★★★★	World Stock
Parnassus Equity Inc	32.37	★★★★★	★★★★★	Large Blend
Timothy Plan Lg/Md Val A	29.27	★★★★★	★★★★★	Large Blend
Portfolio 21	27.92	★★★	★★★	World Stock
Ave Maria Growth	25.02	★★★	★★★	Mid-Cap Growth

EUROPEAN ETHICAL & ECOLOGICAL MUTUALS

	nav-nav, gross income, intl €100 lump sum	3 years change	Morningstar rating	investment sector
S&P Global 1200	2.23			Unclassified
Pioneer Fds Gbl Eclyg	36.67	★★★★★	★★★★★	Ecology Global
Taifook SRI Asia	30.1	★★	★★	Ethical/SRI Apac
Oeko-Aktiefonds	29.22	★★★★	★★★★	Ecology Global
UBS (Lux) EF-GI Innovators B	28.93	★★★★	★★★★	Ecology Global
Green Effects NAI-Werte Fonds	27.07	★★★★	★★★★	Ecology Global

Fundwatch data supplied by Morningstar and FTSE as at 1 September 2008. Fund Stars are calculated using a fund's monthly performance relative to its sector average for each of the 36 months over the three years to date.

