

Corporate Social Responsibility, sustainability and social business as drivers in finance?

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CSR, sustainability and social business as drivers in finance?

1. **Corporate Social Responsibility (CSR): public relations or ethics?**

- From traditional philanthropy ...
- ... to a branch of risk management: reputational risk ...
- ... to embedding CSR in the core a company's operations: CRS as a competitive advantage («Doing well by doing good»)----Making profit compatible with ethic principles.

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- **Principles** (e.g., UN Global Compact):
 - Human rights: governments have a duty to protect HH. RRs., corporations & enterprises a duty to respect them.
 - Labour: collective contracts; no child employment
 - Environment: international standards (IFC, World Bank)
 - Anti-corruption, incl. extortion and bribery
- **Does CSR work?**
 - Should CSR be the job of elected governments? It is often the absence of government rules that make firms feel they have to fill the void (e.g.: cutting carbon emissions)
 - The value of a voluntary commitment to CSR.
 - Obstacles to mandatory CSR: an international CRS-agreement is not realistic. National companies having mandatory CRS principles would be at disadvantage.
- **Does it add value to the business?**
 - A measurement industry is emerging (NGOs, consultants): e.g. The Global Reporting Initiative focuses through independent assessments on compliance (or lack of it).
 - Correlation between CRS and financial performance? Not easy to demonstrate!

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2. How companies manage risks to their reputation?

- Big challenge: the risks associated with **managing supply chains** that stretch around the world.
 - Not easy to enforce standards of behaviour for local (small) suppliers.
 - But companies have to consider the social and environmental sustainability of their suppliers.

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- **The greening of corporate responsibility.**
 - For several companies the gains from cutting waste and improving energy use are large.
 - Some companies consider that demand for efficient and clean energy use is an opportunity for savings and growth.
 - Ex.: World Business Council for Sustainable Development (WBCSD), Geneva: The role of carbon price as a climate change policy instrument.

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3. CRS is spreading around the world, but in different ways

- A one-size-fits all approach does not work even in a globalized economy.
- BRIC and emerging countries. Enormous potential:
 - A few innovative emerging-world companies are combining growth with greenery. A study by WEF/Boston Consulting Group identifies 16 emerging-market firms turning eco-consciousness into a source of competitive advantage.
- Role of NGOs in monitoring performance:
 - Several NGOs have moved beyond acting as watchdogs to cooperating with large companies on joint projects.

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- From national to **international initiatives**. Examples:
 - UN Global Compact.
 - Equator Principles: more than 70 private financial institutions (incl. Credit Suisse Group).
 - OECD-Export Credit Group: environmental and social standards for export credit agencies insuring against political and commercial risks.
 - Extractive Industries Transparency Initiative (EITI): a standard for oil, gas and mining companies to publish what they pay and for governments to disclose what they receive.
 - Forest Stewardship Council: certification.

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4. CSR as a matter of corporate enlightened self-interest

- The CSR business has a handful of leaders, a large number of followers and many laggards.
- What can make the difference? Strong leadership at the top of the enterprise.
- CSR especially challenging under current difficult economic and financial circumstances (e.g., Novartis). Credibility is at stake.

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5. The financial industry and CSR:

- **The good intentions:** How to better integrate environmental, social and governance issues in analysis, asset management and securities brokerage.
 - E.g.: *Who Cares Wins – Connecting Financial Markets to a Changing World*. 2004, The Global Compact; New York.
- **The reality:** at best a mixed picture. Integration of environmental, social and governance issues in investment decisions is still elusive.
- **The image problem of the financial industry:** the protests against finance are popular and global. The financial industry needs a better response to the protest movement attacking it. Disengage from the public is not the solution.

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Question #1: Is the business model of the financial industry watertight for the future? What would be worth criticizing?

- No! But having innovative, dynamic finance without the excess risk and the outrageous behavior (subprime loans) is hard to achieve. In the US there was politically-driven populist credit expansion (see Raghuram G. Rajan: Fault Lines, Princeton, 2010)
- Dramatic expansion of financial markets as a consequence of global imbalances between high saving and high consuming countries.
Consequences:
 - high liquidity, low interest rates, real estate bubble, securitization (packaging risky loans together), etc.
- The financial industry and governments have a major responsibility: draw the right lessons from the financial crisis.

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- The particular challenge of international regulation (e.g.: setting a mandatory ratio for Tier 1 capital).
- What was and is still needed is somebody at the national and international (IMF) level to raise the alarm about lending standards.
- At the start of the mortgage chain, institutional supervision of mortgage brokers is necessary.
- Good regulation of subprime lenders should be in the self-interest of the financial industry.

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Question #2: In how far might approaches like CSR, sustainability or social business provide a solution for the future? Or what other ideas are important?

- In a globalised, interconnected and competitive world the way that environmental, social and corporate governance issues are managed is part of companies' overall management quality needed to compete successfully.

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- Financial institutions that perform better can increase shareholder value by
 - properly managing risks,
 - anticipating regulatory action
 - or accessing new markets, while contributing to sustainable development.
- Bottom up pressure from qualified organizations such as Finance Watch in Brussels, consumers, etc. is welcome.
- National legislation allowing restitution of looted assets by former dictators is necessary. Switzerland can play a model role.
- The current difficult economic and financial situation in the industrialized world represents a major challenge.