



Corporate Social Responsibility (CSR)

ESG & Sustainability Transformation

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ESG Transformation



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What Is Corporate Social Responsibility (CSR)?

Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental.

Engaging in CSR means that, in the ordinary course of business, a company is operating in ways that enhance society and the environment instead of contributing negatively to them.

KEY TAKEAWAYS

- Corporate social responsibility is a business model by which companies make a concerted effort to operate in ways that enhance rather than degrade society and the environment.
- CSR can help improve various aspects of society as well as promote a positive brand image for companies.
- Corporate responsibility programs can also raise morale in the workplace.
- CSR is often broken into four categories: environmental impacts, ethical responsibility, philanthropic endeavours, and financial responsibilities.
- Some examples of companies that strive to be leaders in CSR include Starbucks and Ben & Jerry's.

Understanding Corporate Social Responsibility (CSR)

Corporate social responsibility is a broad concept that can take many forms depending on the company and industry. Through CSR programs, philanthropy, and volunteer efforts, businesses can benefit society while boosting their brands.

For a company to be socially responsible, it first needs to be accountable to itself and its shareholders. Companies that adopt CSR programmes have often grown their business to the point where they can give back to society. Thus, CSR is typically a strategy that's implemented by large corporations. After all, the more visible and successful a corporation is, the more responsibility it has to set standards of ethical behaviour for its peers, competition, and industry.

Small and midsize businesses also create social responsibility programs, although their initiatives are rarely as well-publicized as those of larger corporations. Corporate Social Responsibility (CSR) and ESG are similar but there are enough differences not to use the terms interchangeably. The former is a driving factor behind the company's internal operations. However, it does not use external certifications to prove that it meets specific expectations. ESG uses external assessments to determine compliance.

The biggest difference between CSR and ESG is the inclusion of governance issues of the latter. CSR primarily focuses on social and environmental concerns to improve how the organization impacts society. While investors can use CSR or ESG to identify investments, ESG provides more information about a company's actions to allow investors to obtain more data on specific ways the business addresses environmental issues, social and governance.



Types of Corporate Social Responsibility

In general, there are four main types of corporate social responsibility. A company may choose to engage in any of these separately, and a lack of involvement in one area does not necessarily exclude a company from being socially responsible.

Environmental Responsibility

Environmental responsibility is the pillar of corporate social responsibility rooted in preserving mother nature. Through optimal operations and support of related causes, a company can ensure that it leaves natural resources better than before its operations. A company can pursue environmental stewardship through:

- Reducing pollution, waste, natural resource consumption, and emissions through its manufacturing process.
- Recycling goods and materials throughout its processes, including promoting reuse practices with its customers.
- Offsetting negative impacts by replenishing natural resources or supporting causes that can help neutralise the company's impact. For example, a manufacturer that deforests trees may commit to planting the same amount or more.
- Distributing goods consciously by choosing methods that have the least impact on emissions and pollution.
- Creating product lines that enhance these values. For example, a company that offers a gas lawnmower may design an electric lawnmower.

Ethical Responsibility

Ethical responsibility is the pillar of corporate social responsibility rooted in acting in a fair, ethical manner. Companies often set their own standards, although external forces or demands by clients may shape ethical goals. Instances of ethical responsibility include:

- Fair treatment across all types of customers regardless of age, race, culture, or sexual orientation.
- Positive treatment of all employees including favourable pay and benefits in excess of mandated minimums. This includes fair employment consideration for all individuals regardless of personal differences.
- Expansion of vendor used to utilise different suppliers of different races, genders, veteran statuses, or economic statuses.
- Honest disclosure of operating concerns to investors in a timely and respectful manner. Though not always mandated, a company may choose to manage its relationship with external stakeholders beyond what is legally required.
- Philanthropic Responsibility

Philanthropic responsibility is the pillar of corporate social responsibility that challenges how a company acts and how it contributes to society. In its simplest form, philanthropic responsibility refers to how a company spends its resources to make the world a better place. This includes:

- Whether a company donates profit to charities or causes it believes in.
- Whether a company enters into transactions only with suppliers or vendors that align with the company philanthropically.
- Whether a company supports employee philanthropic endeavours through time off or matching contributions.
- Whether a company sponsors fundraising events or has a presence in the community.



Financial Responsibility

Financial responsibility is the pillar of corporate social responsibility that ties together the three areas above. A company might make plans to be more environmentally, ethically, and philanthropically focused; however, it must back these plans through financial investments in programs, donations, or product research. This includes spending on:

- Research and development for new products that encourage sustainability.
- Recruiting different types of talent to ensure a diverse workforce.
- Initiatives that train employees on Diversity, Equity, and Inclusion (DEI), social awareness, or environmental concerns.
- Processes that might be more expensive but yield greater CSR results.
- Ensuring transparent and timely financial reporting including external audits.

Some corporate social responsibility models replace financial responsibility with a sense of volunteerism. Otherwise, most models still include environmental, ethical, and philanthropic as types of CSR.

Benefits of Corporate Social Responsibility

As important as CSR is for the community, it is equally valuable for a company. CSR activities can help forge a stronger bond between employees and corporations, boost morale, and aid both employees and employers in feeling more connected to the world around them. Aside from the positive impacts to the planet, here are some additional reasons businesses pursue corporate social responsibility.

Brand Recognition

According to a study published in the Journal of Consumer Psychology, consumers are more likely to act favourably toward a company that has acted to benefit its customers as opposed to companies that have demonstrated an ability to deliver quality products. Customers are increasingly becoming more aware of the impacts companies can have on their community, and many now base purchasing decisions on the CSR aspect of a business. As a company engages more in CSR, it is more likely to receive favourable brand recognition.

Investor Relations

In a study by Boston Consulting Group, companies that are considered leaders in environmental, social, or governance matters had an 11% valuation premium over their competitors. For companies looking to get an edge and outperform the market, enacting CSR strategies tends to improve how investors feel about an organization and how they view the worth of the company.

Employee Engagement

Another study by professionals from Texas A&M, Temple, and the University of Minnesota found that CSR-related aligning firms and employees serve as non-financial job benefits that strengthen employee retention. Workers are more likely to stick around a company that they believe in. This in turn reduces employee turnover, disgruntled workers, and the total cost of a new employee.



Risk Mitigation

By adhering to CSR practices, companies can mitigate risk by avoiding troubling situations. This includes preventing adverse activities such as discrimination against employee groups, disregard for natural resources, or unethical use of company funds. This type of activity is likely to lead to lawsuits, litigation, or legal proceedings that may harm the company financially or expose it to negative news headlines.

CSR strategies may be difficult to assess strategically because not all benefits may be financially translatable back to the company. For example, it might be very difficult to assess the positive impact to a company's brand image that planting 1 million trees may have.

ISO 26000

In 2010, the International Organization for Standardization (ISO) released ISO 26000, a set of voluntary standards meant to help companies implement corporate social responsibility. Unlike other ISO standards, ISO 26000 provides guidance rather than requirements because the nature of CSR is more qualitative than quantitative, and its standards cannot be certified.

ISO 26000 clarifies what social responsibility is and helps organizations translate CSR principles into practical actions. The standard is aimed at all types of organizations, regardless of their activity, size, or location. And because many key stakeholders from around the world contributed to developing ISO 26000, this standard represents an international consensus.

Why Should a Company Implement CSR Strategies?

Many companies view CSR as an integral part of their brand image, believing that customers will be more likely to do business with brands that they perceive to be more ethical. In this sense, CSR activities can be an important component of corporate public relations. At the same time, some company founders are also motivated to engage in CSR due to their convictions.

Why Is CSR Important?

The movement toward CSR has had an impact in several domains. For example, many companies have taken steps to improve the environmental sustainability of their operations, through measures such as installing renewable energy sources or purchasing carbon offsets. In managing supply chains, efforts have also been taken to eliminate reliance on unethical labour practices, such as child labour and slavery.

Although CSR programs have generally been most common among large corporations, small businesses also participate in CSR through smaller-scale programmes, such as donating to local charities and sponsoring local events.

What Are the Benefits of CSR?

CSR initiatives strive to have a positive impact on the world through direct benefits to society, nature, and the community in which a business operates. In addition, a company may experience internal benefits through the initiatives. Knowing their company is promoting good causes, employee satisfaction may increase, and retention of staff may be strengthened. In addition, members of society may be more likely to choose to transact



with companies that are attempting to make a more conscious positive impact beyond the scope of their business.

What Companies Have the Best CSR?

There is no single defining rubric for evaluating the CSR of all companies. Various sources will review and compile rankings differently. Since 1999, Corporate Responsibility Magazine has ranked the top 100 Best Corporate Citizens each year among the 1,000 largest U.S. public companies. Rankings are determined based on employee relations, environmental impact, human rights, governance, and financial decisions.

In 2022, the top five ranked companies on the list were Owens Corning (OC), PepsiCo (PEP), Apple (AAPL), H.P. (HPQ), and Cisco (CSCO).

Examples of Corporate Social Responsibility

Starbucks

Starbucks (SBUX) has long been known for its keen sense of corporate social responsibility and commitment to sustainability and community welfare. In its 2022 Environmental and Social Impact Report, the coffee giant highlights taking care of its workforce and the planet among its CSR priorities. Starbucks points to its investments in its employees through stock grants and providing additional medical, family, and educational benefits. In terms of environmental sustainability, the company's goals include achieving 50% reductions in greenhouse gas emissions, water consumption, and waste by 2030.

Home Depot

As part of its annual reporting on ESG, Home Depot (HD) highlighted its achievements in focusing on its employees, operating sustainably, and strengthening its communities. The company has invested more than 1 million hours per year in training to help frontline employees advance in their careers, aims to produce or procure 100% renewable energy to operate its facilities by 2030, and has plans to spend \$5 billion per year with diverse suppliers by 2025.

General Motors

General Motors won the Sustainability Leadership Award from Business Intelligence Group in 2022 and was among Diversity Inc.'s top 50 companies for diversity for a seventh consecutive year in 2021. According to its latest Sustainability Report, the automaker provided \$60 million in grants to more than 400 U.S. nonprofits focusing on social issues, and it has agreements in place to use 100% renewable electricity at its U.S. sites by 2025.

The Bottom Line

Companies striving to measure success beyond bottom-line financial results may adopt corporate social responsibility strategies. These strategies may target environmental, ethical, philanthropic, and fiscal responsibilities that extend beyond the products they sell. CSR aims to make the world a better place beyond transacting with customers and may result in company-specific benefits as well.

To learn more about ESG and sustainability-related models, don't hesitate to contact [YTT Consulting!](https://www.ytt-consulting.com)

