

LINA ZDRULI – ELENA VOLKAVA – HAIFA ALGAITH

CSRANKING

FY 2016

An analysis of the Corporate Social Responsibility Industry

SHORT HISTORY

STRATEGIC HIGHLIGHTS

1953 – The term “Corporate Social Responsibility” is coined

1989 – First social report published (Ben&Jerry’s)

1992 – World Business Council on Sustainable Development

2000 – UN Global Compact

2015 – Global Reporting Initiative exam to certify sustainability, human rights and anti-corruption communication

TIMELINE

The concept of Corporate Social Responsibility (CSR) has evolved from its foundations in the 1950s as a method of companies to show a more “human” face by giving check handouts to charities and hospitals to becoming a true partnership between all stakeholders involved in the value chain of a company. The term “social responsibility” was associated with business after the 1953 publication ‘Social responsibility of Businessmen’ by Howard Bowen¹. The book established the foundations of a movement asking for greater accountability of business on behalf of society.

The international community began to respond in the efforts to create international codes of conduct which companies were asked to follow. The World Business Council on Sustainable Development (WBCSD) was established by CEOs to “galvanize the global business community to create a sustainable future for business, society and the environment” after the 1992 United Nations Conference of the Parties (COP)². Despite good progress in the right direction, the WBCSD is based on voluntary self-regulation principles. It took over 40 years for the industry to respond in a transparent manner. For example, the ice cream maker Ben & Jerry’s published the first social report³, and Shell

¹ <https://muse.jhu.edu/book/29080>

² <http://www.wbcsd.org/about/overview.aspx>

³ <http://www.benjerry.com/about-us/sear-reports>

followed in 1997 by disclosing their environmental performance⁴, the first large company to do so.

This second stage of CSR was characterized by companies no longer being 'excused' by writing one-off checks to charities and NGOs, but by beginning to become accountable for how their actions (or inactions) affect their customers, communities, and employees. Various scandals in the 1990s (Nike and sweatshops, environmental disasters because of oil companies, Coca Cola and drought in the India-Pakistan borders, and many others) created a push from NGOs and activists in a decidedly anti-corporate public image. This negative image, paired with journalist reports and boycotting efforts, pushed companies to begin a process of accountability to all stakeholders.

In 2000, the United Nations founded Global Compact⁵ in collaboration with the International Chamber of Commerce, under the leadership of UN Secretary General Kofi Annan. The Global Compact established nine principles (now ten) to help businesses align their strategies and operations with human rights, labour environment and anti-corruption measures, and create a space for business to help achieve the UN Sustainable Development Goals⁶. From only two companies publishing a public social report in the 1990s, the Global Compact now registers over 37,000 public reports from almost 9000 companies worldwide.

During the "third wave" of CSR, the concept has evolved from companies occasionally doing good and demonstrating a good public image to creating shared value⁷ - for the company itself, its customers, its employees and the communities it affects. In this stage of CSR, it is not enough to just follow laws and not do harm. Now companies are expected to "do good," with the bottom line to longer being Milton Friedman's commonly quoted "the business of business is business,"⁸ but John Elkington's⁹ triple bottom line: people, planet and profit.

⁴ <http://www.shell.com/sustainability/sustainability-reporting-and-performance-data/sustainability-reports.html>

⁵ <https://www.unglobalcompact.org/>

⁶ <https://www.unglobalcompact.org/what-is-gc/mission>

⁷ <http://sharedvalue.org/about-shared-value>

⁸ <http://www.colorado.edu/studentgroups/libertarians/issues/friedman-soc-resp-business.html>

⁹ John Elkington, "Towards the Sustainable Corporation: Win-Win-Win Business Strategies for Sustainable Development," *California Management Review* 36, no. 2 (1994): 90–100.

In this current stage, the public and private sectors as well as civil society are pushing for harmonized norms with legal reinforcement mechanisms. For example, the Global Reporting Initiative (GRI)¹⁰ is an international independent standards organization that helps businesses, governments and other organizations understand and communicate their impacts on issues such as climate change, human rights and corruption.

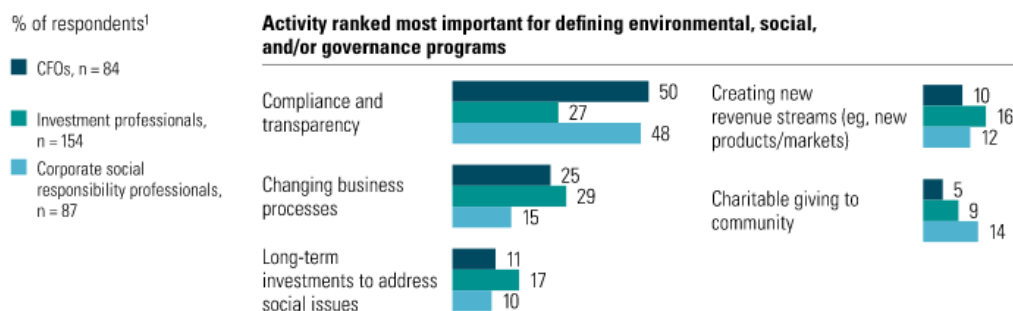
WHY IT'S IMPORTANT

Shared value is essential to the financial growth of companies because it allows for sustainable profitability while protecting companies against boycotts, lack of resources to physically produce their product (in the case of environmental conservation) and retaining talent. Firstly, research by McKinsey & Co. states that “both CFOs and professional investors see the existence of high-performing environmental, social, and governance programs as a proxy for how effectively a business is managed; more than 80 percent of both groups say that is at least “somewhat” true. Europeans are more likely than Americans to make that connection”¹¹ (See Figure 1).

Figure 1 - McKinsey

Exhibit 3

Defining the programs



¹ Respondents who answered “other” are not shown.

¹⁰ <https://www.globalreporting.org/Pages/default.aspx>

¹¹ <http://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/valuing-corporate-social-responsibility-mckinsey-global-survey-results>

Secondly, most companies are being held accountable for their entire value chain. It is no longer sufficient to refute responsibility of suppliers when they commit human rights' abuses or contribute to environmental degradation. To illustrate further, Google is being held responsible by its customers of the mines it sources iPhone components¹², and H&M has to explain child labour in the cotton farms it sources its primary material¹³. Ultimately, consumers now view suppliers as an integral component of the products they purchase, and their favorite brands have to respond to this need. As a result, companies have not only developed codes of conduct for their suppliers but have also created in-house compliance programs¹⁴.

CSR CONSULTING INDUSTRY

Within this context, the services industry has stepped in to help establish good practices in the industry of creating shared value. These consulting companies (or consulting units within a larger firm), assist businesses, non-profits and NGOs in transforming their operations to follow social and environmental standards. In the 1990s, large consulting firms started to develop CSR units, such as PricewaterhouseCoopers, KPMG and McKinsey, and integrating sustainability into their operations. Several new consulting firms were founded, such as Junxion, SustainAbility and EMG – CSR.

These firms assist companies in understanding how their core competencies align with social development programs and the respect of environmental conservation. Every organization has limited resources, both in terms of financial possibility and the time its employees can dedicate to implementing projects. For this reason it is crucial that companies understand how to integrate shared value in their operations strategy in the most efficient manner possible. A component of the framework suggested by McKinsey & Co. includes asking questions such as: what are the objectives of our current initiatives?, which of these initiatives helps us to address our key strategic challenges and opportunities?¹⁵.

¹² <https://www.amnesty.org/en/latest/news/2016/01/child-labour-behind-smart-phone-and-electric-car-batteries/>

¹³ http://www.antislavery.org/english/campaigns/cottoncrimes/forced_labour_in_uzbekistan_background.a.spx

¹⁴ http://unctad.org/en/PublicationsLibrary/diaeed2012d3_en.pdf

¹⁵ <http://www.mckinsey.com/global-themes/leadership/making-the-most-of-corporate-social-responsibility>

CONSULTING IN THE CSR SPACE

Corporate social responsibility (CSR) is gaining attention as corporations have started to understand the value of brand equity that is created by giving back to society by different means. Since CSR is not yet a core part of business nor is it something that organizations specialize, there is a growing demand for consulting in this space. Consultants are hired by corporations to not only develop strategies for their CSR initiatives but in many cases even for outsourcing the implementation phase to these consulting firms. CSR initiatives vary from industry to industry, for example NRG Energy is operating in the energy resource space, so they would hire consultants to ensure they are meeting environmental regulations imposed by the governments they operate in. Similarly, McDonalds may require consultants to advise them on issues relating to supply chain and sourcing from environmentally-friendly vendors¹⁶. Consultants provide advice and strategies on how to carry out these initiatives and operations, and help companies strengthen the sustainability of their core competencies.

FUTURE OF THE FIELD

Spending on sustainability consulting engagements will grow from \$877 million in 2015 to over \$1 billion in 2019, according to a new forecast model produced by independent research firm Verdantix¹⁷. Ten years ago, the sustainability consulting market didn't exist as a separate category of consulting work. In 2015, large corporations will spend \$877 million on management consulting advice relating to sustainability reporting, energy efficiency, sustainability risk assessment, sustainability strategy, sustainable supply chains and product sustainability.

¹⁶ <http://www.mypurchasingcenter.com/purchasing/industry-articles/ethics-issues-prevail-supply-chain-management/>

¹⁷ <http://www.verdantix.com/newsroom/press-releases/verdantix-forecasts-the-global-sustainability-consulting-market-will-exceed-1-billion-in-2019-far-below-expectations-of-the-consulting-industry>

PARAMETERS

Our research study includes the following quantitative (size, budget, staff, revenue & projects per year) and qualitative parameters (sector-specific strategic focus, research capabilities, collaborations with think-tanks and publications on thought leadership). We aimed to quantify the number of reports, books, and the extent the companies are collaborating with others in the field for the CSR companies acting as leaders in the industry. Additionally, we thought it is important to develop a sense of who are the clients of the chosen CSR consulting companies and we planned to rank them by revenue and global or local scope of work. Our team has decided to look at quantitative and qualitative data to analyze CSR consulting companies with headquarters in three geographic regions - Europe, the United States, and Middle East. This report is based on publically available information supported by research of our team members. We scored the companies according to a matrix of 19 indicators (Table 1).

Table 1 – CSR Parameters

1	Size	Column1	Column2	Column3	Column4
2	- Size of staff [1-5; 5-15; 15+]	1 to 5	5 to 30	30-100	100+
3	- Size of operating budget [100K/yr. 200-500K,]	100-300 K	300K-1 million	1-5 million	5 million +
4	- Revenues	100-300 K	300K-1 million	1-5 million	5 million +
5	- How many years has it operated	1-3 years	3-7 years	7-15 years	15+
6	- Number of projects per year	1 to 3	3 to 7	7 to 12	12+
7	- Location of headquarters	National	Multiple Headquarters = global		
8	- How many global vs local projects	Global number = ?	Local number = ?		
9	- Is it a for-profit only firm or housed within a non-profit foundation?	Non profit	For profit		
10	- Size of clients (Fortune 500 or smaller)	Fortune 500	Medium companies	Small companies	
11					
12	Industry Leaders				
13	- Articles/books published on topics of CSR consulting by the firm	1-5/year	5-10/year	10-20/year	20+
14	- Forums/conferences on topics of CSR consulting organized by the firm	Organized- yes	No		
15	- Extent to which the firms goals and projects incorporate SDGs	Yes	No		
16	- Extent of collaboration with other firms	Yes	No		
17	- New methodologies developed (for problem – solving?)	yes	How many if yes	No	
18	- Extent to which they are developing industry standards (in the similar line of organic food standards; Fair Trade standards; are there CSR standards developed by these consulting firms?)	Yes, developing standards	No not involved		
19	Strategic focus				
20	- Is there a specific sector or focus they specialize in? How many?	Yes	No		
21	- If yes (previous question), what is this sector?				
22	- Post-implementation evaluation (is there any?)	Yes	No		
23	- Are they part of the implementation phase?	Yes	no	Occasional	

REGIONAL ANALYSIS

MIDDLE EAST

The Middle East region has seen a substantial surge in CSR activities over the past five years (2011-2016). Companies promote a broad range of activities, and tend to align more on the “second stage” of CSR, where firms try to “do good” and do not necessarily align their CSR activities with their core competencies. Firms in the Middle East for example often focus on developing entrepreneurial activities for youth (taken as the 17-30 year old age group), which in countries such as Saudi Arabia comprise over 60% of the population. These types of initiatives align with the suggestions made by Marina, Lund & Muro¹⁸ where the government and organizations are trying to reduce poverty by empowering individuals to start their own businesses. However, it is unclear how much success these initiatives have achieved over the last few years as keeping records on the progress of CSR projects is a relatively new phenomenon and the projects are aimed at long-term improvement, thus measures of their effectiveness is not available in shorter time frames.

Middle East CSR activities tend to differ from European and North American ones as they primarily focus on addressing social and economic challenges that are being faced by the region rather than addressing consumer attitudes, which are more prevalent in the rest of the world. This is not to say that Middle East not following initiatives that are relatively popular in other countries such as sustainability.

Amongst the firms analysed, EMR is a leading organization that is active in developing CSR initiatives with both large and local organizations. EMR regularly engages companies to talk about issues relating to climate change and women’s participation in workforce. For example, the firm organizes workshops and seminars for CEOs to explain how refusing to help combat climate change or promote high environmental standards are not only cost factors but can hamper future growth and productivity.

Another characteristic of CSR consulting in the Middle East is that these firms are trying to not only engage corporations but are also focused on engaging international organizations such as the United Nations. For example, Deloitte has partnered with the United Nations Development Program (UNDP) under which it carries out workshops on improving

¹⁸ Critical perspectives on CSR and development: what we know, what we don't know, and what we need to know by MARINA PRIETO-CARRÓN, PETER LUND-THOMSEN², ANITA CHAN³, ANA MURO⁴ and CHANDRA BHUSHAN⁵.

management systems to help save energy and primary resources. Similarly, PwC¹⁹ regularly publishes reports on CSR highlighting how and what companies are doing on this front. These two examples demonstrate a push for thought leadership in the field, by quantifying the effectiveness of projects implemented and promoting knowledge development.

Secondly, most companies are being held accountable for their entire value chain. It is no longer sufficient to refute responsibility of suppliers when they commit human rights' abuses or contribute to environmental degradation. To illustrate further, Google is being held responsible by its customers of the mines it sources iPhone components²⁰, and H&M has to explain child labour in the cotton farms it sources its primary material²¹. Ultimately, consumers now view suppliers as an integral component of the products they purchase, and their favorite brands have to respond to this need. As a result, companies have not only developed codes of conduct for their suppliers but have also created in-house compliance programs²².

FINDINGS

Most of the firms operating in the Middle East are not native to the region but an extension of international firms with global operations, and generally do not specialize exclusively in CSR. Information on revenue generated or how many CSR-specific projects completed is rarely available, and generally the only reports on CSR available are on the companies they have helped but not the consulting firms themselves.

Considering the heavily involved role Middle Eastern governments have in local businesses, consulting firms are actively involved in partnerships with government agencies and international donor agencies. Similarly, through collaboration with non-profit organizations, consultants are engaged with these independent NGOs to drive projects relating to poverty alleviation and economic development. Intra-industry partnerships remain low, and there is no main independent firm that exclusively specializes in CSR initiatives.

¹⁹ <http://www.strategyand.pwc.com/media/file/The-rise-of-corporate-social-responsibility.pdf>

²⁰ <https://www.amnesty.org/en/latest/news/2016/01/child-labour-behind-smart-phone-and-electric-car-batteries/>

²¹

http://www.antislavery.org/english/campaigns/cottoncrimes/forced_labour_in_uzbekistan_background.aspx

²² http://unctad.org/en/PublicationsLibrary/diaeed2012d3_en.pdf

RECOMMENDATIONS

- Establish an independent non-profit organization to create CSR consulting industry benchmarks to specifically cater the peculiarities of the region
- Create strategic partnerships with firms from Europe and North America which have established operations over the past 10-15 years. Considering most CSR consulting firms have global operations, this can be achieved easily by leveraging the services of global offices of different consulting firms.
- Taking into account the important role of governments in the private sector, it is important to engage political leaders to promote CSR inclusion in company operations.
- Publicly disclose on CSR programs implemented, including quantitative data on effectiveness and sustainability, to demonstrate effectiveness and create backing for future projects.

EUROPE

Government incentives play a big role in Europe regarding sustainability efforts employed by companies. For instance, on 6 December 2014, the Directive on disclosure of non-financial and diversity information by certain large companies and groups (Directive 2014/95/ EU) entered into force.²³ European Union (EU) Member States have two years to transpose it into national legislation. The Directive requires companies to disclose information on policies, risks and outcomes related to environmental matters, social and employee aspects, respect for human rights, anti-corruption and bribery issues, and diversity in their governance. To do so, companies rely on recognized frameworks such as Global Reporting Initiative (GRI). There is no criteria for selection and participation to join the GRI. An interest in sustainability and environmental consciousness is enough for an individual to become a member and contribute to the organization's functions.²⁴

One example of a highly effective firm, with ownership in Sweden and Germany, is AtKisson Group (it also holds a hub in the US). The company became part of a global network of

²³http://ec.europa.eu/finance/consultations/2016/non-financial-reporting-guidelines/docs/consultation-document_en.pdf

²⁴ http://www.instituteforpr.org/wp-content/uploads/SawhnyKEPRRA_Award.pdf

consultancies, university centers, and developed innovative tools. Some of the tools are Sustainability Compass and Pyramid Workshop that have reached companies around the world. Furthermore, AtKisson Group also houses a not-for-profit, *17Goals*, global partnership that supports the UN Sustainable Development Goals.²⁵

Another top rated firm is Enable More Good (EMG). The Amsterdam-based firm is a registered vendor to the United Nations Global Marketplace (UNGM), complies with the UNGM Code of Conduct and provides services which adhere to the standards set by the United Nations. EMG holds international awards in recognition of its quality and effectiveness, including most recently the American Summit International Leader Award and the Communitas Award for Leadership in Ethical and Environmental Responsibility.²⁶

Another notable firm is the UK based- IMS Consulting, with a strategic focus on environment, carbon and water. Its impressive think-tank has developed IMS guides and shares knowledge, expertise and industry best practices from across stakeholders' knowledge share networks..

FINDINGS

As there are no globally recognized standards on CSR, one interesting finding was the establishment of FORÉTICA initiative in Spain. More than 150 of its associates are companies, NGOs, academics and universities that work together to improve the knowledge of CSR in Spain. This initiative came about within the X Congress of Quality and Environmental Management in Barcelona in 1999. A diverse group of managers and opinion leaders questioned the way by which companies could possibly assess and audit their performance on business ethics and CSR, enabling them to be accountable to the society. Their works materialised on the Corporate Standard SGE 21, the first standard that can both be audited and certified by third party on CSR. Currently FORÉTICA has 240 members.

European-based CSR consultants have a stake in research and thought leadership that is supported by the EU government agencies and laws, in addition to UN-mandated initiatives. Further, they maintain a distinctly global dimension. Even though the top 2 rated European CSR consultancies were founded in Europe, its core and satellite offices are global, with AtKisson Group having accredited affiliates and partners in France, Poland, Thailand, Japan,

²⁵ <http://atkisson.com/#about>

²⁶ <http://www.emg-csr.com/en/about-emg.php>

Australia, Mexico, among others. Similarly, EMG is based in Amsterdam, Cambridge, London and Dubai, with satellite offices in Doha, Jeddah and New York.

RECOMMENDATIONS

- More transparency and disclosure is needed to expose revenues operating budgets
- We suggest to quantify the increase in revenue for client-companies once CSR strategies were implemented
- We suggest the need for new metrics as an not only for increasing revenue model, but also for increase in performance of the company
- We recommend to engage in strategic partnerships with international organizations and show the commitment to improving the state of the world by engaging leaders in partnerships to shape global, regional and industry agendas.
- Engage in research and development through participating in the community of industry leaders
- Informing clients and international community by disclosing information regularly on the company website and publishing reports

CONCLUSION

The need to engage in smart CSR reporting is growing for companies worldwide. Shared value is not only beneficial economically for all stakeholders but is also necessary for the wellbeing of people and our planet. As our findings have shown there is a need for international, harmonized standards on CSR reporting. Our research team has found that there are regional discrepancies among CSR consultants in both large and small firms. Europe and North America are leading the CSR efforts with global operations and multiple core offices. Whereas Middle East is still developing its capacity with the help of international donors and organizations.

We found missing links in several large CSR consulting companies that could be easily added for their own benefit and the CSR field as a whole. Firstly, many client companies were highlighted as case studies; the number of actual projects per year is not disclosed. Secondly, revenues and budgets are not reported annually. Thirdly, most of the companies work with both SMEs and MNEs but do not specify all of their clients. And lastly, international dimension is lacking and commitment to Sustainable Development Goals (SDGs).

In conclusion, we recommend more transparency in disclosing the four aforementioned indicators, which would create a community of trust among the companies and different stakeholders, ultimately making it easier to identify leaders in the field of CSR. In addition, we found that CSR consultants that are part of the community share their resources and knowledge are contributing significantly in the field and we highly recommend for other companies to join the existing networks. Looking to the future, one uniform international set of standards on CSR reporting would be necessary and beneficial for the industry

REGIONAL ANALYSIS

Contact Information

LINA ZDRULI
PROJECT LEAD



Skype lina.zdruli
linazdruli@gmail.com
www.linazdruli.com

ELENA VOLKAVA
RESEARCHER



Ev182@georgetown.edu

HAIFA ALGAITH
RESEARCHER

ha413@georgetown.edu

Company Information

CSRanking
Georgetown University
Tel lina.zdruli
www.csraking.webnode.com