

Good citizens



Although lacking its former status, the letters page of The Times still regularly offers up a mirror to changing attitudes in society. In May, the newspaper published a missive from a group of leading chief executives, ranging from Sainsbury's Justin King to Carphone Warehouse's Charles Dunstone. As the signatories stressed, not everyone in the business community is convinced by the government's rationale for a third runway at Heathrow Airport. Indeed, they suggested, the purported benefits from expanding the airport's capacity were "unclear and unproven".

That some of the business world's biggest names should publicly oppose a government policy ostensibly aimed at helping businesses demonstrates the extent to which companies have embraced corporate social responsibility (CSR) policies in recent years.

CSR was on the agenda at this year's annual conference of AIRMIC, the association for corporate insurance and risk managers. Andrew Tunnicliffe, chief operating officer at Aon Global Risk Consulting, said that companies that behaved like "good citizens" would reap financial benefits, but those that failed to do so could cause long-term damage. "Stakeholders such as customers, staff or investors expect firms to show corporate social responsibility," he told delegates. "If they don't, people are likely to vote with their feet. This is a critical risk that requires careful management."

Tunnicliffe suggested that recent government bailouts for the banks and corporate failures showed that businesses had responsibilities "extending beyond quarterly stock price improvement".

He added: "Even in the heartland of corporate capitalism there is a realisation that companies must embrace a sense of responsibility to the individuals, communities and even the global markets they serve. Getting this requirement wrong introduces massive reputational risk, which is impossible to cover through insurance."

One of the best-known advocates of CSR among senior executives is Patrick Cescau, outgoing CEO of Unilever. He says that the "agenda of sustainability and corporate responsibility is not only central to business strategy but will increasingly become a critical driver of business growth". According to Cescau, how well and how quickly businesses respond to this agenda will determine which companies will succeed and which will fail in the next few decades.

And in a recent article for The Financial Times, Chip Feiss, a senior fellow of the Center for Business and Government at Harvard Kennedy School of Government, suggested that the trio of sectors that make up the modern business world – private for profit, public/government, and non-profit – was steadily being joined by a fourth: social enterprise. He defined social enterprise as a term closely associated with CSR, and with such terms as sustainability

Executive summary

- The pressure on companies to act ethically continues to mount. Treasurers can be instrumental in driving through the CSR process in a company by developing valuation models that evaluate the potential returns in addition to the costs and by checking the CSR credentials of the company's supply chain.

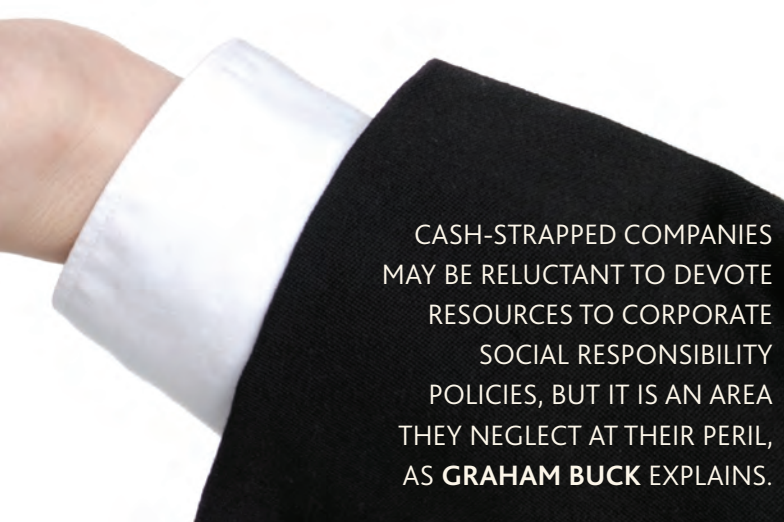
and green, which could be a for-profit, non-profit or hybrid business using private investment to work on social problems.

The increasing emphasis on CSR has been partly in response to a combination of media and consumer pressure on companies to eliminate unethical practices. For example, the sales success of high-street fashion chain Primark has been tarnished by reports that some of its suppliers have employed child labour.

The world's biggest retailer, US giant Wal-Mart, has not been immune to the trend. Four years ago the group acknowledged the growing focus on CSR when its chief executive announced that the group would aim to use only renewable energy, eliminate all waste and to sell products that sustained natural resources and the environment. The group now produces progress reports on its sustainability and ethical sourcing efforts.

Last October, Wal-Mart assembled more than 1,000 of its Chinese suppliers in Beijing and warned them that if they failed to meet strict environmental and social guidelines they would not continue to win business. The effort demanded of them would involve demonstrating clearly their compliance with Chinese environmental legislation, and listing every plant involved in the production process so that subcontractors could be monitored.

More companies have moved to a proactive stance on policies such as reducing their greenhouse gas emissions and reducing the amount of packaging used for their products. To some extent, businesses are simply showing prudent self-interest. CSR initiatives are still voluntary, although there has been considerable pressure on both sides of Atlantic towards making it obligatory for companies to report on their socially responsible policies.



So what role does – and should – the treasury department play in developing CSR policies? For many companies, it appears that treasury has only a limited involvement. Tunnicliffe suggests that valuation (evaluating the potential returns of CSR as well as the costs) is the key issue that treasury could focus on more.

Developing valuation models is a challenging task, but by taking on the responsibility the treasurer can be instrumental in driving through the CSR process. Treasury departments should also have greater involvement in the procurement process, Tunnicliffe suggests. In most companies, treasury probably has little direct involvement in the supply chain risk beyond the costing angle and could usefully have much greater interplay with other company divisions in checking the CSR credentials of each supplier and preventing potential damage to the company's reputation.

The readiness of companies to adopt CSR policies is actively supported by the European Commission, which has urged companies to "go beyond legal minimum requirements to address societal needs". The EU's annual competitiveness report, which since 1999 has reviewed the economic performance and competitiveness of the EU zone, was extended last year and now includes a chapter on CSR and its importance for both business and the economy in general.

ETHICAL SOURCING A major component of a CSR policy is sourcing and promoting ethically produced products. Data suggests that around a fifth of consumers are indifferent whether companies offer ethical goods, and a third doubt whether they can wield any influence on companies through their purchases. But at least 40% are ready to buy ethical goods if they are made available and do not carry a premium price tag.

A number of UK food producers and retailers have already established their credentials in supporting CSR initiatives. In March, Cadbury announced that it would source cocoa for its chocolate from Ghana under the Fairtrade scheme, joining Sainsbury's and Marks & Spencer whose own-label tea and sugar are Fairtrade. The addition of the Cadbury's Dairy Milk bar alone results in an immediate 25% increase in the sales of Fairtrade products in the UK.

In April the world's biggest confectionery group, US group Mars, announced plans for its entire supply of cocoa to be produced "in a

sustainable manner" by 2020, although ethical products are as yet not so big an issue for US consumers.

The initiatives are a combination of the philanthropic and good business sense. In each case, the company secures a steady supply of a crop that is vulnerable to bad weather and whose price has increased in recent years due to successive falls in annual production.

Cadbury's recent deal follows on from the formation of its Cocoa Partnership in January 2008 with the UN Development Programme, local governments, farmers and communities. The partnership aims to secure the economic, social and environmental sustainability of around one million cocoa farmers and their communities in Ghana, India, Indonesia and the Caribbean. The partnership will invest £45m over 10 years, with two-thirds of it going to Ghana.

"Cadbury is generally well regarded on sustainability issues, so the challenges many face rarely come up at mainstream investor meetings," says company spokesman Rob Morgan.

Cadbury treasurer Tom Jack adds that the group talks regularly to Rabobank, the agricultural co-operative bank, about its CSR agenda. He notes a tendency for people to regard CSR and organic products as coming under the same roof, although they are separate issues with the latter more vulnerable to the effects of recession.

PROFIT FROM PRINCIPLES As The Financial Times recently observed, companies are keen on CSR because they have worked out how to make it pay. "Many of their initiatives help to cut costs or sustain supplies," the newspaper reported. "They allow customers to continue to regard themselves as ethical during difficult times. They also help the companies to improve their public relations at a time when business is widely held to be responsible for the downturn."

They are also aware of the growth of socially responsible/ethical investing, which has just marked its 25th anniversary. Friends Provident was the first UK company to offer retail ethical investment, with the launch of its Stewardship fund range in 1984. The group marked the occasion with a study indicating that nearly three in four Britons agree it is important for companies to take social, ethical and environmental issues seriously and more than half agree that ethical investing has become much more important in the past 25 years.

UK funds with a socially responsible focus constituted a market worth just £1bn in 1997. With growth accelerating in recent years, that market is now valued at £764bn.

Research and surveys also suggest that a company's stock market performance is increasingly influenced by how investors rate its CSR policies. Morgan Stanley and Oxford Analytica have jointly published research on socially responsible investment (SRI), which predicts that SRI will grow steadily more important over time (although the research was conducted before recent stock market volatility) and will be incorporated increasingly into the mainstream, driven by regulation, institutional pressures and investor preferences.

Jens Tholstrup, an Oxford Analytica executive director, suggests that public anger at the excesses of the banks has spilled over into a general mistrust of the business world. This could escalate into anti-business sentiment unless companies embark on a significant change in behaviour. "Treasury, as much as any other department, needs to be part of the CSR initiative," he says. "Overcoming the huge amount of scepticism that has developed means it must move away from mere form-filling and compliance, with CSR acknowledged by a few paragraphs in the report and accounts."

"Gone are the days when investors had no active involvement in the day-to-day management of the company," agrees Tunnicliffe. "The treasury department is very much up there in managing investor

relations and ensuring that the company is responsive to any changes in their attitude. There is a tendency for treasury to focus on matters with short-term horizons such as financing, but creating long-term shareholder value requires thinking through issues such as CSR policy.”

CYNICAL CSR But not every business is a convert to the CSR cause. A sizeable body of sceptics suggest that CSR serves little purpose other than as a front for selling more products or deflecting criticism from political and social activists. In their view, CSR initiatives consist basically of the business giving away a portion of its revenue to token causes whereas encouraging individual social responsibility and of connecting their customers with worthwhile causes would produce more significant and longer lasting effects.

The sceptics also believe that in a recession the focus of a company inevitably returns to making a profit and staying in business. Among their number is President Obama’s economic adviser Larry Summers, who reportedly said: “It is hard in this world to do well; it is hard to do good. When I hear a claim that an institution is going to do both, I reach for my wallet. You should too.”

And consumers generally follow this advice, according to Marks & Spencer, which reports that while its customers are generally happy to buy ethically sourced goods they balk at paying extra. M&S calculates that no more than 9% of consumers are “green crusaders”, willing to pay a premium for such goods, and the total has dipped slightly since the recession began.

However, Tholstrup believes that while industries in the public eye,



such as retail, have had to respond to contentious issues such as excessive packaging and child labour, scrutiny will now extend to less high-profile sectors. “Non-governmental associations and pressure groups are becoming increasingly sophisticated in spotting what is happening, so companies that have kept below the radar until now can expect to be detected,” he predicts.

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