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The influence of CSR disclosure on corporate governance and company performance

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ABSTRACT

It is argued that corporate social responsibility (CSR) can be a potent source of innovation and competitive advantage. Those firms typically investing in socially responsible practices, both in ways that solve pressing social issues and improve the firms' competitive edge using the same frameworks that guide their core business choices, are discovering that CSR can be much more than a cost, a constraint or a charitable deed; they are discovering that it can be an enabler for competitive advantage.

This paper explores how the application of CSR starts with vision, innovation and an organizational design to tackle CSR at the core of a firm's business strategy. Firms are grappling on strategic, tactical and operational levels to identify ways to meet society's demands, this in combination with achieving company performance targets in an economic climate under pressure. It may take firms and stakeholders time to work through the issues of how to disclose and monitor the CSR practices of the firm in a standardized way, in a currency that crosses global and organizational boundaries; yet being part of the *solution*, rather than part of the *problem* is essential to creating value in this domain.

Various forms of self-regulatory practices which are applied on a discretionary basis are explored in this paper, arguing that while incomplete contracts and imperfect knowledge debar form resorting to reputation effects in order to support discretional self-regulation, on the contrary an explicit standard for CSR strategic management, both publicly shared by stakeholders and firms through social dialogue - make it possible to put again at work the reputation mechanism inducing endogenous incentives of compliance with a voluntary standard; the result being that stakeholders are encouraged to 'trust' in the firm's practices and commitment to CSR.

ABOUT THE AUTHOR

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“Be part of the* solution *and not part of the* problem*. Your employees, your colleagues, your board, your investors, your customers are all soon going to place a much higher value—and the markets will soon place a much higher value—on an assessment of how much you are a part of the solution to these issues.”

Al Gore

INTRODUCTION

Corporate Social Responsibility (CSR) has become an inescapable priority for business leaders across the globe. Governments, activists and the media have become adept at holding companies to account for the social consequences of their actions and there is a large and growing community of international, regional and national organizations working on sustainable development issues, both in the public and private sectors.

It is no surprise then that firms are grappling on strategic, tactical and operational levels to identify ways to meet society's demands, this in combination with achieving company performance targets.

This paper first sets a definition of CSR as an extended model of corporate governance and then accounts for a voluntary approach to CSR, meant as voluntary compliance with CSR strategic management standards, in terms of an economic theory of self-regulation based on the concepts of social contract, reputation and reciprocal conformism.

Various forms of self-regulatory practices which are applied on a discretionary basis are explored in this paper, arguing that while incomplete contracts and imperfect knowledge debar form resorting to reputation effects in order to support discretional self-regulation, on the contrary an explicit standard for CSR strategic management, both publicly shared by stakeholders and firms through social dialogue - make it possible to put again at work the reputation mechanism inducing endogenous incentives of compliance with a voluntary standard; the result being that stakeholders are encouraged to 'trust' in the firm's practices and commitment to CSR.

It is argued that CSR can be a potent source of innovation and competitive advantage. Those firms typically investing in socially responsible practices, both in ways that solve pressing social issues and improve the firms' competitive edge using the same frameworks that guide their core business choices, are discovering that CSR can be much more than a cost, a constraint or a charitable deed; it can be an enabler for competitive advantage.

Finally, this paper reveals how those companies that have embraced CSR – becoming part of the solution – are setting the standards for others to follow and, in some cases, through their global supply chains are taking action where dialogues have failed. In return such firms have found significant competitive advantages in the form of improved financial performance, enhanced brand image and reputation and attractiveness to increasingly sophisticated institutional investors.

Becoming part of the solution

As the McKinsey Global Survey of Business Executives (2006) indicates, executives around the world recognize that the creation of long-term shareholder value depends on a corporation's ability to understand and respond to increasingly intense demands from society.

We see on the Internet sites and in the annual reports of firms how they recognize the increased importance of a "green" corporate image, but also the fact that this image is under public scrutiny. In addition, economic pressures are very efficient levers to direct action as seen in the rising cost of energy which is affecting the firm's bottom line; forcing firms to reconsider their use of energy and to address their investments in new ways. A simple example is seen in the fact that the cost of powering a server over three years, is now more than the cost of the server itself (the purchase price of a server being potentially several hundred thousand euros), so typically, board-level capital expenditure decisions are being replaced by discussions about innovation to identify new and sustainable ways of storing data.

CSR is more than just a fad and firms are grappling with the challenge of how to be socially responsible corporate citizens, not just in terms of their commitment to philanthropic activities or energy-saving office environments; but also in terms of understanding how to take CSR to the core of the firm's eco-system.

In referring to CSR, Holme and Watts (2000), use the following definition:

"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."

However, on global level, there is the need for deeper understanding of CSR and how this is to be applied in the region in which the organization operates. The same report gave some evidence of the different perceptions of what this should mean from a number of different societies across the world. Definitions as different as: "*CSR is about capacity building for sustainable livelihoods. It respects cultural differences and finds the business opportunities in building the skills of employees, the community and the government*," from Ghana, through to, "*CSR is about business giving back to society*" from the Philippines.

Traditionally in the United States, CSR has been defined much more in terms of a philanthropic model. Companies make profits, unhindered except by fulfilling their duty to pay taxes. Then they donate a certain share of the profits to charitable causes. However, the model is changing towards CSR becoming a more integral part of core business.

The European model is more focused on operating the core business in a socially responsible way, complemented by investment in communities for solid business case reasons. In this model, we see some key advantages, as social responsibility becomes an integral part of the wealth creation process - which if managed properly should enhance the competitiveness of business and maximize the value of wealth creation to society. When times get hard, there is the key incentive for firms to practice CSR more and better, otherwise, if it is perceived as a philanthropic exercise which is peripheral to the main business, it will always be the first thing to go when push comes to shove when budgets are under pressure.

But as with any process based on the collective activities of communities of human beings (as firms are) there is no "one size fits all", but a set of values determined and trusted by the key stakeholders of the organization. In different countries, there are different priorities, and values that shape and influence how businesses act and different models for governance of CSR.

So let's explore what is meant by CSR more closely and where firms fit in. The International Institute for Sustainable Development (IISD) interprets the term Social Responsibility (SR) in the context of sustainable development. The "social" refers to society, and all of its constituent parts and their often-competing concerns and priorities. In this respect, SR standards are expected to address an organization's contribution to the balanced promotion of all three pillars of sustainable development:

1. Economic growth
2. Social development
3. Environmental protection

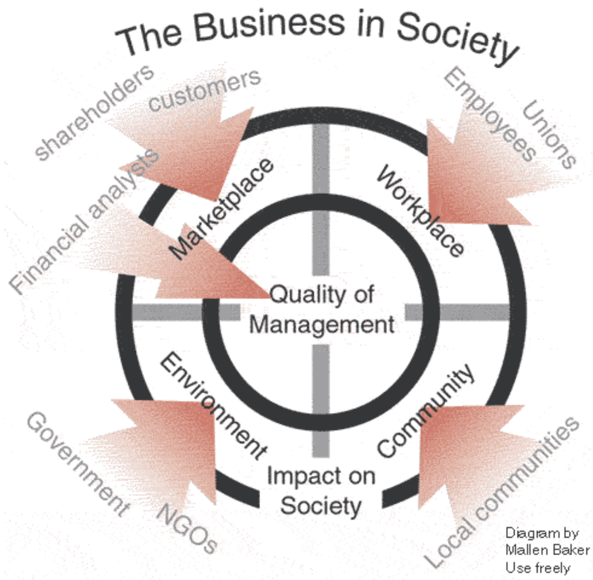
A fundamental part of any internationally relevant definition of SR must be the UN's Millennium Development Goals. SR also entails activities ranging from purely altruistic, oneoff behavior, to long-term efforts to address stakeholder expectations, ethical obligations, legal requirements and universal principles. Fundamentally, an organization cannot define its social responsibilities on its own - an active dialogue with other parts of society is critical.

Baker (2008) illustrates this need for active dialogue with other parts of society in his Business and Society Model below. He states that CSR is about how companies manage the business processes to produce an overall positive impact on society. Companies need to answer to two aspects of their operations.

1. The quality of their management - both in terms of people and processes (illustrated in the inner circle).
2. The nature of and quantity of their impact on society in the various areas (illustrated in the outer circle).

What we are seeing is outside stakeholders taking increasing interest in the activity of firms, looking to the outer circle - what the company has actually done, in terms of its products and services, its impact on the environment and on local communities, or in how it treats and develops its workforce.

As an indicator of likely future performance of the firm, financial analysts are particularly focused not only on the firm's financial performance, but also on the quality of its management as illustrated in the inner circle below.



Source: Malen Baker, The Business in Society

There is a growing realization that CSR should be extended to an organization's wider eco-system and that responsibility should now be extended to the vendor community that supports the firm's business activity – its suppliers. This is particularly relevant to ICT vendors that provide outsourced ICT services, often from geographically remote locations such as India, Surinam and the Philippines, where from an environmental perspective "out of sight" has previously meant "out of mind".

Socially responsible investing – the growing social expectations of shareholders

The topics of socially responsible investing (SRI) and sustainability investing (SI), have been gaining ground as investors seek to incorporate concepts such as sustainability and responsible corporate behavior into their assessments of a company's long-term value. Yet socially responsible investing has always been an awkward science. Early approaches screened out "sin sectors" such as tobacco. Subsequent evolutions tilted toward rewarding good performers, largely in the oil and gas extraction industries (such as Shell and BP), oil and natural gas furnishing about three-fifths of our energy needs, fueling our homes, workplaces, factories, transportation systems and constituting the raw materials for plastics, chemicals, medicines and synthetic fibers.

However, assessment of a firm's social responsibility level was carried out on the basis of often-vague criteria. Hence, these early approaches tended to force an unacceptable trade-off between social criteria and investment returns. The scandal of Enron or WorldCom from 2001 to 2002 caused the concern about the state of corporate governance, the crisis management system of a firm, and the measure of CSR to increase still further (Tanimoto, 2003). Ironically, Enron's code of ethics in July 2000 runs to a convincing 64 pages.

Former US Vice President, Al Gore and David Blood (previously the head of Goldman Sachs Asset Management); set out to put sustainability investing firmly in the mainstream of equity analysis (Elkington, 2006). If Benjamin Graham were alive today, social responsibility criteria for investing would no doubt have been added to his screening criteria, providing visibility into the extent of the contractually binding framework between firms and stakeholders in the domain of CSR. But what do socially responsible investors have to go on right now as they attempt to invest in becoming part of the solution?

Sustainability investing is the explicit recognition that social, economic, environmental, and ethical factors directly affect business strategy, for example, how companies attract and retain employees, how they manage the risks and create opportunities from climate change, a company's culture, corporate governance standards, stakeholder-engagement strategies, philanthropy, reputation, and brand management.

SRI brings together all of the approaches which consist in integrating non-financial criteria (social, environmental and societal) in decisions involving funds and portfolio management.

Three types of socially responsible investment are commonly identified:

1. Exclusion funds: they exclude certain sectors of activity (gambling, weapons, tobacco, etc.) for moral or religious reasons.
2. Funds with a high shareholder commitment: managers exercise their shareholder's right (voting rights at AGMs, proposal of resolutions) to "force" the company to adopt a socially responsible policy. They also maintain regular dialogue with company management boards.
3. "Best in class" funds: the investment process is not based on ex ante exclusion of certain sectors of activity. Best in class is the philosophy of the Dow Jones Sustainability Indexes and the KLD Broad Market Social Index – these indexes replicate the underlying benchmarks but select only the best performers on environmental, social, and governance parameters.

However, these SRI approaches are somewhat generalized (one size fits all) and questionnaires do not allow for true insight into the decision-making process. A lack of an evaluation system of SRI funds is also problematic. Schepers and Sethi (2003) indicated in their paper that there are so many differences among SRI funds, for example, criteria of screening, methods of screening and the purpose of SRI funds that inconsistency occurs through the inability to make valid comparisons, resulting in mismatching problems between investor's expectations and the SRI fund.

In addition, sustainability research analysis is complicated by the fact that it requires you to think long-term and to think about the first- and second-order effects of an issue, which is not in keeping with the traditionally opportunistic and short-termist approach to investment in stocks.

Global companies are expected to meet global standards of corporate accountability, responsibility, and sustainability. Yet those standards are complex and contradictory, and despite best efforts to create order amidst this chaos, they continue to increase. Non-profit making organizations such as The Future 500 are playing a key role in forging links between corporations and stakeholders to advance global citizenship. To achieve this, The Future 500 makes visible the best practices in CSR standards, reporting and performance via case studies from its Future 500 partner companies, including the likes of Coca-Cola, Nike, Wal Mart, HP, Dell, The Walt Disney Company and Mattel.

Environmental standards are provided by GRI, FTSE4Good, and Dow Jones Sustainability Index; whilst marketplace standards, include the Baldrige quality criteria. Community standards can be found in the Smart Growth Network and Business in the Community. Workplace standards are found in such examples as SA 8000. Shareholder standards include those of Sarbanes Oxley and the New York Stock Exchange, to name just a few.

The relationship between SRI and CSR

Does the SRI market really encourage a firm to take CSR to the core of its business strategy and can we identify a correlation here? On the basis of existing research, this is considered to be problematic according to some empirical studies, which have concluded that there is no significant correlation between SRI and CSR activities (McWilliams & Seigel, 2001).

However, when considering the correlation between SRI and CSR, one would expect that the expansion of the SRI market during the past 15 years is likely to be an influencing factor on the disclosure of firms relating to their CSR. The effect of screening of SRI funds, leading to the investment decision, is also likely to be an influencing factor encouraging firms to report on their CSR activities. Indeed, it is also possible for a firm engaged in CSR activities to be rejected by SRI funds, which due to the objective nature of the assessment, may encourage the firm to revise its activities in line with the expectations of the SRI funds. This in turn may stimulate competing firms to improve their behavior and could produce a good social outcome as a whole.

Triple bottom line – part of a CSR reporting toolkit

CSR management starts in the vision and organization design that tackles CSR by establishing the target for the organization's performance and by monitoring whether or not the target has been achieved. From a governance perspective, the mechanism in which a firm reports on the achievement (or otherwise) of targets shows the result of its activities to the stakeholder. In this way, the firm through its reporting on its activities, is reporting on its responsibility to society and is accountable to the stakeholder. According to Tanimoto, (2004), "It is necessary to report via an index, which shows the result of the firm's activity to a stakeholder. It is important to perform corporate activity, which is responsible to society, and to achieve accountability to a stakeholder."

Triple bottom line (TBL), which became established in the mid 1990's through the work of Elkington (1994 and 1998), is one of the mechanisms advocated for reporting on CSR, encouraging managers to think in terms of not just the financial bottom line, but in terms of two additional "bottom lines", namely the so-called "social bottom line" and the "environmental bottom line".

However, MacDonald and Norman (2004 and 2007) are critical of TBL arguing that the triple bottom line paradigm is a rhetorical device with little substance. Further, the TBL paradigm may distract managers and investors from more effective approaches to social and environmental reporting and performance.

"Without any real social or environmental bottom lines to have to calculate, firms do not have to worry about having these "bottom lines" compared to other firms inside or outside of their sector; nor is there likely to be any great worry about the firm being seen to have declining social and environmental "bottom lines" over the years or under the direction of the current CEO. At best, a commitment to 3BL requires merely that the firm report a number of data points of its own choosing those that are potentially relevant to different stakeholder groups – typically in the form of a glossy 3BL report full of platitudinous text and soft-focus photos of happy people and colourful flora."

It should be noted that MacDonald and Norman's critique is not aimed at corporate social responsibility efforts in general, but rather at TBL, which they consider to be a misguided approach to CSR. Clearly the message here is not to consider TBL in isolation, but to adopt it as part of a CSR reporting toolkit to be fully integrated in the firm's core business processes.

Consistency and best practices to move CSR standards forward

So what we are seeing is the emergence of a myriad of standards, best practices, tools and informal and formal organizations in place to stimulate, monitor, report on and govern CSR. CSR is still a relatively immature domain, in which public and private organizations are grappling to find common ground and standardization on global level. How then, in practice, can companies master the CSR standards marketplace, and manage their assessment and reporting functions amidst the array of contending standards?

In answering this question, firms can turn to cases and best practices - adopting the strategies of firms that are becoming successful in the process of standardization as it stabilizes and reaches maturity. But firms need to look beyond the documentary evidence seen in the form of "green" CSR and ethics reports, such as the one published by Enron and look into the firm's CSR kitchen - where the action is.

Top CSR performing companies will typically be taking the following approach:

- Drive excellence in corporate ethics, accountability, sustainability, and responsibility.
- Raise the level of innovation and sustainability in design to a higher level on the business agenda.
- Eliminate "survey fatigue" and manage multiple standards.
- Earn top ratings by SRI and CSR agencies on a consistent basis.
- Develop world-class measurement and reporting systems, as rated by globally respected agencies.
- Create repositories to store, access, and report their SRI and CSR performance.

Toshiba is considered to be a success story with its group slogan: "Committed to People, Committed to the Future." The slogan expresses the essence of Toshiba's corporate philosophy, recognizing that it is its corporate social responsibility to put its philosophy and slogan into practice in its day-to-day business activities. Toshiba utilizes the tool of a CSR homepage, a CSR report, public relations, and CSR advertising, and is carrying out information disclosure. Also in SRI ranking investigations or questionnaires, CSR headquarters handles the correspondence. In SRI evaluation, Toshiba has been selected by world superior 300 brands of Dow Jones Sustainability Index (DJSI) for three consecutive years.

According to KPMG's International Survey of Corporate Responsibility Reporting 2005 (which is produced every three years), CR reporting has been steadily rising since 1993 and it has increased substantially in the past three years. In 2005, 52 percent of G250 and 33 percent of N100 companies issued separate CR reports, compared with 45 percent and 23 percent, respectively in 2002. In addition, a dramatic change has been in the type of CR reporting which has changed from purely environmental reporting up until 1999 to sustainability (social, environmental and economic) reporting which has now become mainstream among G250 companies (68 percent). There has been an increase in the number of companies publishing CR information as part of their annual reports.

The Global Reporting Initiative (GRI) has developed a set of core metrics intended to be applicable to all business enterprises, sets of sector-specific metrics for specific types of enterprises and a uniform format for reporting information integral to a company's sustainability performance. The GRI's vision is that reporting on economic, environmental, and social performance by all organizations is as routine and comparable as financial reporting. The number of companies participating in the GRI now numbers "in the thousands" and an excel spreadsheet giving details of these companies is now available from the GRI website at, enabling the general public to view this information:
http://www.globalreporting.org/GRIReports/2008ReportsList/

The link between standardization and social responsibility on macro level

There are two main groups of challenges for firms in CSR: (1) understanding society's expectations; and (2) implementing activities to deliver on these expectations. Firms realize that standards play an important role in promoting these two general objectives, although it is not certain which standards are to be applied and that one standard can serve both equally types of challenges equally.

Globalization and the associated increase in interconnectivity between countries and regions have led to a situation where international standards are increasingly important. In the global discussion on this subject, standardization engages the private sector in a way that no other process is doing of has ever done! Indeed, in many cases the private sector is driving SR standardization. This is a rarity, and a dynamic that must be captured for the benefit of sustainable development. However, just as no organization can define its social responsibilities on its own, the private sector cannot define SR standards on its own either. SR standardization must be undertaken in a transparent, multi-stakeholder process, engaging not just new expertise, but also new stakeholders.

Organizations such as the International Institute for Sustainable Development contribute to sustainable development by advancing policy recommendations on international trade and investment, economic policy, climate change, measurement and indicators, and natural resources management; working together with five key sustainable development NGOs globally. In its recent strategic planning document, "ISO Horizon 2010 – Standards for a Sustainable World," the ISO Central Secretariat identifies as a key driver "the urgency of a responsible approach to sustainable development, covering economic, social and environmental aspects, where all actors in society have a role to play and all companies and organizations have new commitments to make."

ISO is one of the most important international standard-setting bodies and has for over 50 years helped to ensure that standardization is an effective tool that does not create non-tariff barriers to trade. However, ISO is a private, non-governmental body that does not involve formal governmental representation, so its scope is limited in terms of public policy.

The point to be made is that there is a need to address head-on the growing uneasiness regarding the role of private, industry-dominated organizations in establishing standards that impact on public policy. If this is not addressed, then a sense of uncertainty remains regarding the scope of influence and responsibility in this domain. There is no easy solution and the most likely outcome will be the formation of mixed communities of individuals to include members of the private and public sectors, working together to achieve the same goal.

Outsourcing of CSR – the extended CSR enterprise

According to the Indian business publication, ‘Business Respect’ (2008), Indian companies find themselves under growing pressure to account for their sustainability impacts as they seek to access global markets and to attract foreign investment. The Institute of Chartered Accountants of India (ICAI) has reported to the press (Business Respect newsletter, 2008) that it is working on a new set of rules on CSR disclosure, inspired by the Global Reporting Initiative guidelines on reporting. The ICAI has formed a committee to develop its framework in standardizing approaches to sustainability reporting. This initiative is not surprising considering the increase in business being outsourced to India from European countries.

The outsourcing of ICT activities from The Netherlands for instance has increased dramatically, from less than €1 billion in 1995 to some €6 billion in 2006. When outsourcing work to countries such as Vietnam, China or India, organizations have to consider a number of matters that have long ceased to be an issue when outsourcing work to well-established European vendors on- or near-shore.

Striking a balance between the various interests involved in outsourcing ICT work or business processes via BPO is of key importance to firms. Not only commercial and substantive aspects play a role in the careful outsourcing of ICT work, firms also have to meet test criteria, which are based on the principles underlying corporate social responsibility. Meeting test criteria is necessary because lack of care in outsourcing work can cause businesses significant damage; for example, outsourcing that involves environmental pollution or child labor.

Such firms have to keep a sharp eye on the various CSR dimensions – guaranteeing quality and preventing unnecessary risks. The strategy of large banks, such as Rabobank and ING, is often to take responsibility for all the phases of system development in the various forms of ICT outsourcing. So in effect, such firms outsource a number of activities, but not their management and not their commitment to CSR. However, with the growing BPO trend towards the outsourcing of business processes that are not regarded as ‘core business’, the boundaries and responsibilities become vague, requiring transparency in governance in which roles, responsibilities and accountabilities are not only clearly defined, but are measured in addition to or, better still, as integral part of the existing key performance indicators defined in the outsourcing contract. For example, an ICT services vendor may agree incentives to reduce energy consumption and carbon footprint, through the implementation of a new IT infrastructure over a period of time, in which inefficient servers are superceded by the provision of low-energy “green” data centers.

On the people side, testing by the Works Council for offshore outsourcing is a complex social, political and organizational process. It calls for a professional and thoughtful approach. The involvement of the Works Council in the outsourcing of activities to countries such as India is especially challenging when viewed from a CSR perspective. The Works Council should be consulted at an early stage, awarded a serious role in the whole process and kept informed of new outsourcing prospects. The Works Council should also be involved in the progress, the details of the business case, the selection of vendors, and the ultimate decision whether to outsource activities or not. There are a number of matters that are of considerable importance to the EC, for example, human rights, discrimination laws and overtime and minimum wage agreements. Countries such as India have very unique cultures and ways of working, which can be challenging for European firms wanting to check the enforcement of practices and labor laws.

In addition, the impact that the outsourced work has on the local surroundings should also be monitored.

Do sociality and environmental consciousness really lead to improved company performance?

It is also difficult to answer. Toyota has demonstrated that a product that is designed by environmental perspective succeeded and found a new market in Japan and this in turn led to competitive advantage. Attempts need to be made to answer such questions as; how could work be practiced more economically and how can we use material without waste? Such questions must not only be answered on operational level, but also taken to a strategic level – to enable the necessary changes in business practices – top down.

One thing that is for sure - the pressure on business to play a role in social issues will continue to grow. Over the past ten years, those institutions that have grown in power and influence have been those that can operate effectively within a global sphere of operations. These are effectively the corporates and the NGOs. Those institutions that are predominantly tied to the nation state have been finding themselves increasingly frustrated at their lack of ability to shape and manage events. These include national governments, police, judiciary and others. There is a growing interest, therefore, in businesses taking a lead in addressing those issues in which they have an interest where national government have failed to come up with a solution.

The focus Unilever has on supporting a sustainable fisheries approach is one example. Using the power of their supply chain, such companies are placed to have a real influence. National governments negotiating with each other have come up with no solutions at all, and ever-depleting fish stocks. That is not to say businesses will necessarily provide the answers - but awareness is growing that they are occasionally better placed to do so than any other actors taking an interest.

Michael E. Porter and Mark R. Kramer (2006) propose a new way to look at the relationship between business and society that allows companies to make valuable contributions to social welfare without sacrificing corporate success. They introduce a framework that individual companies can use to identify the social consequences of their actions; to discover opportunities to benefit society and themselves by strengthening the competitive context in which they operate; to determine which corporate social responsibility (CSR) initiatives they should address; and to find the most effective ways of doing so. Perceiving social responsibility as an opportunity, rather than damage control or a PR campaign, requires a dramatically different mind-set.

Frequently, though, CSR efforts are counterproductive, for two reasons. Firstly, they pit business against society, when in reality the two are interdependent. Secondly, they pressure companies to regard corporate social responsibility in generic ways instead of in the way most appropriate to their individual strategies. The prevailing approaches to CSR are considered by Porter and Kramer to be so disconnected from strategy as to obscure many great opportunities for companies to benefit society.

Porter and Kramer refer to an example of the symbolic relationship between social progress and competitive advantage in the case of Nestlé. In 1962, the company wanted to enter the Indian market and it received government permission to build a dairy in the poverty-stricken Moga district. The firms intentions were to build a business that had dependencies on establishing local sources of milk from a large, diversified base of small farms. Nestlé built refrigerated dairies as collection points in each town and sent its trucks out to the dairies to collect the milk. With the trucks went animal specialists and nutritionists, medicines and nutritional supplements for sick animals and monthly training sessions for local farmers. In the beginning only 180 farmers supplied milk. Today, Nestlé buys milk from more than 75,000 farmers in the region, collecting twice daily from more than 650 village dairies. The quality of life for the people in the region has improved dramatically.

According to Porter (1985), competitive advantage is “at the heart of a firm’s performance in competitive markets”. “Competitive advantage grows fundamentally out of the value a firm is able to create for its buyers that exceeds the firm’s cost of creating it.” Porter and Kramer (2006) argue that CSR can be a potent source of innovation and competitive advantage and, no doubt, business executives who learn from such practical examples as the likes of Nestlé will succeed in the CSR quest.

The quest for competitive advantage, in the context of CSR, leads to the heart of business strategy. It is not merely a responsibility for the marketing department or for the HR department of the business. The fundamental issues of competitive advantage are also the fundamental issues of business strategy and firms that fail to integrate CSR into their core operations are destined to fall behind the competition.

This brings us to the question of how outsourcing decision makers are addressing the CSR agenda. According to a study carried out by Brown and Wilson (2005), authors of the “Black Book of Outsourcing”, organizations in North America and Europe plan to continue their outsourcing initiatives while cautiously shifting functional responsibility for corporate environmental concerns to the supplier. However, the report also points to an increased appetite and demand from buyers of outsourced services for more comprehensive “green” initiatives to assure compliance.

The report is based on an independent study of outsourcing industry decision makers and analysts with a survey of 20,000 outsourcing users. Almost half, 43% of companies, choosing to use a supplier for the first time included “green” factors in their decision making process for choosing suppliers. And more than 94% of executives from listed companies are planning to add “green” clauses in their renegotiation processes, compared with only 36% of privately owned companies.

Sun Microsystems has designed new data centers in the US, the UK and India to lower the company’s power consumption. Sun estimates that the company’s data center efforts will save the planet nearly 4,100 tonnes of CO_2 per year and trim one percent from Sun’s total carbon footprint.

IBM is also following similar initiatives to make computing more energy efficient and environmentally friendly. IBM is committing to spend $1 billion a year on a project named “Project Big Green” and has developed a five-step program for companies looking to cut power use in data centers.

Fujitsu is also setting an example, spending £44 million on a 65,000 square foot London based data center facility that has minimized its carbon footprint through the use of the latest IT cooling and processing technologies. Fujitsu predicts that this will save enough electricity to power as many as 6,000 homes annually, equivalent to saving 10,000 tonnes of CO_2 each year.

As consumers become more environmentally aware, retail organizations are improving their environmental campaigns and promotional activity. Marks & Spencer has pledged to be carbon neutral by 2012. The supermarket Tesco plans to include carbon footprint labeling on all of its products and launching a campaign to encourage its customers to be critical of all product packaging. Online bank First Direct has installed new technology to reduce its use of electricity. Airlines such as EasyJet and FlyBe are working hard to convince passengers that they can still fly with a clear conscience.

In the retail industry, consumers have ultimate power and retailers will respond accordingly. With outsourcing, the consumer is one or two steps removed. However, with improved communications technology, an organization's inner workings and standards are easily accessible and quickly distributed. Being environmentally unfriendly is now bad news and this social acceptance together with financial pressure to use less energy has created a real change in the supplier market place. Even before the concept of "CSR" was born, The Body Shop demonstrated that creating a business strategy entirely around an environmental perspective could prove successful and lead to competitive advantage within a niche market, in which environmental consciousness is routinely "business as usual" for the firm. The perception of the brand as being socially responsible can often influence customer loyalty, lenders' and investors' scrutiny, and ultimately reduce the cost of capital.

Outsourced service providers are increasingly beginning to realize that "green" credentials are a pre-requisite when it comes to dealing with large corporations and the supplier community companies are now investing heavily in reducing their carbon footprint.

CONCLUDING COMMENTS

This paper only scratches the surface of several important issues. Clearly further research is needed based on more empirical data and a case approach to further knowledge in this field.

We learn that corporate social responsibility encompasses a wide spectrum of issues ranging from business ethics, corporate governance and socially responsible investing, to environmental sustainability and community investment. CSR envisages the ideal whereby enterprises integrate social and environmental concerns in their business operations and their interaction with their stakeholders usually on a voluntary 'trusted' basis. It is about the behaviour of businesses over and above what is ordinarily required by regulatory bodies and legal requirements, not least because it is voluntarily practised, but because businesses deem it to be in their long-term interest to do so.

In examining if CSR activities lead to competitive advantage, it is important to address the CSR standardization discussion in which such tools as TBL and CSR reporting provide a snapshot of an organization's achievements and reinforce the realization of the importance to our planet of the three sets of perspectives; (1) sociality, (2) environmental and (3) economical. The SRI market provides another way for firms to measure their perceived performance through the eyes of potential investors, this perspective matching the stakeholder theory in which it is assumed that all stakeholder of a firm are treated equally, including the growing number of stakeholders interested only in investing in high-performing SR firms.

Environmental and social perspectives are connected with the core competence of a firm as seen in the examples of Toyota and The Body Shop and, interestingly, in the case of Nestlé. These proven cases, along with those organizations currently reducing the carbon footprint though innovative technical solutions such as IBM and Sun Microsystems are pioneering a new type of strategy, which inevitably drives competition from other firms in the same industry who will look one step further in providing innovative CSR solutions for the future.

As Porter and Kramer (2006) suggest, if companies can invest in socially responsible practices in ways that solve pressing social issues and improve a firms' competitive edge - if corporations were to analyze their opportunities for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint or a charitable deed. CSR can be a potent source of innovation and competitive advantage.

The application of CSR starts with vision, innovation and an organizational design to tackle CSR at the core of a firm's business strategy. It may take firms and stakeholders a little time to work through the issues of how to disclose and monitor the CSR practices of the firm in a standardized way, in a currency that crosses global and organizational boundaries; but amongst the issues, the words of Al Gore (Elkington, 2006) should be remembered:

"Be part of the *solution* and not part of the *problem*. Your employees, your colleagues, your board, your investors, your customers are all soon going to place a much higher value - and the markets will soon place a much higher value - on an assessment of how much you are a part of the solution to these issues."

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