THE RISE AND FALL OF CSR

Shapeshifting from CSR 1.0 to CSR 2.0

By Wayne Visser

One of the proposed antidotes to the Age of Greed is corporate social responsibility (CSR), which has been debated and practiced in one form or another for more than 4,000 years. For example, the ancient *Vedic* and *Sutra* texts of Hinduism and the *Jatakas* of Buddhism include ethical admonitions on usury (the charging of excessive interest) and Islam has long advocated *Zakat*, or a wealth tax.

The modern concept of CSR can be more clearly traced to the mid-to-late 1800s, with industrialists like John H. Patterson of National Cash Register seeding the industrial welfare movement and philanthropists like John D. Rockerfeller setting a charitable precedent that we see echoed more than a hundred years later with the likes of Bill Gates.

Despite these early variations, CSR only entered the popular lexicon in the 1950s with R. Bowen's landmark book, *Social Responsibilities of the Businessman*. The concept was challenged and strengthened in the 1960s with the birth of the environmental movement, following Rachel Carson's critique of the chemicals industry in *Silent Spring*, and the consumer movement off the back of Ralph Nader's social activism, most famously over General Motors's safety record.

The 1970s saw the first widely accepted definition of CSR emerge – Archie Carroll's 4-part concept of economic, legal, ethical and philanthropic responsibilities, later depicted as a CSR pyramid - as well as the first CSR code, the Sullivan Principles. The 1980s brought the application of quality management to occupational health and safety and the introduction of CSR codes like Responsible Care.

In the 1990s, CSR was institutionalised with standards like ISO 14001 and SA 8000, guidelines like the Global Reporting Initiative and corporate governance codes like Cadbury and King. The 21st century has been mostly more of the same, spawning a plethora of CSR guidelines, codes and standards (there are more than 100 listed in *The A to Z of Corporate Social Responsibility*), with industry sector and climate change variations on the theme.

Why is all this potted history of CSR important in a discussion about the future? Well, first, we must realise that CSR is a dynamic movement that has been evolving over decades, if not centuries. Second, and perhaps more importantly, we must acknowledge that, despite this seemingly impressive steady march of progress, CSR has failed.

CSR has undoubtedly had many positive impacts, for communities and the environment. Yet, its success or failure should be judged in the context of the total impacts of business on society and the planet. Viewed this way, as the evidence already cited shows, on virtually every measure of social, ecological and ethical performance we have available, the negative impacts of business have been an unmitigated disaster, which CSR has completely failed to avert or even substantially moderate.

The Failure of CSR

Why has CSR failed so spectacularly to address the very issues it claims to be most concerned about? In my view, this comes down to three factors – call it the Triple Curse of Modern CSR, if you like:

Curse 1: Incremental CSR

One of the great revolutions of the 1970s was total quality management, conceived by American statistician W. Edwards Deming and perfected by the Japanese before being exported around the world as ISO 9001. At the very core of Deming's TQM model and the ISO standard is continual improvement, a principle that has now become ubiquitous in all management system approaches to performance. It is no surprise, therefore, that the most popular environmental management standard, ISO 14001, is built on the same principle.

There is nothing wrong with continuous improvement *per se*. On the contrary, it has brought safety and reliability to the very products and services that we associate with modern quality of life. But when we use it as the primary approach to tackling our social, environmental and ethical challenges, it fails on two critical counts: speed and scale. The incremental approach to CSR, while replete with evidence of micro-scale, gradual improvements, has completely and utterly failed to make any impact on the massive sustainability crises that we face, many of which are getting worse at a pace that far outstrips any futile CSR-led attempts at amelioration.

Curse 2: Peripheral CSR

Ask any CSR manager what their greatest frustration is and they will tell you: lack of top management commitment. This is 'code-speak' for saying that CSR is, at best, a peripheral function in most companies. There may be a CSR manager, a CSR department even, a CSR report and a public commitment to any number of CSR codes and standards. But these do little to mask the underlying truth that shareholder-driven capitalism is rampant and its obsession with short-term financial measures of progress is contradictory in almost every way to the long-term, stakeholder approach needed for high-impact CSR.

The reason Enron collapsed, and indeed why our current financial crisis was allowed to spiral out of control, was not because of a few rogue executives or creative accounting practices, it was because of a culture of greed embedded in the DNA of the company and the financial markets. Whether you agree or not (and despite the emerging research on 'responsible competitiveness'), it is hard to find any substantive examples in which the financial markets consistently reward responsible behaviour.

Curse 3: Uneconomic CSR

Which brings us to Curse 3. If there was ever a monotonously repetitive, stuck record in CSR debates, it is the one about the so-called 'business case' for CSR. That is because CSR managers and consultants, and even the occasional saintly CEO, are desperate to find compelling evidence that 'doing good is good for business', i.e. CSR pays. The lack of corroborative research seems to be no impediment for these desperados endlessly incanting the motto of the business case, as if it were an entirely self-evident fact.

The rather more 'inconvenient truth' is that CSR sometimes pays, in specific circumstances, but more often does *not*. Of course there are low-hanging fruit – like eco-efficiencies around waste and energy – but these only go so far. Most of the hard-core CSR changes that are needed to reverse the misery of poverty and the sixth mass extinction of species currently underway require strategic change and massive investment. They may very well be lucrative in the long term, economically rational over a generation or two, but we have already established that the financial markets don't work like that; at least, not yet.

CSR 1.0: Burying the Past

What would be far more productive than all this wishing and pretending that CSR is good for everyone and will help to solve the world's problems is to simply see it for what it is: an outdated, outmoded artifact that was once useful, but the time for which has past. We need to let the 'old CSR' die gracefully and give it a dignified burial. By all means, let us give it the respect it deserves – a fitting eulogy about brave new frontiers of responsibility that it conquered in its heyday. But then, let us look for the next generation of CSR – the newborn that will carry the torch forward.

If we succeed in admitting the failure of CSR and burying the past, we may find ourselves on the cusp of a revolution, in much the same way as the internet transitioned from Web 1.0 to Web 2.0. The emergence of social media networks, user-generated content and open source approaches are a fitting metaphor for the changes CSR will have to undergo if it is to redefine its contribution and make a serious impact on the social, environmental and ethical challenges the world faces.

For example, in the same way that Web 1.0 moved from a one-way, advertising-push approach to a more collaborative Google-Facebook mode, CSR 1.0 is starting to move beyond the outmoded approach of CSR as philanthropy or public relations (which has been widely criticised as 'greenwash') to a more interactive, stakeholder-driven model. Similarly, while Web 1.0 was dominated by standardised hardware and software, but now encourages co-creation and diversity, so too in CSR, we are beginning to realise the limitations of the generic CSR codes and standards that have proliferated in the past 10 years.

CSR 2.0: Embracing the Future

If this is where we have come from, where do we need to go to? Let us explore in more detail this revolution that will, if successful, change the way we talk about and practice CSR and, ultimately, the way we do business. There are five principles that make up the DNA of CSR 2.0: Creativity (C), Scalability (S), Responsiveness (R), Glocality (2) and Circularity (0).

Principle 1: Creativity (C)

In order to succeed in the CSR revolution, we will need innovation and creativity. We know from Thomas Kuhn's work on *The Structure of Scientific Revolutions* that step-change only happens when we can re-perceive our world, when we can find a genuinely new paradigm, or pattern of thinking. This process of 'creative destruction' is today a well accepted theory of societal change, first introduced by German sociologist Werner Sombart and elaborated and popularised by Austrian economist Joseph Schumpeter. We cannot, to a paraphrase Einstein, solve today's problems with yesterday's thinking.

Business is naturally creative and innovative. What is different about the Age of Responsibility is that business creativity needs to be directed to solving the world's social and environmental problems. Apple, for example, is highly creative, but their iPhone does little to tackle our most pressing societal needs. By contrast, Vodafone's M-PESA innovation by Safaricom in Kenya, which allows money to be transferred by text, has empowered a nation in which 80% of the population have no bank account and where more money flows into the country through international remittances than foreign aid. Or consider Freeplay's innovation, using battery-free wind-up technology for torches, radios and laptops in Africa, thereby giving millions of people access to products and services in areas that are off the electricity grid.

All of these are part of the exciting trend towards social enterprise or social business that is sweeping the globe, supported by the likes of American Swiss entrepreneur Stephen Schmidheiny, Ashoka's Bill Drayton, e-Bay's Jeff Skoll, the World Economic Forum's Klaus Schwabb, Grameen Bank's Muhammad Yunus and Volans Venture's John Elkington. It is not a panacea, but for some products and services, directing the creativity of business towards the most pressing needs of society is the most rapid, scalable way to usher in the Age of Responsibility.

Principle 2: Scalability (S)

The CSR literature is liberally sprinkled with charming case studies of truly responsible and sustainable projects and a few pioneering companies. The problem is that so few of them ever go to scale. It is almost as if, once the sound-bites and PR-plaudits have been achieved, no further action is required. They become shining pilot projects and best practice examples, tarnished only by the fact that they are endlessly repeated on the CSR conference circuits of the world, without any vision for how they might transform the core business of their progenitors.

The sustainability problems we face, be they climate change or poverty, are at such a massive scale, and are so urgent, that any CSR solutions that cannot match that scale and urgency are red herrings at best and evil diversions at worst. How long have we been tinkering away with ethical consumerism (organic, fairtrade and the like), with hardly any impact on the world's major corporations or supply chains? And yet, when Wal-Mart's former CEO, Lee Scott, had his post-Katrina Damascus experience and decided that *all* cotton will be organic and *all* fish MSC-certified, then we started seeing CSR 2.0-type scalability.

Scalability not limited to the retail sector. In financial services, there have always been charitable loans for the world's poor and destitute. But when Muhammad Yunus, in the aftermath of a devastating famine in Bangladesh, set up the Grameen Bank and it went from one $74 loan in 1974 to a $2.5 billion enterprise, spawning more than 3,000 similar microcredit institutions in 50 countries reaching over 133 million clients, that is a lesson in scalability. Or contrast Toyota's laudable but premium-priced hybrid Prius for the rich and eco-conscious with Tata's $2,500 Nano, a cheap and eco-friendly car for the masses. The one is an incremental solution with long term potential; the other is scalable solution with immediate impact.

Principle 3: Responsiveness (R)

Business has a long track-record of responsiveness to community needs – witness generations of philanthropy and heart-warming generosity following disasters like 9/11 or the Sichuan Earthquake. But this is responsiveness on their own terms, responsiveness when giving is easy and cheque-writing does nothing to upset their commercial applecart. The severity of the global problems we face demands that companies go much further. CSR 2.0 requires uncomfortable, transformative responsiveness, which questions whether the industry or the business model itself is part of the solution or part of the problem.

When it became clear that climate change posed a serious challenge to the sustainability of the fossil fuel industry, all the major oil companies formed the Global Climate Coalition, a lobby group explicitly designed to discredit and deny the science of climate change and undermine the main international policy response, the Kyoto Protocol. In typical CSR 1.0 style, these same companies were simultaneously making hollow claims about their CSR credentials. By contrast, the Prince of Wales's Corporate Leaders Group on Climate Change has, since 2005, been lobbying for *bolder* UK, EU and international legislation on climate change, accepting that carbon emission reductions of between 50-85% will be needed by 2050.

CSR 2.0 responsiveness also means greater transparency, not only through reporting mechanisms like the Global Reporting Initiative and Carbon Disclosure Project, but also by sharing critical intellectual resources. The Eco-Patent Commons, set up by WBCSD to make technology patents available, without royalty, to help reduce waste, pollution, global warming and energy demands, is one such step in the right direction. Another is the donor exchange platforms that have begun to proliferate, allowing individual and corporate donors to connect directly with beneficiaries via the web, thereby tapping 'the long tail of CSR'.

Principle 4: Glocality (2)

The term *glocalization* comes from the Japanese word *dochakuka*, which simply means global localization. Originally referring to a way of adapting farming techniques to local conditions, *dochakuka* evolved into a marketing strategy when Japanese businessmen adopted it in the 1980s. It was subsequently introduced and popularised in the West in the 1990s by Manfred Lange, Roland Robertson, Keith Hampton, Barry Wellman and Zygmunt Bauman. In a CSR context, the idea of 'think global, act local' recognises that most CSR issues manifest as dilemmas, rather than easy choices. In a complex, interconnected CSR 2.0 world, companies (and their critics) will have to become far more sophisticated in understanding local contexts and finding the appropriate local solutions they demand, without forsaking universal principles.

For example, a few years ago, BHP Billiton was vexed by their relatively poor performance on the (then) Business in the Environment (BiE) Index, run by UK charity Business in the Community. Further analysis showed that the company had been marked down for their high energy use and relative energy inefficiency. Fair enough. Or was it? Most of BHP Billiton's operations were, at that time, based in southern Africa, home to some of the world's cheapest electricity. No wonder this was not a high priority. What was a priority, however, was controlling malaria in the community, where they had made a huge positive impact. But the BiE Index didn't have any rating questions on malaria, so this was ignored. Instead, it demonstrated a typical, Western-driven, one-size-fits-all CSR 1.0 approach.

Carroll's CSR pyramid has already been mentioned. But in a sugar farming co-operative in Guatemala, they have their own CSR pyramid – economic responsibility is still the platform, but rather than legal, ethical and philanthropic dimensions, their pyramid includes responsibility to the family (of employees), the community and policy engagement. Clearly, both Carroll's pyramid and the Guatemala pyramid are helpful in their own appropriate context. Hence, CSR 2.0 replaces 'either/or' with 'both/and' thinking. *Both* SA 8000 *and* the Chinese national labour standard have their role to play. *Both* premium branded *and* cheap generic drugs have a place in the solution to global health issues. CSR 2.0 is a search for the Chinese concept of a harmonious society, which implies a dynamic yet productive tension of opposites – a *Tai Chi* of CSR, balancing *yin* and *yang*.

Principle 5: Circularity (0)

The reason CSR 1.0 has failed is not through lack of good intent, nor even through lack of effort. The old CSR has failed because our global economic system is based on a fundamentally flawed design. For all the miraculous energy unleashed by Adam Smith's 'invisible hand' of the free market, our modern capitalist system is faulty at its very core. Simply put, it is conceived as an abstract system without limits. As far back as the 1960s, pioneering economist, Kenneth Boulding, called this a 'cowboy economy', where endless frontiers imply no limits on resource consumption or waste disposal. By contrast, he argued, we need to design a 'spaceship economy', where there is no 'away'; everything is engineered to constantly recycle.

In the 1990s, in *The Ecology of Commerce*, Paul Hawken translated these ideas into three basic rules for sustainability: waste equals food; nature runs off current solar income; and nature depends on diversity. He also proposed replacing our product-sales economy with a service-lease model, famously using the example of Interface 'Evergreen' carpets that are leased and constantly replaced and recycled. William McDonough and Michael Braungart have extended this thinking in their *Cradle to Cradle* industrial model. Cradle to cradle is not only about closing the loop on production, but about designing for 'good', rather than the CSR 1.0 modus operandi of 'less bad'.

Hence, CSR 2.0 circularity would, according to cradle-to-cradle aspirations, create buildings that, like trees, produce more energy than they consume and purify their own waste water; or factories that produce drinking water as effluent; or products that decompose and become food and nutrients; or materials that can feed into industrial cycles as high quality raw materials for new products. Circularity needn't only apply to the environment. Business should be constantly feeding and replenishing its social and human capital, not only through education and training, but also by nourishing community and employee wellbeing. CSR 2.0 raises the importance of meaning in work and life to equal status alongside ecological integrity and financial viability.

Shapeshifting: From CSR 1.0 to CSR 2.0

Even revolutions involve a transition, so what might we expect to see as markers along the road to transformation? Paternalistic relationships between companies and the community based on philanthropy will give way to more equal partnerships. Defensive, minimalist responses to social and environmental issues are replaced with proactive strategies and investment in growing responsibility markets, such as clean technology. Reputation-conscious public-relations approaches to CSR are no longer credible and so companies are judged on actual social, environmental and ethical performance (are things getting better on the ground in absolute, cumulative terms?).

Although CSR specialists still have a role to play, each dimension of CSR 2.0 performance is embedded and integrated into the core operations of companies. Standardised approaches remain useful as guides to consensus, but CSR finds diversified expression and implementation at very local levels. CSR solutions, including responsible products and services, go from niche 'nice-to-haves' to mass-market 'must-haves'. And the whole concept of CSR loses its Western conceptual and operational dominance, giving way to a more culturally diverse and internationally applied concept.

How might these shifting principles manifest as CSR practices? CSR will no longer manifest as luxury products and services (as with current green and fairtrade options), but as affordable solutions for those who most need quality of life improvements. Investment in self-sustaining social enterprises will be favoured over cheque-book charity. CSR indexes, which rank the same large companies over and over (often revealing contradictions between indexes) will make way for CSR rating systems, which turn social, environmental, ethical and economic performance into corporate scores (A+, B-, etc., not dissimilar to credit ratings), which analysts and others can usefully employ to compare and integrate into their decision making.

Reliance on CSR departments will disappear or disperse, as performance across responsibility and sustainability dimensions are increasingly built into corporate performance appraisal and market incentive systems. Self-selecting ethical consumers will become irrelevant, as CSR 2.0 companies begin to choice-edit, i.e. cease offering implicitly 'less ethical' product ranges, thus allowing guilt-free shopping. Post-use liability for products will become obsolete, as the service-lease and take-back economy goes mainstream. Annual CSR reporting will be replaced by online, real-time CSR performance data flows. Feeding into these live communications will be Web 2.0 connected social networks, instead of periodic meetings of rather cumbersome stakeholder panels. And typical CSR 1.0 management systems standards like ISO 14001 will be less credible than new performance standards, such as those emerging in climate change that set absolute limits and thresholds.

CSR 2.0: The New DNA of Business

All of these visions of the future imply such a radical shift from the current model of CSR that they beg the question: do we need a new model of CSR? Certainly, Carroll's enduring CSR Pyramid, with its Western cultural assumptions, static design and wholesale omission of environmental issues, must be regarded as no longer fit for purpose. Even the emphasis on 'social' in corporate *social* responsibility implies a rather limited view of the agenda. So what might a new model look like?

The CSR 2.0 model proposes that we keep the acronym, but rebalance the scales, so to speak. Hence, CSR comes to stand for 'Corporate Sustainability and Responsibility'. This change acknowledges that 'sustainability' (with roots in the environmental movement) and 'responsibility' (with roots in the social activist movement) are really the two main games in town. A cursory look at companies' non-financial reports will rapidly confirm this – they are mostly either corporate sustainability or corporate responsibility reports.

However, CSR 2.0 also proposes a new interpretation on these terms. Like two intertwined strands of DNA, sustainability and responsibility can be thought of as different, yet complementary elements of CSR. Hence, sustainability can be conceived as the destination - the challenges, vision, strategy and goals, i.e. what we are aiming for – while responsibility is more about the journey – our solutions, responses, management and actions, i.e. how we get there.

The DNA of CSR 2.0 can be conceived as spiralling, interconnected, non-hierarchical levels, representing economic, human, social and environmental systems, each with a twinned sustainability/responsibility manifestation: economic sustainability and financial responsibility; human sustainability and labour responsibility; social sustainability and community responsibility; and environmental sustainability and moral responsibility.

Conclusion: The Purpose of Business

When all is said and done, CSR 2.0 comes down to one thing: clarification and reorientation of the purpose of business. It is a complete misnomer to believe that the purpose of business is to be profitable, or to serve shareholders. These are simply means to an end. Ultimately, the purpose of business is to serve society, through the provision of safe, high quality products and services that enhance our wellbeing, without eroding our ecological and community life-support systems. As David Packard, co-founder of Hewlett-Packard, wisely put it:

Why are we here? Many people assume, wrongly, that a company exists solely to make money. People get together and exist as a company so that they are able to accomplish something collectively that they could not accomplish separately - they make a contribution to society.

Making a positive contribution to society is the essence of CSR 2.0 – not just as a marginal afterthought, but as a way of doing business. This is not about bailing out the Titanic with a teaspoon - which is the current effect of CSR 1.0 - but turning the whole ship around. CSR 2.0 is about designing and adopting an inherently sustainable and responsible business model, supported by a reformed financial and economic system that makes creating a better world the easiest, most natural and rewarding thing to do.

CSR is dead! Long live CSR!

Article reference

Visser, W. (2010) The Rise and Fall of CSR: Shapeshifting from CSR 1.0 to CSR 2.0, *CSR International Paper Series*, No. 2.

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Part of the CSR INTERNATIONAL PAPER Series