

Benchmarking Corporate Social Responsibility and knowledge-based Competitiveness

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1. Corporate Social Responsibility

1.1 The origin and the current context

The World Commission on Environment and Development (better known as the Brundtland Commission) in 1987 defined sustainable development as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’. The recent crisis, to say the least has plunged many nations into deficits that will take decades to unwind and thereby driving the cost of growth higher – inevitably compromising the ability of future generations to meet their needs. The IMF puts the total cost of surviving the financial crisis to \$11.9 trillion, the staggering total is equivalent to around a fifth of the entire globe's annual economic output and includes capital injections pumped into banks in order to prevent them from collapse, the cost of soaking up so-called toxic assets, guarantees over debt and liquidity support from central banks.

In a recent survey titled “Ethics at work” conducted by ‘MT and the Institute of Business ethics’ it was found that only three-quarters of the managers in the survey disagreed with the statement 'It is acceptable to artificially increase profits in the books so long as no money is stolen'. It is even unimaginable about how an organization could then explain this to the workers who lose their pensions when the scheme unravels. The central question will then be – what could drive an ethical and sustainable business approach? If it's the tightening of regulation the very fact that an act like the Sarbanes-Oxley – which put the need for clear ethical frameworks, training and responsibility at centre-stage, could not avert the recent financial crisis, leads us to search for something that is more comprehensive. An approach that will create the business case for sustainability with both the stakeholder and shareholder drive the business leadership in the right direction.

In this context CSR has now become one of the key aspects to evaluate an organization's current position and prospect for future growth. When the investor of today has seen large organizations like ‘Lehman brothers’ and many others go bust, the focus has once again come back to sustainable investment. The key expectation from the stake holder community is to know - if the organization can see the big picture and can unlock value not only within but even beyond itself.

1.2. The Strategic shift

While profit and growth remained the greatest concern of investors in the past, the current global events bring back the question and importance given to sustainability. This brings CSR to the strategic realm of running a business and therefore having a clear and well defined plan will be critical. In the past CSR has largely been viewed as a fashionable addendum, almost a

PR chapter in the annual report of organizations and is often considered a charitable expression or action. The future however will see CSR as one of the key strategic elements of the corporate plan and this will see the painful yet constant re-definition of the scope and limits of CSR. One thing is however certain that many analytical tools and means will evolve to analyze and evaluate the CSR based effectiveness of organizations. On the regulatory front however the view some progress to create frameworks that pressure organizations to take the larger and holistic view. In the draft report titled “Financial accounting standards Environmental liabilities, intangible assets and Climate change risk” prepared for the ‘Office of economics and Innovation’, Washington in April 2008 – there is a strong case to formalize the disclosure of environmental liabilities and climate risk. The larger question still will be - if these recommendations will be implemented and passed as a bill under the larger Environmental Planning and Assessment (EPA 1979) act of the US. The current oil disaster in the Gulf of Mexico will undoubtedly create a new climate among American legislators, and the fact that British Petroleum’s strategy has pushed the company to hazardous attitude towards risk, will have a strong impact.

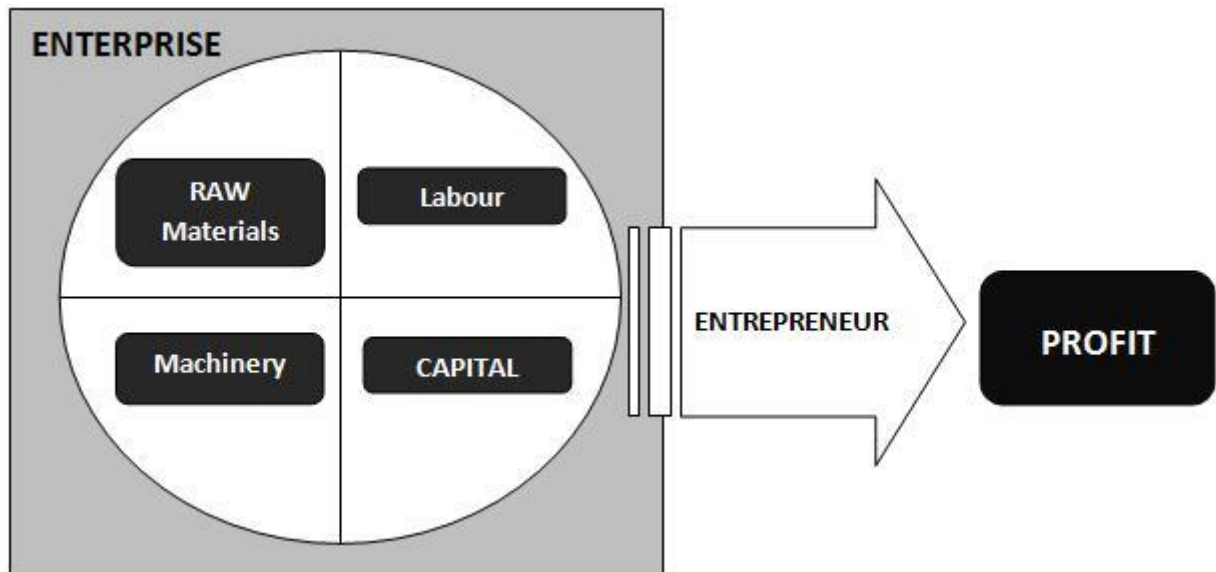
Over the last few decades, heightened natural disaster activity has impacted virtually all nations. According to Swiss Re’s sigma study, “Natural catastrophes and man-made disasters in 2008 which was one of the worst years for natural and man-made catastrophes creating a total economic loss of USD 269 billion and claiming more than 240,000 lives” if we were to compare this just USD 20 billion insured losses in the year 1990. It is therefore critical that business assess and audit the impact that they are creating on the eco-system as a whole not just not measure profitability, and a comprehensive framework for CSR is in place within each organization.

However the objective of this article is to offer a philosophy which is rooted in the very definition of an enterprise and therefore serves as a platform or starting point so that the strategic view on CSR is clear and not lost in complex analytical matrices as they evolve.

1.3 The Philosophy and Framework for the strategic view on CSR

1.3.1 The traditional approach

In this approach if we were to simplify the concept of enterprise then we could consider the 4 key factors of production – Raw materials, labour, capital and machinery that form the fundamental elements that help the entrepreneur run the enterprise and create a profit. In the current economic philosophy the entrepreneur is evaluated and rewarded based on his ability to create a profit. This is illustrated in the figure below:



The whole enterprise in this model is equated to an investment and a ‘cost’ is attached to every aspect of the enterprise, the objective then of the entrepreneur is to create revenues greater than the cost and thereby create a profit. In the classical Smithsonian logic, the market will reward or punish the company for correct or false cost/benefit calculation. Now, there are other forces (government, media, political parties, NGOs) as well, who determine whether and to what extent a company is contributing to society (general good).

1.3.2 The new inclusive approach

The new approach gives each factor of production the importance and looks at every factor as a strategic contributor to the growth and profitability of the enterprise. This then creates a new paradigm in the way businesses operate and grow. The famous Australian businesswoman - Janet Holmes à Court, recently said “We have to shift our emphasis from economic efficiency and materialism towards a sustainable quality of life and to healing of our society, of our people and our ecological systems”

1.3.2.1 Raw materials

The entrepreneur has to have a vision of how the enterprise will contribute to the replenishment or optimal use of the natural resources that the enterprise is using. This is extremely relevant as we know that natural resources are depleting at an alarming rate and therefore the only way to ensure sustainability is that every enterprise based on its size and capacity plans to minimize the net effect of what it takes away from the global eco-system. Some examples of this could be:

- Companies that use timber as the main input in their production contribute by supporting forestation efforts;
- Organizations that are highly energy reliant use – renewable sources of energy and increase this percentage year on year;
- Those that use natural minerals can invest in creating ways to use less of the natural resources and move to supplementary elements through innovation and technology;
- Companies that sell bottled water can be part of initiatives that can help replenish the ground water level.

1.3.2.2 Plant and Machinery

The key questions here will be – can the production plants and machines be carbon neutral? Can the throughput be increased at the same level of power consumption? What are the by-products of the process of production; can there be ways to reduce the impact of these on the environment?

To create solutions that makes plant and machinery eco-friendly and to see year on year a decrease in wastage and resource utilization - through an increase in efficiency, productivity and best practices implementation.

1.3.2.2 Labour

To look at employees as a key stakeholders in the organization who could incrementally add value with the time that they spend in the organization. Investing, not only in employee welfare initiatives but also to create an environment and culture so that they can grow in many ways (not just as labour force but also as human capital) within the organization. This will be one of the key success factors of the future - as organizations compete in the knowledge economy – where the drivers of sustainability and growth will be creativity and innovation. The new approach seeks to view the organization as a comprehensive system and to achieve the goal of sustainability in every aspect that contributes to the formation of the enterprise. Any effort to benchmark CSR of organizations has to therefore look at this complete picture and measure organizational effectiveness – with a view to evaluate how the organization uses with responsibility every element that contributes to its success. Therefore there may be different benchmarks and methods of evaluation for different types of industries and so there can't be a one size fits all solution.

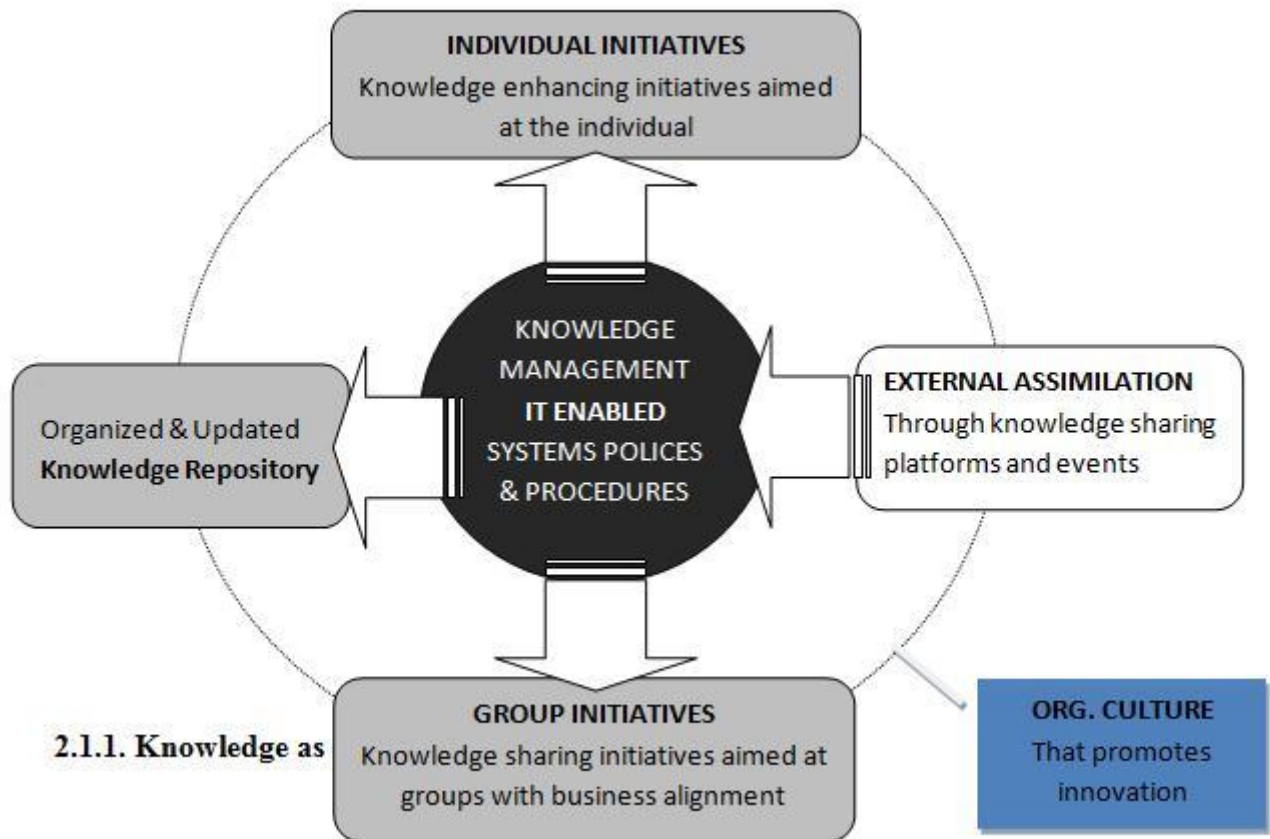
The new approach calls for a comprehensive view to see if the enterprise take on the traditional and exploitative view towards resources or will use the sustainable and collaborative view to every aspect that contributes to its success and growth.

2. Knowledge based Competitiveness

The foundation for progress in economies and societies has always been knowledge and in today's global economy it has become one of the critical factors for competitiveness, growth and sustainability. The “knowledge revolution” as we know it today has been facilitated by ease of access and use of knowledge and information. It will be right to say that the future will belong to those organizations/regions/nations that fully leverage knowledge based competitiveness. Even the American president Bill Clinton has said “in today's knowledge-based economy, what you earn depends on what you learn”.

2.1 Organizational framework to facilitate benchmarking of knowledge based competitiveness

Organizations that have the desire to leverage the full potential of knowledge based competitiveness should have a comprehensive approach to derive the full benefits of effective knowledge management. The framework around which this can be achieved is represented below:



2.1.1. Knowledge as an asset

Knowledge is clearly considered an asset in today's global enterprise therefore, like every asset it has to be well managed to deliver greater benefits and results. Charles Darwin's insight "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change". The ability to respond to change effectively will remain in unlocking the knowledge potential with the right Knowledge management skills. The key for organizational success in the future will therefore be the effectiveness and efficiency with which knowledge is managed. Knowledge Management (KM) will therefore be a strategic function and will be one of the most valued elements within the organization.

As organizations globalize and establish a global footprint – Knowledge management will have to rest on the IT backbone, so that access the KM system is available anytime and everywhere. Therefore the IT strategy of organizations of the future will have to see a clear and strategic integration with the KM strategy of the organization.

2.1.2. The Layers for Knowledge intervention

To tap into the true potential of residual knowledge within the organization, it is best to view the approach to KM in different layers and seek to make each layer more effective with time. At a basic level these could be defined as the – Individual, group, repository and external.

2.1.2.1 The Individual

While the employees of an organization are hired based on the competencies they already have, organizations in the knowledge economy require that their employees are constantly updating and enhancing their level of knowledge. The individual thereby becomes one of the important layers for knowledge based competitiveness. The KM strategy should therefore have clear rewards and recognition methods for individuals to enhance their level of knowledge based competence. There should also be convenient avenues for employees to improve their level of knowledge like – webinars, podcasts and training programs.

2.1.2.2 Group Initiatives

When experts from specific areas of specialization are categorized as different groups and there are constant knowledge-sharing formal and informal events within the organization, this could facilitate the leveraging of knowledge-based competitiveness. If this is done with a view to foster and reward an intra-organization partnership approach to resolve challenges for the client or customer the organization will create with greater frequency innovative solutions.

The real challenge is to draw up the guidelines and policies for such collaborative approach to knowledge sharing and problem-solving. To be effective in this aspect of KM requires the organization to take a long term view and invest time, effort and resources to establish the strategic groups with the right inter-connections, evaluation methods and reward systems.

2.1.2.3 The Knowledge Repository

The effectiveness of a KM repository system can be evaluated based on the time taken to find the relevant knowledge from the entire repository. There has to be clear categorization and classification of the information that goes into the repository system so that it is easy to retrieve information. The knowledge worker of tomorrow has to spend more time on developing creative solutions to the problem at hand rather than searching through loads of data. Globalization has forced the cycle time for competitive innovation to reduce drastically - now to become the fastest organizations one can expect competition from literally anywhere.

2.1.2.3 External Assimilation

The external eco-system is creating information and knowledge at an incredible pace, it is therefore important that the organizations who want to stay ahead of competition can assimilate this knowledge. The key challenge will be to have a system that can again separate the relevant knowledge from the rest and then categorize and deposit the same in the repository. This then will ensure that the KM system is update and current, which will make the reliability of the system high and therefore the employees, can increase their efficiency and productivity.

2.2 The culture of innovation

Knowledge in itself will be under-utilized unless it is deployed to create innovative solutions to improve the quality of life in society. The challenge therefore that the organizations of the future will face is not only to create a knowledge based and centric organization but to instill in the organization a culture of innovation and creativity. Recognizing this very fact Bill gates once admitted that ... “We are always saying to ourselves.. we have to innovate. We got to come up with that breakthrough. In fact, the way software works.. so long as you are using your existing software.. you don't pay us anything at all. So we're only paid for breakthroughs.

One of the key questions that need to be addressed in this regard is – How the organization views failure? To innovate and be creative a tolerable level of risk taking had to be encouraged within the organization. This will then require that there are special rules, policies and fast-track evaluation and reward methods to encourage creative projects and initiatives within the organization.

From the financial point of view – analysts will measure the degree of innovativeness and competitiveness of organizations based on the percentage of revenue generated from new products/services. To foster a culture of creativity and innovation is longer a desirable element but an essential aspect for creating stakeholder confidence in the success and growth prospect of an organization.

3. Benchmarking comprehensive corporate excellence

Achieving excellence in times of intense global competition, under pressure of CSR criteria and demands for sustainability, the need for constant innovation, constructive and strategic HR policy, as well as respecting gender balance in management board and at senior management positions, is certainly anything but an easy task. However in these conditions, elements which were earlier considered company cost, is gradually becoming an element of comparative advantage.

Some companies are already realizing this and actually benefit from claims such as “bio”, fair trade”, and similar. General customer awareness is gradually developing in the direction of rewarding socially responsible companies by accepting higher prices for products and services performed and offered in line with principles of CSR. In other words, besides the “stick” of authorities for not complying with the ever stricter rules, the market is providing “the carrot” for responsible and creative companies.

This is why it is even more important for companies to benchmark their performance not only in classical domains, such as value of their shares, rate of return on capital, but also to observe how company manages to progress in broader areas of sustainability and corporate social responsibility. These areas could be covered through following, and other domains:

1. **Quality of human capital and RTD output:** composition of their staff in terms of education and training, links to knowledge networks, including those in diaspora, RTD investment, cooperation with external research institutions, intensity of development and the speed of applying new technologies, and patents registered and approved.
2. **Management style** Quality of management functions to provide leadership, define the mission and operational objectives, distribute authority and responsibility, to motivate management and staff.
3. **Financial stability and position at the international financial markets** Availability of credit and applicable conditions, level of exposure to financial credits and long term loans, as well as their structure; structure and value of company assets; interests of foreign investors for the company.
4. **Market position, brands and licencing** Market shares and their trends, position of key brands and important licencies (both active and passive).
5. **Responsible resource management** Sustainable management of all resources, including energy, and responsible attitude towards the environment.
6. **Gender balance and equality issues:** Conditions allowing women to participate in company management on equal footing with male managers. Share of women in the

Board, as well as in all management positions. Full gender balance is not just politically correct, but has been proven advantageous for quality of decision making.

It will be useful to develop a system of mostly quantifiable indicators by which companies could monitor their own progress, as well as their performance vis-à-vis other companies in their branch, compared to their regional or national average, etc. The authors of the article are committed to prepare such a methodology.

4. Conclusion

As we enter the knowledge era and the forces of Globalization get stronger, the world of tomorrow will see an extreme degree of competition and pursuit of excellence. Those organizations that have the DNA to be socially responsible and leverage fully knowledge based competitiveness through a culture of innovation will succeed in the long run. While investors, regulators and society in the new age increase their level of scrutiny and oversight on organizations only the best can break the threshold and reach the category of stellar organizations. The society of the future will put an immense level of stress on the corporate leaders to constantly search for value addition and innovation. Organizations will have to be nimble, smart and most importantly socially responsible to ensure success and growth. A system of comprehensive excellence in various domains of sustainability and corporate social responsibility would certainly help them in these pursuits.

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O avtorjih

Dr. Boris Cizelj je redni profesor za področje mednarodnih odnosov in dekan Doba Fakultete. Svoje bogate raziskovalne in lobistične izkušnje prenaša na kolege iz gospodarstva, saj poleg svojega vodenja Slovenskega gospodarskega in raziskovalnega združenja v Bruslju sprejema delegacije slovenskih podjetij, organizira njihovo izobraževanje in posreduje med njimi in organi Evropske unije.

Kot gostujoči profesor od leta 2001 sodeluje z Evropskim centrom za mir in razvoj v Beogradu, poleg tega je v svoji karieri predaval na številnih univerzah in institucijah. Svoje bogate izkušnje in znanje s področja mednarodnih ekonomskih odnosov prenaša na mlajše generacije v okviru predmetov z evropskimi vsebinami na številnih univerzah po Evropi. V Bruslju predseduje več evropskim mrežam (NIROC od 2000, EREF in RIBN od 2005) ter je podpredsednik Upravnega odbora Evropskega instituta za industrijski leadership. E-naslov: boris.cizelj@siol.net

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