

The ORSE Newsletter

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The ORSE Newsletter

Editorial



What is the relation between economic performance and corporate social responsibility? The number of academic studies of the question is insufficient, but rising. Although no clear answer has emerged as yet, one thing is clear: companies which are concerned about their impact on society and the environment are at least as healthy as the rest. That is good news. It shows why SRI has finally taken off, even if timidly.

The ORSE study, directed by Carlos Prado, provides a clearer vision of economic performance. It highlights the range of advantages available to

companies which care about their environmental and societal impact. They thereby acquire a real market advantage by avoiding risks, developing new products, reducing costs and strengthening their image.

Social responsibility is thus both a strategic tool, a marketing component and an opening towards the universe of responsible investment.

No wonder that more and more companies are including sustainable development criteria and corporate social responsibility in their aims. They are recognising that their behaviour towards stakeholders (investors, consumers, NGOs, trade unions, etc.) are a source of value creation. The effects of

these new engagements, which will be fully realised in the long term, are an antidote for the "short-termism" of recent years. That approach, which finished in a series of crises, has profoundly modified social expectations concerning companies.

Conscious of the long term effects of their behaviour, socially responsible companies are also in tune with the concerns of their stakeholders. Corporate sustainable development must be based on a strategy combining performance and responsibility.

Pierre Bollon, Vice President of ORSE, Director-General of the *Association française de la gestion financière*.

Relocation and Transparency

ANALYSIS

The Wall Street Journal recently revealed that IBM will soon transfer more than 4000 programming jobs from the United States to India, China and Latin America. The news came as no surprise. In 2002, the amount of outsourcing contracts signed by American computer services companies rose to US\$28 billion, up by 15%. By end 2004, one in every ten jobs in the US information technology sector should be relocated.

This is a global trend. Great Britain is already hit by massive job loss. The German company, Siemens, announced last week that it intends to transfer more than 10,000 programming jobs to Eastern Europe. A

small number of French companies have already taken the path to India, whereas many more have stayed closer to home, including Romania, Spain and Morocco. The profession of programmer may well be headed for extinction in developed countries.

In the United States, where the number of relocated jobs may be as high as 400,000, pressure groups such as "Techs Unite", Washtech and alliance@ibm, have launched a wide-ranging campaign that has even led them to participate in other world forums. Their anger has been heard. In New Jersey, the law-makers may soon restrict overseas subcontracting by companies

working for the State. Just next to New York, unemployment figures for programmers has topped the all-profession national average! The issue is becoming a central theme of the 2004 Presidential campaign. The European Union is also planning to study the predicted end of "white collar workers" in the West. The experts argue, however, that the trend is unstoppable, because it is intimately related to globalisation. They suggest that the best solution is to prepare for the inevitable.

Events: The World Summit on the Information Society

Organised by the International Telecommunication Union, the World Summit on the Information Society (WSIS) was held in Geneva from 10 to 12 December. 11 thousand delegates from from 175 countries, 663 NGOs, 111 private companies and 72 international organisations gathered to discuss the means of governing Internet and spreading its benefits.

Companies criticised

The WSIS brought together State officials and a whole constellation of companies and organisations. Some see this as the paradigm for a new form of world governance. The companies declared that they were particularly satisfied with their involvement in the Summit's "development" section. The American computer company, Cisco Systems, announced a joint venture with the World Health Organisation to promote health in schools via Internet, a program supported by the European Union.

Internet Management

The Declaration of Principles adopted at the summit affirms that "[t]he international management of the Internet should be multilateral, transparent and democratic, with the full involvement of governments, the private sector, civil society and international organizations". This question caused bitter divisions among the participating countries. The United States argues that the web, which is currently managed by American companies, should remain in the hands of private companies. China and Brazil insisted on control being transferred to the UN. France argued for a regulatory code laid down by the UN, covering *inter alia*, protection of intellectual property and consumer rights. A UN working group, made up of representatives from private companies, civil society, as well as rich and poor state governments, has until June 2004 to present its recommendations.

Civil Society and opposition

Civil society was mainly represented by organisations defending Internet user rights. They chose to express themselves on the fringe of the final declaration and the UN general plan of action. The NGO alternative Declaration regretted that information and knowledge be converted into private merchandise which may be controlled, bought and sold like primary materials instead of being the foundation of social organisation and development.

ORSE News

Members may contact Catherine Delettang [+33(0)1 5679 3500] to obtain the Minutes of working group meetings, which are available one month after each meeting (in French), as well as internal publications and official documents.

Welcome to new Members

ORSE welcomed two new members this month, with active status:

- PSA Peugeot Citroën
- Essilor

An ongoing study

An ORSE study will be made of the **situation of Women in the Work Market**. The study, commissioned by the vice-minister for parity (*ministre délégué à la parité*), will be published on 8 March 2004.

Sustainable development is a selling point

The French advertising verification bureau (*Bureau de vérification de la publicité*) has just issued a proposed conduct code for all advertising using a sustainable development pitch. This joins existing codes for ecological advertising and baby foods.

Affirmative Action, French Style?

On 6 November, the Paris Court of Appeal handed down a decision in favour of a Paris *Grande école*, which has been using admission criteria which recall American affirmative action. The college, *Sciences Po*, which uses a separate entry exam for students from poor backgrounds, seemed thus to have opened the way towards positive discrimination in France. Yet the clear response of French President, Jacques Chirac, and a Minister, Nicolas Sarkozy, stopped any debate on the question within the current government. According to the *Journal du Dimanche*, 66% of the French are "quite in favour" of measures to promote the reinsertion of specific target groups. The question has clearly become one of public debate.

Cartoon of the Month



Building the sustainable company

In his latest book, Chris Laszlo, founder of Sustainable Value Partners, encourages companies to integrate their profit and sustainable development goals. This consultant argues that sustainability is a management challenge which requires an overall revision in company management techniques. It is an essential question, he assures us, because those companies which meet the challenge will be tomorrow's front-line.

ORSE Newsletter:

Could you describe briefly the central concept of your book: sustainable value?

Chris Laszlo:

Basically, it is value creation which benefits both shareholders and stakeholders. When shareholder profit is at the expense of value destruction for stakeholders, the company's activities involve hidden risks, which are capable of coming back to haunt it later. On the other hand, any company that doesn't make profits is headed for danger, which some militants don't seem to understand, as their propositions would lead directly to bankruptcy.

You propose an eight point plan for companies that want to become "sustainable". What are the fundamental changes needed to achieve such a transformation?

I believe that changing mentalities, widening the concept of value to include stakeholders, is the greatest challenge. There is strong opposition to integration, at the planning stage, of the impact on economic and social stakeholders. Companies currently have a piecemeal approach to dealing with the irruption of stakeholders in strategy. For example, they adopt *ad hoc* reactions to campaigns against their products or new waste regulations. Yet companies really must integrate such impacts of stakeholders, whether positive or negative, in their business plans.

The other major challenge for companies is measuring,

or quantifying the economic value for stakeholders. They must find the means to manage this value with the same rigour and seriousness as their management of shareholder value.

Isn't that where the theory falls to the ground? How do you measure quality of life, happiness or health?

Of course, it is a complex question, but I believe that it is perfectly feasible. Fifteen years ago they said the same thing about quality management. I consider that quality management systems like Six Sigma can be enlarged to include a

"For companies, changing mentalities, widening the concept of value to include stakeholders, is the greatest challenge."

measure of corporate social responsibility. OECD directives, the UN Global Compact and, in particular, the Global Reporting Initiative (GRI) are all transposable to management. Moreover, ratings agencies have developed a number of promising, inventive evaluation methods which can also be used to inform managers.

You claim that some companies are the right size for such changes. Which ones and why?

I describe those companies that are particularly well adapted to sustainable ma-

agement: they should have a turnover of between 100 million and 2 to 5 billion, but where the founder continues to play an important managerial role and the shares are held by a small circle. In my book I give the examples of Patagonia, a sportswear maker, and Bulmers, the English cider producers, both of which fulfil all of these conditions. However, when the shareholding is fragmented, or the turnover very high, the stock exchange exerts too much pressure in favour of the shareholders, which is hard to get around. This seems to be changing, however. Stock exchanges and capital markets are taking more and more account of the impact of their evaluations on stakeholders.

You speak of a major change in mentalities, both in the boardroom and on the market. How can one convince businessmen to undergo such a questioning of their methods?

I don't believe that there is any contradiction between ethics and profit. Social responsibility can be reformulated in purely entrepreneurial terms: it is a source of competitive advantage. A more global vision of the company's interests leads to product differentiation, cost reduction, better market entry and even to changes in the ground rules. The leading companies in economic and social terms all have an ethic, which gives them an economic return.

INTERVIEW

SRI and CSR in brief

A European rating agency

Jochen Sanio, President of the German financial regulator, BaFin, wants to "discuss the idea" of a European rating agency. The Enron and WorldCom scandals have raised questions about the practices of American organisations. This has been exacerbated in Germany by the recent bad blood between many German companies and Standard & Poors. For the moment, the future of financial regulation is being decided entirely in America, where all the agencies are regulated by the Securities and Exchange Commission.

CSR, the public face of a hidden war?

A British report has accused companies of hiding behind their socially responsible action and calls on governments to legislate in order to protect the environment. According to the editor of The Observer and a Green Alliance researcher, many companies which advertise their environmental engagement are also pushing professional associations to fight against the introduction of any public policy in the area. They claim that the voluntary approach preferred by companies is ineffective. www.isr.info.org

Country index for CSR

The British NGO, Accountability, has announced the publication of an index of country practise concerning competitiveness and CSR. The way in which they take account of social and environmental issues has a direct impact on national economic competitiveness, as well as on growth potential, according to the study. Indeed, countries which encourage CSR have less problems with corruption, health and security. www.accountability.org.uk

Seen in the Press

Danone's difficult restructuring

Despite being one of the better placed companies in the CSR ratings for French companies, Danone is having trouble getting its package accepted by 460 employees who are to be dismissed in Poland. The plan, described as "foolproof" by Philippe Rusin, a CNRS researcher, "goes far beyond the requirements of Polish law", according to the *Nouvel Economist*. Why are the employees so unhappy then? The President of First & 42nd told the paper that "Danone is the victim of stigmatisation of the system".

Thus, mistrust of major companies is an added lever for employees in negotiations. Faced with a product boycott, Danone will probably back off, because "the decision to close the factory has become too risky in terms of image".

In France, the social treatment of restructuring is being raised in negotiations between management and unions. Irritated by the number of cases going before the courts due to disagreement over packages, the MEDEF is actively seeking to reduce access to the courts, "because, in the end, on both sides, the consequences of these stand-offs can be destructive", according to *Le Monde*. "Often very long, these combats create a terrible climate within the company and affect the morale of those employees who escaped being dismissed".

Luckily, other forms of dialogue exist, as the paper pointed out. "In order to avoid going so far, some companies choose to defuse social bombs by adopting method agreements. Officialized by a law promul-

gated on 3 January 2003, these agreements are supposed to preserve social dialog and provide a framework for negotiating economic dismissals and packages".

But some clever companies avoid the problem of dismissal packages entirely, reports *La Tribune*. Indeed, the number of receiverships organised as part of restructuring are apparently becoming more and more frequent. One lawyer has admitted recommending this process, which is "simpler, more effective and definitive". The journalist recalls that "it leads to a significantly lower level of aid available to the employees". Not very socially responsible, all that!



PRESS REVIEW

Economic Performance and CSR

On 18 December, ORSE presented the conclusions of its working group on the relation between a company's societal performance and its economic performance. Following is a summary.

DOCUMENTATION

There is a growing number of enquiries, as well as theoretical and empirical academic studies of the relation between a company's societal performance and its financial performance. Moreover, companies are actively seeking to incorporate the concept of social responsibility. They are increasingly applying sustainable development and social responsibility criteria, despite the fact that the academic studies of this relation are far from conclusive.

There are three main interests for companies to engage in sustainable development.

1. Corporate social responsibility as a strategic tool

► Cost reduction

A company which adopts high social and environmental standards is more able to implement cost reduction policies (concept of "eco-efficiency"). Indeed, under-qualification of employees, pollution and waste are costs even under classic economic criteria.

► Anticipating limits and risk prevention

A company which dialogs with stakeholders better identifies potential risks and can thus prepare itself to deal with the risk of industrial accidents and social crises. In recent years, new risks have been identified, such as the consequences of greenhouse gases. These new types of incerti-

tude require a new cost-benefit analysis of incertitude, less favourable to risk taking (due to the potentially extreme consequences). Some players already take account of this evolution, the most recent example being a Canadian bank in Romania.

2. Corporate social responsibility as a marketing tool

► Reputation

An organisation's reputation depends on both its reality (its overall activities) and the perception of that reality by stakeholders. By being attentive to the latter's non-economic concerns, a company shows its ability to listen and react. This may allow it to influence the behaviour of stakeholders, especially consumers (increased product fidelity) and personnel (higher motivation). Moreover, confidence in management also seems primordial when evaluating a company.

► Market advantage

Companies know that most of their stakeholders are interested in "ethics". Socially responsible behaviour allows them to stand out amongst their competitors by adapting their internal and external communication as well as creating niche markets. The problem is to quantify the precise short and long term impact of social action on each group of stakeholders. Such studies are difficult to organise because they are based on qualitative data.

Nevertheless, our workshop has discerned that some companies are beginning to make quantitative measurements of the consequences of their societal policy.

3. Corporate social responsibility facilitates the access of companies to the "ethical" investor reference universe

The financial sector has also sought to determine whether there is a relation between the social and financial performance of companies. In recent years, socially responsible funds have been set up. In France, the "socially responsible investment" offer, in the form of French OPC-VM (common investment funds), was 1.3 billion euros in 2002, up 30% from the 920 million of 2001.

The inclusion of non-financial elements in financial communication is a delicate affair, given that the market bases most of its analysis on quantitative data, especially company financial statements and accounts. The difficulty lies in incorporating sustainable development elements at their correct value, by assigning a reasonably objective value to non-quantifiable quality assessments. There is no statistical evidence of better performance by "ethical funds" as compared with classical funds.