

Strong outlook for corporate social responsibility

By Dr Leeora Black, Managing Director, ACCSR

- 2015 *State of CSR in Australia and New Zealand Annual Review* is the largest ongoing longitudinal research into CSR in Australia and New Zealand.
- CSR innovation is increasing in prominence.
- CSR innovators most likely to integrate CSR into top management.

Senior managers of corporate social responsibility (CSR) report strong confidence in their organisation's ability to create value from their CSR practices, according to the 2015 *State of CSR in Australia and New Zealand Annual Review*¹, published by the Australian Centre for Corporate Social Responsibility (ACCSR).

This year over 1,000 respondents participated in the research — the highest number in its history. This research is the largest ongoing longitudinal research into CSR in Australia and New Zealand and one of the biggest in the world.

This year's review shows that innovative corporate social responsibility practises are helping more companies than ever before to access new markets.

This contrasts strongly with our results last year, when CSR workers were quite gloomy about the outlook for CSR in the aftermath of the Australian federal election, and the government's roll-back of carbon pricing. The industry appears to have moved its focus to a broader range of CSR issues and is reporting good progress, especially in innovation.

CSR drives innovation

We first analysed the effect of CSR on innovation in 2012. CSR is a much more important driver of innovation now than it was three years ago. This year, respondents indicated again that CSR innovation is more prominent in products and processes (69 per cent) than in market development (66 per cent). However, the overall improvement since 2012 is much greater in using CSR innovation for market development (from 51 per cent to 66 per cent). See Figure 1. This is being driven primarily by the telecommunications, finance, and insurance industries.

Redefining markets and products are one of the pillars of the shared value concept, developed by Michael Porter and Mark Kramer to link competitive advantage to solutions for social problems.² Our results suggest that the shared value concept is very important in explaining the development of CSR in Australia.

LAG is a good example of innovation in CSR. LAG is the first company in Australia to establish a shared value team, which is located within the strategy function. This ensures that community and sustainability programs sit alongside product innovation and are closely linked to organisational strategy and business outcomes.

LAG's shared value strategy aims to develop new insurance products and open up new markets. Primary opportunities are access and affordability solutions and offering niche products for low socio-economic status groups.

Stages of CSR development

This year we examined the stages of CSR development in organisations and the role of the chief sustainability officer (CSO), broadly defined as the person with the most senior accountability for CSR and sustainability.

The review classified organisations into three stages of CSR maturity — Initiators, Integrators, and Innovators. There are striking differences between organisations' ability to use CSR to drive innovation, depending on their level of CSR maturity.

Most CSOs were more optimistic about their organisation's CSR progress than those who work outside a sustainability role. CSOs classified their own organisations as 'innovators' in much

higher numbers than those outside a sustainability role.

While such a high proportion of organisations are unlikely to be objectively classified as being at the innovator stage of their CSR journey, it is certainly indicative of a more positive and aspirational outlook than last year's survey.

The role of the CSO

We asked CSOs about the key skills they need for success in their role. CSOs rated the ability to communicate effectively, influence, and motivate others as key skills. The most important skill is stakeholder engagement. Other skills include articulating to a diverse network of

internal and external stakeholders the complex concepts and value of CSR/sustainability, and motivating them to change their behaviours. Skills related to leadership and strategic focus, the ability to develop and execute CSR programs internally, and create external partnerships are also important.

The CSO:

- is more likely to work in an organisation in the innovator stage
- reports to someone in the senior leadership team (38 per cent) or to the chief executive officer (28 per cent), indicating a higher level of access to decision-makers in the organisation
- works in strategy (30 per cent) or corporate affairs (23 per cent)
- is more likely to address global sustainability issues in the organisation's strategy.

Figure 1: Average CSR innovation scores, 2012, and 2015



CSR governance

There are also striking differences in the governance of CSR as organisations mature in their approach to CSR. Innovators are more likely to structure CSR as part of a strategy unit (see Figure 2). Ninety-two per cent of innovators say CSR is integrated into the top management level of

Figure 2: CSR governance by stages of organisational development



their organisation, compared to only 63 per cent of initiators. The next biggest difference between initiators and innovators is in having CSR champions who have decision-making authority, where the more advanced organisations are 30 per cent more likely to do this.

However, only two-thirds of innovators consider environmental, social and governance (ESG) issues as part of how their companies are run, indicating that even among the best organisations, there is room for improvement.

Stakeholder engagement

Building strong relationships with stakeholders remains at the top of the list of the most pressing issues for CSR. This was the case for organisations across all stages of CSR development.

Building stronger relationships with key stakeholders remains the top priority for both Australian and New Zealand businesses. Strong capabilities in stakeholder engagement underpin an organisation's ability to address its social impacts and integrate CSR practices into an organisation. It is therefore an appropriate and effective focus for organisations as they seek to drive further value from CSR.

The importance of engaging stakeholders also revealed itself in the rating of individual CSR management capabilities across the organisations surveyed. While the research shows the CSR management capabilities vary across industries, they vary most markedly between organisations at different stages of their CSR maturity and development. This shows these capabilities really are an important indicator of an organisation's ability to progress through these CSR milestones.

The survey also found that New Zealand is keeping pace with Australia on CSR. However, New Zealand's CSR agenda places less emphasis on global sustainability issues and focuses more strongly on reducing environmental impacts.

Figure 3: The year ahead — Key priorities for CSR managers in Australia and New Zealand



For instance, New Zealand respondents see waste reduction initiatives a priority for their business at 71 per cent, compared to only 61 per cent in Australia. Reducing or eliminating negative environmental effects of their business is a priority for New Zealand businesses at 74 per cent — well ahead of Australia where it is only 67 per cent in terms of priority. Figure 3 shows the comparison of CSR priorities for New Zealand and Australia.

CSR Top 10

The annual review also revealed this year's CSR Top 10 — the organisations that scored greater than 75 per cent across the CSR management capabilities, as ranked by their employees. They are Arup*, BHP Billiton*, Disney, IAG, NAB*, PwC*, Sydney Water, Telstra, Teachers Mutual Bank and Westpac*. The asterisked organisations made the list for at least the second year running. ▀

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Notes

- 1 The 2015 *State of CSR in Australia and New Zealand Annual Review* was prepared in conjunction with La Trobe Business School, New Zealand Sustainable Business Council, Envirostate, Wright Communications and WME. It is available for download at: <http://accsr.com.au/csr-services/latest-research/>
- 2 Porter M E and Kramer M R, 2011, 'Creating Shared Value', *Harvard Business Review* 89, Nos 1–2 (January–February).

Response rate

- Record number of responses: 1,030
- Australia: 721
- New Zealand: 159 (a significant increase from 27 in 2014).

Definitions

Initiators: Focus on: managing mandatory regulatory impacts; environmental compliance; legal requirements and external reporting.

Integrators: Focus on: underpinning strong internal structures and understanding for CSR.

Innovators: Focus on: using CSR as a competitive advantage and on global sustainability issues.

Tips for readers

Tips for building stakeholder engagement capabilities.

- Demonstrate respect for stakeholder perspectives; encourage others to give stakeholder needs careful consideration in business decision-making.
- Encourage people at different levels of the organisation to build strong relationships with external stakeholders.
- Treat stakeholders as equal partners in discussions about issues of mutual concern.
- Ensure stakeholders have a real opportunity to decide what is on the agenda for discussion.
- Discuss and agree with stakeholders the best way of establishing a dialogue — do not assume that your ideas about the best way to have discussions are shared by stakeholders.
- Dialogue and persuasion are mutually exclusive communications methods. Real dialogue helps create shared understanding — it is not an effort to persuade others to agree with you.