

Corporate Social Responsibility: Is everything what counts countable?

MEDIA TENOR CSR Index: Measuring the efficiency of Corporate Responsibility

Everything that can be counted does
not necessarily count; everything
that counts cannot necessarily be
counted.

Albert Einstein

In the past few years, the principle of Corporate Social Responsibility (CSR) has been raising great interest in business and politics. Companies increasingly commit to environmental and social measures on a voluntary basis. The discussion around CSR is not new. Yet the debate of whether or not CSR activities are working, and how efficiently they can be measured, is relatively recent. So far not much progress has been made. The instrument of media analysis could be a starting-point – and the MEDIA TENOR CSR Index a measuring stick.

The principle is not new: Corporate Social Responsibility had been practiced in the early modern era. The most famous example is the Fuggerei, a housing estate that the trading family Fugger donated to the poor of the city of Augsburg in 1521.

Throughout the following centuries, voluntary social services provided by German companies were of a comparable scope. They can be summarized under the term of “philanthropy”: The motivation was mostly a sense of moral obligation rather than a direct link to daily business activities.

This changed in the age of industrialization: Examples are the introduction of a corporate pension fund by Siemens 1872 and that of the 8-hour-two-shift-system by Bosch in 1906.

Only in the nineteen-twenties did an academic debate about the role of companies in society develop. It started in the US and was directly related to the Great Depression. The US law was posing the question of whether or not managers were responsible only to the company owners or also to society at large.

In the 1970s the discussion became more dynamic and mobilized the opponents of corporate responsibility beyond business: Milton Friedman, a Nobel Prize winning economist, proclaimed in 1970 that maximizing profits was the one and only social responsibility of a company.

But the evolution of the market economy provoked a steadily increasing public interest in the companies’ commitment to common welfare: In the 80s, hostile takeovers were becoming more frequent, investment funds won significant market power, and changes in business structures were a subject of much public concern, resulting in the demand for more social responsibility by companies.

CSR: a cloudy term

While public interest in the issue was on the rise, the concept of CSR became more and more fuzzy. At

this point, a wide range of measures is ascribed to the term. The most important areas of activity are work/employment and education/sciences. Companies are faced with the challenge of attracting and keeping qualified employees. They set up internal incentives, such as opportunities for life-long learning, good internal information policies, possibilities for work-life balance, equal opportunities, or the development of employee profit and capital sharing schemes.

Measures in the area of education and sciences range from donating learning kits to daycare centers to financing chairs at universities. Some companies focus their activities in promoting school and professional education, in order to be able to recruit qualified employees in their area. Others contribute locally to facilitating civil society work, for example by giving awards for socially responsible commitment or creating incentives for their employees to volunteer for social causes.

Further areas of activity are the environment as well as consumers and development aid. German small and medium-sized enterprises (SMEs), in particular, often support local social organizations, sports, infrastructure or educational institutions.

SMEs strongly committed

Small and medium-sized growth enterprises, defined as companies whose turnover increased by at least 50% in 2006, showed above-average activities in all areas of society: 54% contributed to the common welfare to a larger extent, according to the “Ernst & Young SME Barometer 2007” (chart 1).



Of the 100 fastest growing firms, which made it into the final round of the business award “Entrepreneur of the Year”, 94% supported educational or charitable institutions, environmental projects or sports.

In another field, too, efforts have been increased in the past years: According to a study by the Federal Association of German Foundations and the Vodafone Foundation, Germany is currently experiencing a boom in foundations that is mainly driven by companies. Almost 40% of today’s 1,500 foundations have been founded in the past ten years.

Aside from foundations drawing on the entrepreneur’s private means, more and more Social Responsibility Foundations capitalized from corporate assets are emerging. The study explains the foundation boom with rising public expectations regarding the social responsibilities of companies. Corporations intend to promote goals related to their social, regional or topical environment, hoping for image transfer.

Problems with measuring success

The majority of companies define CSR as part of their corporate strategy and as a success factor for their own development. Yet how does CSR influence work processes or products? Most firms ignore this question and rarely review their CSR-related goals. The study “Successful through Responsibility – Corporate Citizenship Strategies for German SMEs 2007” by the consultant firm Ernst & Young concludes: There is a lack of appropriate measuring and controlling tools, which could give every one involved a better understanding of the success of

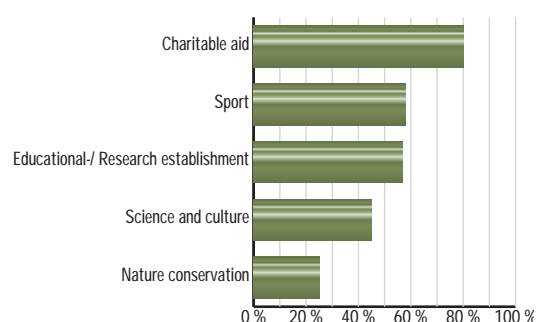
corporate social commitment. There are no methods to measure influencing factors such as image gain or knowledge transfer, the study sums up.

Expectations are high: The majority of companies questioned by Ernst & Young have included Corporate Citizenship in their business strategy. 64% are convinced that social activities pay off economically. As they are mostly related to their lines of business, more than half of the companies expects synergy effects: Cooperation in projects has the potential to modernize methods of operation and knowledge transfer. By contributing management expertise or technical knowledge to aid projects, they simultaneously spur innovation and generate new business, adding many new contacts that are relevant to the company.

CSR activities boost reputation and public profile. It can be assumed that sales opportunities increase, too. But only 29% of the company executives questioned expect an improved image with the customer.

56% of them view the advantages of image improvement in employer branding, enhancing their attractiveness as employer and contractor. Job applicants and potential clients infer from social commitment to the company culture and an agreeable work climate. At the same time, companies realize that their employees’ loyalty and motivation increase.

1) CSR activities of fast growing small and medium-sized enterprises



Source: Ernst & Young, 2007



Making CSR visible: MT CSR Index

The question of whether or not such commitments and their communication are worth the effort, can, from the reputation building perspective, be answered with “yes”: CSR topics can be successfully placed in the media (**chart 2**). However, the results of the MT CSR Index suggest an increasing crowding out of available space in the media: The share of difficult-to-control CSR-relevant coverage has remained the same for years now, and the share of easily-controllable topics is only slowly increasing (**chart 3**).

CSR-relevant topics that are easy vs. difficult to control

The cooperation with corporate communicators has shown that topics with CSR relevance must be divided into at least two basic categories. On the one hand, there are topics that are, from the communicators’ perspective, rather difficult to influence but that have an impact on the image as a responsible company. Examples are production processes, sustainability of the value added chain, or the relationship to relevant stakeholders such as suppliers. On the other hand there are more easily controllable topics such as sponsoring activities or corporate equal opportunity and work-life balance measures.

Thus the already loud calls for quantifiable indicators of successful CSR measures and their communication are being amplified still more. MEDIA TENOR has thus developed an index with four indicators so far, which can help corporate communicators argue their cause and make successful or failed communication of CSR-relevant topics visible.

The basic requirement for inclusion in the CSR-Index is a certain level of media presence: From Janu-

ary until May 2007, at least 30 statements had to appear in the 35 opinion leading media.

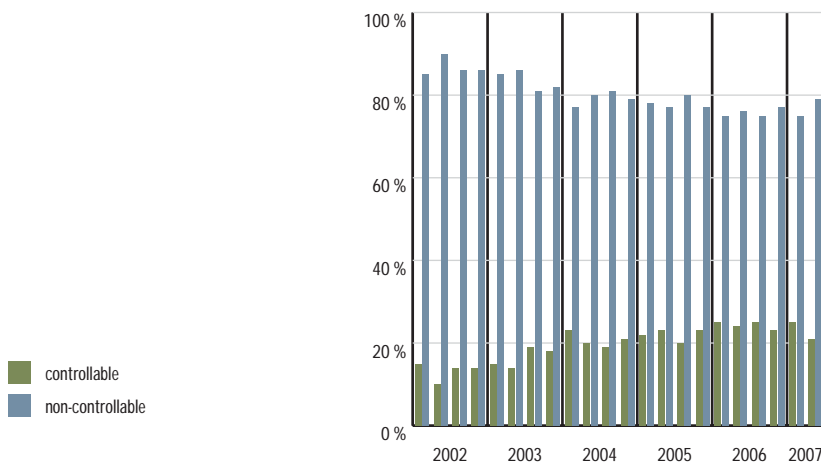
Exclusion with negative presence

A company can only position itself successfully with CSR topics, when critical aspects are at least bolstered (**chart 4**). Therefore the tonality of coverage on more easily-controllable issues with CSR relevance has to be accounted for in the MT CSR Index: Negative ratings are yet another exclusion criterion – such as for the Siemens AG, whose reputation has suffered from a corruption scandal. The same applies to Thyssen, which, at the start of 2007, was said to have turned away from good Corporate Governance (F.A.S., January 27th, 2007). Negative coverage on their treatment of employees excluded Deutsche Telekom, Lidl and Renault, while Bosch, Merck (Germany) and Toyota could place themselves in the MT CSR Index (**chart 5**).

Third party statements count

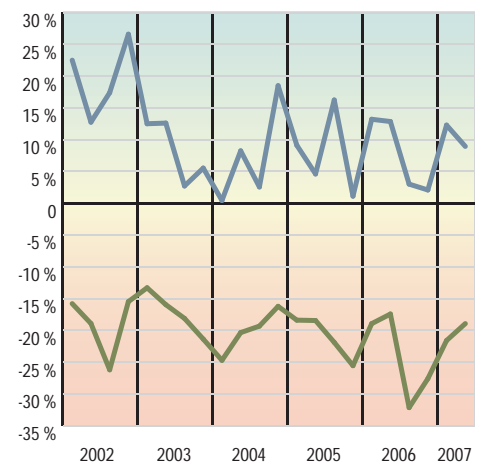
Effective CSR communication depends on the credibility of the commitment. It is essential to show that the measures are not marketing or PR, but a serious concern, which the media reward through awareness and praise. Continuous communication about the top management as well as support through communication of competent third parties help achieve this goal. The result is a competitive edge in the struggle for the limited space for CSR topics.

2) Presence of controllable and non-controllable CSR topics



Share of all statements in CSR coverage
Basis: 2,275,021 statements in 15 German opinion leading media
Time period: 01/2004 - 06/2007

3) Assessment of controllable and non-controllable CSR topics



Share of all statements in CSR coverage
Basis: 2,275,021 statements in 15 German opinion leading media
Time period: 01/2004 - 06/2007

Another criterion for assessing successful CSR communication and the position in the MT CSR Index is therefore the share of own statements taken up by the media as well as that of third party endorsements. Cooperation agreements with NGOs, such as the one between the World Wildlife Fund (WWF) and Allianz, can be a way of receiving such endorsements. The top ranking companies in the Index have been particularly successful in this category: The media portrayed Henkel, BASF and Apple most frequently in the context of CSR-relevant topics.

Index-Leader Henkel

All in all, Henkel came first in the MEDIA TENOR CSR Index (chart 6). The positive tenor and the high share of active CSR-related communication efforts as well as the good positioning of the top management played the decisive role. Henkel has been receiving awards for sustainable corporate behavior for years. According to its CEO Lehner, the company has realized that reputation suffers from irresponsible behavior, and that it is therefore crucial to continuously prove otherwise (FR, April 25th, 2007).

The MT CSR Index has illustrated that the company is currently on the right track when it comes to environmental and social issues.

Pay-off: trust

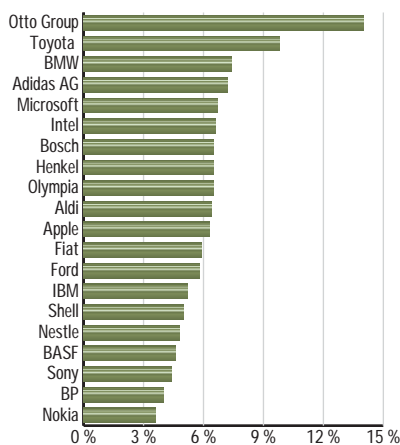
The increasing interest in value-oriented management can be understood as a shift away from share-



Dr. Michael Otto, Otto Group

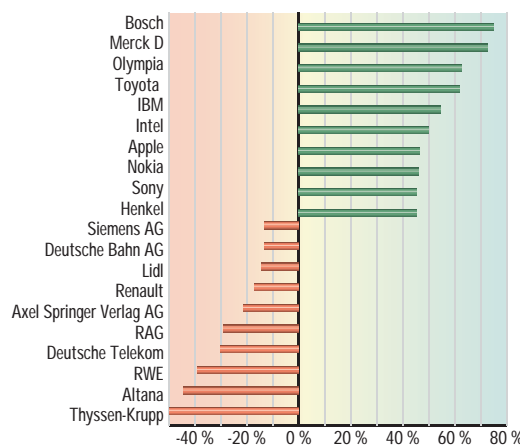
holder value towards stakeholder value. This change marks a shift in focus from the operational to the strategic plan of action: Economic success is not all that counts, but also securing future success through building and keeping an economic and societal potential. Corporate communication therefore not only supports current achievements but also the establishing of reputation, trust and credibility.

4) Controllable CSR topics by company



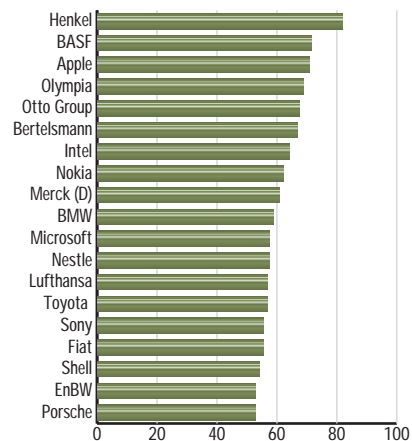
Share of all statements in CSR coverage
Basis: 398,499 statements in 36 media
Time period: 01 - 05/2007

5) Assessment of companies by controllable CSR topics



Share of all statements in CSR coverage
Basis: 398,499 statements in 36 media
Time period: 01 - 05/2007

6) Points in the overall ranking



Number of points in the final results
Basis: 398,499 statements in 36 media
Time period: 01-05/2007

„Most companies do an inadequate job of managing their reputations in general and the risks to their reputation in particular. They tend to focus their energies on handling the threats to their reputations that have already surfaced. This is not risk management, it is crisis management”

R. G. Eccles/S. C. Newquist/ R. Schatz in: Harvard Business Review 2/2007

CSR is not a quick fix to raise turnover or market value. If it is established with a solid foundation, CSR secures business on a long-term-basis. It reduces the risk of being discredited by suspect business practices. Questionable practices can lower the acceptance towards products and the company. CSR is a strategic communication tool that helps reduce that risk by increasing or consolidating the acceptance of a company in society. The MT CSR Index is a means to evaluate the success of such measures.

CSR signals that company executives are aware of potential dangers of their products or services to society at large. It therefore makes sense to link CSR projects to the company's core business, since it makes a contribution where it has most of the know-how. The result is a "social return on investment". According to a study by the consulting firm CSR Consult, CSR and a company's reputation make up 70 to 90% of its value. CSR, the study maintains, is the "theoretical superstructure" for a company's reputation. The opinion leading media, in any case, are the multipliers. (ph/rgd)



Basis

Media: Die Welt, Frankfurter Allgemeine Zeitung, Süddeutsche Zeitung, Frankfurter Rundschau, tageszeitung, Bild, ARD Tagesschau und Tagesthemen, ZDF heute und heute journal, RTL Aktuell, Sat.1 18:30, ProSieben Newstime, Focus, Spiegel, Die Zeit, Rheinischer Merkur, Stern, Frankfurter Allgemeine Sonntagszeitung, Welt am Sonntag, Bild am Sonntag, Super Illu, Capital, manager magazin, Fakt, Frontal 21, Kontraste, Monitor, Panorama, Plusminus, Report (BR), Report (SWR), WISO, Bericht aus Berlin, Berlin direkt, DLF, Total

Period of Analysis: 01/2002 - 05/2007

CSR returns can only be measured over the long term

Interview with Wolfgang Glauner, Consultant Project Manager
“Entrepreneur of the Year”, Ernst & Young

MT: Companies from all industry sectors are suddenly presenting themselves as both environmentally and consumer friendly – even at the risk of diluting their brand images. Why is “Corporate Social Responsibility” currently so popular?

Glauner: I do not think that this is just another popular trend, but rather a real revision of thinking. The shareholder-value-first-approach was extended by a model that recognizes the shareholder as just one among many stakeholders. It is not about achieving short-term business success but a long-term, sustainable guarantee of corporate success.

MT: Patrons and sponsors have been around for a long time. In what way is CSR different?

Glauner: Patrons and sponsors are generally only committed within a specific framework of action. CSR, on the other hand, cross-links between the company and its environment, that is with the stakeholders. The principle of patronage is altruism, while CSR is, for all intents and purposes, a question of self-interest. The motto is the following: Act in such a way that your actions benefit others, because they will then also benefit you. Extensive relationship management is supposed to bring long-term success. Not only on an operational, but also a strategic level.

MT: What is the importance of media relations in the context of CSR activities?

Glauner: More and more companies are now communicating activities as CSR, which, for example on a local level, were just taken for granted before and not further communicated. SMEs, in particular, have only become active communicators most recently.

They are now summing up many of their measures under this label, so that the media become more aware of all the dispersed activities and are more likely to report on them in the CSR context.

MT: How can the benefits of CSR activities be measured?

Glauner: The return of CSR activities can only be measured in the long term. Yet the monetary rating of CSR achievements – in the sense of entering them in the balance sheet – is difficult in practice. Reasons for this include the complex interdependencies between CSR activities and the difficulty to objectively assess social and ecological resources. Nevertheless, a review, for example in the context of a report, is important both for the company and for shareholders and stakeholders.

MT: What are the trends you can identify in the CSR activities of German companies?

Glauner: In the competition for talented employees in a shrinking society, companies, in particular SMEs, focus increasingly on supporting education. Science, too, is important: Since the state is more and more retreating from those areas, companies fill the vacuum and benefit from it at the same time. They achieve this for example through knowledge transfer or a high educational level of their employees, as well as an improved attractiveness as an employer.



Wolfgang Glauner

Interview: Dr. Peter Harič

Wolfgang Glauner has been a long standing project manager for the competition “Entrepreneur of the Year”, and board member of the association “Entrepreneur of the Year”. He is the author of the yearly study “Winning Strategies in German SMEs”. Previous to that he was working as a consultant for a number of SMEs and corporations, focusing on strategy, business processes, and supply-chain management. Moreover, he has been a visiting lecturer for the MBA program at the University of Augsburg for many years, teaching the subject “Business-Plan and Entrepreneurship”. He has co-authored the book “Die Unternehmer-Elite” (The entrepreneurial elite – published by Gabler) and edited the study “Successful through Responsibility – Corporate Citizenship Strategies for German SMEs”.