The State of Corporate Social Responsibility: 2016

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Executive Summary

Corporate Social Responsibility (CSR) is a global phenomenon in 2016. Companies large and small are spearheading initiatives targeting every conceivable social issue. These may include corporate donations to nonprofits, employee giving and volunteering campaigns, and innovative "double bottom line" business models that turn a profit while contributing to society. While some firms may engage in CSR solely as a PR move, many do so because it makes business sense and because they want to give back to society.

The preponderance of CSR today is partially due to societal attitudinal shifts. Just a few decades ago, most people saw the government as the principal force for social change. Today, the tables are turned; government plays second fiddle to the private sector. Because of this, pressure has mounted on corporations to demonstrate their value to society. In 2016, creating shareholder profits isn't enough.

Even corporate titans have fallen in line. Walmart is raising wages while oil companies are investing in clean energy**.** In many cases, governments are stepping in too by passing mandatory CSR laws. This is a controversial development, though it has gained immense traction. Proponents argue that legislation will force laggard companies to become socially responsible. Critics contend that any such benefits will be outweighed by increased regulatory burden, and that companies may spend their required CSR money inefficiently. As CSR continues to grow, one point is indisputable: the global problems faced today cannot be addressed by governments alone; companies *must* take the reins and develop more effective CSR programs. This will strengthen their core business and help the world in the process.

History

Although CSR is ubiquitous today, it is not a recent phenomenon; its roots extend into the 19th century. According to the Center for Ethical Business Cultures, CSR-like practices were in place long before anyone coined the term "Corporate Social Responsibility." In fact, many early corporations were chartered to serve both public and private interests. ("CSR: The Shape of a History" 4) Such companies were designed to generate value for both shareholders and stakeholders. Andrew Carnegie wrote about this idea more than a century ago in his 1889 *North American Review* article "Wealth." (10)

By the mid 20th century, modern day CSR started to crystallize. Bernard Dempsey explained why companies must engage in socially responsible business practices in his landmark 1949 *Harvard Business Review* article "The Roots of Business Responsibility." According to Dempsey, corporations *must* address broader societal concerns for two reasons: first, no business can operate independently of the larger community; second, with great financial resources come great power and thus an ethical obligation to serve society. ("CSR: The Shape of a History" 9)

The contemporary notion of CSR emerged a few years later in Howard Bowen's 1953 book *Social Responsibilities of a Business*; Bowen wrote that social responsibility "refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society." ("CSR: The Shape of a History" 10) In other words, social responsibility means doing right by society—not just by shareholders.

Though Bowen's book laid an important foundation, mainstream views took time to change. According to Dr. Heli Wang and colleagues of the Singapore Management University, the 1960's and 70's were characterized by the widespread belief that governments and nonprofits were responsible for addressing social problems—not corporations. (Wang, et al. 541) This view was especially championed by conservative economist Milton Friedman, who argued in a famous 1970 *New York Times Magazine* article that CSR was "fundamentally subversive" to the true responsibility of a business. In Friedman's mind, a corporation's only aim should be generating returns to shareholders and maximizing profit. ("CSR: The Shape of a History" 10) Much of American society agreed with Friedman—corporations were producers of goods and services, nothing more.

Today, Friedman's opinion is much less popular. Even libertarian business leaders have dissented. Whole Foods CEO John Mackey, a major proponent of Friedman's ideas, now argues in his book *Conscious Capitalism* that businesses are extremely capable of producing value for society when governed by ethics and responsible practices. (Mackey and Sisodia 9) Today, most people view corporations as viable creators of social value. (Wang, et al. 541) Although debate continues over the extent and proper function of CSR ("CSR: The Shape of a History" 10), its necessity is no longer in question. Evidence for this is everywhere: recently, 8,000 companies from 150 countries voluntarily signed the *United Nations Global Compact*, a set of standards covering human rights, labor practices, environmental responsibility, and anti-corruption. (Wang, et al. 534) Many still believe that a business' *primary* responsibility is creating economic value ("CSR: The Shape of a History" 5), but few would argue that it is their *only* responsibility. As the Centre for Ethical Business Cultures writes:

> "Much of the CSR debate [today], however, has been about "how" these total economic and societal benefits are achieved, whether they are fairly distributed or accessible, whether there is a reasonable balance between and among stakeholders, what negative side effects (externalities) occur along the way and whether or how those are managed, how decisions are made and who has a voice in those decisions, what is the appropriate relationship between the public and private sectors, and how companies are governed and held accountable." (6)

Thus, the big question in 2016 is *how* one should benefit as many stakeholders as possible, not *if* one should do so.

Present Day Trends

Three trends define the 2016 CSR landscape. First: globalization. CSR is everywhere today—one finds corporate responsibility programs in countries that are democratic and autocratic, large and small, developing and developed. Second: classification and quantification. New metrics are created constantly to understand best practices and compare program effectiveness across companies. Third: ratings and regulation. Governments around the world are passing legislation making CSR mandatory, while private organizations publish indices and standards.

Trend 1: Globalization

Today, virtually every major company in the world has some sort of employee giving or philanthropy program. Some companies, such as Target and Costco, are "mainstream firms" which engage in CSR work, while others, such as Tom's of Main and Ben and Jerry's, are CSR driven from the ground up. ("CSR: The Shape of a History" 13) Some companies run enormous CSR efforts that are nigh inseparable from their core business, while others fund small pet projects with questionable social value.

Regardless of what role they play, firms across the board have embraced CSR. A 2016 PricewaterhouseCooper (PWC) survey of 1,409 CEOs in 83 countries found that 81% are *at least* considering a broader purpose in business; 76% define business success by more than financial profit. (PWC 2016) GrantThornton's 2014 *International Business Report* echoed this sentiment. GrantThornton asked global business leaders what types of CSR programs their companies managed. The results show just how commonplace CSR is: 68% cited charitable donations; 65% cited volunteer programs; and 65% cited energy efficiency/waste management. (GrantThornton 2014) McKinsey's 2014 *Global*

Survey found a similar trend. 49% of CEOs in the McKinsey study identified sustainability as a Top-3 business priority. In fact, 13% cited it as their top priority, a nearly *five-fold* increase from 2010. (McKinsey 2014)

One finds CSR efforts even in heavily state-controlled nations like China, where companies like Alibaba have found ways to build and scale philanthropic programs. Despite resistance from the Communist Party, Chinese companies manage to help society and work with budding local NGOs. Alibaba CEO Jack Ma captured his reasons for this in a recent interview with *Bloomberg TV*. "We want money and integrity to be together," he said. (Bloomberg 2016)

Trend 2: Classification and Quantification

With the explosion in CSR programs, experts have scrambled to come up with various ways to classify and measure them. One example is a system suggested by Harvard Business School Professor V. Kasturi Rangan and colleagues in their 2015 *Harvard Business Review* article "The Truth About CSR." Rangan et al. placed CSR initiatives into three distinct "theaters" depending on their scale, financial returns, and level of core business integration.

Theater One programs focus purely on philanthropy. These include classical employee giving or volunteering efforts. Theater One CSR initiatives are not designed to produce profit or integrate with a company's core mission. Instead, they supplement whatever social value the company creates through other means. Theater One programs are ubiquitous in 2016—company CSR reports are full of smiling faces and hardworking employees engaged in this type of work.

Theater Two programs improve operational effectiveness while producing social good; in the process, they often also generate economic returns. Theater Two programs are also quite common as they are supported by a compelling business case. Companies don't strive to reduce carbon footprints and resource use out of pure selflessness; they do it because it saves money. For example, Walmart has invested millions in better logistics to reduce driving miles. As a result, they've improved efficiency by 69% since 2007. (*Does the Good Outweigh the Bad? Sizing up 'Selective' Corporate Social Responsibility*) This dramatically cuts both their shipping costs and carbon output. With the major push toward sustainability, more and more companies are investing in Theater Two CSR programs.

Finally, Theater Three programs are those which integrate directly with a company's core business. Starting a Theater Three initiative may require radically altering one's business model, but can also generate enormous economic and social returns. A key example is Unilever's *Project Shakti* ("empowerment") in India. Traditionally, Unilever used a top-down wholesale-to-retailer distribution model to sell its products. This strategy was not viable in India. Instead, Unilever upended it and trained Indian women to resell its products in their villages. Today, more than 65,000 women participate in the program. On average, these women have nearly doubled their household income. Meanwhile, Unilever has gained more than $100 million in sales. (Rangan 2015) *Project Shakti* is a case-study in double bottom line returns: it's good for people and good for business. As explained later on, many experts hope that more companies will look to Theater Three programs as prototypes for good CSR practice.

These three theaters represent a useful framework to examine and compare CSR initiatives. As CSR practices become more widespread, it's become crucial to develop rigorous systems to compare them to each other—to see which are producing genuine societal value and which are wastes of money. In the future, this trend will only become more pronounced, as companies begin to be judged on their level of CSR innovation (Visser 2012) rather than how well they've "checked off all the boxes."

The growth of measurement systems corresponds with a similar increase in available data. Prior to 1990, most CSR reports used data from the United States. (Horoszowski 2016) This significantly limited their informative power. Today, there is a wealth of data on CSR efforts all around the world making it possible to see truly global trends.

Trend 3: Ratings and Regulation

Around the world, countries and economic organizations (like the EU and OECD) are creating regulations to (hopefully) increase positive corporate social impact. One major example is the 2013 *Companies Act* passed in India.

Under the *Companies Act*, any company with an annual turnover greater than 1,000 crores (approx. US $150 million) or net worth greater than 500 crores (approx. US $75 million) must set aside at least 2% of profits for CSR activities. (Bansal and Rai 2014) To help with this, the Indian government has compiled a meticulous list of acceptable program strategies. Companies are permitted to implement CSR in house, or to partner with a local NGO. Similar acts and policies are now being implemented in other countries around the world.

Today, 80% of countries have some form of regulatory sustainability system. This is a dramatic increase from a mere three years ago; in 2013, KPMG identified 180 sustainability reporting instruments in 44 countries; today, there are nearly 400 in 64 countries. (Bartels et al. 2016) In most countries, these regulations address sustainability as a broad category, forcing companies to look at their overall business practices. In the United States, by comparison, more than 75% focus on specific sustainability issues rather than a broader category of responsible business—for example, conflict minerals, slavery, or climate change. (Bartels et al. 2016)

Beyond regulations, third party reporting instruments also put pressure on companies to behave responsibly. Sustainability indices (such as the *Dow Jones Sustainability Index*) rank companies by their business practices, offering information to consumers and creating economic leverage. The *DJSI* now even factors responsible taxation practices into its ratings. (Bartels et al. 2016) Companies which evade paying local taxes along their supply chains suffer a penalty.

There is thus a strong interplay between private and public sector actors: the private sector rates while the public sector regulates.

Motivations

Why do companies behave responsibly? Is it just to fulfill legal obligations? Yes and no. Regulations are certainly a factor, but they are not the whole story. According to the 2016 Ethical Corp *State of Responsible Business Report*, nearly 90% of executives surveyed say that CSR is growing in importance. (Ethical Corp 2016) Many of these companies are operating where CSR is legally optional. In these cases, there are four other factors at play: (1) stakeholder demand; (2) public image maintenance; (3) competitive strategy; (4) genuine altruism.

Stakeholder Pressure

Stakeholder pressure is a huge part of the CSR explosion. PWC's findings from their 2016 CEO survey drive this home: 84% of CEOs said they were expected to address wider stakeholder needs, 59% said that top employees preferred to work for organizations with social values close to their own, and 37% said investors were looking for ethical companies. (PWC 2016) Similar demands come from consumers. Cone Communications surveyed 10,000 global consumers in 2015. 91% expected companies to do more than to make a profit, 84% said they sought out responsible products when possible, and 90% (claimed) they would boycott a company if they learned of deceptive or irresponsible business practices. (Cone Communications 2015) This is a sharp contrast from the days of supreme shareholder profits.

Companies are well aware of these pressures. PWC found a staggering majority of companies responding to stakeholder demand: 90% had made changes in workforce rights, 80% in social and environmental practices, 74% in supply chain management, and 62% in tax affairs. (PWC 2016) This is a testament to the power of nongovernmental influence over corporate practices.

It is important to note one caveat here: the actual effect of consumer demand on corporate behavior is probably *less* than the Cone Communications survey would imply. This is because consumers may state one intention on surveys but make dramatically different decisions at the cash register. For example, while 90% of consumers in the Cone Communications survey claimed they *would* boycott a brand, only 53% had *actually* boycotted one. Moreover, only 57% said they'd be willing to purchase a more sustainable product *if it were of lesser quality*. (Cone Communications 2015) Clearly, prices and quality have effects that may overcome any consumer's prosocial motivations. After all, it feels good to take a stand for society answering survey questions, but stings when pulling out one's wallet.

Public Image

Public Image is CSR's proverbial elephant in the room. It would be naïve to suggest that many corporations engage in CSR chiefly because it makes them look good. One can see this perusing companies' elaborate annual CSR reports, which tend to be replete with vivid imagery and heartwarming stories. These meticulously crafted tomes are not cheap to produce—companies make them to curry favor with the public.

If companies were always truly motivated to do good, these CSR reports would correspond to the reality of their business practices. Sadly, this is often not the case. Wang and colleagues point out that mounting stakeholder pressure frequently does not actually cause companies to abandon irresponsible practices; instead, these companies offload their questionable behavior to countries with less resistance. (Wang et al. 2016) A study of corporate leaders by the Wharton Behavioral Laboratory provided an explanation for this fact: 80% of those surveyed readily admitted to engaging in CSR to bolster their "general corporate reputation." (Knowledge@Wharton 2013) If a company can bolster its reputation by covering up rather than by changing unsavory behavior, it will often do so. The second most cited reasons in the Wharton study were that CSR "directly affects brand image" and that CSR is a "matter of good corporate citizenship." This is the reality of corporate philanthropy programs—they look good. One can only hope that most companies aren't hiding skeletons under a veneer of smiling faces.

Companies aren't the only ones who benefit from positive public perceptions of CSR. A 2015 *Harvard Business Review* analysis suggested that a whopping 65% of a CEO's legacy is determined by non-financial aspects of their tenure. This includes governance, workplace, and corporate citizenship. (Cisco 2015) While CEOs have to keep their companies afloat financially, they also stand to gain from leaving a legacy of responsible business practices.

Obviously, companies don't go to such lengths to look good for its own sake. There's real money at stake. McKinsey researchers found that good brand image can determine *nearly 30%* of corporate earnings. Volkswagen used to be one of the most reputable brands in the world. When it was caught cheating emissions tests, its share price fell by nearly 35% *within two days*. (Browne 2016) Companies don't just lose face from bad publicity—they lose billions in shareholder value. For better or worse, effective CSR programs provide protection from bad publicity.

Competitive Advantage

Beyond good PR, there's arguably a strong business case for CSR. Corporate governance expert Matteo Tonello posited in 2011 that responsible business practices benefit companies by "reducing cost and risk, [providing] competitive advantage, developing and maintaining legitimacy and reputational capital, and achieving win-win outcomes through synergistic value creation." (Tonello 2011) In other words, CSR doesn't just create value for society—it creates real returns for shareholders.

Tonello's claims were substantiated by a 2011 Harvard Business School study of 180 firms. These firms were selected based on a variety of criteria to create an even mix of more responsible and less responsible firms. Half were categorized as "high sustainability," while the other half were "low sustainability." Over a 17-year period, $1 invested in a low sustainability company tended to yield $15.40, while the same investment in a high sustainability company would net $22.60—nearly 50% more. (Eccles, Ioannou, and Serafeim 2011) While this correlation certainly does not constitute causation, it presents evidence worth considering. If high sustainability firms did well by both society *and* shareholders, their business practices are worth examining.

The industry response to this ‘business case’ has been ambivalent. A slight majority (52%) of CEOs surveyed by PWC believed that creating value for wider stakeholders helped their companies to be profitable. (PWC 2016) Meanwhile, the 2009 McKinsey *Global Survey* found that two thirds of CFOs and three-quarters of investment professionals believed that responsible business practices produced economic benefits—under normal circumstances. The implication here is that when push comes to shove, responsible business practices lose to the juggernaut of profit creation. Moreover, a full quarter of respondents weren’t sure what effect CSR had (if any) on value creation. (McKinsey 2009)

There is one area with broad consensus, however: cost reduction. Companies understand that CSR efforts that save money are worth pursuing, even if they impose short term penalties. Two thirds of respondents to GrantThornton’s 2014 *International Business Report* cited cost reduction as a reason for engaging in CSR. (GrantThornton 2014) This is why companies may form business relationships with questionable suppliers while investing enormously in optimizing shipping efficiency. It may be hard for an enormous corporation like Walmart to ensure it is socially responsible at every stage along its supply chain; instead, it will invest where it stands to gain the most. (Knowledge@Wharton 2013) Cost reduction could explain the correlation observed in the Harvard Business School study: high sustainability firms probably invested in responsible practices that improved their long term bottom line.

Altruism

Just as it would be naïve to claim companies only run CSR programs for the good of humanity, it would be equally dishonest to posit that they only do so for appearances. Many companies genuinely *do* desire to do good. 62% of respondents to GrantThornton’s survey said they practice CSR “because it is the right thing to do.” This was the third most commonly listed reason. (GrantThornton 2014) 45% of CEOs responding to the PWC said they’d “always had a broader purpose in business.” This attitude is mirrored in CEOs’ prioritization of value creation: customers took the number one spot, cited by 53%, followed by wider society at 31% and shareholders trailing at 16%. (PWC 2016) Although companies will not impoverish themselves to be socially responsible, many truly want to benefit society with more than their products.

Quantifying CSR

Today, there’s an abundance of information measuring the spread and impact of company CSR initiatives. Before reviewing some broad statistics, it’s important to examine where data comes from and how it is obtained. Despite the preponderance of CSR data, not all of it may tell an accurate story, either because companies deliberately conceal information or because the data is difficult to measure in the first place.

(The Difficulty of) Measuring CSR Data

Certain CSR "attributes" are easier to measure than others. In general, it's much easier to measure inputs than outputs—i.e. it's *usually* simple to quantify how much a company has spent on CSR. It's considerably more difficult to measure the *impact* of its CSR work. While this may seem straightforward in some cases, in practice it is quite challenging. And this all assumes that the company has a clean delineation between CSR and non-CSR expenses. As we will see, many times this is hard to do.

This is probably why many companies are unwilling to share their spending data. On the 2012 Reputation Institute *Most Reputable Companies* list, 4 of the Top-10 firms (Apple, Google, Volkswagen, and Lego) concealed their CSR expenses. Meanwhile, CSR spending records are relatively easy to obtain in India, ostensibly due to the 2013 *Companies Act* which made CSR mandatory for many firms. This will likely also be the case in Europe as new CSR reporting regulations go into effect.

One might think that this is a boon—that publicizing CSR spending information will lead to greater transparency and competition among firms to be the most socially responsible. However, there's one important caveat to keep in mind: CSR spending and impact are *not* the same thing. Companies can spend millions on questionable CSR initiatives that do little more than produce attractive images for annual reports. Such a company would appear to have a large CSR spend, but likely little to show for it.

Meanwhile, a company with a CSR program integrated into its core business model might have a hard if not impossible time extricating its CSR spend from its ordinary business expenses. How would Unilever quantify its investment in *Project Shakti*? Would it add up the cost of training its women resellers? Or would this not count because, on the whole, the company made a net profit? After all, Unilever's traditional business model *would have almost certainly been less successful* in India. For that matter, how does a company quantify the expense of a responsible supply chain? Does it take the difference between the cost of responsible and irresponsible suppliers?

Clearly, a company's choices when calculating spending can dramatically impact its reported CSR investment. Thus, it's easy to see why a regulation specifying a spend of 2% profits could have unintended side effects—companies may either pretend to be investing in CSR by juggling numbers in their core business activities, or they may actually shift spending from more beneficial to less beneficial activities just to meet quotas.

Measuring CSR spending alone is thus insufficient—the real goal of any CSR quantification scheme should be to measure *impact*. However, this is a much trickier proposition. A company's CSR "impact" depends to an incredible extent on the choice of criteria chosen. One sees this with modern day CSR indices: there are a plethora of CSR indices and ratings systems in place which produce very different results. These rating systems may have an air of legitimacy given their breakdowns along various axes, but in reality their scientific validity may be more akin to that of annual university rankings—highly fickle and prone to personal bias.

CSR expert Wayne Visser noted this unfortunate reality in his article "Future Trends in CSR." Visser wrote that "current CSR indexes rank the same large companies over and over, often with differing conclusions." (Visser 2012) Sometimes, companies can be ranked hilariously wrong—in 2012, Volkwswagen was the 8th most Reputable Company in the world. Today, they are no longer on the list. (Volkswagen was reputable at the time—but its case shows that it's misguided to believe that a company's reputation necessarily corresponds to its actual business practices).

To be fair to CSR researchers, one reason it is exceptionally difficult to compare companies is that it is exceptionally difficult to compare CSR projects. Many companies do not have systems in place to measure, track, and optimize their efforts. (Wang et al. 2016) Even assuming companies have great records, how does one measure how much "good" a CSR effort has produced? Even if one can measure the amount of good generated, one also has to think counterfactually. This requires questioning whether the "good" produced by the CSR program was more than the "good" the company would have done simply by investing in its core business. Expecting researchers to be able to turn such a hodgepodge of data into a useful and accurate rating metric is a tall order. It's no wonder that one of the biggest CSR trends today is the development of better, more rigorous evaluation systems.

Industry Statistics

Even though it's no trivial task, it's still both possible and important to quantify global CSR efforts. Companies are investing a lot in socially responsible business practices and don't want their efforts to go unnoticed. Meanwhile, society is waiting patiently for firms to pick up where governments have left off.

One fact that is immediately apparent is that some companies spend enormous sums on CSR while others barely invest at all. In 2012, average CSR spending among the Top 10 Most Reputable Companies was a mammoth $219 million, of which Microsoft and Walt Disney alone accounted for $1.1 billion (*note: as stated above, spending data was only available for six of the companies*). (Miltenberg 2013) These companies are outliers, however. According to the 2016 Ethical Corp *State of Responsible Business* Report, only 7 to 9 percent of firms in North America, Asia, and Europe report an annual CSR spend greater than $1 million. 24 to 27 percent have budgets less than $10 thousand, with 34 to 40 percent declining to state. (EthicalCorp 2016) It's unlikely that all those who declined to answer were doing so because it was too difficult to figure out what portion of their expenses were CSR-related; they probably just weren't spending much. Thus, current CSR spending is concentrated in a few major contributors, with the rest lagging behind.

This distribution may shift in the future. The same EthicalCorp study found that 26 to 34 percent of firms claimed their CSR budget would increase in 2016, with 85 to 90 percent of executives saying that CSR is becoming an increasingly important part of their business strategy. (EthicalCorp 2016) This growth in spending is mirrored in other CSR-related areas such as Cause Marketing. In 2000, the market capitalization of the Cause Marketing industry (defined as the total amount of money funneled to charity) stood at $700 million. By 2016, it had increased nearly threefold to $2 billion. (CauseGood 2016) This shows that while average CSR expenditures may not be large compared to the size of most firms, the upward trend will likely be dramatic.

One can see this trend in India following the passage of the *Companies Act*, which demanded large firms spend 2 percent profit on CSR. To put this figure into perspective, the Top 100 Indian Firms (by market capitalization) had to spend INR 7500-8000 Crores (approximately $1.2 billion). (NGOBOX 2014) What's interesting is that many firms increased CSR spending *before the law went into effect*; though the law was passed in August 2013, public sector firms increased their spending nearly 6-fold in the preceding year. A similar upward trend was also observed in the private sector. (Bansal and Rai 2014) If India's situation bears any relevance to the rest of the world, we are about to witness a major increase in global CSR investments.

The Future

As CSR matures, so do the debates surrounding its proper role in business. Nearly every CSR expert or consulting firm has their own set recommendations for socially responsible businesses or for the sector at large. According to the Centre for Ethical Business Cultures, some of the CSR debates that are still raging include:

- The proper balance between **shareholder** and **stakeholder** interests
- Whether CSR should be **voluntary** or **mandatory**
- What **responsibility companies bear** (if any) for how their products are used (i.e. tobacco industry, gun industry)
- The **business case** for CSR: does it exist? If so, how strong is it?
- The proper way to **measure** CSR impact
- How to **verify** corporate CSR reports and hold corporations **accountable**
- What the balance is between **public sector** and **private sector** social responsibility

(CEBC 2015) While these issues are all significant, there are two that will dominate the next several decades of CSR: (1) greater interplay between companies and governments; and (2) deeper integration of CSR into core business models.

Public/Private Interplay

Nearly all CSR experts researched in preparation of this report cited some level of public/private collaboration as a defining characteristic of CSR's future. Dr. Wayne Visser, an eminent writer on CSR topics, argues that standard CSR practices (such as employee giving and volunteering) will soon become mandatory. As a result, companies will no longer differentiate themselves by having or not having CSR programs; they will differentiate themselves instead via innovation. (Visser 2012) Roel Nieuwenkamp, chair of the OECD Working Party on Responsible Business Conduct, echoed this sentiment. Nieuwenkamp claimed that today's CSR practices will become relics as new guidelines and government regulations supersede them. Peter Bakker, president of the World Business Council for Sustainable Development, went a step further: "CSR is dead. It's over!" he declared. (Nieuwenkamp 2016)

Maeve Miccio, VP of Corporate Responsibility at the Silicon Valley Community Foundation, predicts that the future of CSR will involve extensive partnerships with local governments and alignment with intergovernmental initiatives (such as the Paris Climate Conference). She argues that such partnerships will augment the effectiveness of CSR programs, but also recognizes that new policies will create challenges for companies. (Miccio 2015)

These challenges may be significant. The push toward regulation is and will likely remain extremely controversial. Proponents argue many companies simply will not be socially responsible unless they're forced to do so. Moreover, without regulation many companies will probably invest more in CSR showmanship than substance. Stuart Hart, founder of the Center for Sustainable Global Enterprise at Cornell University, argued that this is exactly what the majority of firms. "Most CSR programs today are little more than self-serving public relations gambits designed to assuage corporate guilt," he wrote. (Hart 2016)

Nieuwenkamp cited several examples of CSR programs being employed in place of real accountability. For example, numerous companies kept sourcing from the Rana Plaza factory in Bangladesh despite significant safety concerns; in 2013, it infamously collapsed killing more than 1,000 people. Meanwhile, corporations like Volkswagen and Enron had received multiple awards for corporate responsibility. (Nieuwenkamp 2016)

The hope is that these CSR mandates will overcome corporate resistance to behaving responsibly. On the 2016 PWC CEO survey, 45% of CEOs said additional cost was the reason for not responding to wider stakeholder expectations. (PWC 2016) It's reasonable to imagine that requiring all companies to engage in CSR will level the playing field and remove competitive disadvantages from practicing responsible business. This will encourage more even companies to follow suit.

Another argument used in favor of CSR regulations is that the private sector is often more innovative and responsive to societal needs than governments. This reasoning undergirded the Indian *Companies Act*: given government's propensity to bureaucracy, inefficiency, and corruption, it may be better to simply mandate private spending on social services. (Bansal and Rai 2014) The objective is not only to make private corporations spend money on CSR, but to make them develop cost effective and innovative ways to deliver social value. (Bansal and Rai 2014) In the process, they may simultaneously reduce the inefficiency of government and meet the needs of society.

Of course, these rationales may prove to be wishful thinking. Opponents of regulation argue that any benefits are questionable while the costs are real. Estimates of the actual costs from CSR regulations vary depending on who is doing the math. The EU predicts that its new CSR reporting laws will cost companies a mere 5,000 euros per year. However, other experts claim it will actually require several full-time employees per firm. (Bickham 2015) If these laws do end up requiring multiple new hires, they may drive up prices, drawing the ire of consumers, and increase the regulatory burden on companies.

This could lead to a falling out between governments and industry. PWC found that a large majority of CEOs cited over regulation (79 percent) and increasing tax burden (69 percent) as their biggest concerns for the future. (PWC 2016) By comparison, only 50 percent listed Climate Change.

Over the coming decades, this debate will continue to rage. We will see whether such governmental regulations genuinely lead to more prosocial business practices and better public/private collaboration, or whether they merely hinder the progress of companies already seeking to do good.

Deeper Integration

The second defining trend of CSR's future will be deeper integration. CSR will necessarily move from being an afterthought to an inseparable part of company strategy. Difficult times likely lie ahead, and thus corporations must play a crucial role addressing societal needs in coming decades.

According to Christopher Colford of The World Bank, widespread economic stagnation is inbound for developed countries. (Colford 2016) Governments have been trying to avoid this for years through austerity, negative interest rates, and enormous infrastructure investments. Despite trillions spent on new government programs in many countries, the world economy is still merely sputtering along. With the specter of climate change looming, the prospect of renewed and robust economic growth seems even more unlikely.

Traditionally, governments would be expected to remedy such a situation. However, governments are revealing their impotence against the truly wicked problems facing our globalized economy. According to CSR expert Stuart Hart of Cornell University, this is because they are in the pocket of moneyed interests and are hindered from taking the drastic actions necessary to create real change. He argues then that corporations, not governments, are the actors most suited to addressing today's societal issues. Since corporations are dependent on consumers to operate, Hart asserts that they have an inherent understanding of the public interest—an interest they can *and will* address in line with their core profit motive. (Hart 2016)

The writing is on the wall: government action alone is insufficient; therefore, CSR must become a central tenet of business. And it must be run as effectively as any standard business endeavor.

In order for CSR programs to meet these vital needs, companies must abandon "feel good" projects whose primary outputs are PR reports. There needs to be systematic integration of corporate responsibility in every aspect of business. Experts have coined many different names for this shift: "connected leadership," (Cisco 2015) "systems level thinking," (Horoszowski 2016) "partnering," (Keys, Malnight & van der Graaf 2009) and "Theater Three programs" (Rangan, Chase & Karim 2015) to name a few.

CSR projects that don't play to a company's strengths need the chopping block. Rasturi Rangan and colleagues argue this point extensively in the *Harvard Business Review*. Companies today often try to engage in the same stereotypical CSR programs: "days of volunteering," employee giving, and corporate donations to charity. In Rangan and colleagues' view, this is both inefficient and ineffective. (Rangan, Chase and Karim 2015) Not every company needs to engage in these ways. When poorly executed, such short term volunteering drives can actually be harmful by flooding nonprofits with poorly trained volunteers who end up wasting their money and time. (Pfeiffer 2015) Instead, companies should focus on initiatives that leverage their expertise. (Rangan, Chase and Karim 2015)

Tracey Keys and colleagues at McKinsey call this a shift from pet projects to partnerships. (Keys, Malnight & van der Graaf 2009) Examples include Unilever's *Project Shakti* and PNC's *Grow up Great* initiative. These programs are more than just arbitrary donations to charity. They are deeply integrated efforts that align the company's proficiencies and business goals with a societal issue. In the process, they maximize both benefit to business and benefit to stakeholders. Such programs are sustainable and impactful. They make financial sense, so they will last. They also create real change in their target communities.

Initiatives like *Project Shakti* are far too large and complex to be formulated in a small CSR department. John Browne, former Chairman of BP and Executive Chairman of L1 Energy explains that CSR departments currently lack the clout to implement programs on this scale. Instead, their "initiatives tend to be short-lived, dependent as they are on the whims of senior executives rather than the value they deliver." (Browne 2016) To overcome this issue, Mark Horoszowski of MovingWorlds.org argues that companies will axe umbrella CSR departments. In their place, companies will hire numerous individual specialists covering areas such as climate, human rights, and community involvement. Coupled with greater executive cooperation, this shift will help companies stop superficially "giving back" and move toward truly groundbreaking programs. (Horoszowski 2016)

Conclusion

Whether it is hailed as a triumph of the free market or a clever ploy to disguise corporate malfeasance, one fact is indisputable: Corporate Social Responsibility is a tremendous force in the modern world. In the coming years, we will witness a shift from voluntary CSR programs to government mandated ones. At the same time, the companies will move away from PR-CSR and toward business model innovation—toward disruptive efforts that do more than throw money at charities. Instead, firms will start initiatives that transform communities, nations, and the world at large. This can only be accomplished through robust collaboration between public and private sector actors. Such a collaboration will lead to more successful CSR efforts by simultaneously respecting the power of markets and the needs of society. The wicked problems of today are too global and complicated to be addressed by the slow, legislatively locked hands of governments. In the coming decades, effective CSR can and will become one of the principal tools for changing the world.

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