

Corporate Social Responsibility: a necessity not a choice.

International Business Report 2008





Introduction

Hardly a day goes by without some mention in the media of corporate social responsibility and its growing significance on good business practices. CSR, as it is commonly known, is becoming increasingly important to us all, both as individuals and in our professional lives. Despite much public focus on large multinationals, it is the changing behaviour of the privately held business sector that is likely to make the greatest impact on global corporate social responsibility. Privately held businesses have always been the economic engine of the world, but in recent years their voice has been lost under the clamour of the large multinationals.

Privately held businesses may not be conducting the expensive campaigns that catch the public's attention, but they are making changes which affect their bottom line. Whether changes are made to be more attractive employers, a more appealing supplier to a large multinational or simply because of the ethical desire of the owner, all the evidence in this survey points to privately held businesses becoming more socially responsible.

Whatever the reason, the survey results reflect an increasingly competitive and constantly changing business environment. As for the rest, it is surely only a matter of time before all privately held businesses have to adhere to greater pressure to do business in a more socially responsible and transparent manner. The businesses that are responsive, quick and innovative will be the ones who not only survive the change, but emerge as winners.



Alex MacBeath
Global leader – privately held business services
Grant Thornton International

What is corporate responsibility?

We all have a personal responsibility to each other and the world around us. Everything we do has an effect on other people. It is the same for businesses, large and small, public or private, that their actions affect a large number of stakeholders. Such stakeholders include customers, shareholders, employees, suppliers and society in general.

With growing scrutiny of business operations, organisations are increasingly being driven to satisfy the expectations of opinion formers, governments and customers in order to thrive. In essence, businesses adopting CSR principles believe that by operating ethically and responsibly, they have a greater chance of success. For privately held businesses (PHBs), with fewer stakeholders to satisfy, their greatest concern appears to be their customers and their own ability to satisfy the demand for products effectively.

Businesses are demonstrating that well managed corporate responsibility actually supports business objectives, especially amongst large corporates where improved compliance, reputation and relationships has been shown to increase shareholder value and profitability.

For privately held businesses, the pressure to act can stem from the demands of the supply chain, with large multinationals increasingly demanding that suppliers conform to ethical business practices. Incorporating corporate responsibility into a business's core strategy can also enhance its attractiveness as an employer.

Multinational organisations

In comparison to PHBs, large multinationals have a far more powerful stakeholder group to consider and have, in many cases, adopted an holistic approach to CSR. Many businesses have signed up to the United Nation's voluntary framework, The Global Compact, a cross-cultural ethical practice for businesses who are prepared to commit to principles in the following four main areas:

- human rights
- labour standards
- the environment
- anti-corruption.

The United Nations Global Compact is not a regulatory instrument, but relies on public accountability and the self-interest of companies to further its aims without enforcing or measuring business actions.

Governments

While corporate responsibility principles are developed within companies and often fostered by non-governmental organisations, national governments have a major role to play. They can set reference frameworks, encourage action and promote dialogue but crucially can enforce action through legislation. Governments can use taxation to encourage 'green' practices, set minimum wages and impose restrictions on working hours. In many countries targets are set on businesses to reduce greenhouse emissions. Yet many businesses stress that government incentives, rather than punitive taxes, would do more to encourage ethical behaviour, especially on 'green' issues.

What are privately held businesses doing?

PHBs are ‘the economic engine of the world’. Although public attention is often focused on large multinationals and how ethical their business practices are, PHBs are expected to adhere to the same ethical practices.

However, the two sets of businesses differ greatly in terms of size and structure. When adopting more ethical business practices, PHBs are at a distinct disadvantage to their multinational counterparts. Primarily due to lack of resources, but PHBs also lack experience or peers in their industry group to develop examples of ‘best practice’. PHBs also are not subject to the weight of expectation and attention which falls on multinationals who impact our daily lives.

Nevertheless, many PHBs are adhering to the highest ethical standards – why? In order to answer this question we need to understand what is driving business ethics amongst PHBs and what initiatives they are implementing.

Although PHBs perhaps face the greatest challenge, it is these businesses who could make the greatest impact on global corporate social responsibility.



International Business Report Results

What is driving corporate responsibility?

The International Business Report (IBR) 2008 results emphasise a key point – that the adoption of ethical business practices is fundamental to the success of privately held businesses.

The main factor driving corporate responsibility is the need for PHBs to attract and retain high quality staff to meet current and future demands (see figure 1). This was identified by 65 per cent of respondents in our survey. Closely behind was cost management (63 per cent) reflecting the recognition that controlling costs is good for business and the environment. The need to establish confidence and loyalty among customers led 56 per cent of respondents to cite public attitudes/building brand as an important driver.

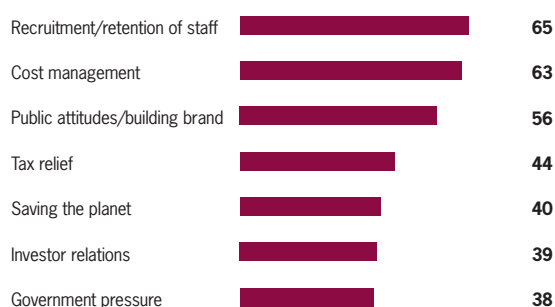
Employment

Recruitment/retention of staff was a driver of social responsibility in all countries – and the main factor in almost half of surveyed countries (figure 2). The proportion of respondents citing this driver as important varied from 53 per cent in Hong Kong to 89 per cent in Denmark.

Unemployment in Denmark is amongst the lowest in the world, perhaps explaining respondents' concern with labour recruitment/retention. Labour market considerations also seem to lie beneath the high proportion citing this factor in Turkey (86 per cent) and Vietnam (85 per cent), where skills shortages in certain sectors are acute and some employers have great difficulties with staff retention.

Figure 1: Drivers of corporate responsibility

Percentage of privately held businesses citing factor as important



Source: Grant Thornton IBR 2008

Cost management

Maintaining strict cost control encourages careful management of resources whose use can contribute to CO₂ levels and environmental degradation. The IBR results show widespread agreement that the need to control costs encourages ethical behaviour amongst PHBs. Only in a few countries did 50 per cent or fewer respondents cite this issue. It was considered as the leading driver in eleven countries, led by Brazil (87 per cent) and India (85 per cent).

“Business ethics is a key factor for recruitment and retention in Denmark’s tight labour market. Privately held businesses ignoring CSR issues are facing future skills shortages that will threaten their global competitiveness.”

Jan Hetland Møller
Grant Thornton, Denmark



Figure 2: Main driver of corporate responsibility

Cost management	Public attitudes/ building brand	Recruitment/ retention of staff	Tax relief	Investor relations
Botswana	Argentina	Armenia	Thailand	Vietnam
Brazil	Greece	Australia		
France	Ireland	Belgium		
Hong Kong	Mexico	Canada		
India	Singapore	Denmark		
Italy	Spain	Germany		
Malaysia		Japan		
Netherlands		New Zealand		
Philippines		Poland		
South Africa		Russia		
Taiwan		Sweden		
		Turkey		
		United Kingdom		
		United States		

Source: Grant Thornton IBR 2008

Public attitudes/building brand

While they may not be under the same scrutiny as multinationals, PHBs still identify responsible behaviour as being integral to reputational management and long-term strategy. Public attitudes/building brand is cited by 56 per cent of respondents globally as a key driver of ethical business behaviour. Mexico (89 per cent) and Greece (85 per cent) top the list while France lies at the other extreme at only 27 per cent, a long way behind the next lowest country – Belgium at 39 per cent.

It is interesting to note that for PHBs, public attitudes/building brand comes after employee and cost management issues. It suggests that individuals are driving PHBs towards more ethical business practices. As organisations grow in size, the level of scrutiny under which they operate also grows with large multinationals having to give greater consideration to public attitudes/building brand.

Tax relief

Taxation reasons are perceived as the most important driver of business ethics in only one country, Thailand, cited by 94 per cent of respondents. Nevertheless, tax measures were cited as important incentives by a large percentage of respondents in Brazil and Vietnam, both at 79 per cent. In Brazil this seems to reflect taxation reductions introduced to encourage businesses to standardise employment practices. Tax transparency is also a prerequisite to public listing – a desire for many privately held businesses in Brazil.

Taxation is one area that governments can use to force businesses to change their actions. However, it is not evident from the IBR results that any CSR related taxes are having a strong effect on PHBs, which poses a question: Have governments around the world utilised taxes or tax breaks effectively enough to positively affect global business ethics?

Investor relations

Only in Vietnam are investor relations considered the prime incentive to adopt a more ethical business practice. Vietnamese PHBs appear to be benefiting from structural reforms to modernise the economy and boost more competitive, export-driven industries, but this modernisation is very recent and companies appear to be striving to impress both local and overseas investors. This also seems to be a feature of emerging markets in general with India (75 per cent of respondents), the Philippines (71 per cent), Brazil (64 per cent) and Turkey (63 per cent) leading the emerging economies citing this factor.

By contrast, in more mature economies, where investor relations have been managed for decades, it is seen as less of a driver. Throughout the EU and in Singapore, the proportion of respondents identifying investor relations is 35 per cent; 32 per cent in the United States and just 9 per cent in Japan. These figures are perhaps unsurprising considering that PHBs have fewer external investors to satisfy compared to public listed companies.

'Saving the planet' and 'government pressure'

Neither option was considered the 'most' important driver of corporate responsibility in any country. But saving the planet was cited as an important factor by three quarters (or more) of respondents in Brazil (84 per cent) and India (75 per cent). At the other extreme is the United States with just 21 per cent of PHBs identifying saving the planet as a driver for social responsibility, and in many other mature economies less than a third of respondents identified this as a key issue.

Government pressure was considered an important driver by just 38 per cent of respondents, the lowest of the seven issues which the IBR presented. It featured most prominently in Italy (67 per cent) and least in Denmark (16 per cent).

There is no doubt that governmental pressure can generate positive action. The question is whether governments are doing enough in the PHB sector for the level of change needed?



Implementing corporate responsibility

When privately held businesses were asked what they had done in the past year to manage their corporate responsibility, workforce related matters topped the list (see figure 3). This complemented the result which showed staff attraction/retention as a key driver of ethical behaviour.

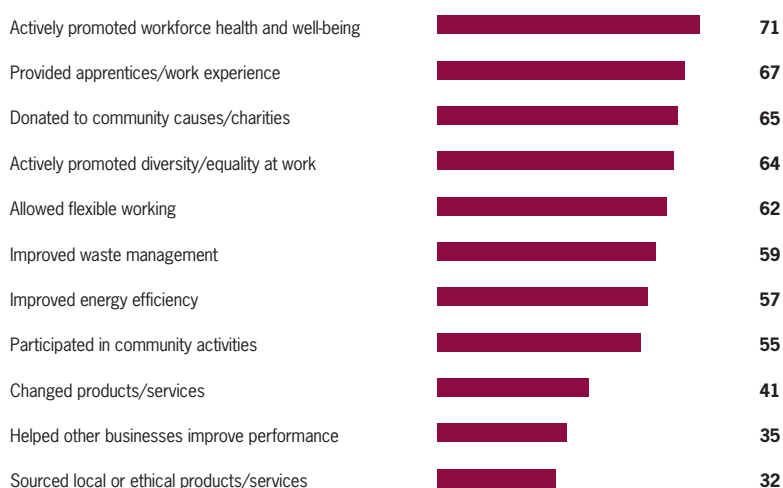
Four of the top five initiatives were directly associated with people and their workplace – active promotion of workforce health and well-being (71 per cent of respondents); provision of apprenticeships and work experience (67 per cent); promotion of diversity/equality in the workplace (64 per cent) and allowing flexible working (62 per cent). These all have an important role in the context of social responsibility, though the initiatives also play a key role in human resource management.

Health and well-being

Measures to improve workforce health and well-being are in place at most PHBs surveyed – over 80 per cent in many countries and over 90 per cent in Malaysia, South Africa, the United States and New Zealand. They are clearly seen as vital to attract and retain staff in a tight labour market, with skills shortages pressurising production and growth. Even in emerging markets at the other end of the scale – Thailand, India, Armenia and the Philippines – 35 to 45 per cent were undertaking such measures.

Employee health is essential to the morale of the workforce. Such incentives demonstrate an employer's concern about the individuals it employs. However, it is also increasingly important to manage costs encountered through time lost from long-term absenteeism – a huge issue for private businesses in some more mature economies.

Figure 3: Corporate responsibility initiatives undertaken in the past year
Percentage of privately held businesses



Source: Grant Thornton IBR 2008

Internships and work experience

Businesses offering internships and work experience are often best placed to identify the market's finest talent and are in prime position to recruit them to permanent positions. Among the global regions, the practice was most prevalent in the EU (83 per cent of respondents) but two Latin American countries – Mexico (95 per cent) and Argentina (87 per cent) – recorded higher proportions. The bottom eight countries in this context are all in Asia, with very low proportions in India (35 per cent), Japan (40 per cent) and Vietnam (41 per cent). Businesses in industries particularly challenged by skills shortages have shown that by using internships and work experience initiatives effectively, they can help to find the right talent to build a stable future for their business.

“Private businesses in Malaysia are being forced to change their products and services to reduce their environmental impact. Businesses satisfying the global demand for more ethical production and delivery are best placed to capture the rapidly growing market generated by discerning consumers and multinationals.”

Dato' Narendra Jasani
Grant Thornton, Malaysia



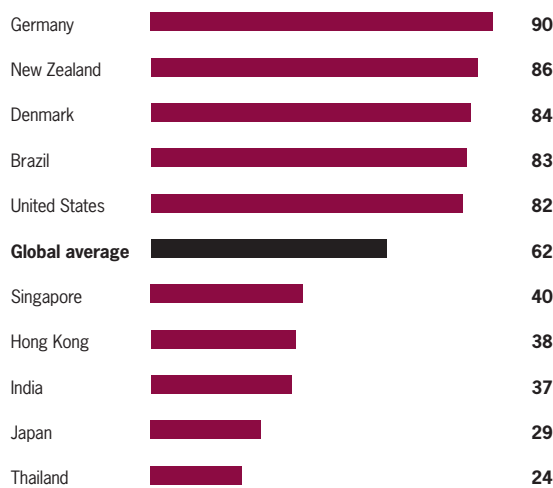
Donating to good causes

This is the third most popular action in managing social responsibility in our survey, and the only one in the top five not concerned with human resource issues. International practice shows very marked divergences reflecting cultural and fiscal differences, strongly affecting individual country results. In Thailand, for example, donating to worthy causes is a strictly personal and religious matter, rather than a business issue. Thus only 11 per cent of respondents record donations to community causes/charities. Similar cultural factors also affect corporate donations in France, where only 31 per cent of privately held businesses donate. The Philippines (22 per cent), Japan (27 per cent) and India (33 per cent) also have very low percentages in this area. Countries with tax concessions, no cultural inhibitions and where useful publicity can accrue, push up the global average to 65 per cent. The highest proportions are in the United States (94 per cent), New Zealand (91 per cent), and Botswana, Ireland and South Africa (all 88 per cent).

Diversity/equality in the workplace

The culturally diverse economies of Malaysia (91 per cent), South Africa (90 per cent) and the United States (84 per cent) lead the way on implementing policies to promote equality in the workplace. In most other countries this figure falls to between 60 and 80 per cent, but there are some major exceptions – Japan (28 per cent), Singapore (21 per cent) and Thailand (15 per cent).

Figure 4: Countries allowing flexible working – top and bottom five
Percentage of privately held businesses citing action taken



Source: Grant Thornton IBR 2008

Flexible working

In today's increasingly demanding society, employers are having to become more flexible to accommodate family-friendly work practices.

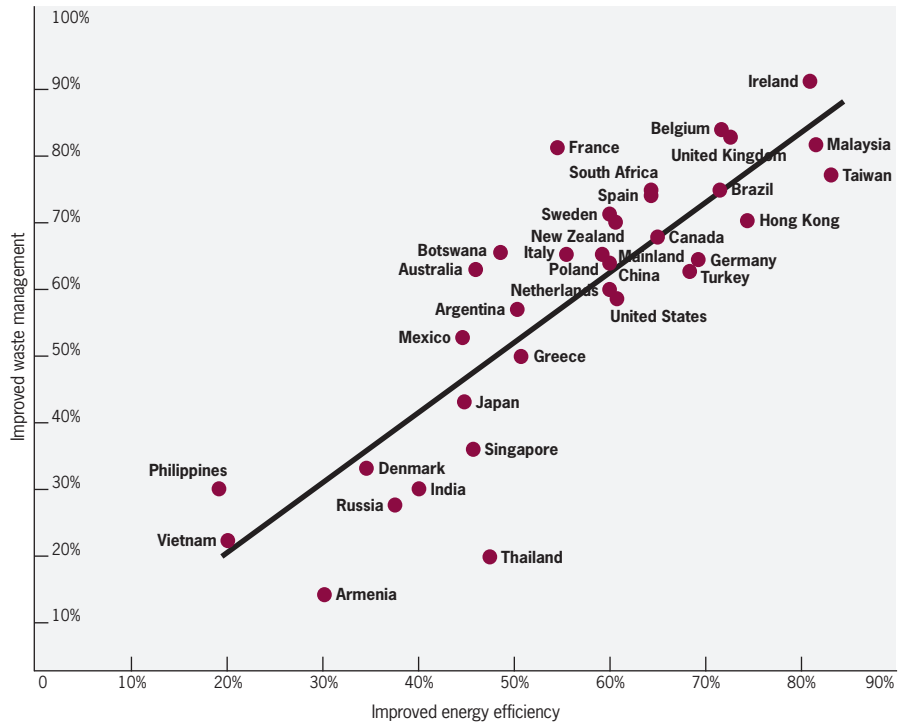
The IBR survey found that action to promote flexible working has been widespread over the past year, notably in Germany, where 90 per cent of PHBs adopted such measures. There is a spread of countries across the globe among the most vigorous promoters of flexible working, see figure 4, but those least likely to adopt flexible working are all in Asia. This suggests that working practices such as home working or flexitime are yet to reach private businesses in some of the emerging markets. However, the rate of growth and the increased maturity of such economies seems likely to lead to the rapid modernisation of working practices in the near future.

Waste management and energy efficiency

Improved waste management and energy efficiency are strongly correlated – as shown in figure 5. In many countries, led by Ireland, Malaysia and Taiwan, a large proportion of respondents say they have taken action on waste management and have also acted to improve energy efficiency. In general, countries at this end of the scale have mature but resource poor economies, so there is a strong incentive for energy and related efficiency. At the other end of the scale, in Armenia and Vietnam, relatively few companies have acted on energy efficiency and waste management. These countries are newcomers to the global marketplace and at present, amid their very rapid progress, waste management and energy efficiency appear to have a relatively low priority.

However, as frameworks and policies become increasingly global and universally accepted, emerging markets may have difficulties reaching any potential levels driven by their more mature counterparts. Such global policies appear inevitable in the long term and for some privately held businesses, falling behind in implementing waste management and energy quotas may become a concern. They may wish to act now to avoid being crippled by daunting targets over the coming decades.

Figure 5: Correlation between waste management and energy efficiency



Source: Grant Thornton IBR 2008



“Many privately held businesses in Argentina are experiencing pressure from their multinational customers to become a more ethical supplier. As a result, CSR credentials are becoming a priority for Argentine businesses as they compete in the global marketplace.”

Enrique Langdon
Grant Thornton, Argentina

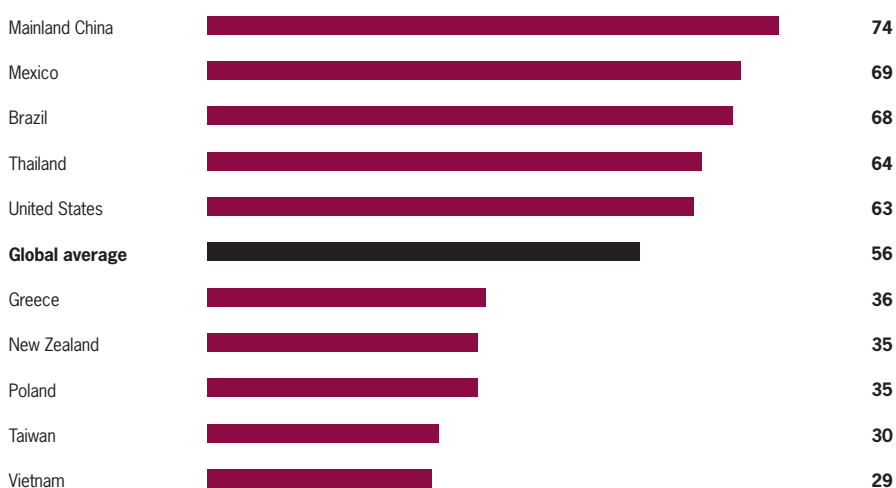


A formalised strategy?

We asked privately held businesses whether corporate responsibility policies were incorporated into a written document or strategy. Amongst all businesses, 56 per cent said they had a formalised programme. However, the proportion in individual countries showed marked variations from the global average, ranging from 74 per cent in mainland China to 29 per cent in Vietnam, see figure 6. Yet neither at the top or bottom of the range was a pattern discernable among the countries included, from a geographical, development status or political perspective.

However, the appearance of countries such as mainland China, Mexico and Brazil at the top suggests that PHBs in these countries have come under the greatest pressure to formally adopt a strategy to comply with the CSR frameworks of their large corporate customers.

Figure 6: Formal corporate responsibility programmes – top and bottom five
Percentage of privately held businesses incorporating CSR policies into a formal responsible business practice programme



Source: Grant Thornton IBR 2008

The demand for action

The IBR survey shows that privately held businesses appear more likely to adopt ethical business practices for practical commercial reasons than any other. Although unsurprising, it offers an insight into ways in which organisations and governments can improve global corporate social responsibility.

While ‘saving the planet’ is a concern, by far and away the main drivers for action on corporate social responsibility are recruitment and retention issues followed closely by cost management. This highlights the power of the individual. Privately held businesses are having to take notice of individuals and install CSR initiatives because it is being demanded by their workforce through recruitment and retention issues.

Another factor is the demand of the large corporates. CSR frameworks are filtering down the supply chain, influencing the business practices of privately held businesses. Such businesses are often able to change the direction of their business more efficiently due to the ability of the owner to individually alter the business's operations.

Corporate social responsibility is no longer the domain of the large corporate and is now a necessity rather than a choice. Those privately held businesses adopting ethical business practices quickly and efficiently will survive. These are the businesses who will secure the skilled workers and the contracts with the large multinationals.

Those failing to act now face an uncertain future.



IBR contacts

The International Business Report (IBR), formerly known as the International Business Owners Survey (IBOS), provides insight into the views and expectations of over 7,800 privately held businesses across 34 economies. This unique survey draws upon 16 years of trend data for most European participants and six years for many non-European economies. The research was conducted by Experian Business Strategies.

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Note to readers.

Mainland China is not included in responses to drivers of Corporate Responsibility due to compliance with research regulations in mainland China.

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