Grant Thornton

An instinct for growth™

Corporate social responsibility: *beyond financials*

Grant Thornton International Business Report 2014

Executive summary

Investor calls for transparency and the rise of social media have thrust the impact businesses have on the economy, the environment and society more firmly into the public spotlight. Drawing on more than 2,500 interviews with business leaders in 34 economies through our International Business Report (IBR), insight from the leading children's charity UNICEF and Grant Thornton leaders, this report looks at what companies are doing to make their operations more sustainable and why, and considers the role integrated reporting can play in improving transparency and decision making.

Drivers

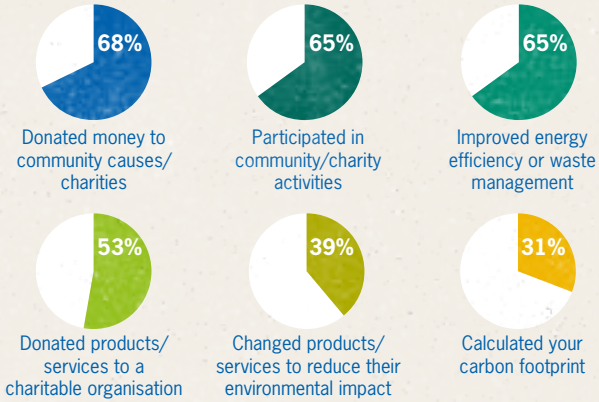
- Businesses report increases in major drivers to move towards more environmentally and socially sustainable business practices
- Cost management emerges as the key driver, followed by customer demand and because it's the 'right thing to do'
- How a business is perceived to be operating is also important, especially in China

Key drivers

Initiatives

- Vast majority of businesses are involved with local charities, either through donating time, money or products/services
- Businesses are working to reduce their environmental impact, with increasing numbers calculating the carbon footprint of their operations

Key initiatives

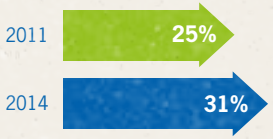


Reporting

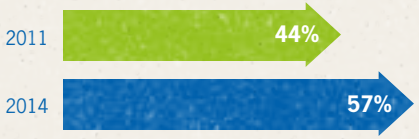
- Sustainability reporting has increased since 2011
- More than half of businesses now view integrated reporting as best practice

Integrated reporting

Current report on sustainability



Agree integrated reporting is best practice



Foreword

In a digital world characterised by instant customer feedback and growing demands for transparency, businesses need to be mindful not just of what they are doing, but of how they are doing it. Building a strong brand is increasingly dependent not just on the quality of products and services but on the wider impact of business operations on society, the environment and the economy. Companies which boost profits at the expense of the local population or natural environment can find demand for their products and services drying up in the face of a press or social media storm.

We have been tracking business attitudes to corporate social responsibility (CSR) through our International Business Report (IBR) since 2008. Drawing on more than 2,500 interviews with business leaders in 34 economies around the world, *Corporate social responsibility: beyond financials*, finds that customer demand is indeed a key driver in the move towards more environmentally and socially sustainable business practices. Encouragingly a strong sense of pure altruism is also evident; many businesses are adopting more sustainable practices simply because it's the 'right thing to do'.

However the potential for cost savings emerges as the most important driver globally, a significant change since we last researched this topic in 2011 when business leaders were more focused on attracting potential customers and employees. This suggests that the benefits of running a strong CSR programme are becoming more tangible and indeed the most popular initiatives undertaken by businesses around the world - donating money to charities and improving energy efficiency and/or waste management - can impact on the bottom line either indirectly through tax relief or directly through lower utility bills.

An increasing awareness of the benefits of reporting sustainability measures and not just financials is also evident. At Grant Thornton, we believe that integrated reporting can play an important role in communicating businesses' environmental and social impact to investors and other stakeholders. In December 2013, the International Integrated Reporting Committee (IIRC) launched its integrated reporting framework, developed, I am delighted to say, with contribution from Grant Thornton colleagues, including our global CEO Ed Nusbaum. The framework offers a concise communication of an organisation's strategy, governance and performance; it sets out how organisations can demonstrate the link between financial performance within the wider social, environmental and economic context; and shows how they create value, not just over the short term but also in the longer term. This approach, which we fully support, should enable more effective decision making at board level, improve investor information and encourage deeper dialogue about the impact of business practices.

The leadership of dynamic businesses towards more socially responsible and transparent practices is likely to emerge as a competitive edge to unlock their potential for growth in an ever more crowded marketplace.

Paul Raleigh
Global leader - strategic development and growth
Grant Thornton

Drivers

Following the global financial crisis in 2008 and subsequent recession, the majority of drivers moving businesses towards more socially and environmentally responsible practices dropped away as businesses pulled back somewhat from activity in this area, focusing on maintaining their share of a market shrinking in the face of austerity and reduced consumer spending. However, this year's research reveals that the strength of these drivers has returned over the intervening period.

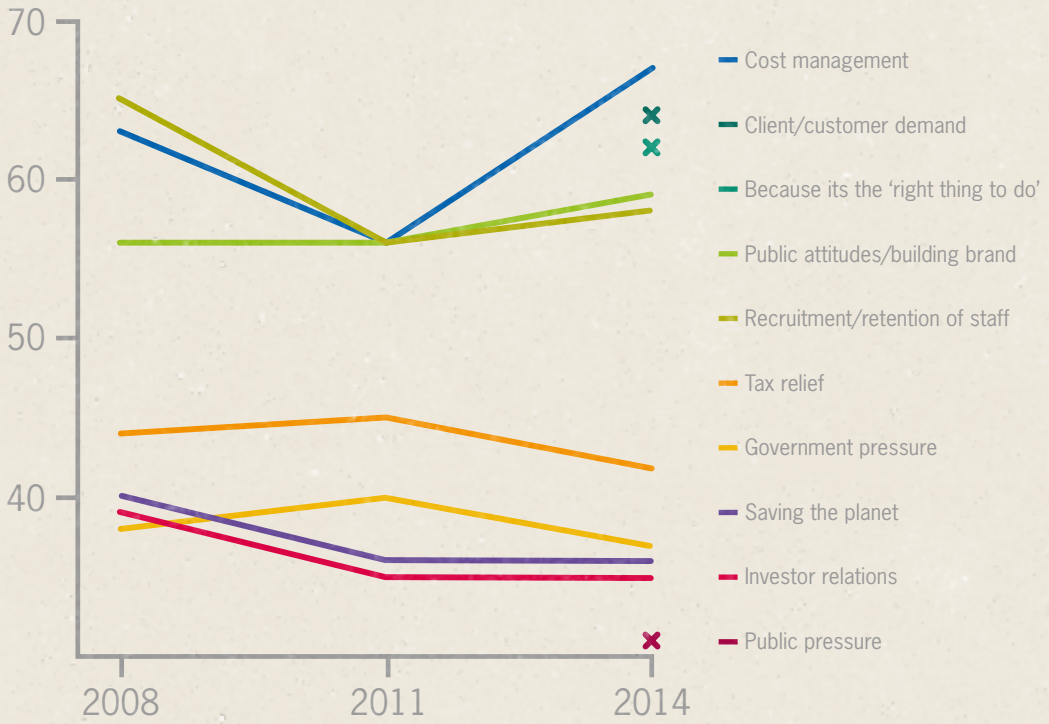
In 2011, cost management, brand building and the recruitment/retention of staff were all tied in first place, each cited by 56% of businesses as an important driver in their push towards adopting more ethical business practices. However, over the past three years, cost management has risen by 11 percentage points (pp) to 67%, making it easily the greatest consideration for businesses. The rise in the importance of cost management this year compared with results from 2008 is less pronounced when 63% of businesses cited this driver, placing it behind only recruitment/retention of staff (65%).

Two additional drivers, asked for the first time in 2014, rank second and third: client/customer demand is cited by 64% of business leaders globally, followed by 'because it's the right thing to do' (62%).

The key drivers towards the adoption of more socially and environmentally responsible practices have risen since 2011.

This pushes public attitudes/brand building (59%) and recruitment/retention of staff (58%) down to fourth and fifth position despite both rising in importance since 2011.

What is driving businesses in your industry to implement more socially and environmentally responsible business practices? (%)



Source: Grant Thornton IBR 2014

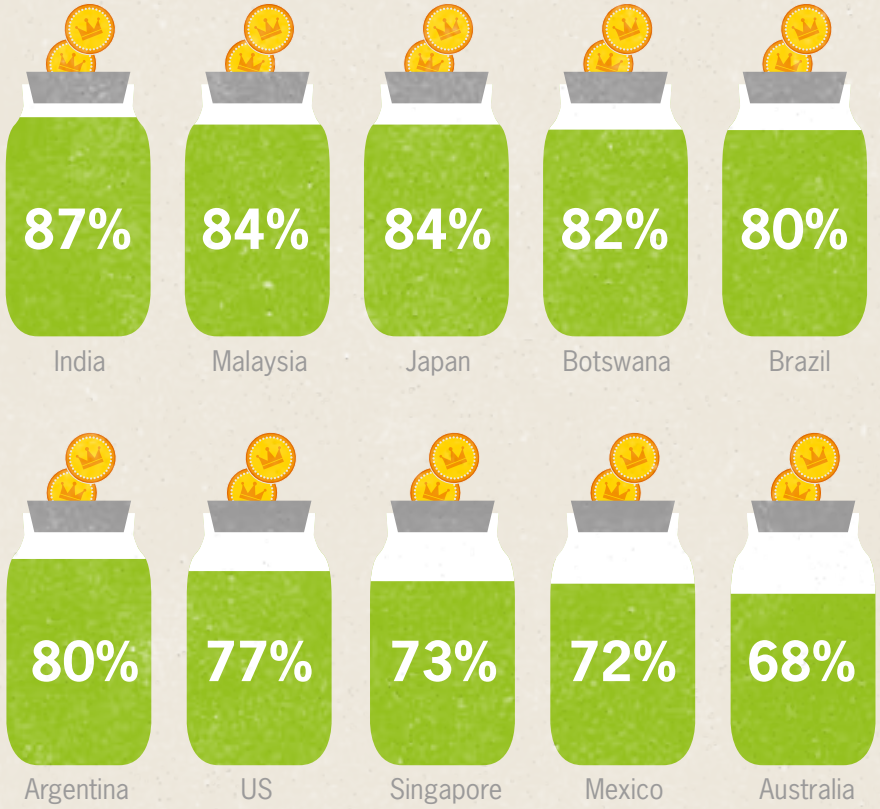
Cost

The role of cost management has increased in a number of economies across the world since 2011. As the Boston Consulting Group say, there is now a recognition that the "trade-offs between economic development and environmentalism aren't necessary. Rather, the pursuit of sustainability can be a powerful path to reinvention for all businesses facing limits on their resources and their customers' buying power."[1] For businesses this can be as simple as reducing energy wastage or as complex as reviewing the integrity of their supply chain.

Over the past three years, the importance of cost management has risen dramatically in the United States: 77% of businesses now cite it as a key driver, a rise of 35pp. This is also an important driver across Latin America (77%), having increased significantly in Argentina, Brazil and Mexico since 2011. However, three Asia-Pacific countries - India (87%), Japan and Malaysia (both 84%) - top the global rankings. In Europe, businesses in Spain (+23pp) and Italy (+18pp) are much more aware of the cost-cutting potential of introducing more environmentally and socially sustainable business practices, but overall just 53% of businesses across the region cite cost management as an important driver. This compares to 63% across Africa. Cost also emerges as the key driver in a number of more traditional sectors globally, including transport (83%), utilities (73%), real estate and construction (71%), agriculture (68%) and mining (59%), as well as financial services (71%).

67%
of businesses globally cite cost management as a key driver

Percentage of businesses citing cost management as a key driver (top ten)



Source: Grant Thornton IBR 2014

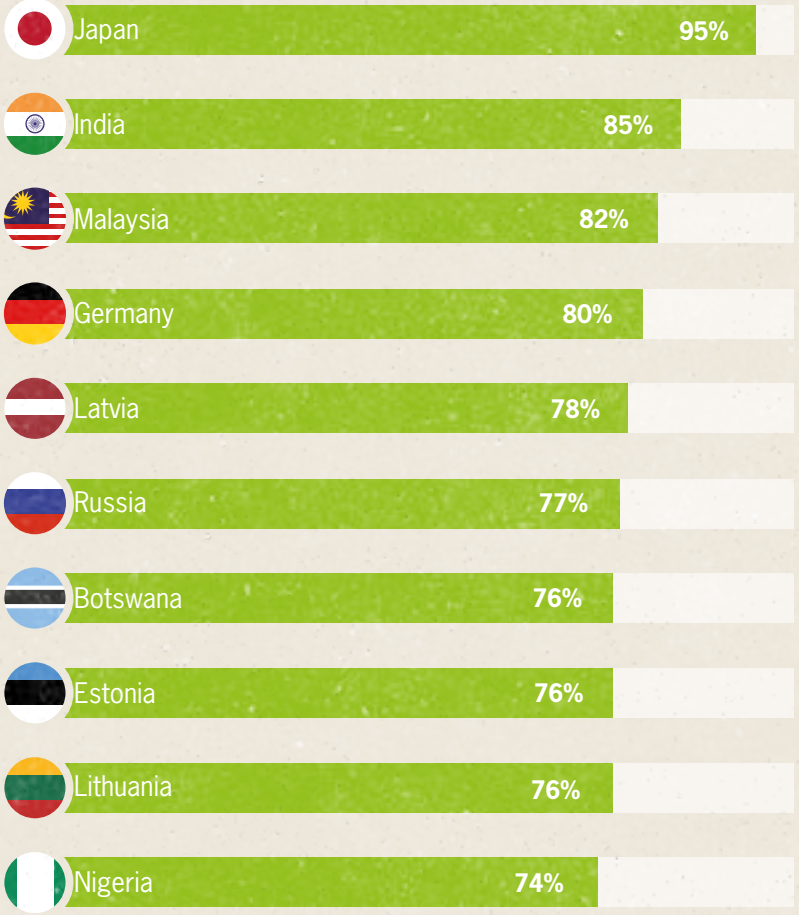
[1] 'Making Sustainability Profitable' - Harvard Business Review 2013

Demand

Greater reporting transparency and the rise of social media have brought business actions ever further into the public spotlight. Customers are not only able to protest against companies which pursue socially unacceptable practices, but in an increasingly digital world, are able to 'vote with their feet' by sourcing alternative products and services from competitors with stronger ethical credentials.

Japan (95%), followed by India (85%) and Malaysia (82%) top the global rankings of businesses being driven by customer demand towards more environmentally and socially sustainable practices. This pushes the Asia Pacific average up to 72%, just ahead of Europe (69%) where German (80%) customers appear particularly discerning in this area, alongside their peers in Poland (74%), France (73%) and Italy (72%). It is also the top driver in the United Kingdom (62%). However, there appears to be much less pressure on US businesses in this regard: just 46% of businesses cite customer demand as an important driver, the joint-lowest globally, level with Indonesia. This is the principal driver for businesses in the Hospitality (82%) sector where businesses are faced with fairly elastic demand in that customers usually have a lot of choice in terms of where to eat, sleep or socialise. Demand is also the key consideration for businesses closely linked to the public sector - healthcare and education (both 74%) - as well as manufacturing (68%) and professional services (65%). It is also a key driver for cleantech businesses (77%).

Percentage of businesses citing customer/client demand as a key driver (top ten)



Source: Grant Thornton IBR 2014

Morality

Moving towards more environmentally and socially sustainable business practices because it's the 'right thing to do' may seem a fairly nebulous concept in the world of business.

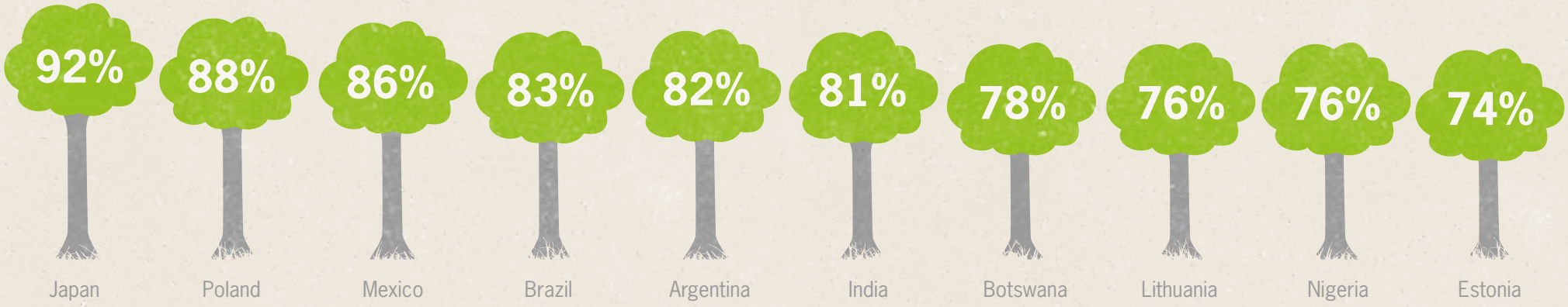
In general, businesses need clarity of what is and is not acceptable; that corporates cannot be expected to make morality-based judgement calls was a key defence of the tax planning practices of multinationals last year. These results however, show that the vast majority of business leaders have a keen interest in taking a leadership position on sustainable business practices.

The majority of businesses are prepared to take an altruistic leadership position on the adoption of more sustainable business practices.

Business leaders in Japan (92%) are guided most globally by their 'moral compass', followed by Poland (88%) and the three Latin American economies in the survey, Mexico (86%), Brazil (83%) and Argentina (82%). This is also a major driver for business leaders in Africa (71%), Asia Pacific (66%) and North America (62%).

Businesses in comparatively young dynamic sectors, cleantech (82%) and technology (67%) also cite this as the key driver. It is also a key consideration for their peers in hospitality (79%), education (72%) and retail (64%).

Percentage of businesses citing 'because it's the right thing to do' as a key driver (top ten)



Source: Grant Thornton IBR 2014

Perception

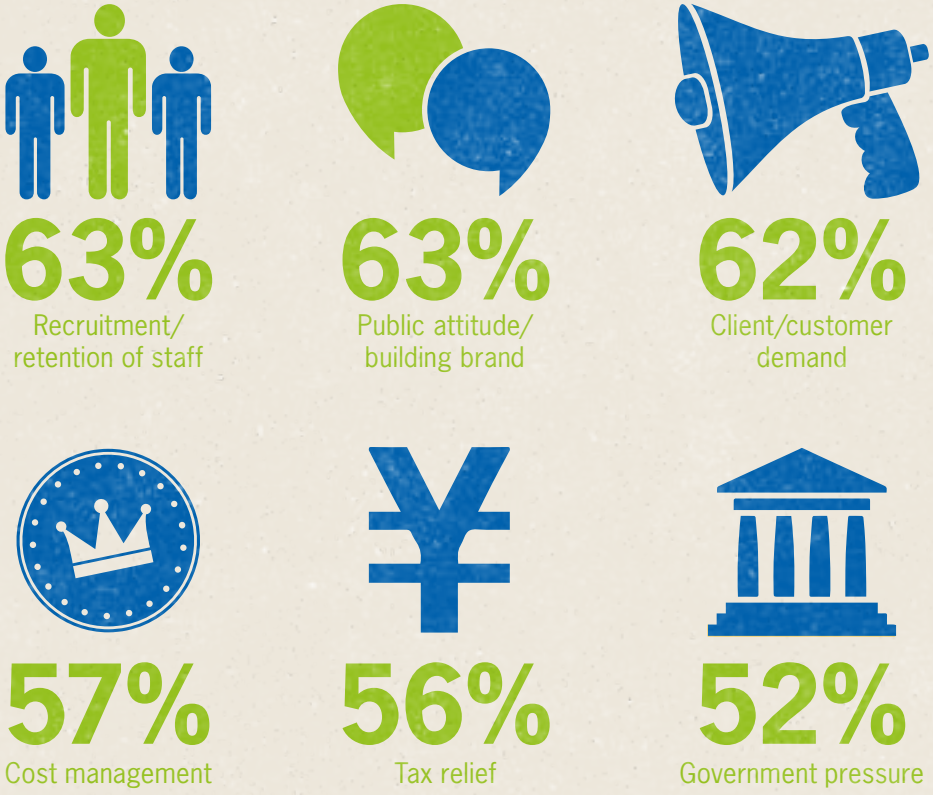
How a company is perceived by current or prospective stakeholders - be they customers, investors, leaders or employees - in terms of the wider impact of its activities remains an important driver to business leaders.

The importance of building brand has risen 3pp globally since 2011, while the recruitment/retention of staff has climbed by 2pp. The rise in the role of brand building is largely driven by North America (+4pp) and Europe (+3pp). By contrast, their counterparts in Latin America (-22pp) are markedly less driven by public attitudes to their practices compared with three years ago. Businesses in Europe (+8pp) and Asia Pacific (+2pp) are markedly more focused on the power of attracting and keeping hold of staff through adherence to more sustainable business practices, in sharp contrast to peers in North America (-5pp).

Business leaders in India and Japan are particularly focused on these perception issues: in Japan, 92% of respondents cite recruitment/retention of staff as an important driver, and 77% cite building brand; in India the figures are 82% and 85% respectively. These two results help drive the Asia Pacific average up to 66%, above North America (59%), Africa (57%) and Europe (47%). Improving the perception of the businesses to workers and potential workers is also key to the hospitality (77%) and cleantech (75%) sectors; while hospitality (77%) again, utilities (69%) and technology (66%) are also looking to build brand.

Perception also emerges as the key drivers in China. 63% of Chinese business leaders cite either the recruitment/retention of staff or brand building, both slightly above the global average. These findings echo research we conducted in China last year, *The Thoughts of Chairmen Now*[2], which noted that businesses leaders recognise the challenges of operating under the auspices of 'Brand China' and are focused on building trust and loyalty in their goods and services. Government pressure also remains a big driver in China with more than half of businesses citing it as important (52%), compared to 37% of all businesses. High levels of air pollution in major cities such as Beijing have prompted a strong response from the ruling party with prime minister Li recently declaring "war" on pollution.

Top drivers in China (percentage of businesses)



Source: Grant Thornton IBR 2014

[2] The Thoughts of Chairmen Now - Grant Thornton and WPP; http://www.gti.org/ChairmenNow/index.asp

Initiatives

Businesses across the world are involved in a wide range of activities which aim to reduce the social and/or environmental impact of their operations. The majority of companies are involved in local causes or charities in some way; around two-thirds globally gave time or money over the past 12 months, while over half donated products or services. Many businesses are also active on the environmental side; almost two-thirds improved energy efficiency or waste management, around two-fifths changed their products or services to reduce their environmental impact, and close to a third calculated the carbon footprint of their operations, a sharp increase from 2011.

Social

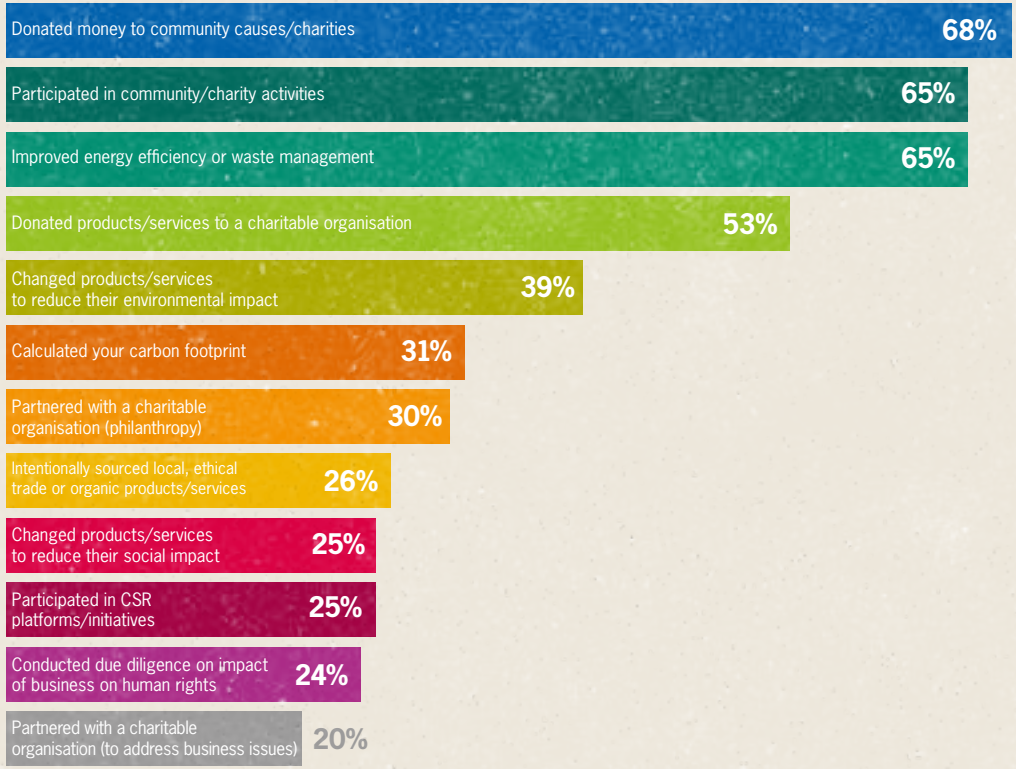
Businesses in North America, where philanthropy is deeply ingrained in the culture, are clear global leaders in terms of working with local charities.

The overwhelming majority of companies across Canada and the United States donated money (93%) or time (91%) to community causes/charities in 2013, and a further 78% donated products or services.

The vast majority of businesses in North America are involved with local charities or causes.

The comparison with other regions globally is striking; in Europe, two-thirds donated money (69%) and more than half participated in community causes/charities (58%) but just 41% donated products or services. Donating money is the most popular CSR initiative undertaken in Latin America (57%), slightly above donating time (50%) or products and services (42%); across Asia Pacific, fewer than half of businesses contributed in any of these ways. Only in Africa are business participation rates in charities (93%) higher than in North America, with those donating money (85%) or products or services (70%) also well above the global average.

Which of the following has your company done in the last year?



Source: Grant Thornton IBR 2014

"Good CSR is so much more than writing a cheque. At Grant Thornton we are focused on how the skills of our people can help unlock the potential for growth in our local communities through a wide range of charitable, educational, environmental and healthcare initiatives."

Paul Raleigh, global leader - strategic development and growth, Grant Thornton

Businesses in technology, retail and financial services emerge as the most active sectors globally.

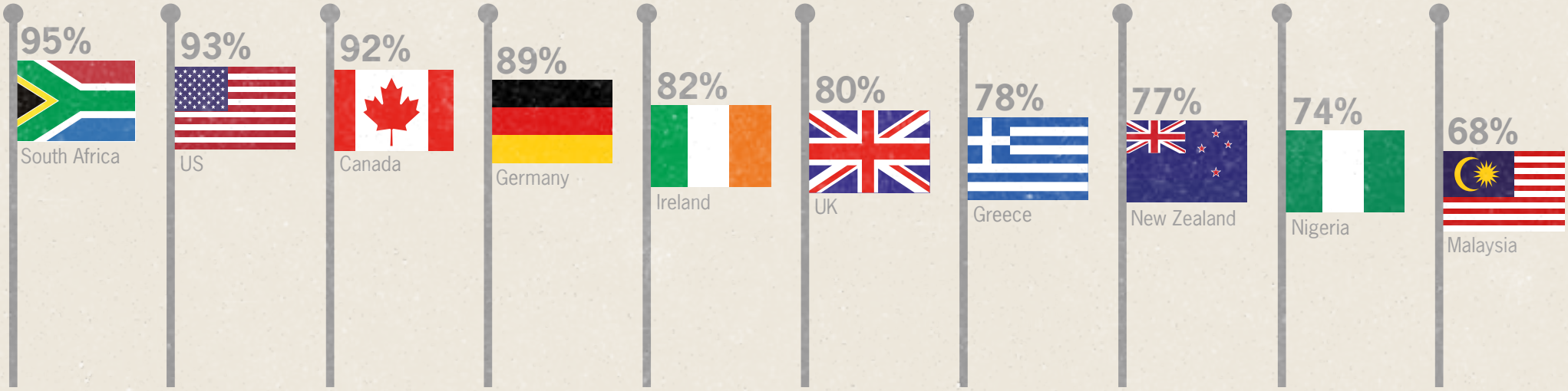
At the regional level, businesses in Africa (47%) and North America (44%) are also most likely to have moved into a more formal partnership with a charity for philanthropic purposes.

Relatively few businesses around the world have specifically changed products or services to reduce their social impact

At the country level, more than half of businesses in Nigeria (52%), Australia and Greece (51%) have taken this step, well above the global average (30%). Relatively few businesses around the world have specifically changed products or services to reduce their social impact (25%), but this rises to 56% in mainland China.

Globally, just over a quarter of businesses intentionally sourced local, ethical trade or organic products/services over the past 12 months (26%), marginally lower than the figure recorded in 2011 (28%). Regionally, businesses in Africa (43%) are most likely to have taken action in this area, with those in Turkey (63%) and Greece (51%) leading the way at the country level.

Donated money to community causes/charities (top ten)



Source: Grant Thornton IBR 2014

Environmental

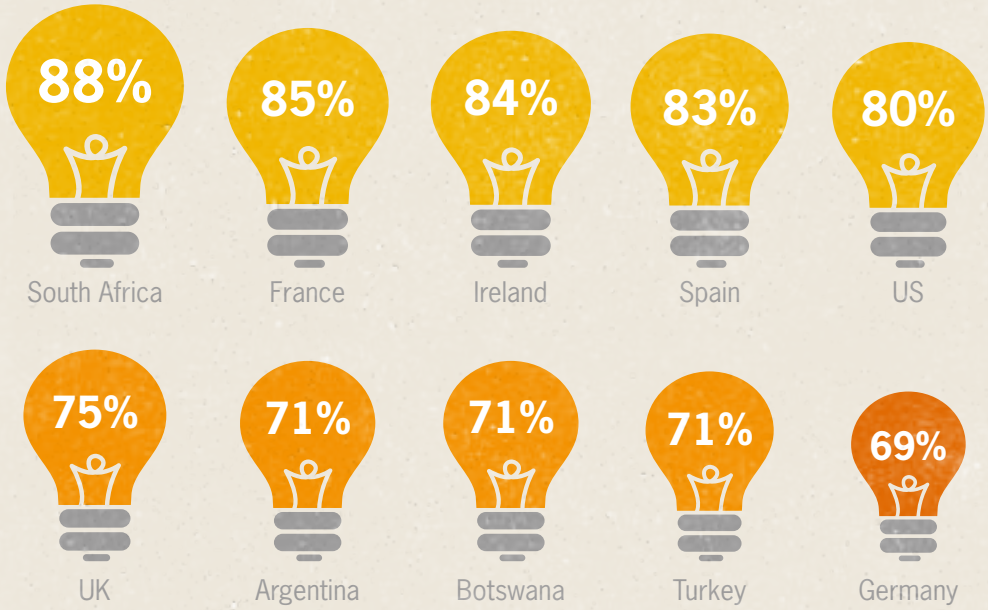
North American and African businesses are also taking a lead when it comes to mitigating the environmental impact of their operations. Across both regions, more than three in four have taken steps to improve energy efficiency or waste management (79%) over the past year, well above the global average (65%).

Despite there being greater levels of apparent political will to address climate change in Europe, the proportion of businesses taking these steps falls to 72%, although this is well above both Latin America (56%) and Asia Pacific (48%). Government fuel subsidies are high in many economies within these regions, while the necessary recycling culture or infrastructure may be fairly nascent, but clearly measures to promote greater energy efficiency could help in places with severe power reliability issues such as India. Interestingly, businesses in Russia (34%), with its huge landmass and plentiful natural resources, and mainland China (38%), are amongst the least likely to have taken action. Businesses in the energy-intensive sectors such as manufacturing (76%), technology (75%) and transport (70%) are most likely to have taken action in this area.

Businesses are also increasingly looking at quantifying their environmental impact: 31% globally calculated their carbon footprint over the past 12 months, up from 19% in 2011. Again, North American businesses (38%) are ahead of peers in Asia Pacific (33%), Europe (26%), Latin America (22%) and Africa (14%). However, the economies most likely to have calculated this figure are quite diverse: Singapore (57%), a city-state with a very finite amount of space where air pollution is a particular problem; Australia (53%) which relies heavily on natural resource extraction, has amongst the highest per-capita CO^2 emissions globally and recently repealed its carbon tax; and Spain (51%), where water scarcity is a major threat to the key tourism industry. Perhaps unsurprisingly given the impact of power generation on the environment, 61% of utilities companies have calculated their carbon footprint, ahead of technology (47%), cleantech (42%) and mining (41%).

Approximately two-in-five businesses have changed their products or services to reduce their environmental impact over the past year (39%), rising to 62% in China, the highest globally. This is also the most popular initiative in the country and is perhaps linked to the government target of cutting the carbon intensity of production by 40-45% by 2020, compared with 2005, largely by requiring state-owned enterprises to use energy more efficiently. Businesses in Turkey (48%) and Brazil (46%), as well as in advanced economies such as the United States (41%) and the United Kingdom (36%) have also taken action in this area in recent months. Again, cleantech (60%) and technology (49%) businesses take a lead in this regard, but more than half of agricultural businesses (51%) have also altered products/services, highlighting the importance of moving towards more sustainable food production practices as the global population swells.

Improved energy efficiency or waste management (top ten)



Source: Grant Thornton IBR 2014

Reporting

Despite the vast majority of businesses around the world engaging in initiatives to mitigate the social or environmental impact of their operations, few report on this activity, whether together with their annual financial statements as input into an integrated corporate report or separately.

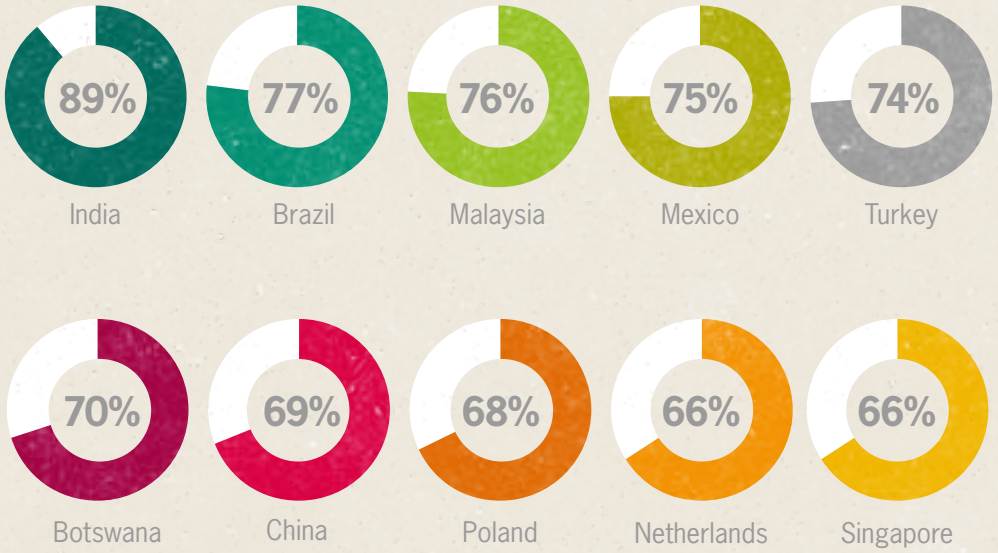
The IIRC framework is targeted towards larger companies, however the principle of demonstrating how a business performs not just financially, but also within the wider social, environmental and economic context, is applicable to organisations of all sizes. An integrated approach offers businesses a more robust assessment of the strength of their operating model and better informs the decisions of key stakeholders and investors, increasing their chances of securing growth and development finance.

Globally, just 31% of businesses report on the sustainability of their operations (alongside financials), a slight rise from 2011 (25%). Businesses in Latin America (46%) remain the most likely to report their wider impact, ahead of Asia Pacific (33%), North America (27%) and Europe (26%). While Europe has remained broadly level, the North America (+10pp) and Asia Pacific (+8pp) figures have risen sharply over the past three years. Businesses in India (68%), the Netherlands and Vietnam (both 64%) lead the way globally in sustainability reporting with those in in Estonia (6%), Sweden (13%) and New Zealand (16%) at the other end of the spectrum.

Of those businesses which do not currently report on sustainability, just over a quarter plan to start doing so over the next five years (26%). Again, Latin America, driven by Mexico (73%) and Brazil (66%) leads the way.

While fewer than half of businesses globally report on sustainability (or plan to over the next five years), a clear majority (57%) agree that it should be integrated with financial reporting, up from 44% in 2011. Given the significant adoption of sustainability reporting by Latin American businesses it is perhaps no surprise to see its business leaders most likely to support this as best practice (74%). A majority of business leaders in Asia Pacific (60%), Europe (53%) and North America (52%) agree.

Percentage of businesses which agree that sustainability should be integrated with financial reporting (top ten)

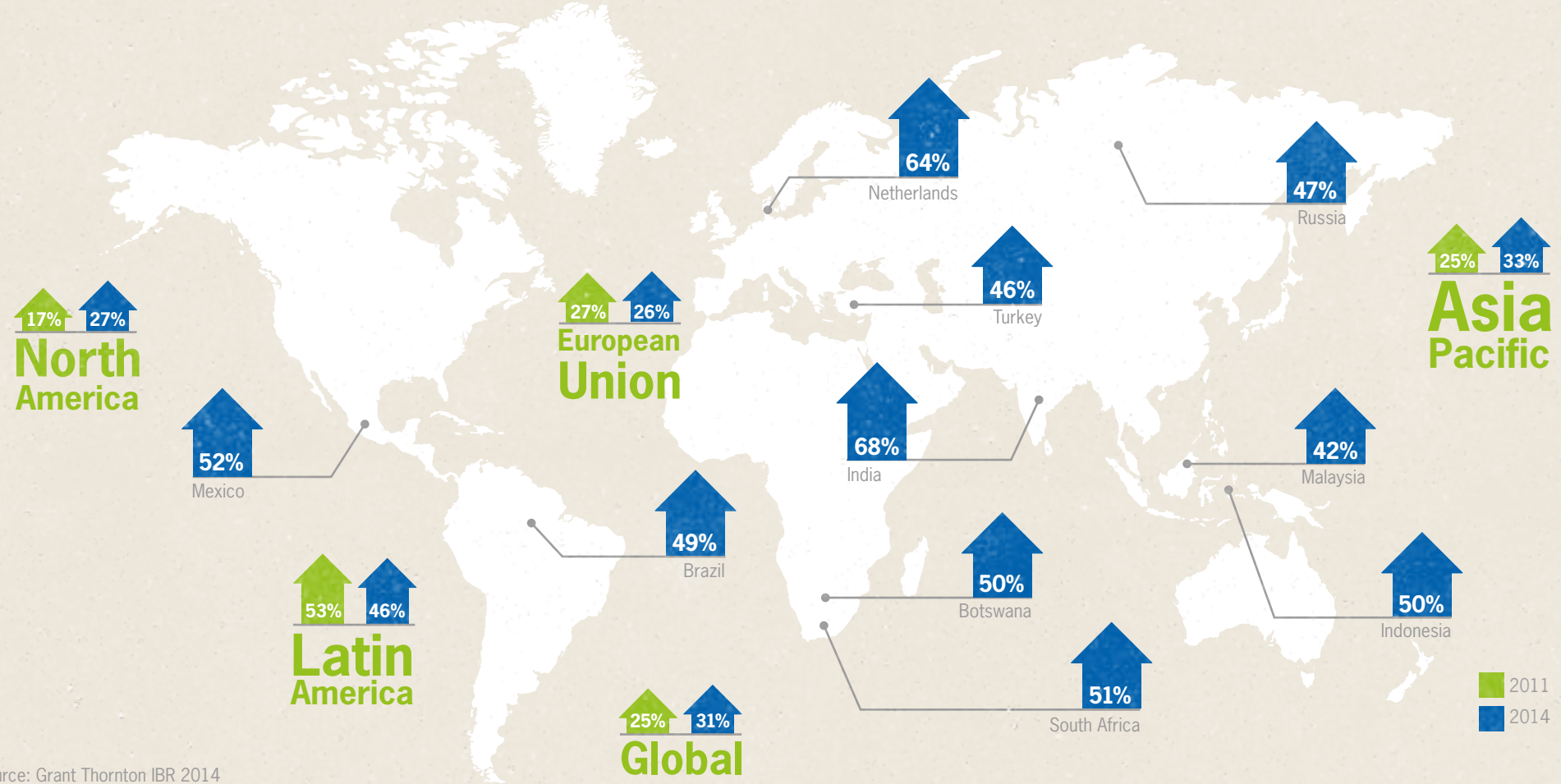


Source: Grant Thornton IBR 2014

"At Grant Thornton, we believe that integrated reporting can play an important role in communicating businesses' environmental and social impact to investors and other stakeholders. I am proud to sit on the steering committee of the IIRC and am delighted that our UK firm is a member of the pilot programme."

Ed Nusbaum, global CEO, Grant Thornton

Percentage of businesses which report on sustainability (top ten and regions)



Source: Grant Thornton IBR 2014

The thoughts of UNICEF

UNICEF notes with interest that over half of business surveyed selected five key drivers that are moving them towards more socially and environmentally responsible practices. The five drivers (cost management; client/customer demand; 'because it's the right thing to do'; public attitudes/building brand; recruitment/retention of staff) affect very different parts of an organisation, from marketing functions, human resources, finance departments and more. This demonstrates the importance of considering social and environmental responsibility from a senior, holistic level. Businesses not considering these factors are in the minority.

The most important business drivers for the implementation of more socially and environmentally responsible business practice - cost management, client/customer demand and 'because it's the right thing to do' are in line with current trends. These show the importance increasingly being placed on corporate responsibility by the general public and the demand from the public for companies to be accountable. Customer/client demand ranked first or second in all regions except the G7 (3rd) and North America (4th), where cost management is a particularly strong driver.

UNICEF continues to work with the private sector to allow businesses to address these drivers for social and environmental good practice. We have developed a number of ways to support our partners in these areas, from carbon finance projects that address environmental impact (and also have direct benefits for children), to building brand through Cause Related Marketing initiatives.

In particular the Children's Rights and Business Principles (CRBP) – developed in a consultative process led by UNICEF, Save the Children and the UN Global Compact, with input from the global business community– is a comprehensive framework for understanding and addressing the impact of business on the rights and well-being of children.

The CRBP enables companies to meet their key drivers for good business practice, as outlined in this research, to ensure we can create a better world for children. UNICEF hopes to see the upward trend in businesses prioritising positive social and environmental practice, including through human rights due diligence, continuing. We will continue to support companies to meet their sustainability ambitions through initiatives such as the CRBP.

Grant Thornton has been supporting UNICEF through the IBR since 2007. Grant Thornton donates US$5 to UNICEF for every interview completed, resulting in a cumulative donation of more than US$300,000 up to the end of 2013.

How Grant Thornton can help

Grant Thornton is one of the world's leading organisations of independent assurance, tax and advisory firms, with more than 38,000 people in over 130 economies. We are committed to sustainability and broadening the role of accountancy. To that end, our advice considers the environmental, operational and social impacts as well as the financial to better inform the decision making of our clients.

Energy & cleantech

We work with dynamic companies across different parts of the energy and cleantech sector. An in-depth understanding of the industry and the different routes to commercialisation, enable us to provide the right support to your growth. Investors, projects and owners may all sit in different countries, so our experts in member firms in our global organisation, can provide quick access to investment, legislative and tax advice across borders. The key issues we help our clients with include:

- commercialising renewables
- reducing energy demand
- energy investment going mainstream.

Nathan Goode
Global leader - energy & cleantech,
Grant Thornton
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Sustainability

We believe that a focus on sustainability addresses core business and operational performance, supports risk management and enhances stakeholder confidence. To meet the needs of ambitious businesses, we provide services that focus on adding value in three areas: governance, risk & strategy; reporting & assurance; due diligence and stakeholder engagement services. Specifically we can help you:

- develop sustainability policy, strategy and risk management approaches
- benchmark your sustainability performance and operations
- advise on sustainability reporting and assurance services
- address non-financial ESG risks through effective due diligence and engaging with stakeholders
- deliver sustainability advice at board level on energy efficiency, supply chain management and environmental regulations.

Jane Stevensen
Director of sustainability advisory services,
Grant Thornton UK
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Public sector

Governments and government agencies in developed and emerging economies find themselves compelled to reassess how they do things. Operations are being scrutinized for efficiency. The controls designed to safeguard financial resources are taking on a new importance. And delivery mechanisms for infrastructure projects are being reappraised. Performance and accountability, in terms of their impact on society, the environment and the economy, are increasingly important. The global call for more efficient and effective donor-funded programmes has resulted in a new development-trend boosting greater integration between the public and private sectors. The role of the local accounting and professional services firm is growing increasingly important in acting as an agent for sustainable international development programmes. Our public sector specialists are locally based people who understand your specific challenges, but who can also access international expertise and resources across the developed and developing world.

We help governments across the globe:

- deliver better services at lower cost
- demonstrate transparency
- improve control
- develop new infrastructure to support economic growth.

Srikant Sastry
Global leader - public sector,
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To better understand how your local Grant Thornton member firm can help you achieve your sustainability goals, please go to www.gti.org/member-firms

IBR 2014 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 2,500 senior executives every quarter in listed and privately-held companies all over the world. Launched in 1992 in nine European countries, the report now surveys more than 10,000 businesses leaders in over 30 economies on an annual basis, providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from more than 2,500 interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in mid-market businesses in 34 economies conducted in May 2014. The definition of mid-market varies across the world: in China, we interview businesses with 100-1000 employees; in the United States, those with US$20m to US$2bn in annual revenues.

To find out more about IBR, please visit www.internationalbusinessreport.com

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About us

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