

# Promoting CSR Improves Business Results

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## Abstract

Recently CSR (Corporate Social Responsibility) is attracting public interest; however, corporations promoting social responsibility have not yet become widespread. In order to make CSR a mainstream idea of society, it should be effective that business people understand the benefits to the corporations promoting CSR as well as its public benefits. Focusing on this assumption, this study shows the correlation between promoting CSR and better business results and hence the necessity to provide effective information which makes business people understand this correlation better. First, after defining CSR by clarifying “sustainable development,” which closely relates to CSR, I provide the main substance of CSR. Next, I logically show that promoting CSR improves business results, by exerting favorable influences such as an increase in the sales of goods or services, a reduction in business expenses by saving natural resources, an enhancement of the corporations’ reputation, an increase in labor productivity by improving working conditions, and the increase in an employees’ pride and motivation in their jobs. After that, I verify the validity of this deduction by using various references and data. Lastly, I describe the usefulness of the corporate communication which enables business people to understand the correlation between promoting CSR and better business results, in order to accelerate CSR.

**Key Words:** CSR (Corporate Social Responsibility), sustainable development, business results, SRI (Socially Responsible Investment), communication

## 1. Introduction

Nowadays the word “CSR” is being used more frequency. Corporations are required to carry out their social responsibility. However, corporations promoting social responsibility have not yet become widespread. This view is supported by illegal acts and scandals which even now occur frequently due to many corporations’ obsessions about their immediate profits. An important reason why corporate social responsibility has not been the mainstream idea seems to be that the staff of corporations do not sufficiently understand the benefits to the corporations of promoting social responsibility. In other word, if it is clearly shown that promoting CSR improves business results and develops the corporations, the staff of corporations will probably promote CSR more zealously. Focusing on this assumption, this paper shows logically and empirically that promoting CSR improves business results, and it describes the necessity to provide effective information which makes corporate staff understand the correlation between CSR and business results.

## 2. Sustainable Development and Corporate Social Responsibility

In order to discuss the relationship between promoting CSR and business results, first of all, we must clarify the meaning of CSR. However, a unified view on CSR has so far not been provided. This chapter defines CSR by clarifying “sustainable development,” which is closely related to CSR.

### (1) Sustainable Development

When the meaning of CSR is discussed, it is helpful to clarify “sustainable development,” an important keyword in the global environmental era. In the 1980s, the global community acknowledged that economic and social development needed to be in tune with environmental preservation and the sustainable use of natural resources; as a result, the concept “sustainable development” emerged. The most well-known definition of sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (World Commission on Environment and Development, 1987, p. 43). Moreover, in 1991, the International Union for Conservation and Natural Resources (IUCN) et al. defined it as “improving the quality of human life while living within the carrying capacity of supporting ecosystems” (IUCN/UNEP/WWF, 1991, p. 10).

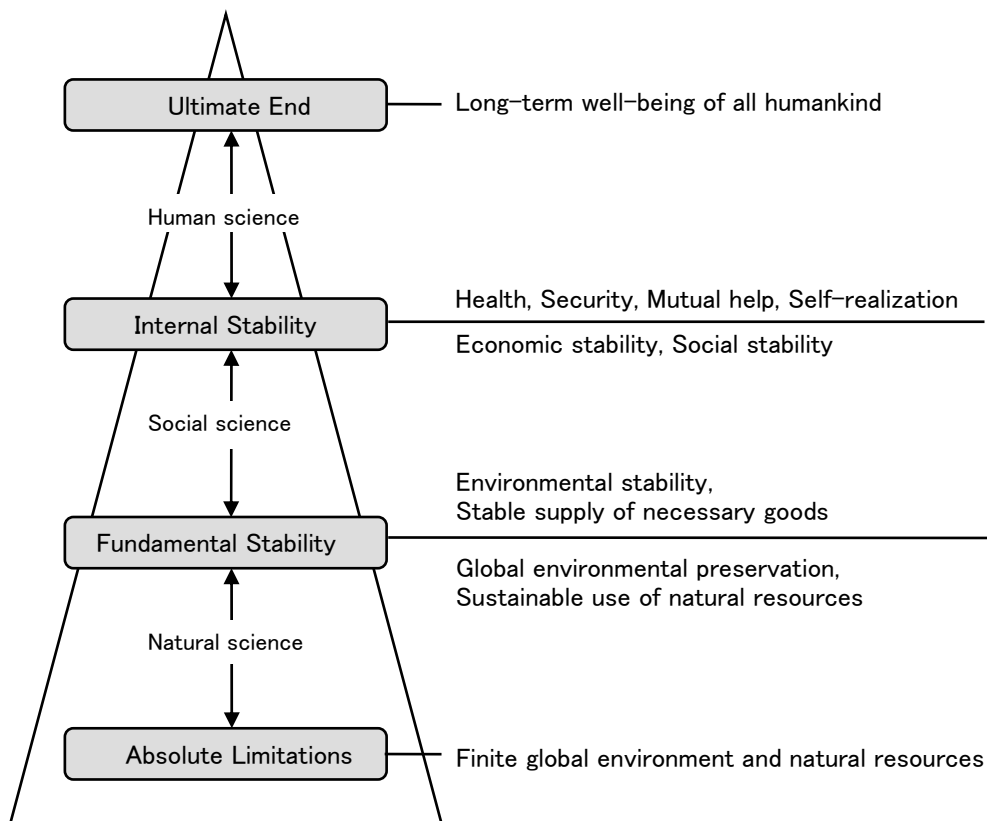


Figure 1: The model of “sustainable development” (Fujihira, 2004)

The above two definitions cooperate to give a good understanding of the essence of sustainable development; however, these definitions are abstract and hard to imagine. Then I have drawn the Figure1, which shows the model of “sustainable development.” This figure shows that in order to accomplish the “long-term well-being of all humankind,” or ultimate end, within the “finite global environment and natural resources,” or absolute limitations, human beings need to maintain both the “Fundamental Stability” and the “Internal Stability.” In other words, “sustainable development” requires two types of stable conditions: (1) the stability of the ‘environment’ and ‘production of necessary goods’ by dint of ‘global environmental preservation’ and ‘sustainable use of natural resources;’ (2) ‘economic and social stability’ which enables people to fulfill the basic conditions for their well-being such as ‘health,’ ‘security,’ ‘mutual help’ and ‘self-realization.’

## **(2) Corporate Social Responsibility (CSR)**

The people or parties that are involved in the achievement of “sustainable development” are assumed to be individuals, families, corporations, governments, municipalities, and nonprofit organizations. Among them, corporations are expected to perform a great part because they are involved in the greater part of production. Accordingly, when **CSR (Corporate Social Responsibility)** is grasped from the viewpoint of sustainable development, it is regarded as the “corporation’s responsibility for achieving sustainable development.” Moreover, being considered based on the above-mentioned two definitions of sustainable development and the model shown in Figure 1, CSR is defined as “independent activities performed by each individual corporation in order to not only improve the quality of human life but also promote environmental preservation and the sustainable use of natural resources.”

## **3. Main Substance of CSR**

According to the aforementioned definition of CSR, corporations are required to consider both “the quality of human life” and “the environment and use of natural resources.” In addition, the range of the consideration is divided into “the influence of goods or services supplied by corporations” and “the sphere concerned with production processes and work.” Therefore, the main substance concerned with CSR is divided into 4 spheres: (a) the influence of supplied goods or services on the quality of human life, (b) the influence of supplied goods or services on the environment and the use of natural resources, (c) the influence of production processes and work on the environment and the use of natural resources, and (d) the quality of employees’ lives. Incidentally, complying with the law in each sphere is the minimum goal, and it is important for corporations to have a positive attitude toward the maximum considerations.

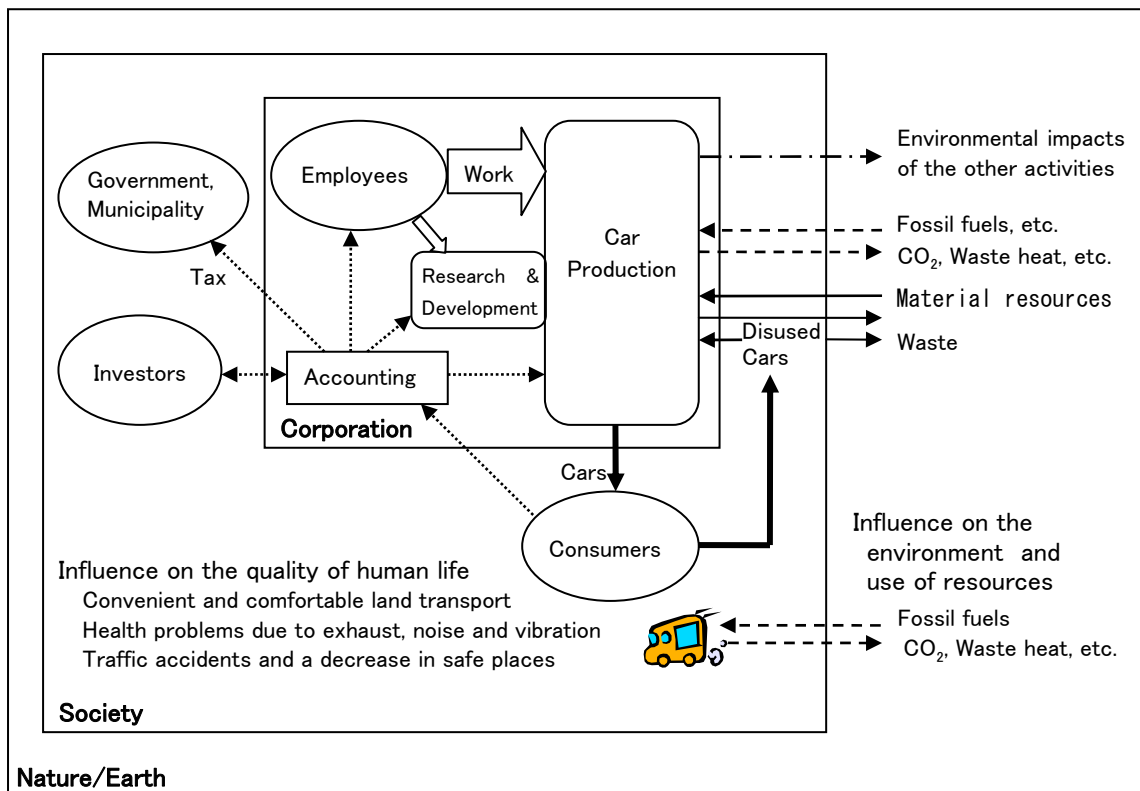
Next, approaches to CSR in the above 4 spheres are embodied in the following

examples: “car manufacturers” as representatives of the manufacturing industry, and “stock companies” as representatives of the service industry.

**(1) A Case of Manufacturing Industry: Car Manufacturers**

**(a) The Influence of Supplied Goods on the Quality of Human Life**

For consumers, supplied cars are expected to contribute to the convenience and comfort of land transport. On the other hand, driving cars often causes various problems, for instance, health problems due to exhaust emissions, noise and vibration, traffic accidents, and a decrease in the number of safe places; it is essential for car manufacturers to overcome these problems.



(Note) Solid lines, broken lines and dotted lines mean ‘products,’ ‘energy’ and ‘money’ respectively.

**Figure 2: Car manufacturer’s major social responsibility**

**(b) The Influence of Supplied Goods on the Environment and Use of Natural Resources**

Cars burn fossil fuels; therefore, they cause not only an increase in atmospheric carbon dioxide (CO<sub>2</sub>), which leads to global warming, but also a decrease in finite underground resources. In order to overcome these problems, car manufacturers are required to improve the energy efficiency of automobiles and as the ultimate goal to develop practical vehicles which utilize only renewable energy.

(c) The Influence of Production and Business on the Environment and Use of Natural Resources

In addition to the problems caused by driving cars, the production process also causes problems such as global warming and a decrease in finite underground resources. Accordingly, car manufacturers must save energy in their production processes, recycle used cars, and carry out measures against environmental pollution. Moreover, manufacturers need to decrease ‘the influence on the environment and use of natural resources,’ which go hand in hand with the manufacturers’ daily business and their investment in plants and equipment.

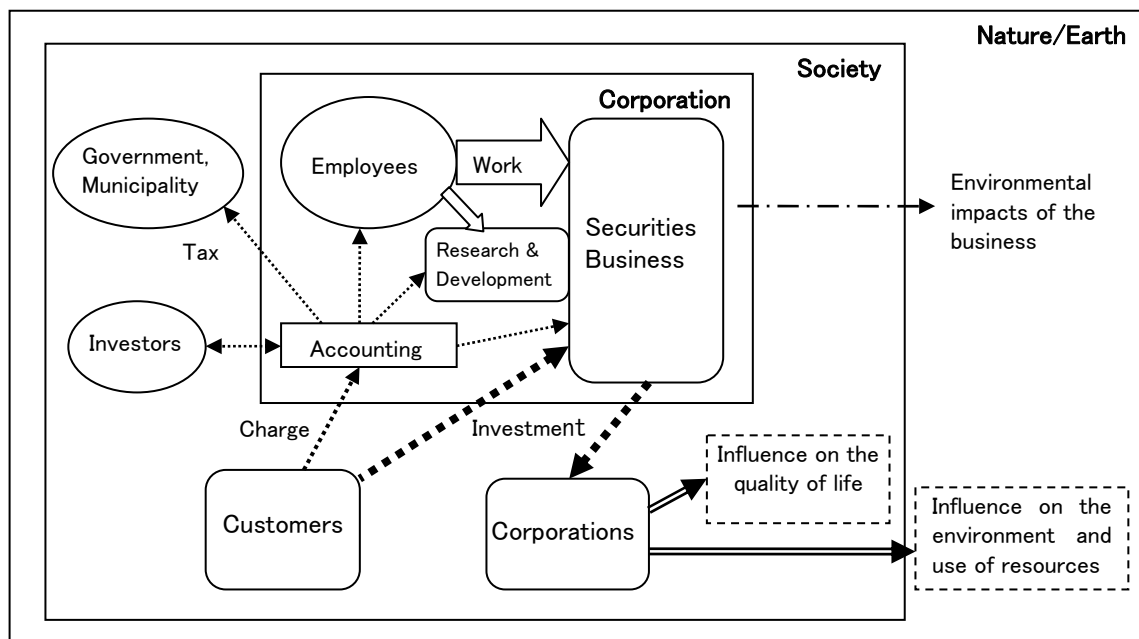
(d) The Quality of Employees’ Lives

It is also important to improve the quality of employees’ lives by considering their health, safety and self-realization. Therefore, corporations are required to consider employees’ medical and physical health, industrial safety, posting the right person for the right job, and the development of employees’ potential.

**(2) A Case of the Service Industry: Securities Companies**

(a) The Influence of Supplied Services on the Quality of Human Life

Money which is put into corporations is used for the activities of those corporations. Therefore, the flow of money for investments needs to be controlled in order to change the corporate activities’ influence on the quality of life for the better.



(Note) Dotted lines mean ‘money.’

**Figure 3: Securities company’s major social responsibility**

This idea means that invested money should be concentrated in the corporations whose activities exert a good influence upon the quality of life, and not be flowed into the corporations whose activities have a bad influence on the quality of life.

(b) The Influence of Supplied Services on the Environment and the Use of Natural Resources

Similarly, the flow of money for investments needs to be controlled in order to improve corporate activities' influences on the environment and the use of natural resources. In other words, invested money should be concentrated in the corporations whose activities exert a good influence on the environment and the use of natural resources, and not flow into the corporations whose activities have a bad influence on the environment and the use of resources.

The above (a) and (b) can be integrated into the following: controlling the flow of money for investments in order to improve both 'the quality of life' and 'the environment and the use of resources.' This expression connects with "Socially Responsible Investment" (SRI). Incidentally, the *UK Social Investment Forum* says, "Socially Responsible Investment combines investors' financial objectives with their concerns about social, environmental and ethical issues" (UK Social Investment Forum, Introduction & Background).

(c) The Influence of Production and Business on the Environment and the Use of Natural Resources

Also, in the service industry such as securities companies, daily business and investment in facilities and equipment have influence on the environment and the use of natural resources. Accordingly, this influence should be minimized.

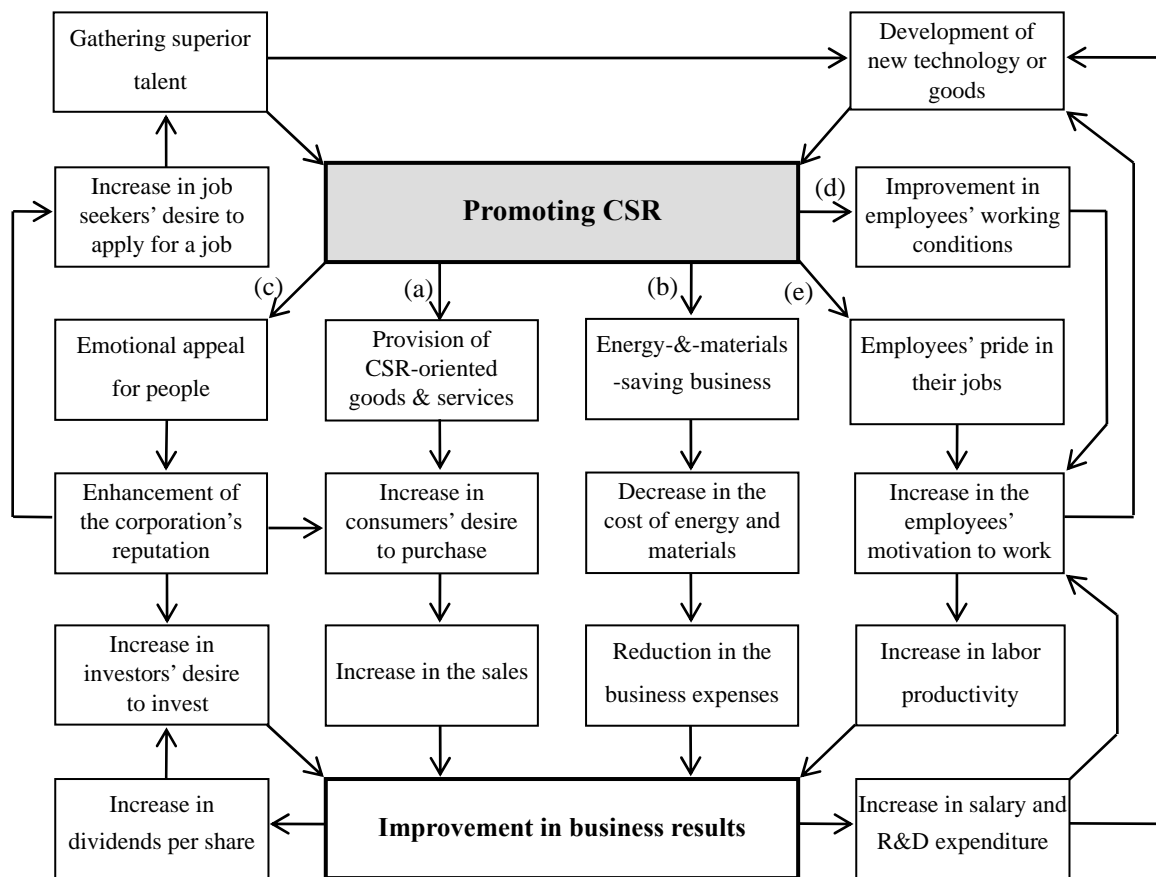
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#### **4. The Influence of Promoting CSR on a Corporation**

When corporations dedicate their efforts to performing their social responsibilities, what kinds of changes then occur at such corporations? In this chapter, based on the description of the previous chapters, first, I will deductively estimate the influence of CSR on those corporations. Next, I will confirm the validity of this deduction by using various kinds of literature and data.

##### **(1) Deductive Reasoning**



**Figure 4: The mechanism with which promoting CSR improves business results**

As corporations pursue their social responsibilities, as shown in the following descriptions and Figure 4, favorable changes are likely to occur at these corporations. Incidentally, the following letters (a) to (e) correspond to (a) to (e) in Figure 4.

**(a) The Increase in the Sales of CSR-Oriented Goods and Services**

Customers will prefer the goods and services which have a good influence on their quality of life or the environment and the use of natural resources; therefore, the sales of these goods and services will increase. As for car manufacturers, safer cars or more fuel-efficient cars which can reduce both the amount of carbon dioxide emissions and fuel expenses will impress consumers, and the sales of those vehicles will grow.

**(b) The Reduction in the Cost of Business by Saving Energy and Materials**

If corporations cut down on their consumption of energy, raw materials and goods by considering the environment and the use of resources, the cost of business can be reduced. As for the manufacturing industry, cost-cutting objects are 1) the energy and the raw materials used in the production process, 2) the energy and the goods used in daily business, and 3) plants and equipment. Also, the service industry such as securities

companies can reduce the cost of energy and goods used in their daily business as well as the capital expenditure.

(c) **The Enhancement of the Corporations' Reputation**

Corporations' assiduous efforts to perform their social responsibilities will give people a favorable impression. As a result, the enhanced reputation of the corporations will increase the consumers' desires to purchase their goods or services, the investors' desires to invest in their stock, and the job seekers' desires to apply for a job with these corporations.

(d) **The Good Influences of Improvement in Working Conditions**

Considering the health, safety and self-realization of employees will encourage them to work harder. Accordingly, increased labor productivity improves business results.

(e) **The Pride of Employees in their Jobs**

When employees feel that their work has a positive influence on society or the environment, they will take pride in their jobs. As for car manufacturers, when employees are involved in the provision of cars which contribute to environmental preservation or traffic safety, they will be proud of their work. As a result, the employees will have an incentive to work harder.

**(2) The Confirmation of the Deduction**

The following sections (a) to (e) confirm whether the above changes (a) to (e) really occur, by using various kinds of previous studies and statistical data. In addition, section (f) examines the relationship between promoting CSR and business results, by comparing the stock prices of socially responsible investments (SRI) with those of ordinary investments.

(a) **The Increase in the Sales of CSR-Oriented Goods and Services**

The deduction that the provision of CSR-oriented goods and services increases sales can be supported by an example from the car industry. We can see that the difference in a car's fuel efficiency, which is closely related to the amount of its CO<sub>2</sub> emissions, has a strong influence on the car manufacturers' business results.

There were great differences among the fuel efficiency levels of the cars which were sold in 2002 by the world's 10 leading automotive companies: BMW, DaimlerChrysler, Ford, GM, Honda, Nissan, PSA, Renault, Toyota and VW. In the Sport Utility Vehicle (SUV) segment, for example, the fuel efficiency levels of GM and Ford were low, whereas those of Honda, Toyota, Nissan and Renault were high. Incidentally, the average fuel efficiency of Honda's SUVs exceeded that of GM's SUVs



by about 40%. Similarly, Renault depended chiefly for sales on fuel-efficient cars, while GM and Ford relied heavily on fuel-inefficient midsize and large-size cars (Sustainable Asset Management & World Resources Institute, 2003, Appendix p. 5). In order to analyze the influences of such differences in fuel efficiency levels on business results, I examined the transition of the automotive companies' sales results from the fiscal year 2000 to the fiscal year 2004. In the same period of time, the crude oil price in the international market doubled and people's sense of crisis to global warming gradually grew. According to statistical data, the car manufacturers whose sales results increased in this period were Toyota, Honda and Nissan, and Renault also broke its past records of sales, operating profits and net profits in the final result of fiscal year 2004 (FOURIN, 2005). On the other hand, the sales results of Ford and GM became worse due to a slump in the sales of key commodities such as SUVs. The above description lends support to the reasoning that supplying CSR-oriented goods or services improves sales and business results.

(b) The Reduction in the Cost of Business by Saving Energy and Materials

It is logical and indisputable that saving energy and materials contributes to reducing costs and improving business results; therefore, the point at issue is how much it can improve business results. As for saving energy at least, the effect will be considerably great. The main reason is the current sharp upward trend of energy prices due to the tight supply-demand situation for oil. Accordingly, corporations' endeavors at saving energy are crucial for their business results, especially when they are in mass energy-consuming industries.

In recent years, oil prices have been rising; for instance, crude oil prices in the international market soared from the level of \$20 a barrel in 2002 to the level of \$60 or \$70 in 2006. The price of oil is predicted to rise further in the future because of both a growing demand for oil and the arrival of Peak Oil. Demand for oil is projected to rise 40% from 2005 to 2020 by the International Energy Agency (IEA), mainly due to the increasing demand from rising industrial countries such as China and India. On the other hand, "Peak Oil" is the point in time when the entire planet's oil production reaches its highest point and then begins to decline. Many peak oil experts consider that global oil production is just about to peak; for example, Colin Campbell, a geologist and the founder of Association for the Study of Oil and Gas (ASPO), predicts that global oil production will have peaked by 2010 (Campbell, C. J., 2004).

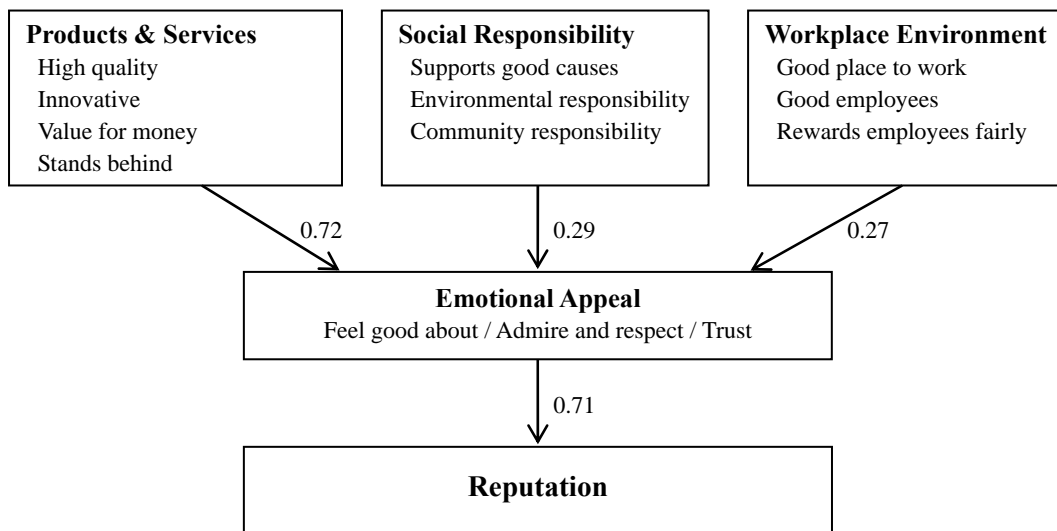
A steep rise in energy costs will exert a serious influence on the financial results of a great number of corporations. For instance, the Carbon Disclosure Project, which is spearheaded by some of the world's socially responsible investors, says in the *Climate Change and Shareholder Value in 2004*, "For companies that require large amounts of energy this [=rising energy cost] poses a direct threat to earnings and share valuation" (Carbon Disclosure Project, p. 21), and "As a result, energy efficiency is at a

premium” (p. 52). In short, in these times when energy costs rise steeply, energy saving is indispensable for improving business results, especially for corporations which need a large quantity of energy.

(c) The Enhancement of the Corporations’ Reputation

The principal study which corroborates the correlation between promoting CSR and the enhancement of the corporations’ reputation is a book titled *Fame and Fortune*, which was written by Fombrun and van Riel in 2004. In 1999, Fombrun and van Riel devised the “Reputation Quotient (RQ),” synthesizing 20 attributes concerning the following six categories: “Emotional Appeal,” “Products and Services,” “Social Responsibility,” “Workplace Environment,” “Vision and Leadership,” and “Financial Performance.” Moreover, in 2001, they asked over 20,000 American consumers to answer 20 standard RQ questions in order to obtain detailed ratings of the 60 most visible U.S. corporations. Based on these inquiries, they statistically analyzed the major categories and attributes which influence the corporations’ reputation. Figure 5 shows the results of this analysis.

In the above-mentioned six categories, “Products and Services,” “Social Responsibility,” and “Workplace Environment” are related to CSR, for the attributes which are written below these three categories’ names in Figure 5 are connected with the CSR’s main substance that is described in the third chapter of this paper. Figure 5 shows that these three categories relevant to CSR, drive “Emotional Appeal” and hence overall “reputation.” Incidentally, “Vision and Leadership” and “Financial Performance” hardly influence reputation; accordingly, these two categories were



(Note) The numerical values by the arrows mean the strength of relationships; the larger the value is, the stronger the relationship is.

**Figure 5: Major driving forces of corporate reputation**

(Drawn based on Figure 3-4 and Figure 3-10 in *Fame and Fortune*)

eliminated from Figure 5. Moreover, Fombrun and van Riel state clearly, “A good reputation attracts support from customers, investors, and potential employees” (Fombrun, C. F. & C. B. M. van Riel, 2004, p. 44).

(d) The Good Influences of Improvement in Working Conditions

A study which can support the reasoning that an improvement in working conditions has a good influence on business results is *Women's Activities and Business Results*, which was published by the Japanese Ministry of Economy, Trade and Industry in 2003. The said Ministry's “The Society for the Study of Gender Equality” surveyed the relationship between the ratio of women to all workers (=women's ratio) and profitability, based on the statistical data from approximately 26,000 companies. According to the results of this study, the 10% rise in the women's ratio increased profitability by about 0.2% if the other conditions such as the type or the scale of a business were the same (Ministry of Economy, Trade and Industry, 2003, p. 7). Yet, raising the women's rate did not immediately increase profitability. The key factors in increasing profitability were ‘corporate culture’ and ‘the mechanism of personal affairs and labor management’ which enabled women to actively participate in work. *Women's Activities and Business Results* says, “Corporations which have practices of treating individuals impartially regardless of sex tend to have higher women's ratios and to gain better business results” (p.24).[trans] In other words, it is significant for corporations to create a favorable working environment for both men and women.

(e) The Pride of Employees in their Jobs

The reasoning that employees, who are involved in CSR, take pride in their jobs and are more motivated to work harder is supported by two questionnaires which were conducted on business people by “The Society for the Study of Corporate Social Communication.” This study was organized by the *Japan Society for Corporate Communication Studies* during the fiscal year 2004 and 2005. Both of these questionnaires included the following question: “Do you feel a ‘change’ in yourself, as a business person or an individual, after being involved in CSR? If you feel a change, what kind of ‘change’ is it?”

The total number of the valid responses from these two questionnaires was 60. Yet, in the content of such a small number of responses, the following comments were found: “My loyalty to the corporation has been uplifted,” “My motivation as the manager has been increased,” “Employees can take pride in the corporation and their motivation rises,” “My motivation for the job has been enhanced,” and “As the corporation's contribution to society is shown clearly, I feel deeper pride in working in this corporation.” The above comments written by five business people corroborate the hypothesis that employees' participation in CSR boosts their pride in their jobs and their motivation to work.

(f) Comparison between SRI and Ordinary Investments

In addition to the above (a) to (e), a comparison between the stock prices of socially responsible investments (SRI) and those of ordinary investments can verify the correlation between promoting CSR and improved business results. There are many previous studies of this opinion, and the results of these studies show that the stock prices of SRI are equivalent to or higher than those of ordinary investments (e.g., Mori, Y., 2003). Moreover, some of securities companies which deal in SRI compare the performance of SRI with that of ordinary investments and release the results of the comparison. One such company is “Ethibel,” an independent consultancy agency for SRI in Belgium. In 2002 Ethibel started the “Ethibel Sustainability Index” (ESI), which was the set of indexes of SRI, in cooperation with “Standard & Poor’s” in the US. The reasons why I use the ESI are as follows: the evaluation scheme for selecting the ESI’s constituents comprehensively attaches importance to the main substance of CSR that I described in the 3<sup>rd</sup> chapter, and the ESI’s constituents include some of the world’s largest corporations in a variety of industries. Ethibel releases the information about the comparison between the performance of the ESI and that of ordinary indexes on its website, as shown in Figure 6. This figure shows that the ESI (red line) almost always outperforms the ordinary investments’ index (blue line); accordingly, this indicates that socially responsible investments (SRI) have better business results than ordinary investments.

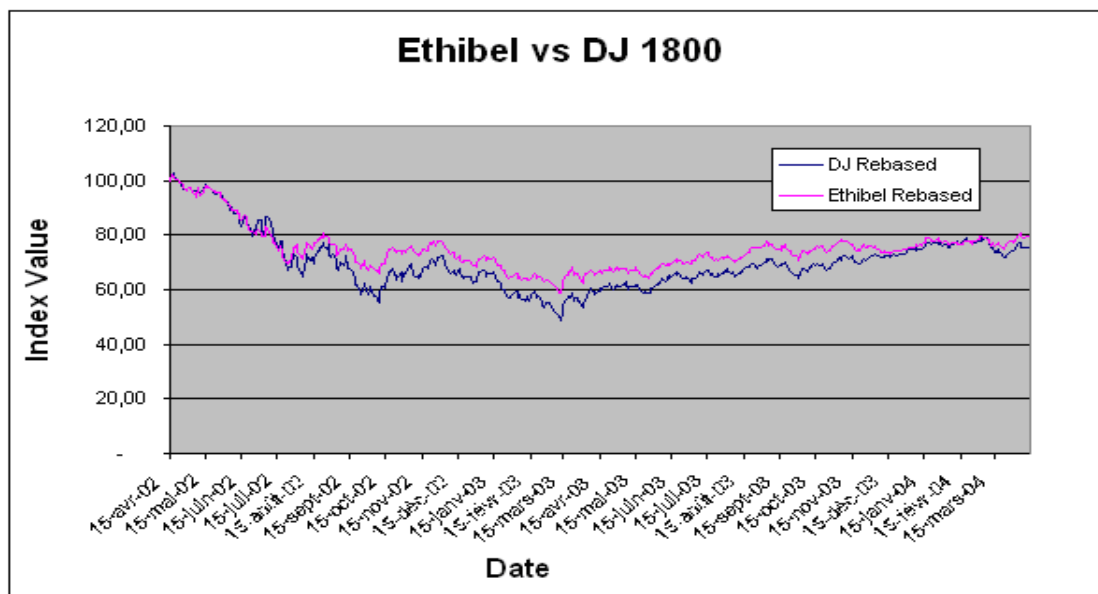
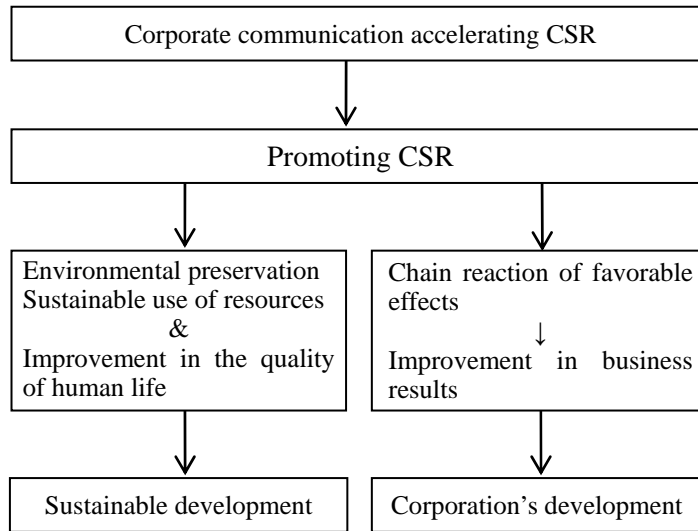


Figure 6: The comparison between the Ethibel Sustainable Index (red line) and ordinary investments’ index (blue line) (from April, 2002 to March, 2004)

(Source) Ethibel’s website

## 5. Corporate Communication Accelerating CSR

In this paper, after the 2<sup>nd</sup> and 3<sup>rd</sup> chapters provided CSR's definition and main substance, the 4<sup>th</sup> chapter verified the validity of the reasoning that promoting CSR has favorable effects and improves business results. Based on these studies, this concluding chapter describes corporate communication which can accelerate CSR.



**Figure 7: Corporate communication accelerating CSR**

In order to promote CSR, it is important for business people to understand CSR's essential aspects, namely consideration for 'the quality of human life' and 'the environment and use of natural resources.' However, conveying only the public benefits of CSR is not quite enough to vigorously enhance business people's motivation to promote CSR. According to many social psychologists, in order to promote action for the 'public benefit,' it is effective to tell people also the 'private benefit' gained from this action. This theory suggests that in order to promote CSR further, it is effective to inform people not only of the public benefits of promoting CSR but also of its private benefits such as the development of the corporation. In other words, as shown in Figure 7, corporate communication accelerating CSR should include information that "promoting CSR" contributes to the improvement of business results and the "corporation's development" as well as "sustainable development."

To put it concretely, first, employers must sufficiently understand that promoting CSR also contributes to their corporation's development and to convey this causal relationship to their employees at every opportunity. In addition, personnel training sections should provide easy to understand information that promoting CSR contributes to not only the public benefit but also the corporation's development,

through CSR training or education. Providing this information enables each employee to understand the internal significance of promoting CSR in addition to its social significance, and hence they can become the driving force promoting CSR.

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