CORPORATE SOCIAL RESPONSIBILITY AND COMPETITIVENESS

Evaluation and strategic approach

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SUMMARY

Corporate social responsibility, or CSR, has become a major subject over the last few years. It is defined as the way in which businesses, acting on a voluntary basis, incorporate social, environmental, and ethical concerns into their economic activities as well as into their interactions with all stakeholders, whether the latter are internal (executives, employees, shareholders, etc.) or external (suppliers, clients, etc.). The 2008 financial crisis, with its economic and social consequences, led several heads of voluntary and trade-union organisations, politicians, experts, and business leaders to call for collective mobilisation in favour of stronger "corporate social responsibility" under those various aspects. They see therein an opportunity to rethink the business model of the 21st century, and to bring about new dynamics of sustainable, inclusive growth. The European Commission encourages Member States to adopt a resolutely "strategic" approach to CSR, with the aim of reconciling the requirements of competitiveness and social responsibility.

However, barely a quarter of French businesses with over 9 employees state that they are truly involved in responsible approaches. What is more, 60.4% of them state that they do not know the notion of CSR[1].

As is the case with other European countries, since 2001, France has put in place a number of regulatory and voluntary initiatives favouring CSR. To amplify that movement, in April 2013, the Prime Minister set up a platform involving dialogue on CSR[2]; the platform comes under the ægis of France Stratégie, and is made up of representatives of civil society (businesses, trade unions, associations, NGOs, experts, etc.).

The CSR platform includes a working group on the theme of "CSR and competitiveness", which is indicative of the place occupied by the subject in public

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(1) Taken from the *Entreprises et Développement Durable* (Businesses & Sustainable Development) survey (EDD, end of 2011, INSEE).
(2) www.strategie.gouv.fr/travaux/instances/plateforme-rse.

debate. Can it be considered that concern over social responsibility is compatible with concern over competitiveness? In other words, can CSR be grasped not as an additional constraint, but as a tangible economic contribution for businesses? In that case, how can businesses be encouraged to include CSR approaches in their development strategies?

After a presentation of the debate and an overview of CSR in French businesses, this study seeks to identify the factors that can favour the adoption of responsible approaches and the link between those approaches and economic performance. To test that link, an original analysis was carried out of about 8,500 French businesses with at least 10 employees (including SMEs), across several dimensions that make up CSR (environment and ethics, human resources, client relationships, and supplier relationships). The results allow several findings to be highlighted, and general guidelines as well as concrete actions to be proposed to encourage CSR in France.

The structural factors of firm influence the putting in place of responsible practices…

Regardless of the CSR dimension, size and activity sector are key criteria. The bigger the business, the stronger the embedding of CSR practices (especially because of economies of scale affecting introduction costs). CSR practices are also more widespread in some sectors like the agri-food industry, intermediate goods, and energy. They also have a greater presence in businesses that focus their strategy on quality and differentiation (novelty and personalisation) of products and services. That result confirms the idea – which has already been put forward by other work – that if a business can identify consumers who wish to purchase ethical goods, and if it can protect the resulting niche from potential imitators, its “CSR strategy” is based on profitable differentiation. Belonging to a group and a business network, company reorganisations (outsourcing part of the economic activity or financial restructuring), or even opening up to international markets (including the European Union) are also factors that, on average, encourage the embedding of responsible approaches.

… but sometimes in different ways, depending on the dimensions of CSR

For example, if we look at the “environmental and ethical” dimension, the strategy based on the novelty of a product influences the adoption of environmental certifications or ethical marks, whereas strategies focused on the product’s quality, personalisation, or price / cost have no apparent link. Such a result leads us to ponder the logic that underlies the setting up of environmental certification or of an ethical mark. Would those CSR arrangements be introduced for reasons of “social” marketing when a new product is launched, to capture certain consumers who are more sensitive to the environmental or ethical dimension? In Europe, where 46% of consumers state that they are ready to pay more for ethical products (MORI, 2000)[1], that argument is far from negligible.

In the field of human resources, strategies that are focused mainly on the novelty and quality of products (services) have a stronger influence than others on setting up CSR arrangements. That is the case for arrangements that aim at improving training processes, skills management, or organisational processes (collaborative working and networking information-sharing systems, etc.). One of the explanations is that a business that seeks to develop new products as part of a quality-improvement process requires particular technical skills (engineers, research analysts, development analysts, design analysts, etc.) as well as organisational and social skills (knowing how to work in a network and as part of a team, knowing how to meet clients' expectations, etc.) to support those two strategies. That explanation is confirmed by a result of our analysis: strategies that are focused on costs have no link to introducing CSR practices in the field of human resources.

Belonging to a business group or network, or outsourcing part of the production activity, play an important role in CSR. That is the case for several dimensions, especially for relationships with clients and suppliers. One explanation may be that businesses that are part of a network or group can pool some of the costs inherent in setting up such arrangements. In its relationships with suppliers, a business belonging to a group or to a network is generally subjected to the policy of those groups or networks. For the latter, strong requirements in matters of standards and quality (especially from suppliers) are one way of uniformly managing the quality of the goods and services produced by the businesses within the group or network. Foreign outsourcing of part of production can encourage the business to put in place management tools (including marking and standards, client / supplier quality control, etc.) that encourage standardisation of the production process, in order to better control that process.

CSR has a significant correlation with the economic performance of the firms

Regardless of the measure of economic performance (profit per head, gross operating surplus, or added value per head) and the CSR dimension (environmental, ethical, human resources, client relationships, and supplier relationships), an average gap of 13% is observed between businesses that put CSR practices in place and

(1) MORI (2000), *European Attitudes Towards Corporate Social Responsibility*, Research for CSR Europe, London: MORI.

those that do not. Those average gaps in performance vary according to the dimensions observed: they range from 5% for client relationships to 20% for the "human resources" dimension. Businesses that put CSR practices in place thus seem to reconcile responsible management (towards clients, suppliers, and employees), respect for the environment, and the requirement for competitiveness.

That average performance gap, which indicates a strong degree of correlation, may be due to a direct effect of putting CSR practices in place, or, conversely, the appetite for CSR amongst healthy businesses. It can also come from the indirect effect of greater organisational effectiveness or strengthened attractiveness of those businesses for employees who are more motivated, thus more productive. The superiority of the economic gain that is attributable to the "human resources" dimension can be explained by better assessment of the business's human and organisational capital: based on the continuous reinforcement of skills and on the development of collaborative management arrangements, CSR practices here encourage organisational innovation, as well as improving the social climate and the efficiency of specific human capital, with boosted positive effects on the performance of the business. Moreover, the synergy between setting up a CSR approach regarding human resources, and other CSR approaches in environmental or societal matters, can multiply the performance of businesses through employees being more involved in seeking out innovative practices. However, the sense of causality between those various dimensions is not necessarily unequivocal, and unobserved factors can also contribute to the relationships that are observed.

In that regard, our analysis tends to show that high-performing businesses appear to seek complementarity between CSR practices rather than a simple accumulation of best practices. Accordingly, they appear to follow a qualitative approach aimed at choosing good synergies and overall consistency, rather than a purely quantitative approach.

In order to find itself at the heart of the firm's strategies, CSR must become a full component of their organisational capital

By taking account of internal stakeholders (employees) and external stakeholders (client and supplier relationships), CSR can be a driving force of the firm's strategy to improve economic performance. It is an intangible and specific resource of the firm's organisational capital, which, through gains in efficiency, can generate comparative advantages that are far from being negligible in matters of competitiveness.

Those lessons invite us to advocate a new "organisational" approach, i.e. one that is focused on greater integration and a better acknowledgement of all the stakeholders who play a role in creating the firm's value (executives, employees, clients, suppliers, etc.). From that point of view, CSR can be considered an "organisational standard" around which all stakeholders can co-ordinate themselves to attain a common objective. CSR arrangements, set in a coherent fashion around that standard, would contribute to high-performance management even when strategic decision-making centres are physically or functionally distant from effective centres of production. That explanation relies especially on another finding from our analysis: businesses that belong to a business network or to a group are more inclined to put those CSR arrangements in place.

In addition, CSR arrangements that are so designed enable stakeholders involved in producing goods and services to be mobilised around demanding production and market strategies. Above all, CSR grasped as a component of organisational capital and contributing to the economic performance of businesses would be an opportunity to rethink the management system overall.

The role of public authorities: financial encouragement is not the most appropriate method

If CSR improves the wellbeing of society as a whole, might it perhaps be appropriate to encourage its dissemination through financial incentives aimed at businesses? Indeed, setting up CSR strategies represents a cost in terms of both finance and time. However, this study shows that their adoption is directly or indirectly associated with better economic performance: why should public funds be committed when it would be "enough" to convince businesses that it is entirely in their interest to invest in CSR? Moreover, the effectiveness of CSR arrangements depends on their articulation with the business's other structural characteristics (market strategies, network effects, management modes, etc.), so a financial incentive would only make sense if it is accompanied by a genuine modification of firm's strategies. In consequence, the risks of a windfall effect would be very high, and the financial incentive would finally be of little or no effectiveness.

For a judicious combination between regulation and voluntary initiatives

If one sets aside recourse to financial incentives, is it necessary to strengthen regulation to encourage businesses to adopt CSR? The results of the analysis presented in this study show that regulation increases the probability that CSR arrangements will be adopted within businesses, regardless of the CSR domain observed. However, regulation by itself has no significant effect on performance, contrary to the voluntary implementation of CSR practices. On the other hand, when regulatory constraints are combined with voluntary practices, a positive link with performance is observed. More than constraining arrangements themselves, it is, therefore, their interaction with voluntary arrangements that appears to produce results. In other words, the combination of hard law / soft law (regulation / self-regulation) could be better than soft law alone in terms of performance gains.

One explanation could be as follows: on average, businesses can perceive modifications to rules and regulations as a guideline or a base, and use it as an opportunity for internal transformation. To put it another way, businesses that are able to transform constraints of rules and regulations into an opportunity that is favourable to CSR gain an additional competitive advantage in markets.

It may also be the case that businesses perceive modifications to rules and regulations as a signal for ever-harder future constraints. In such a case, anticipation can lead them to adapt (partially or totally) right from today, doubtless in the hope of attenuating future constraints.

For all that, is it necessary to introduce constraining measures to lead businesses to adopt more CSR practices? According to our study, businesses do not seem to have a quantitative approach to CSR practices. On the contrary, they seem to want to prioritise consistency between various CSR dimensions, according to their own specificities. In short, a combination of practices that has been deemed good by one business may not suit another. That overall strategy, which takes account of the particular constraints that businesses have to deal with, may be rendered ineffective by over-constraining regulation, which would force them to set up arrangements that are incompatible with their history, business culture, internal incentive mechanism, or even social context. Moreover, businesses, SMEs in particular, need time to introduce CSR arrangements, test them, and communicate them to stakeholders.

In order to reconcile the economic and social performance of businesses, it may be necessary to find the “smart mix”, the ideal combination of CSR regulation arrangements that blend consistency and flexibility for businesses.

Adopt a more territorial strategy, and target support actions primarily at SMEs and microbusinesses

Fewer than a quarter of French businesses with over 9 employees state that they are genuinely involved in responsible approaches. What is more, 60.4% of them state that they do not know the notion of CSR. The bigger a business, the greater the chances that it will know about CSR and put it into practice. Thus, knowing and appropriating CSR struggle to materialise in the field, especially in small structures and in certain regions, in spite of the many regulatory or voluntary initiatives. The results highlight the importance of having a more “territorial” CSR strategy, aimed first and foremost at SMEs and that takes account of their environment, to more closely meet their expectations and needs, over and above a straightforward information campaign.

SMEs function in large measure at local level, so CSR can be a factor of attractiveness of territories where they are set up, and facilitate network-based working with other local stakeholders. Thus, action and support plans for SMEs must go beyond their internal and organisational environment and be set within a widened framework that is propitious for CSR. It is a matter of putting in place conditions favourable to the emergence of a genuine “ecosystem based on partnership governance” that contributes to creating “territorial” value (economic, social, and societal).

Six plans

Those general guidelines could take the form of action plans.

Plan 1 – Set up territorial multi-stakeholder platforms to support SMEs and microbusinesses in their CSR approaches.

The main objective of the territorial platforms could be to help businesses, especially SMEs and microbusinesses, to develop innovative CSR projects, in close collaboration with all the stakeholders of a region: businesses and professional federations, local authorities, voluntary and institutional networks, trade unions, schools, and universities. In that context, dialogue and co-construction would allow the closest support to be given to those structures, both on an upstream basis (consultancy work relating to CSR development and innovations, help with financing projects, etc.) and on a downstream basis (showcasing CSR progress approaches, disseminating skills, especially in matters of public procurement, private calls for tender, etc.), thanks to exchanges of expertise and of feedback from stakeholders.

CSR is cross-cutting in nature, so facilitating the platforms needs to be flexible and based on partnership governance, with all stakeholders represented by a college, for example, like the Nantes Métropole CSR platform.

Plan 2 – Strengthening interbusiness (small and large) mentoring operations at regional level and for export.

SMEs are very often attached to their economic independence, which can prove an obstacle to bringing them together in networks. If connected to large businesses through mentoring operations, they could benefit from their networks and experience in matters of CSR at several levels (exchanging skills, training, etc.). Those mentoring operations could be supported within territorial platforms.

Plan 3 – Facilitate both CSR certification and obtaining CSR marks for microbusinesses and SMEs.

Obtaining marks is a means of showcasing CSR approaches to public and private principals as well as consumers. However, a significant number of marks, certified or not, already exists; that affects their legibility and even their credibility. A sector-based mark system that is recognised by the State – as set out in article 53, law no. 2009-967 of 3 August 2009 on scheduling relating to the implementation of the Grenelle Environmental Forum, the so-called Grenelle I law – would allow for a reduction in the number of marks in the markets for products and services, whilst boosting their credibility. Given the specificities of businesses and the sectors to which they belong, it is nonetheless recommended that experiments be conducted across all sectors, by relying in particular on the professional branches and federations concerned. Territorial platforms could also be a place of exchanges and dissemination in relation to those experiments.

Plan 4 – Develop an "integrated" indicator to support businesses in their CSR approaches and showcase them.

The best-performing and most virtuous businesses are also those that ensure complementarity in their CSR practices and overall consistency with their structural specificities (size, activity sector, development strategy, etc.). Supporting businesses in developing a CSR indicator that is "integrated" as well as flexible may help them in grasping their progress-making approach in a consistent and overall manner. A multi-stakeholder working group (professional federations, business associations, trade unions, researchers, etc.) could put together such an "integrated" indicator that would, in particular, enable:

- measuring the complementarity of CSR practices that are put in place, and identifying of the best combinations
- improving CSR benchmarks between businesses
- instead of certifications or marks, prioritising self-assessment / self-diagnosis tools that aim at showcasing CSR approaches to private and public principals

– improving the transparency of businesses' CSR strategy through a better quality of information from extra-financial data, and facilitating the adoption of reporting that is more "integrated" and more consistent with the specificities of each business.

Plan 5 – Use the advantages of digital technology to improve actions to support SMEs and microbusinesses.

Contrary to standard training offers, which are made away from the workstation, it would be desirable to support CSR training that is compatible with the time management of an SME executive. Digital technology could be a vector for apprenticeships and for skills exchanges tailored to those executives, for distance acquisition of CSR training via e-learning or social learning thanks to collaborative tools (collaborative platform, social networks, interactive interface, etc.). The State could set up a development strategy to meet the challenges of training and of digital technology in matters of CSR. Co-constructing that type of training could be planned in universities, *Grandes écoles*, or training centres, which would handle its operational management.

Plan 6 – Launch a programme to assess CSR in SMEs / microbusinesses.

Businesses need sector impact studies to anticipate the effects of CSR and its conditions of application to their environment and to their economic situation (sectors, economic cost, jobs, skills, etc.). However, there are still few studies of large samples of small businesses, so it would be desirable to launch assessments to improve knowledge of the economic, social, and environmental challenges of CSR for small businesses. That action could draw on the German research programme *Gesellschaftliche Verantwortung im Mittelstand* ("Social Responsibility in SMEs"), launched by the federal government and piloted by the Ministry of the Economy in liaison with the *Institut für Mittelstandsforschung* (IfM – Institute for SME Research).

To download the full study:

www.strategie.gouv.fr/publications/responsabilite-sociale-entreprises-competitivite