Corporate Social Responsibility in Ukraine: Why to Do It and How to Do It

Bryane Michael
Implementing CSR Programmes: Why to Do it and How in Ukraine

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CSR: A Definition

- Featured in much of the popular press.
- “continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. Holmes and Watts (2000) of the World Business Council for Sustainable Development
- community economic development, education, disaster relief, environmental protection, health promotion (World Bank).

An end to the Enrons and WorldComs of the world?
Estimated Revenue of “First Tier CSR Markets”: $20 million
Estimated Revenue of “Second Tier CSR Markets”: $15 million
Secondary markets for CSR huge

The Mattel Children's Foundation will provide an initial funding donation of $600,000.

Estimated Global Revenue: $12 billion
Stakeholders Contribute to Profits: An Example

The Stakeholder Concept

- workers
- suppliers
- government
- financiers

\[ \pi = R - C \]
<table>
<thead>
<tr>
<th></th>
<th>Initial expend</th>
<th>CSR discount</th>
<th>Amount saved (increased)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers</td>
<td>$2,100,000</td>
<td>20% discount</td>
<td>$420,000</td>
</tr>
<tr>
<td>Financiers</td>
<td>$20,000,000</td>
<td>2% discount</td>
<td>$400,000</td>
</tr>
<tr>
<td>Customers</td>
<td>5,000,000</td>
<td>5% decrease in costs/increase in revenue</td>
<td>$250,000</td>
</tr>
<tr>
<td>Government (bribes)</td>
<td>500,000</td>
<td>10%</td>
<td>50,000</td>
</tr>
<tr>
<td>Environmental Concerns</td>
<td>1,000,000</td>
<td>100%</td>
<td>1,000,000</td>
</tr>
</tbody>
</table>
Why Should You Care? A First Reason

- Ukrainian companies widely perceived as corrupt and having poor corporate governance.
- PR and “marketing” not the answer
- Philanthropy is NOT the answer
  - waste your money
  - worse than taxes and govt.

Good education, both for children and for adults, lies at the heart of sustainable communities. As a major employer, we know the importance of education for equipping people for the workplace. We also recognize the value lifelong learning can have in enabling people to fulfill their potential and allow society to reap the benefits. We support projects that promote fundamental life skills, such as literacy and numeracy, as well as those that are more geared to improving employability, and others that enable teachers to develop leadership skills. Recently, we have funded

Parentline Plus - national charity
We have made a donation towards a leaflet for parents of teenagers, giving advice on how to manage their transition to independence and employment.

Bryson House - Belfast
We have contributed to the charity’s programme for 16-19 year olds who need intensive preparation for employment.
Strong CSR?

- Not just PR or way of making up for stagnating sales...
Shoring up waste

mani pulite
Corporate Reputation and Performance
An Example from Turkey

- Arçelik
- Vestel
- Turkcell
- Koç H./Sabanci
- Garanti Bankası
- Coca-Cola
- Ülker
- Eczacibasi toplulugu
- Unilever
- Proctor & Gamble
- Microsoft
- Zorlu Grubu

Branding part of CSR

Goal not to be “good”
Goal is to treat “stakeholders” well.

Source: Edelman. Available at: http://www.edelman.com/image/insights/content/rebuilding.ppt#9
Why Should you Care? A Second Reason

- European Union is Coming!
  - Bigger Market than the USA
  - Ukrainian industry very uncompetitive
  - No National Business System (*syndicaux* and *patronat*)

- CSR is a way to establish an NBS
  - Create a national business sty
  - EU rules on competition
  - EU work on CSR
  - Bad PR now is global
EU Rules

- social label – supply chain respects ILO conventions (B, F, Ir)
- mandatory green accounts – environmental reporting (D)
- Human rights impact assessment (D, G)
- Mandatory Triple Bottom Line Reporting (F)
How does CSR help the business

- **Revenues**
  - increases brand loyalty (networks)
  - Coca-Cola, General Electric, etc.
  - reduces risks (Enron, political risk, ship in harbor)

- **Costs**
  - lower wages per unit quality
    - Sabanci, Koç and GM
  - lower costs of capital (longer pay-back times)
  - higher quality

"nice company!"
Overcoming Market Failure: Citibank & Microfinance

- In UK, partner with Prince’s Trust to provide $$ to entrepreneurs
- $100k to women in Russia for micro-finance scheme
- Management development programme in Philippines for microfinance entrepreneurs
- Micro-grants in Turkey?

Rule 1: Collaboration is Social Entrepreneurship
Part of the Branding Strategy?

News

The Body Shop Human Rights Award 2002
29 Oct 02 - Four groups fighting for housing and land rights in Israel, Kenya, Honduras and Bulgaria have today won a $300,000 share of one of the top international human rights awards.

At a special ceremony on the 29th of October 2002, The Body Shop Human Rights Award marked the achievements of these grassroots organisations who have each demonstrated exceptional bravery and creativity in protecting and promoting the housing rights of the marginalised.

Peter Saunders, Chief Executive of The Body Shop International said today: "Each of these winning groups has shown, in their own unique way, the incredible impact that grassroots movements can have on ordinary peoples' lives. They are an inspiration to us all." He added, "We hope that The Body Shop Human Rights Award will help to secure the international recognition they deserve for their achievements."
Responsible Reporting

Overview of Global Responsibility

- Message from Our Chairman
- The Purpose of a Business
- Message from Our President and CEO
- Driven to Provide Safe, Healthy, High Performing Facilities
- Our Applications and Markets

Page 4

Page 5

Page 6-7

Responsible Cleaning and Hygiene

- Product Innovation
- Program Innovation

We are committed to innovations in products, systems, services and programs that contribute to providing safe, healthy, high performing facilities for our customers.

Page 8-13

Page 14-21

Responsible Manufacturing

- A Proven 10-Year Record of Lower Environmental Impact
- Environmental Performance Parameters

We ensure that everything from procurement of raw materials to use of resources to waste discharge is all done to the highest levels of environmental, health, safety and continual improvement standards.

Page 22-23

Page 24-25

Responsible Employee Development

- The Best Place for the Best People
- Our Commitment to Employee Health and Safety

We continually strive to provide the best, safest, most productive working environment and culture.

Page 26-29

Page 30-33

Responsible Community Involvement

- Global Children’s Initiative
- Community Programs from Around the World

Our people volunteer their time and talents every day in communities where we have operations.

Page 34-36

Page 37-39

Responsible Financial Performance

- Key Performance Indicators for 2004
- Financial Results Insert (in some reports)

We are dedicated to managing and growing JohnsonDiversey as a successful business.

Page 40-43

JohnsonDiversey Inc. -- commercial cleaning, sanitation and hygiene products for hotels, restaurants, stores and building sites. Works in more than 140 countries.
Industry Standards

Commitment Comes from Meeting Industry Standards

As part of our commitment to setting the highest environmental standards, we participate in the Global Environmental Management Initiative (GEMI), where we share tools with 40 other member companies with the aim of fostering environmental, health and safety excellence worldwide.

In Europe and Scandinavia, we have experienced increasing demand from our customers for products with recognized environmental certifications. In Denmark, for example, two of our products lines - building care products and kitchen products - have been certified with the Nordic Swan eco-label. Currently more than half of our Nordic product lines are certified to the Nordic Swan eco-labeling standards.

Nordic Swan is a label issued by the Nordic Council of Ministers to indicate that a product is “a good environmental choice.”

In our North American region, we are adopting the environmental criteria associated with Green Seal certifications as part of our own internal policy in addition to certifying products. We share these environmental criteria with our chemists in order to identify product improvement opportunities. In Canada, we are working on a similar initiative, focusing on raw material usage and safety improvements.

Green Seal is a U.S.-based independent, nonprofit organization that establishes standards for certifying products as environmentally responsible.
Third Source: Leveraging off the Client

International Federation of Red Cross and Red Crescent Societies Teams up With Microsoft to Improve Technology Infrastructure
Some Things you can do

Fund a conservation movement
Sporting Events!
Staff time to work with poor
Provide drugs
Start your own CSR group
(economies of scale)
How to **Really** Help the Community

- Leverage what you know
- Partner with those who know what they are doing!
- HIV-Drugs in Africa
Time to Confuse You

Multi-sector Collaboration

Government
- Collaboration friendly regulation
- Collaborative public sector strategic planning and performance management

Business
- Triple Bottom Line reporting,
- forms of certification,
- stakeholder board committees,
- socially responsible investment,
- socially responsible product offerings
- multi-sectoral quality initiatives

NGOs
- national workshops
- action planning,
- policy committees
- public-private partnerships
- government/donor contracting and procurement

Goals:
dynamic competitive advantage, build competencies, develop new market segments, and broader conceptions about quality.

Not just involvement, must get them to work!
Lessons and Pitfalls from Turkey

1. **Some** Turkish companies with CSR programmes have Overdone – putting abstraction before selling

2. CSR still tied to charity/philanthropy instead of business objectives.

3. My estimates indicate negative value added…

We estimated that a $50,000 programme Resulted in $120,000 social harm…
### CSR Pitfalls: Love of Compliance

#### Table 10.
Company-wide CO₂ Emissions from Use of Electricity

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>YSI OH</td>
<td>2,358,376</td>
<td>2,851,560</td>
<td>1.97</td>
<td>2285.71</td>
<td>2547.65</td>
</tr>
<tr>
<td>YSI, Beavercreek, OH</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Endoco/YSI (MA)</td>
<td>70,015</td>
<td>77,814</td>
<td>0.90</td>
<td>28.99</td>
<td>31.76</td>
</tr>
<tr>
<td>YSI, New Jersey</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>SonTek/YSI (CA)</td>
<td>150,953</td>
<td>126,108</td>
<td>0.80</td>
<td>54.55</td>
<td>45.75</td>
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<tr>
<td>YSI Gulf Coast (LA)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>YSI UK Ltd.</td>
<td>31,550</td>
<td>40,010</td>
<td>1.03</td>
<td>14.79</td>
<td>18.76</td>
</tr>
<tr>
<td>YSI Hydrodicta (UK)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Nanotech/YSI (JP)</td>
<td>72,755</td>
<td>60,000</td>
<td>0.84</td>
<td>27.72</td>
<td>22.86</td>
</tr>
<tr>
<td>Nikko/YSI (JP)</td>
<td>64,000</td>
<td>67,000</td>
<td>0.84</td>
<td>24.38</td>
<td>25.52</td>
</tr>
<tr>
<td><strong>Total CO₂ Emissions</strong></td>
<td><strong>2381.59</strong></td>
<td><strong>2715.67</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

World Resources Institute (WRI) guidelines were followed to compute greenhouse gas emissions. The emission factors were derived from WRI as well.

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**Reporting for reporting’s sake…**
## CSR Pitfalls: Costly CSR

Hit the image with Nike CSR report 114 pages

### Table: M-Audit (time allocation) FY03 and FY04

<table>
<thead>
<tr>
<th>Audit Process</th>
<th>Total Hours (compliance team)</th>
<th>Average time spent per audit (average number of hours rounded to half hour)</th>
<th>Average time spent per audit (% of on-site hours)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Meeting</td>
<td>492</td>
<td>1.0</td>
<td>3%</td>
</tr>
<tr>
<td>Management Interview</td>
<td>999</td>
<td>2.0</td>
<td>6%</td>
</tr>
<tr>
<td>Walk-Through</td>
<td>957</td>
<td>1.5</td>
<td>4%</td>
</tr>
<tr>
<td>Sample Selection</td>
<td>723</td>
<td>1.5</td>
<td>4%</td>
</tr>
<tr>
<td>Records Review</td>
<td>1,530</td>
<td>3.0</td>
<td>9%</td>
</tr>
<tr>
<td>Employee File Review</td>
<td>1,178</td>
<td>2.0</td>
<td>6%</td>
</tr>
<tr>
<td>Hours/Wages Review</td>
<td>3,817</td>
<td>6.5</td>
<td>19%</td>
</tr>
<tr>
<td>Worker Interview</td>
<td>4,599</td>
<td>8.0</td>
<td>23%</td>
</tr>
<tr>
<td>Supervisor Interview</td>
<td>558</td>
<td>1.0</td>
<td>3%</td>
</tr>
<tr>
<td>Grading Instrument</td>
<td>985</td>
<td>1.5</td>
<td>4%</td>
</tr>
<tr>
<td>Audit Summary</td>
<td>876</td>
<td>1.5</td>
<td>4%</td>
</tr>
<tr>
<td>Closing Meeting</td>
<td>1,189</td>
<td>2.0</td>
<td>6%</td>
</tr>
<tr>
<td>Administrative Time</td>
<td>1,651</td>
<td>3.0</td>
<td>9%</td>
</tr>
</tbody>
</table>

**Total OnSite Audit Hours**: 19,534 34.5 100%

**Travel Hours**: 7,705 13.5

**Total Hours (Audit & Travel)**: 27,237 48.0

M-Audit hour’s calculations as recorded by Nike compliance in FY03 and FY04.
Dispatches from HRM: CSR is unsustainable because of HR contracts

- CSR “managers” hired and fired…
  - Secretary to PR
  - Doesn’t tie wage to revenue
What is Up with Starbucks?

- Carpet bombing strategy
- Branding for high margins
- Sourcing arrangements lead to problems (like Nike)
  - Politicians Logic Applied
  - literacy grants, work on climate change, etc.

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**The Starbucks Foundation**

**Our commitment to youth & literacy** Since 1997, The Starbucks Foundation has been dedicated to enriching the lives of youth in underserved communities. Our mission is: to create hope, discovery, and opportunity in communities where Starbucks partners live and work. Collectively, we have a responsibility to nurture our youth, and provide the tools they need to succeed. Investing in our children, we believe, creates long-term benefits for our communities and a more sustainable world. This has been the impetus for The Foundation’s funding of programs that promote youth leadership through the power of literacy and respect for diversity.

**Foundation Grants**

Through our [grant program](#), The Starbucks Foundation has made more than 900 grants in excess of $10.5 million to serve low-income, at-risk youth.
Avoiding Pitfalls: PR

Beware the CSR Backlash
What is to Be Done? Example from Turkey

Corporate Social Responsibility in Turkey

Introductory page

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
</tr>
</thead>
</table>
| 9:00-9:15 | **Overview** *(password)*  
Structured presentation of the tripartite model |
| 9:20-10:30| **Section I: Strategy and Structure** *(password)*  
Strategy  
Business Development  
Negotiating the Collaboration  
Reorganising for Collaboration  
Avoiding Pitfalls  
Mini-Case Studies  
Business Model Formation *(see Overview slides)* |
| 11:15-12:15| **Section II: Operational Issues** *(password)*  
Overview  
Bilateral consultation  
Public Private Partnerships  
Triple Bottom Line  
Stakeholder Boards  
Socially Responsible Investment  
Quality Circles  
Multi-sector social risk and impact assessment  
CSR Industrial Policy  
Overcoming Barriers  
Mini-Case Studies  
Business Model Formation *(see Overview slides)* |
| 10:30-11:00| **Large Case Study** *(EDF-McDonald's)* |
| 11:00-11:15| Coffee Break |
| 12:45-12:55| Overview of international organisation, private sector (large and small consultancy) and NGOs/business association projects. |
| 12:55-13:00| Wrap-up |