A stress test for good intentions

The recession is a test of companies' commitments to doing good.

Illustration by Claudio Munoz

In June Gap, a big retailer based in San Francisco, will hold a strategy meeting for its corporate social responsibility (CSR) team. In previous years that meant flying in people from 20 countries around the world. But this time the company plans to bring them together virtually, via online meetings. The main reason for the switch is not to help save the planet by reducing Gap's carbon footprint, but to help save money. "Everyone's looking to become more efficient," explains Dan Henkle, who leads the company's CSR activities.

As firms grapple with a brutal economic downturn, they are taking a long, hard look at the resources they devote to everything from supporting charities to making their activities carbon-neutral. That is hardly surprising: cutting back on CSR, or "sustainability" as it is sometimes known, would seem to be a quick and relatively painless way to save money. Cassandras who felt many CSR initiatives were little more than publicity stunts in the first place predicted that they would perish as soon as the economy fell off a cliff.

There have indeed been cuts to CSR budgets. A survey conducted late last year on behalf of Business for Social Responsibility, a global network of firms with an interest in CSR, showed that almost a third expected their spending on sustainability to fall as a result of the crisis. Yet so far the recession has not produced a wholesale retreat from corporate do-gooding. Instead it has led firms to cut things that were at best peripheral to their business interests and, at worst, a waste of time and money.

Most of the cuts have been to corporate-philanthropy budgets, which typically fund charities and NGOs. For instance, Citigroup's charitable foundation says it expects to make $63m of grants in 2009, down from $90m last year. The bank says it had already planned to focus its giving in fewer strategic areas before the financial crisis broke and that it is still investing heavily in CSR-related initiatives across its businesses. Given the woes of Citigroup and some other troubled financial institutions, taxpayers might question why banks are still forking out any cash to good causes rather than using it to repay government loans. Yet bankers argue that scrapping such activities altogether would be extremely damaging to their reputations and profits—or, at least, what's left of them. Carmakers are also cutting back. Ford expects its philanthropic arm to shell out 40% less this year, but says it remains committed to the principle of corporate giving.

The downturn has dented other aspects of CSR, too. While businesses were minting money, there was much talk of "green" travel and offsetting carbon footprints. Yet a survey of 329 corporate-travel managers and business travellers published in February by the Association of Corporate Travel Executives found that only 17% of them now ranked environmental

sustainability as a high priority, compared with 29% a year ago. The silver lining in this carbon-filled cloud is that executives at firms such as Gap are using technology to cut the number of trips they make in order to save money. Accenture, a consultancy, reckons it has saved $8m in a year by using “telepresence” systems and has avoided journeys that would have generated 2,000 tonnes of carbon dioxide.

But chaos in the global financial system has stymied some big, environmentally friendly projects. American Electric Power (AEP) chose to delay its plans to build a wind farm in Indiana when the heavily indebted utility found its cost of capital had soared because of turmoil in the corporate-bond market. The firm is now exploring other ways of meeting the ambitious targets that it has set for generating energy from renewable sources.

AEP’s commitment to greenery is not driven by rose-tinted altruism: it expects demand for clean power to increase as a result of government actions to limit climate change. Other firms are sticking with green-energy projects because they can boost efficiency or cut costs. Intel, the world’s largest chipmaker, says it plans to increase investment in energy efficiency this year because the $23m it has poured into green energy since 2001 cut its fuel bills by $50m over the same period.

Self-interest also explains why many companies are intent on creating greener supply chains, in spite of the costs. Mars and Cadbury, two confectionery-makers, have separately announced plans to increase the amount of cocoa they source from sustainable sources because both are concerned about future shortages if production practices do not change. IKEA is also fretting about one of its most important raw materials. The Swedish furniture giant has agreed a plan to increase the amount of wood in its products that comes from responsibly managed forests between 2010 and 2012.

So the preliminary results of the CSR stress-test are encouraging. Many firms really do seem to have found ways of making the world better while making money at the same time. A few, such as America’s GE, have built entire business models around sustainability. This month Jeff Immelt, GE’s boss, unveiled a $6 billion plan to help its health-care division increase its profits while broadening people’s access to low-cost health care around the world.

Another reason for optimism is that consumer interest in companies’ sustainability credentials remains strong in spite of the recession. Consumers’ consciences have “not been put on hold,” notes Simon Propper of Context, a CSR consultancy. Nor have employees’. Many firms have spent a great deal of time getting staff involved in sustainability. Any backsliding would probably damage morale.

It would also damage a firm’s chances of recruiting future stars. Gap’s Mr Henkle says the college students he meets these days are far more informed about sustainability than their predecessors. Firms that can show they stuck to their sustainable ways during the recession may find it easier to attract the brightest talent when the economy recovers.

There is one other important reason for thinking that companies will maintain their commitments to sustainability through the downturn and beyond: the need to restore confidence in business. The financial crisis was triggered by a bout of corporate social irresponsibility on a massive scale that has tarnished the reputations of even the bluest of blue-chip companies. Now corporate leaders have a chance to show that they are not just motivated by short-termism after all.

A stress test for good intentions. **The Economist**, New York, 14 maio 2009. Disponível em: <www.economist.com>. Acesso em: 20 maio 2009.