

Protecting Corporate Responsibility in Tough Economic Times

By Doug Cahn and Patrick Neyts

There are few more poignant moments in the life of a business manager than when the chief financial officer announces an across-the-board budget cut. “All departments are being asked to share the burden of these difficult financial times,” the CFO declares. These words should come as no surprise in today’s economy. With the most widespread economic crisis since the great depression upon us, brands and retailers are struggling to respond to an uncertain marketplace. Consumer confidence has been shattered and the future is unknown. Prudent executives will understandably keep expenditures in line with revenues as they manage the bottom line. Corporate Responsibility (CR) programs will not be spared the budget axe.

At the same time, consumers are demanding more. Companies face a multitude of requests for information on ethics, governance, product safety and working conditions across their supply chains. Increasingly, companies are being asked to take responsibility for conditions down to the raw material level such as exploitative child labor in Uzbek cotton (apparel sector) or cobalt mining (electronic sector).

Will it be possible for company CR programs to do more with less? Are CR initiatives that face budget cuts doomed to lose their integrity? We believe that what CR professionals do to respond to corporate cutbacks will determine how far we have come to demonstrate the value of CR work. Consider these opportunities when facing fewer resources:

Realign Priorities. Convene a team of cross-functional managers to translate company responses to the economic downturn into revised CR priorities focused on benefiting the largest possible group of stakeholders. Revised priorities that have been vetted broadly will direct resources, manage expectations and create operational efficiencies.

Maintain internal accountability. Merging corporate compliance functions into core business operations can save costs but can also compromise the integrity of CR decision-making. Create an internal protocol for resolving differences that arise between managers of CR and managers of all other elements of business. A well-defined, senior-level process to resolve conflicts ensures that CR commitments are not a luxury for good times, but an indispensable way of adding short- and long-term value.

Shift monitoring. Shift away from the use of limited resources to conduct routine factory, farm or other social and environmental assessments. The key areas of non-compliance are well known around the world. Reduce overall monitoring costs by limiting the scope of audits and focusing more on improving social and environmental conditions in partnership with the suppliers. This will result in positive bottom line impacts for suppliers.

Compliance programs that focus on finding fault and forcing remediation drive a vicious cycle of hidden problems and repeat monitoring. This cycle ultimately results in increased costs for all, a phenomenon we have seen for many years now. Instead, work in-region with suppliers to find structural improvements that benefit the industry in a collaborative and systemic manner. Policies

that have not been designed to take into account the consequences of company purchasing practices on supply chains can lead poor compliance and increased costs.

Focus on total cost. Many company costs are hidden in the systemic way they approach CR. Examine the characteristics of supply chains (e.g. number of suppliers and supplier commitment and capacity to implement requirements) with a view toward maintaining a stable supply chain with long-term partners. Changing suppliers inevitably leads to additional staff time, travel and other cost. Examining the true cost of partnering with suppliers could easily result in changes that benefit the efficiency of CR programs.

Collaborate. The benefits of combining the efforts of brands and retailers to manage workplace conditions in supply chains represent some of the exciting recent developments in CR. Through the collaborative platform of initiatives like the Fair Factories Clearinghouse, companies can share non-confidential data about the social and environmental conditions in factories. The possibilities for cost savings using a collaborative approach are obvious. The more companies that engage in sharing, the larger the benefit to any single company will be. Sharing allows suppliers to focus limited resources on needed improvements rather than on unproductive audits. Audit fatigue was recognized a long time ago; this is the opportune time for brands and retailers to finally move towards a system of more collaborative, shared and efficient social and environmental assessments.

Maintain transparency. Retreating into a shell by reducing the level of company transparency will not convey confidence to critical stakeholders in these times. Transparency is a key component of any credible CR program. Lower costs by eliminating a paper edition of your company's CR report in favor of clear, succinct web-based communications. You will save money and trees while maintaining credibility with stakeholders.

Embed analysis of impacts. Many CR initiatives have been focused on managing risk, without acknowledging the positive impact that CR can have on the overall business environment. In these times of economic pressure there is remarkable opportunity to work on alternative business processes and products. Embedding the CR perspective early on in the process (e.g. product design, procurement practices, and environmental impact reduction initiatives) will lead to short- and long- term bottom line benefits.

Using these and other tips like them, companies can maintain the essence of their CR commitments and demonstrate the core value of CR during these uncertain times. We believe that today's financial crisis presents opportunities to transform CR initiatives from compliance and risk management into truly core business functions. If we succeed, not only will we protect our license to operate in the short term, we will also demonstrate the importance of CR to building durable companies that last.

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