### Interview: Professor Andrew Kakabadse

**Corporate Social Responsibility in Practice**

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<th>This is Steve Macaulay with a Cranfield School of Management Podcast. It’s one of a series where we interview authors about key topics from their books. I am interviewing Professor Andrew Kakabadse today about the book <em>Corporate Social Responsibility in Practice</em> that he co-wrote with Nada Kakabadse. Now Andrew, I wonder if you could give me some background to the book?</th>
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<td>The background to the book did not start with corporate social responsibility or CSR. It began with probably one of the world’s largest survey studies of boards and what emerged from that was governance, and all the principles and legislation that have occurred, you would have thought that boards were fairly clear about their role task and responsibilities. That was not the case. Each board tends to redefine its responsibilities, each business is different, and each management team has different requirements from the board. So it is amazing to see how much discretion is applied to board activity and board contribution. Now one of the interesting things that emerged from that was the growing importance of CSR, the degree to which the top management team or the chief executive in particular was giving credence to that importance, and the degree to which the board was governing the CSR activities and their application. So the whole point of the book that Nada and I wrote was, not to go into what is CSR because so much text exists in that area, but to identify what is happening to CSR in practice. And hence, one of the subtitles of the book was <em>Delving Deep</em> and the ‘delving deep’ was delving deep into the organisation to see what in heaven’s name is really happening in most organisations in the practice of CSR.</td>
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<td>That is interesting – one of the areas then you obviously looked at in quite a bit of detail was this board responsibility. What were the key things that came out of that?</td>
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<td>Interestingly enough, in the UK survey the least skill at board level is that of CSR in terms of professional boardroom director skills. In Australia, the same. It is the second least attended to activity in the UK and the least attended to activity in Australia - and that was the result of a questionnaire survey. So we have, if you like, statistical data comparing different functions, activities, people skills and what they do. The immense number of interviews we conducted with chairmen and board directors – I mean we must have gone through about five or six hundred boards from Russia, China to America,</td>
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Turkey, Britain, Australia and so on. There was a lot of discussion about the merits of CSR and how we were a good company and we were very corporately responsible.

But you have to be reminded that one of the best CSR reports ever written was that of Enron and some of the banks that have now gone bankrupt, including Lehman Brothers, had excellent CSR reports.

So the major question with all this was under whose responsibility does CSR sit, who is responsible for the actioning of CSR projects and who is going to govern the actual quality of that CSR project in practice? So we were looking fundamentally at the relationship between professional management and board, and we were trying to see in terms of who takes the responsibility for any form of corporate responsibility and action, who then judges how well that action has been delivered.

SM

One of the interesting things is that you actually went to a whole variety of organisations that you have written up in case studies, from French private hospital, investment bankers, manufacturing – are there any themes that came out of that?

AK

Yes, the basic themes are that we are still – except for two or three exceptional companies in the world – we are still at the point of writing nice reports and the vast majority of companies are writing nice reports for the sake of enhancing corporate reputation, or at least trying to defend it. So we were distinctly suspicious that no matter whether you were in the private or public sector what was happening in practice, may or may not have been captured in the CSR report. And I have to say some companies that we went to wouldn’t admit it, but privately they told us they were quite deliberately using CSR as a form of corporate reputation enhancement, knowing that there was little happening on the ground.

So with that in mind, and recognising that CSR is more talked about than done, it was then important to see how could CSR be handled better – and so we needed to understand the way different organisations were allocating responsibilities for the initiation of a CSR programme, for the actual implementation and financing of it, for the management on a day to day basis in terms of its efficient delivery. And for the governance and overseeing of that and trying to put that into a pot called ‘relevant to the overall corporate responsibilities’ which presumably had to be the board.

What was interesting was most boards have neglected CSR and when we asked chairmen and board directors what do you do, and a whole number of things came out, I think out of about five or six hundred interviews, one chairman mentioned CSR. When you then ask them what about CSR, then out came a whole stream of activities and contributions and fantastic things that we were doing,
but it was never mentioned as prime core activities – even when prompted indirectly. You had to prompt directly. So that raises the fundamental question about what really is happening here, because if somebody asks me what do I do, and one of the things that I neglect to mention is my responsibility to my kids, you would begin to question what sort of father am I? And only when you tell me how good a father are you, I tell you I am fantastic. So that led to an interesting distinction that had to be made between the management’s responsibility and the board’s. And what we were finding as one trend was, that even the best run corporations with the most progressive CSR policies, were all facing a tension between cost discipline and CSR application.

By and large, at the corporate centre, even with the best run organisation there was a genuine intent to do good CSR – whatever that may mean. When you started getting to divisional level or business level or country level – in other words where fundamentally the budgets are being managed and the tensions in the budgets are being allocated or hidden from top management, we were finding that no matter what was being said at the top of the organisation, at the middle, and lower down, managers were being driven by their ability to stick to budget, exceed budget, that targets were being driven on that, that bonuses were being driven on that and the future in the organisation was dependent on that. And so there was a paradox or a tension between managing costs and actually spending on CSR – no matter what the policy was from the top – and inevitably what won? The costs.

**SM**

At the moment then, you are presenting quite a pessimistic view really, particularly as costs and profitability are under pressure at the moment. Is there any way forward in this? I know you quoted one example where it is suggested that if you follow CSR practices it’s actually profitable. Clearly that doesn’t seem to work on the ground.

**AK**

It’s not working on the ground for many organisations and where it is working well, there has been a clear business analysis and business decision to integrate corporate responsibilities with the business or the organisation. What is still happening with so many organisations is that it is an add on. It is something good or nice that we should be doing, as opposed to core business activities. So the debate is one critical question, to be honest with you. What is the CSR debate, first of all, in the top management team? What is considered core and critical to the business? What information or data is being generated, which says we are having difficult decisions to make between the actioning of our policies and these difficult decisions are being made at middle manager level, at branch level, sub unit level – whatever level it is, and the dilemmas of those more junior managers are being brought to the attention of the top team. Now I don’t see many top teams working that way.
especially do not see many boards holding their top teams to account for talking that way. So I don’t see many chairmen putting on the agenda for the next board meeting, where is CSR? How well are you handling it? Inform us as to what you are doing, and inform us where you are failing. So I don’t see the governance of CSR being pushed hard. It may be a final item on the agenda, and it is still falling more into the ‘nice to do’ category.

SM
Have you any recommendations for moving the CSR agenda forward? What you are presenting seems to me to be a pretty rock solid, concrete hard, ‘this is not going to change easily’ view.

AK
It’s not. We are in a world of mature markets. Many businesses today survive because there is still more cost to be taken out of the business. If you go to many organisations who really are at the mature end of the cycle, they are probably making more money by being cost disciplined and making profit. So we cannot escape the fact that we are in a world of managing costs well – we are not in a world of thirty years ago where profitability and ability to make money, and the generosity that comes with that is part of our everyday life. So that is one critical issue.

The other issue which has been totally neglected in the CSR debate is the issue of the responsibility of government and it is abundantly clear to me that government has absolved its responsibilities and as part of the cost reduction exercise, it has outsourced many activities and placed that responsibility on the private sector.

So there is an unclear division of responsibilities within the private sector in a sense being hammered to become more responsible, and yet I cannot see how with some of the demands made on certain organisations they can fulfil them, because it does damage shareholder value and profitability and reporting to the markets, which could damage share price.

Now what may happen with our current financial crisis, is that we may think of a fundamental platform of shareholder value, and I am expecting this to be one of the roll outs over the next few months of why were we so crazy about meeting shareholder value, which is fundamentally a few institutions and a few rich individuals, at the expense of everybody else? Isn’t there a better way of handling this and are we in a world now of experimenting with social markets, as opposed to free markets?

So we have that debate, which must take place, and how can the private sector have that debate if government won’t participate? So that is critical issue one.

Critical issue two is what makes good business sense and what is sustainable? And if you can build that and show that this makes good business sense, and there is an investment that will take a longer term perspective, and you can deliver that message to the
shareholders, and the shareholders will be sympathetic with you, that is excellent. But you know when you do that, what it really tests is the quality of your leadership. It doesn’t test how good at CSR you are – it really tests that you can take a long term position and you can satisfy the short term demands of shareholders – and some of those shareholders are pension funds, who need to understand what is happening to them in the short term. So a good CSR driven organisation, by and large, is a well led organisation. And it’s not just CSR that is positively thought through, it’s all the other factors and it could be risk with IT systems, as anything else.

The uncomfortable part of CSR is the discussion on corruption. To be honest with you, if you go to countries like China and Russia you cannot trade unless you bribe. In fact, I do not know of one organisation in China or Russia that doesn’t bribe – I know they hide it from everybody else, and I know that they will deny it in public, but when you go there and see the manner in which the networks and relationships function, its abundantly clear that there has to be a transaction of money.

But the critical question is, when do we reach a point of unacceptable bribery, as opposed to transactional costs? You go to Germany and you take some of the recent publications in the Economist, bribery in Germany is going on at about €2bn a year, and the relationship between Germany, Russia and China is that they are all networked societies – they are stakeholder societies. They don’t have the sharp divisions in terms of shareholder value, accountability and responsibility – more members of the community are involved in strategic decisions and policy decisions.

So as part of CSR it’s also important to understand how we use our monies in different societies and how we present that to the public and I believe there has to be a major discussion and a revision of ideas on what we mean by corruption and what we mean by being responsible to different communities. The bulk of corruption in Germany, China and Russia is little more than tipping a New York waiter who expects a twenty per cent tip on the bill of the restaurant where you ate. And the reason for that is fundamentally the guy is being paid too little.

So what happens in the New York context in service organisations is that the customer and the employer enter into a relationship to add to, and take responsibility for, the wage of the person who provides the service – the employee. That is what is happening in China. That is what is happening in Russia. That is why we have transactional costs, that is why we call it grey money, or that is why we call it friendly payment. That is very different to someone at the top siphoning off billions or millions.

So when you talk about CSR, the reality is you must talk about the transaction of how it is done at the coal face and there are many issues there – one of which is CSR. And the well led organisation
has considered the transactional effects and has brought them to the surface and has discussed them. That is the critical difference. The not so well oiled organisation creates the policies and strategies and then dumps their managers to sort it out and that is when CSR goes wrong.

| SM    | Andrew, you have given a very clear introduction. You said at the start, the subtitle is *Delving Deep* and I think very much you have done just that, you have raised some critical issues that are well worth exploring by reading the book further. Thank you. |
| AK    | Thank you very much. |