

Companies gain profits from social responsibility

Introduction

Through this paper, I would like to insist on the importance of my theory. Companies can receive more reward by contributing to social and environmental improvement than by seeking an immediate profit.

How does a company obtain rewards? There are three ways. First, firms must survive in the competitive market. It may sound paradoxical, but it is certain there is no return without continuance. Second way is to have an advantage over other companies in the same business. Finally, corporations must make an innovation to break the wall preventing them from moving forward.

Corporate scandals are making headlines in everyday newspapers. For example, the news that many defective buildings were found was one of them. Corporations taking part in construction looked after only their own interest and didn't consider residents' safety. Even more, today environmental issues are surrounding us. Various problems frighten our future and make it in the darkness.

What role should companies play in this diverse world? What is the purpose of firms? In this thesis, I would like to that efforts of companies in social responsibility solve such issues, as they are paid back from society.

Turning Point

The model of excellent company changes with the times. When did companies have responsibility? It was 1602 when the Dutch East India Company was established. The corporation became the first joint-stock company in the world. Entrepreneurs had an obligation to give investors value for their funds and were regulated by the commercial law.

Nevertheless, firms have new concept of responsibility today. To show you some reasons, there is globalization of the economy, worldwide environmental issue, a labor problem in a developing country, and a domestic corporate scandal. The difference between the former concept of corporate responsibility and the new one is an extent for which companies take obligation. The new one has many kinds of stakeholders. “Stakeholders” are people who have an interest in a company or organization’s affairs (Collins COBUILD Advanced Learner’s English Dictionary, 2004). They are, for example, investors, costumers, clients, local communities, or administration.

The new concept is called Corporate Social Responsibility (CSR or called Corporate Responsibility, especially in EU). As this word has diversity, I cannot distinctly say what its meaning is. Therefore, the world is moving steadily and making an effort to have the meaning clear. I show you a definition advocated by Global Reporting Initiative (GRI), an NGO working for creating a guideline of a sustainability reporting. The group says that Triple Bottom Line (TBL), economic, social, and environmental side forms CSR (Figure 1).

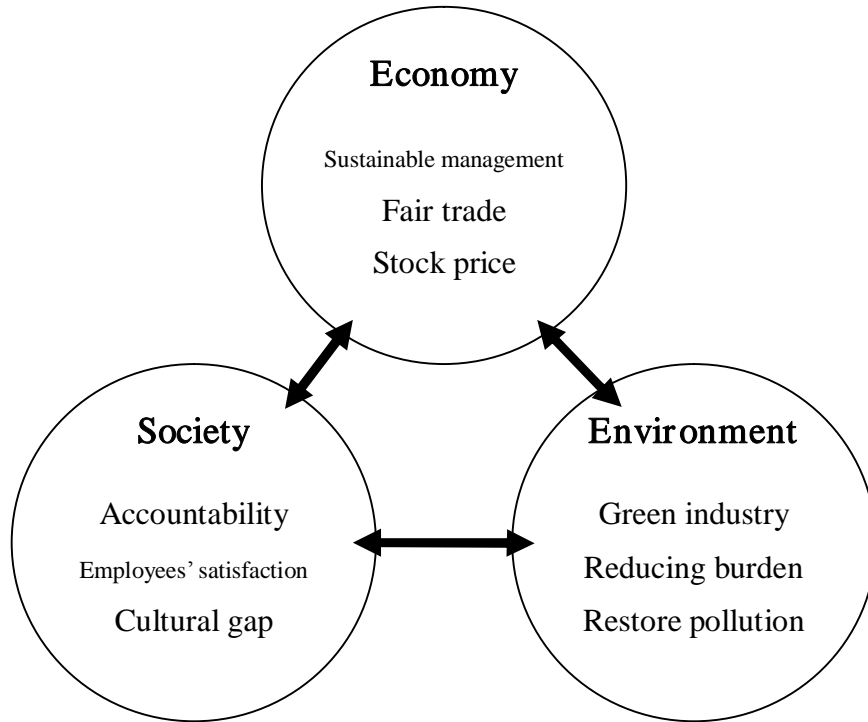


Figure 1, Triple Bottom Line

In addition to GRI, there are worldwide activities to define CSR. International Organization for Standardization (ISO), are trying to make an international standard for CSR. Many international standards for product quality or environment have been produced by ISO and they are now widespread. For example, a lot of Japanese companies are taking ISO14001, which is environmental certification (Figure 2). It is certain that the CSR standardized by ISO has influence. Besides that, Organization for Economic Cooperation and Development (OECD) and Global Compact project by United Nations show principles of management.

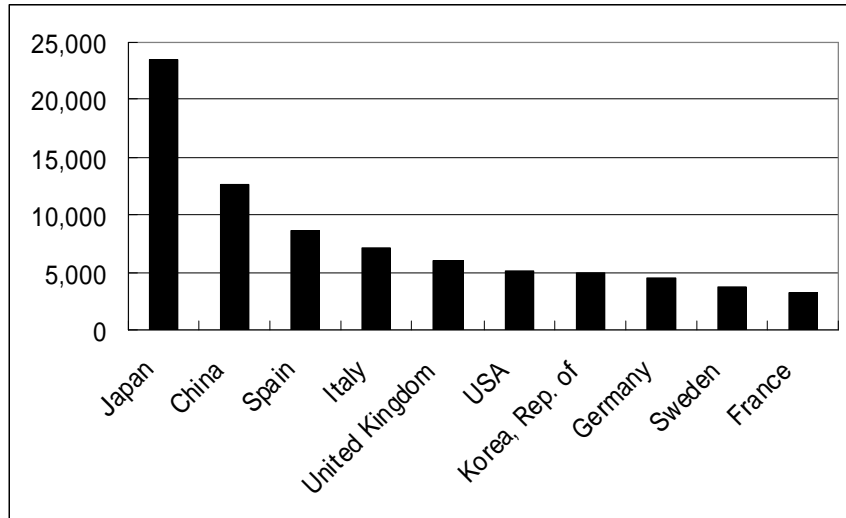


Figure 2, Top 10 countries for ISO 14001 certificates (ISO, 2005)

There is an opposing opinion that says companies' responsibility is the only one. They must earn as much money as possible and restore it to their stockholders. The objection against CSR is an idea that Milton Friedman, who is an American 1976's Nobel Prize-winner for Economic Sciences, proposed (Takeuchi. K., 2005, p. 35-36). He also said that spending on an environmental movement or a contribution for a region was the same to paying for something useless on companies' own initiative.

In spite of such a famous economist's opinion, the world is supporting CSR because we have reached a turning point. Disregard for the new concept of responsibility is the same to breaking rules. Whoever plays cards with an offender? A company that is not active to achieve CSR will be removed from the world market.

Advantage

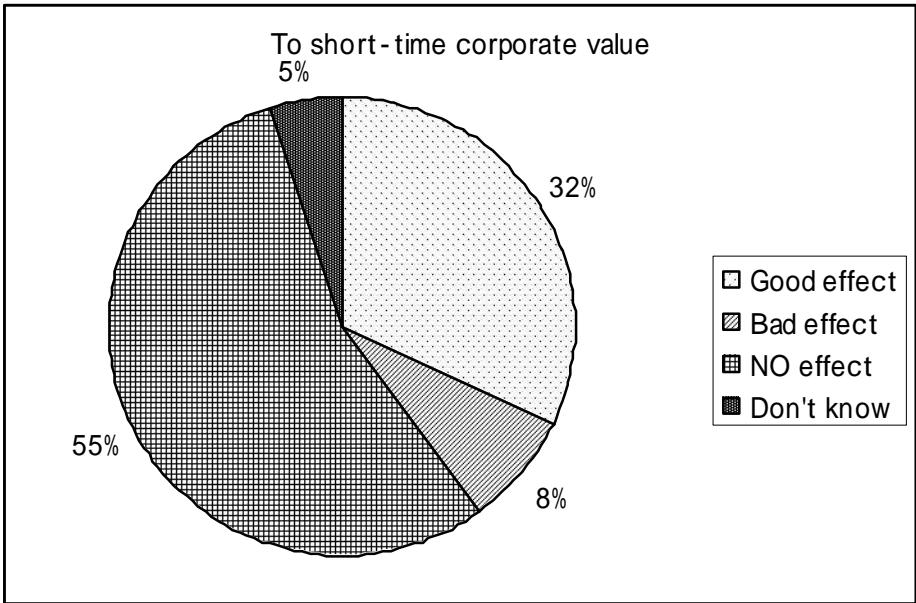
Can a company take advantage over other firms by CSR operation? In fact, there is not a clear data that confirms CSR pays a profit back. David Vogel, a professor at Haas School of Business, University of California, Berkeley, states that although CSR is often seemed that it is close ties with returns, that is not true. It is because the number of companies investing in CSR is not enough to judge (David. V., 2006, P. 17-18). He also says if many firms try to achieve CSR on a full scale, the limit of a cost effect will come out immediately. In addition to his opinion, there is a deadly fact to supporters of CSR. It is certain that consumers are very interested in business ethics and fair trade, but do they actually buy a “clean” and “fair” product? That cannot be.

Against the professor’s opinion, I have a reason why there is such a criticism. It is hard to see the worth of CSR so I recommend an indicator, Net Promoter score (NPS). It was advocated by Frederick.F.Reichheld, business author and strategist. When a company uses the barometer, the firm asks customers whether they recommend its product to others or not at first. Then it puts the rate of consumers who answered Yes to Promoter and that of No to Detractor. NPS is the percentage calculated from Promoter minus Detractor (Figure 3). The Bain & Company, one of the biggest corporations in a consulting business, ensured the credibility of the indicator. The firm found that NPS has close ties with corporate performance. I can insist CSR brings rewards to companies from this research.

$$\begin{array}{ccccc}
 \mathbf{NPS} & = & \mathbf{P} & - & \mathbf{D} \\
 \downarrow & & \downarrow & & \downarrow \\
 \text{Net Promoter score} & & \text{Promoter(\%)} & & \text{Detractor(\%)}
 \end{array}$$

Figure 3, an outline of NPS (Hori. S., 2006, P. 81)

I have another interesting research (Figure 4). This is a questionnaire to 388 Europeans. The question is that what kind of effect the social and environmental risk management brings on your experience. Many European fund managers and analysts have the idea that risk management based on CSR contributes to improve competitiveness.



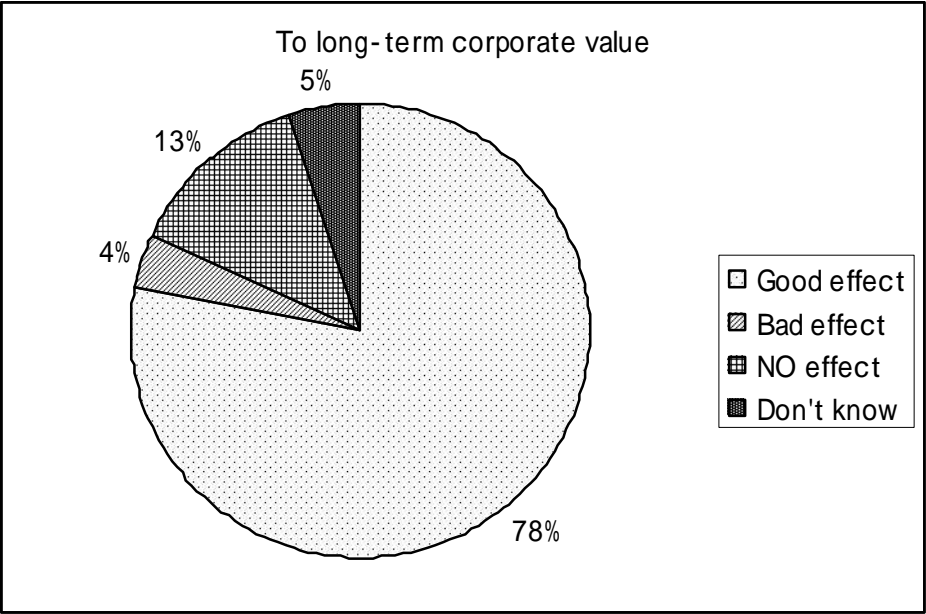


Figure 4, 388 Europeans' conscious of CSR (Fuji. T., 2005, P. 133)

Innovation

The final stage of the process to acquire returns by CSR is making innovations. In other words, the last step is to make CSR into an original product. I give you an example on Matsushita Electric Industrial Co, in this chapter. The first reason why I chose Matsushita is that I would like to pick up a Japanese company. Then there is a fact that the Japanese business world most active in CSR is electronics. According to research of Newsweek, the five companies are in electronics out of the top-ten Japanese corporations in CSR (Bain & Company, 2006, p.76-77). Next, Matsushita is the biggest corporation from the viewpoint of the sales figures in electronics. That is very significant. A large enterprise has a big influence on world markets. In addition to that, CSR is intimately related to a disease of big companies.

A new washing machine, which was released on April in 2002, was made from an innovation of Matsushita. It has been a big hit in Japan. The difference between the former machine and the new one is that developers inclined the inner drum with a 30-degree. It was overturning of common sense. I will show you that Matsushita's CSR operation made this innovation from three sides of Triple Bottom Line.



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Figure 5, Matsushita's new washing machine (Amazon. com, 2006)

First, look at the economic side. Matsushita was infected with a disease of big companies in 2002. Although the firm had never been in a red letter for 30 years, the year was different. Nakamura (2003), the CEO of Matsushita, stated, “All the people in this company were overconfident that Matsushita was eternal”. Nevertheless, Matsushita achieved a marvelous V-shaped recovery (Figure 6).

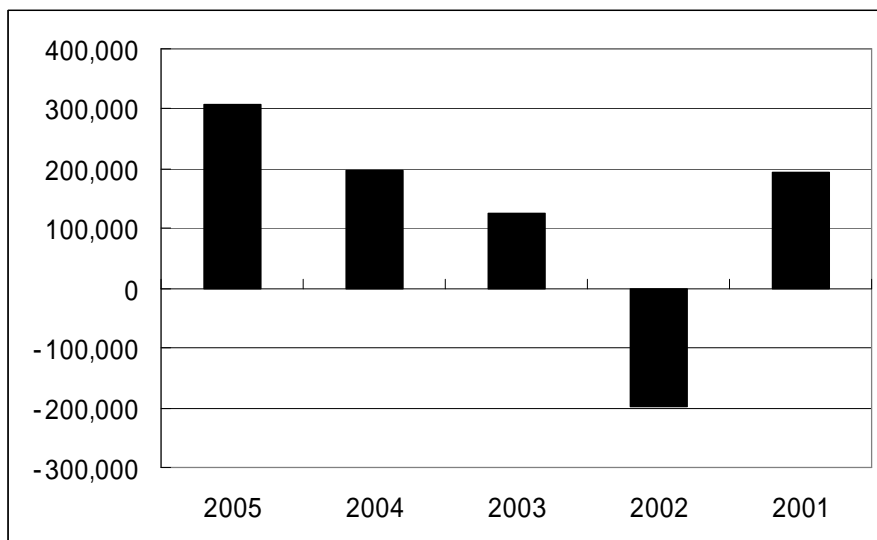


Figure 6, an operating profit of Matsushita (Matsushita Electric Industrial Co., 2005)

In 2005, Matsushita picked up five equipments that support the recovery. The diagonal-drum-type washing machine is one of them. It is more expensive than former type by 20%, even now (Bic Camera, 2006) but the share of diagonal-drum-type had rapid growth.

Next I tell you the social side. This equipment was made from a point of Universal Design, a part of CSR. That is the essence of Matsushita’s innovation and the biggest reason why the machine sold well. Universal Design is a conception that anybody, a handicapped person, a pregnant woman, a senior citizen, or a young child, can use a product easily. The diagonal-drum-type washing machine is very easy to use for every one (Figure 7). That is a

secret of the popularity.



Figure 7, Universal Design (Matsushita Electric Industrial Co., 2006)

Finally, I show you the environmental side. Inclining inner drum succeeded to reduce the 60% amount of water as against the former one (Figure 8). Then people who are interested in preserving environment support the machine.

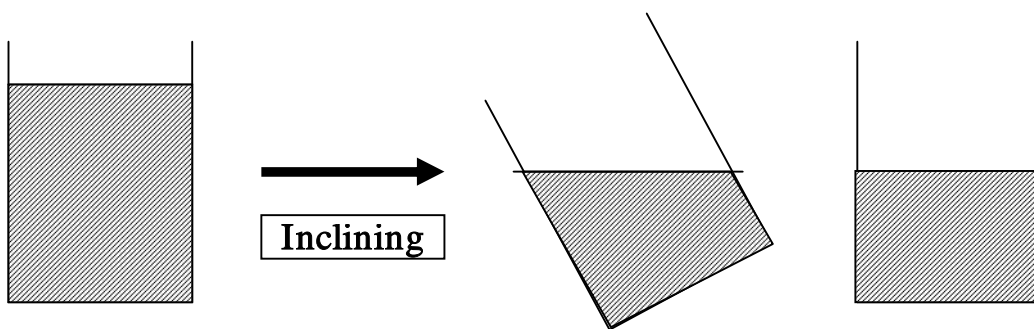


Figure 8, Reducing water effect

In this connection I may add that this washing machine acquired the Good Design Award 2003 in Japan and Industrial Design Excellence Award in U.S.

Conclusion

To achieve CSR is the very corporate purpose in 21st century. It makes win-win situation between a company and society or environment. As far as corporations give gains to stakeholders, they must obtain rewards. I raised three reasons that the principle was realized.

1. Companies can survive in the competitive market with carrying out social responsibilities, and acquire long-term benefits.
2. CSR is a kind of investment. If a firm makes effective use of the money, it can stand at advantage over other ones in the same industry. There is certain evidence.
3. In a mature market, corporations achieve a great leap forward with the only innovation. CSR is the trigger for business revolution.

I am sure that keeping CSR costs in a short term for companies but at the same time, it will pay back. Peter Ferdinand Drucker, an Austrian economist, said that corporate management must be done under the effort to make seeking its own profit into achieving CSR automatically (Peter. F. D., 2005, P.16).

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