

CORPORATE RESPONSIBILITY

TRENDS IN 2014

Corporate Responsibility: A Formula for Success

Why do businesses engage in corporate responsibility (CR)? Where do they focus their efforts? What position do they take on binding rules and conditions? The F.A.Z.-Institut joined the American Chamber of Commerce in Germany (AmCham Germany) to ask member companies how CR is lived in their organizations. Their responses reveal several fundamental trends and developments.

1. COMPANIES DO IT THEMSELVES: The surveyed companies assertively take the initiative to voluntarily address the issue of CR. The respondents say businesses in Germany are generally doing a good job in carrying out their CR activities in the area of environmental and climate protection. Voluntary codes of conduct guide the organization of their own CR activities. The majority consider government intervention in the form of binding guidelines, regulations and subsidies unnecessary and, in fact, counterproductive.

2. GLOBAL RESPONSIBILITY: Respondents believe growth should be increasingly global, sustainable and integrative. They see international companies playing a key role in solving such global challenges as climate change and resource scarcity. This is underscored by the call made by the majority of respondents that companies, acting as growth drivers, should be involved in economic policymaking processes. They also believe the definition of economic growth should be expanded to include the improvement of standards of living across the globe.

3. THE BIG PICTURE: CR is increasingly becoming a part of organizations and value chains. Instead

of engaging in activities with no direct relation to their core businesses, companies are increasingly concentrating on the implementation of CR measures within and by their own companies. The number of motivating factors and stakeholder groups viewed as relevant to CR has increased significantly. This demonstrates that companies are defining CR in broader, more integrative terms.

4. THE CUSTOMER IS KING: The importance of customers and consumers is growing. Among the motivating factors for implementing CR measures, customer requirements are becoming more and more important. Awareness of their influence has grown considerably. Companies view consumer demand as a key driver of the production of sustainable products.

5. CR PAYS OFF: Awareness of the opportunities created by CR is growing. The surveyed companies see an increasing number of competitive advantages and cost benefits sparked by their CR activities. They no longer view CR as a compulsory chore. Rather, they increasingly regard it as a real ingredient for business success. Only on this basis can sustainability become the foundation of viable business models for the future.

Assertiveness and self-initiative

The surveyed companies are becoming more assertive about the subject of CR and demonstrating self-initiative. Respondents held a positive view on the current state of the business community's commitment to environmental and climate protection: More than 80% agreed with the assertion that companies had already recognized they must create long-lasting, sustainable processes and work toward formulating an integrative sustainability concept. At the same time, only 26% took the position that the government should subsidize sustainable production. Overall, relatively few respondents said government regulation and binding frameworks were necessary: Only 8% of respondents agreed with the statement that stringent regulation can prompt companies and consumers to change their mindset about CR.

Compared with the results of the 2005 survey, the majority of surveyed companies in 2014 voluntarily adhere to an external or internal code of conduct as a guide for their own CR activities. This, in turn, implies an increasing systematization and rising awareness for the necessity of a reliable, sustainable basis for CR activities.

In the respondents' opinion, however, these standards should only serve as voluntary guidelines for companies and indicate potential courses of action. Binding rules, standards or guidelines for enforcing and measuring CR were viewed by the majority of respondents as unnecessary or counterproductive. Similar to the results of the 2008 survey, 80% of respondents in 2014 advocated that companies plan their own CR activities and base them on the individual challenges they face. This result reflects the opinion that the risk of misusing CR as a marketing tool is relatively low. Only 16% of respondents in the 2014 survey named this risk, which is estimated to be lower than it was five years ago. Companies apparently view their peers' CR activities in a positive light and as sincere.

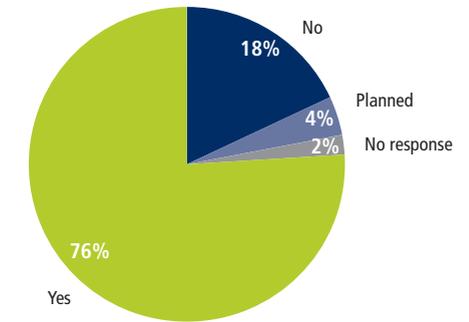


Figure 1: Are your company's CR activities guided by a CR code of conduct?

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Global, sustainable, integrative

Respondents hold the position that companies have a duty to address the central challenges of the 21st century, including climate change and resource scarcity: A total of 94% assessed the role played by global companies as "very important" or "important." This was closely followed by national governments (92%) and international organizations (88%). But a closer look at the results reveals that international organizations were named most frequently as playing a "very important" role, followed by national governments and then global companies. There seems to be clear consensus that international organizations (must) lead the drive for change. Global companies, for their part, are expected to actively address these challenges and raise public awareness in doing so.

At 66%, the majority of respondents viewed companies as playing a key role in expanding growth and prosperity and said their integration into economic policymaking processes should be improved. In light of the backdrop described above, this is not surprising: Those ascribed global responsibility should also be involved in related economic policymaking processes. Only one-third of respondents agreed with the statement that governments should create regulations and institutions that support integrative, sustainable business practices.

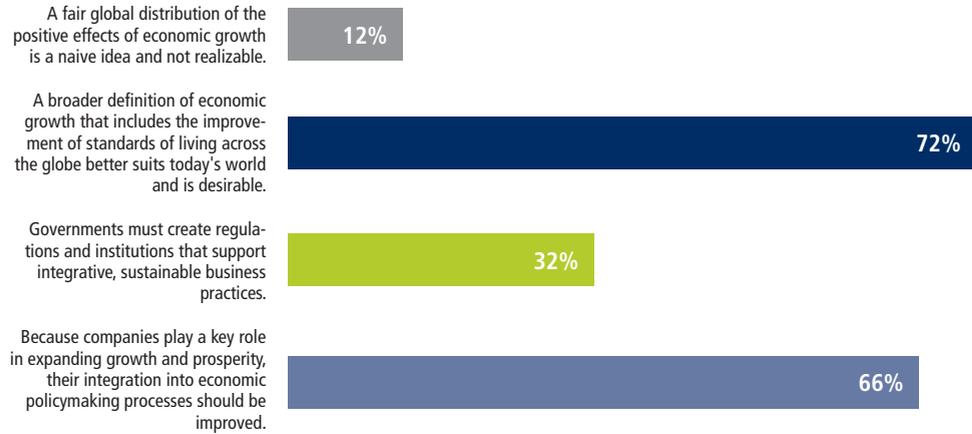


Figure 2: Focus on global economy. Calls for integrative, sustainable business practices are growing louder.

It is important to note that there was not only consensus about the role global companies play as key drivers of growth. Respondents also agreed that the definition of growth should be revised and expanded. A large majority of respondents, 72%, agreed with the statement that a broader definition of economic growth that included the improvement of standards of living across the globe was better suited to today's world and was desirable. The trend is now toward both sustainable and integrative growth.

CR is becoming a part of organizations and value chains

The surveyed companies are increasingly anchoring CR within their own organizations. This has manifested itself in such changes as a slight shift in how businesses go about engaging in CR. In the 2005 survey, the majority of respondents said their companies' corporate giving practices focused on providing financial support to external institutions not necessarily tied to their core businesses. Companies today are increasingly concentrating on implementing CR measures within and by their own companies. In a reflection of this, 76% of respondents focus on internal application of CR guidelines within the company

while 72% are active through corporate volunteering and 72% through corporate giving. The reason for only 62% of respondents naming sustainable production and development as a focus of their activities is due to the fact that more than one-third of all surveyed companies belong to the services sector.

The importance attached to corporate volunteering by the surveyed companies has its roots in the past. In the United States, corporate volunteering has long been a widespread form of company involvement in the community. This has apparently influenced the CR activities of US companies in Germany: Of the 36 surveyed companies engaged in corporate volunteering, 22 are subsidiaries of US parent companies.

The motivating factors behind companies' CR engagement suggest that companies are defining CR in broader, more integrative terms. In 2005, just a few factors were highlighted: At that time, 95% of respondents viewed employee motivation as an important driver of CR. Good corporate citizenship and reputation gains were each important factors for 90% of respondents. Customer requirements were less important, named by only 33% of respondents. This has since changed: It seems an increasing number of factors are viewed as important drivers of a

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How do you assess the relevance of your company's CR activities for your various stakeholder groups?					
	Very important	Important	Relatively unimportant	Not important at all	No response
Employees	44%	46%	8%	0%	2%
Municipal government/national government	20%	62%	14%	2%	2%
Customers	22%	48%	24%	2%	4%
Investors	18%	30%	30%	4%	18%
Suppliers	8%	38%	32%	12%	10%

Figure 3: Focus on stakeholders.

company's engagement in CR activities. Respondents still rank employee motivation as the key factor. Similar to the 2008 results, 94% perceived this factor to be "important" or very "important" in 2014.

This same trend is visible in companies' assessment of the relevance of their own CR activities for their stakeholder groups. The surveyed companies clearly believe their CR activities have an increasing impact on the various stakeholder groups along the entire supply and value chain—from suppliers to employees to customers. As in 2008, suppliers were again viewed as the least relevant stakeholder group. Nevertheless, 46% of surveyed companies said their CR activities were "very important" or "important" to their suppliers.

The importance of customers and consumers is growing

In general, the respondents believe customers and their requirements are increasingly influencing companies' actions. Named by 68% of respondents as a reason for engaging in CR activities, customer requirements have gained considerable relevance since 2005 (33%). This suggests the issue of sustainability plays a much greater role for customers than it did 10 years ago and that customers have developed new, related needs and requirements. At the same time, companies appear to feel a strong obligation to respond to these requirements. The power of customers is growing markedly.

What motivates your company to engage in CR activities?					
	Very important	Important	Relatively unimportant	Not important at all	No response
Employee motivation	60%	34%	2%	0%	4%
Social justice	36%	44%	14%	2%	4%
Environmental and climate protection	54%	24%	14%	0%	8%
Reputation gains	30%	48%	16%	2%	4%
Good corporate citizenship	40%	36%	18%	0%	6%
Customer requirements	38%	30%	26%	2%	4%
Competitive advantages	28%	38%	18%	8%	8%
Cost benefits	14%	30%	34%	12%	10%

Figure 4: Focus on motivating factors.

In terms of environmental protection activities, respondents say consumers play a key role: A total of 80% agreed with the statement that consumer demand for sustainable products must rise if their production is to increase. When asked who should take a leading role in responding to the challenges of the 21st century, 84% of respondents named the general population, putting this group in fourth place and ahead of small and mid-sized enterprises.

Increasing awareness of the opportunities created by CR

The surveyed companies see an increasing number of competitive and cost advantages sparked by their CR activities. The growing importance of customer requirements and the increasing number of motivating factors viewed as relevant to CR point in this direction: The companies seem to view their CR activities as worthwhile—and economically sensible—in terms of an increasing number of factors. The shift in their assessment of cost benefits and competitive advantages is particularly worth noting. In 2005, only 36% of respondents viewed the competi-

tive advantages created by their CR activities as important while 45% said they were relatively unimportant. By contrast, in 2014, 66% of respondents said competitive advantages constituted a motivating factor for their engagement in CR activities. With respect to cost benefits, responses were relatively balanced, with 44% citing it as a motivating factor and 46% who did not. Since the first survey was conducted, a fundamental shift in companies' mindset toward CR has taken place: They no longer view CR as a compulsory—and potentially costly—chore. Rather, they increasingly regard it as a real ingredient for business success.

But with respect to the issue of environmental protection, 16% of respondents still said that cost benefits were more important than the company's environmental footprint. This underscores the result showing that cost benefits play a comparatively smaller role for companies in the implementation of CR activities. One can assume there is still room for improvement in this area: Companies have just begun to leverage the opportunities presented by CR. Only on this basis can sustainability form the foundation of viable business models for the future.

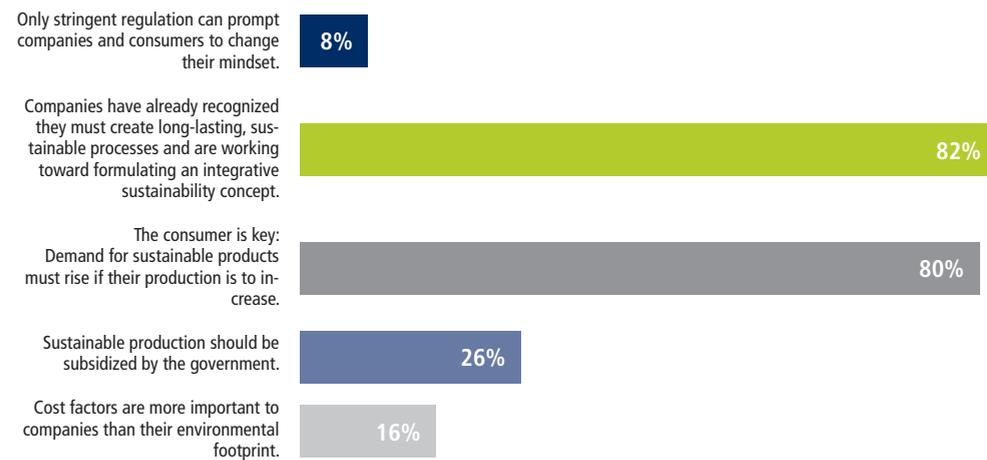


Figure 5: Focus on environment. Climate change and resource scarcity will force us to change our mindset in the long run.

How important is the role of these institutions in responding to the challenges of the 21 st century?					
	Very important	Important	Relatively unimportant	No role	No response
International organizations	56%	32%	10%	0%	2%
National governments	54%	38%	6%	0%	2%
Global companies	48%	46%	2%	0%	4%
General population	44%	40%	8%	4%	4%
Small and mid-sized enterprises	16%	48%	32%	0%	4%

Figure 6: Focus on government leadership.

About the data set

A total of 50 AmCham Germany member companies were surveyed using an online questionnaire. The proportion of subsidiaries of US parent companies (56%) that participated in the survey was larger than the proportion of companies headquartered in Germany (42%). The size of the surveyed companies varied. The majority of surveyed companies could be characterized as being large companies: Of the surveyed companies, 78% had more than 500 employees in Germany. At 62% of companies, the number of employees worldwide totaled more than 10,000. Another 16% employed between 5,000 and 10,000 people worldwide. The companies hailed from more than 15 sectors. The majority belonged to the pharmaceutical, biotech, automotive, automotive-supply and services sectors.

The surveys from 2005 and 2008 were also conducted by AmCham Germany and the F.A.Z.-Institut. ■