Evolution of CSR in the forest industry

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Structure

- What is it – evolution of the CSR concept in general
- How and why is it booming
- Adoption of CSR in the forest industry
- Future trends
Evolution of the CSR concept
CSR concepts

- Business ethics
- Corporate social responsibility (CSR)
- Corporate responsibility (CR)
- Corporate social performance (CSP)
- Sustainability
- Triple bottom line, 3BL
- ESG, People-Profit-Planet
- Shared value, blended value
- Sustainable /social /purpose-driven enterprise
- Footprint, impact, net positive
CSR meanings, evolution...

From short-term maximizing profits to long term value creation

From shareholders to stakeholders value creation

From bottom line to triple bottom line
Thinking on social, economic and environmental as one

From value creation to shared value creation
Economic development and social progress

From risk to opportunities
Sustainability oriented innovation
A socially responsible firm...

- Does more than required by law
- Fulfils stakeholders’ needs and expectations
- Max positive impact of its actions beyond the shareholders
- Min negative economic, social and ecological impact
- Takes responsibility along the value chain
- Communicates in an open and transparent way
- Develops economically sustainable solutions to ecological and social problems
Areas of responsibility
ISO 26 000-standard

Environment
Energy efficiency, recycling, avoiding toxic materials, impact measurement, clean technology, renewable energy, material and water efficiency

Ethics
Fair competition, corruption, tax footprint, transparency

Employees
Safety, training, well-being, diversity, equality

Governance
Employee participation

Consumers
Marketing, privacy, product safety, design for all, fair trade

Human rights
Discrimination, freedom of association, local communities, due diligence, child labor

Supporting local communities
Philantrophy, employment
Communicating and evaluating corporate responsibility

- Transparency of business activity
  - Reporting (e.g., sustainability, environmental, tax footprint) and “openness” (e.g., readiness to discuss, answering to questions) promotes transparency
    - Global Reporting Initiative GRI guidelines -> standards, dominant with wide focus
    - Sustainability Accounting Standards Board SASB & International Integrated Reporting Council <IR>, challengers with investor and public corporation focus

- Standards, certificates, code of conducts (can be initiated by third party, industry, or trade organization, for example)
  - Standardized practices, e.g. environmental management
  - Certificates (e.g., FSC in forest sector, MSC in fishery)
  - Code of conduct (e.g. BSCI) (indicates rules or proper practice for the organization, often extends to supply chain also)

- Ratings / listings (e.g., Dow Jones Sustainability Index, The Corporate Knights 100 Most Sustainable Companies, World’s Most Ethical Companies)

- NGO’s
Why and how is it booming?
The demand for sustainable business has increased

From the society’s point of view:

- Greater scale problems and increased awareness:
  - Climate change, and exposes of flagrant violations of acceptable business practices (e.g., Enron, Volkswagen), increased awareness of wildlife catastrophes (e.g., the Pacific trash vortex)
  - Development and diffusion of communication technology and social media

- Globalization:
  - Geographically the production and consumption has diverged
  - Multinationals: Business is “further away” from the society, transparency decreases
The demand for sustainable business has increased

From the business point of view:

- **Globalization**
  - The different business environments are challenging for the company, also from the legitimacy perspective:
    - how to conduct the business in a proper way in the new environment and
    - how to show (communicate) this to the society, consumers and other companies?

- **Development and diffusion of communication technology and social media:**
  - Information (both correct and misguided or biased) spreads quickly;
    Transparency increases, but the image-risk increases too

→ Communicating CR and taking care of the business’ image has become ever more important
Studies with CSR topic
Data: ISI Web of Science

Journal articles

Citations to CSR articles
## History of CSR research

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<tr>
<th>time</th>
<th>author</th>
<th>Research focus</th>
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<td>50-60</td>
<td>Bowen</td>
<td>Social obligation</td>
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<td>Wallich &amp; McGowan</td>
<td>Enlightened self-interest</td>
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<td>Social enterprise, impact investment, sustainable innovation</td>
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CSR research streams
Taneja et al., 2011
CSR business case

Four approaches (Carroll & Shabana 2010)

1. **Minimize costs and risks**
   - e.g. employee risks, proactive adjustment to environmental regulations, avoiding lawsuits

2. **Competitive advantage**
   - Through differentiation strategy,
   - Stakeholder needs create opportunities rather than threats

3. **Enhanced reputation and legitimacy**
   - Attracts customers, investors and employees
   - Increases brand value
   - Philanthropy and transparency enhance legitimacy

4. **Synergistic value creation**
   - Drucker, 1984: turn a social problem into economic opportunity

Motives for invest on social initiatives:

- Instrumental motives (impact on profitability, competitiveness)
- Institutional motives (institutional pressure)
- Moral motives (“right thing to do”)
CSR – financial performance studies

Peloza 2009 128 studies
59% positive, 14% negative, 27% no effect

Orlitzky et al 2003 meta-analysis 52 studies
Positive relationship with average $r = .18$

Margolis et al 2009 meta-analysis 166 studies
Positive relationship with average $r = .11$

-> Reverse causality, virtuous circle
-> Depends on the measures applied for CSP and CFP
-> Effect size diminished over time (Zhao et al 2016 SMJ)
CSR in the forest industry - 2011
CSR report published
Data: Global Survey, N=60
Adoption of standards 2011
Data: Global Survey, N=60

- PEFC
- FSC
- EMAS
- ISO 14001
- ISO 26000
- SA 8000
- OHSAS 18001
- GRI

Percentage (%): 0,00 - 1,00

N: 0 - 50

Year: 1994 - 2010
Adoption of CSR practices 2011
Data: Global Survey, N=60

- Large firms are earlier adopters of CSR management practices than smaller firms
- South American firms are later adopters than European or North American firms
Motives for adopting CSR 2011
Data: Global Survey, N=60

- **Proactive motives**: central in strategy, pioneering, more than legislation, management, employees take initiative
- **Competition motives**: monitoring competitors, imitate best practices, recent emphasis
- **Stakeholder motives**: ngo, customers, suppliers, other stakeholders take initiatives
Barriers of adopting CSR 2011

Data: Global Survey, N=60

- Corruption
- Inadequately defined property rights in some host countries
- Protectionist (government) policy
- Reluctance of shareholders to invest in environmental protection
- Changing laws and practices
- Unprofitability of environmental investment
- Legislators' indifference
- Uncertainty about environment and climate obligations in future
- Consumers' reluctance to pay

Mean

[Bar chart showing the mean impact of barriers]
CSP – financial performance 2011
Data: Global Survey, N=60

- Corporate social performance seem to have positive influence on financial performance in forest sector firms (subjective CSP, measured with Likert-scale items)
- Earlier adoption of CSR standards and policies pays off financially
Quality of reporting 2011
Data: Company reports, N=60

The diagram shows a scatter plot with companies' GRI scores (GRI_sumo) on the y-axis and total sales in $ million on the x-axis. The companies are color-coded by their headquarters location: Europe (blue), North America (green), Asia + Oceania (orange), Asia + Oceania (purple). The X-axis represents total sales ranging from 0 to 25,000 million, while the Y-axis ranges from -5 to 20.
Firms mentioned as trendsetters 2011
Data: Global Survey, N=60
CSR development (Arminen et al. 2016)
Data: KLD, US corporations

P&G, Weyerhauser
IP, Kimberly-Clark
Georgia Pacific, LPX
BoiseCascade, Masco, Potlatch
CSR in the forest industry 2010-2016
Profitability and CSR 2012-2016
Data: Thomson One & CSRHub
Average CSR scores of TOP20 firms
Data: CSRHub
Overall CSR scores of TOP20 firms
Data: CSRHub

International Paper
Kimberly-Clark
UPM-Kymmene
Stora Enso
Svenska Cellulosa (SCA)
Smurfit Kappa
M-real Oyj
Weyerhaeuser
Domtar
Environment scores of TOP20 firms
Data: CSRHub
Community scores of TOP20 firms
Data: CSRHub

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- Weyerhaeuser
- Domtar
- Svenska Cellulosa (SCA)
- Ahlstrom
Employees scores of TOP20 firms
Data: CSRHub


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Governance scores of TOP20 firms
Data: CSRHub

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Domtar
Ahlstrom
Future directions
Future?

- Battle of the standards (GRI vs. SASB vs. <IR>) – all lose?
- Awareness and comparability must improve
- SMEs will be more involved
- Role of governments, firms, consumers, investors?
- Sustainability will be more strategic to management
- Competitive advantage - License to operate – Sustainable value creation
- From footprint to handprint
- Net positiveness, sustainable innovation and business models
- Forest sector evolving from stagnated sunset industry to green and innovative “savior”?
Thank you!

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