



# **Managing Corporate Social Responsibility in Israel**

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**By: Shuki Stauber**

## Preface to English Edition

The review "**Managing Corporate Social Responsibility in Israel**" was published in Hebrew in October 2008, and was received very positively. Within only a few days of publication, the Hebrew Wikipedia adopted the introduction to the review, and determined CSR as a new entry.

Many professional colleagues and managers repeatedly stressed the need for an English translation. Intel Israel undertook to fund the translation and editing of an English edition. I would like to thank **Yossi Shoval, Revital Bitan** and other Intel colleagues who supported this initiative.

I would also like to thank **Elaine Cohen** who reviewed and edited the final translated English version. Around nine months have passed since the publication of the original review in Israel. During this time there have been significant changes in the world economy, in the local Israeli market and in some of the organizations reviewed in this study. Some of these changes have impacted, in one way or another, the way corporate social responsibility is managed, although it is fair to say that the changes have not been of major significance. It is of particular note that none of the executive management teams of the companies reviewed have reduced the importance they attach to this approach. Despite the fact that some minor changes in CSR management in these companies did occur, I did not feel this justified a revision of this text, which I now present to you as an accurate translation of the original review in Hebrew.

I hope all English-speaking readers will enjoy reading this review and gain new insights.

**Shuki Stauber**

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# Introduction

The tremendous speed at which the concept of "corporate social responsibility" (CSR) has infiltrated the discourse in Israel's business scene in recent years has sparked the interest of many organizations. Several major companies have already begun to adopt CSR, with noteworthy results.

Nevertheless, executives who wish to gain a meaningful introduction to CSR face a rather daunting task. Although there is much information readily available from a wide range of sources, managers need to identify and process this information. One of the best sources of valuable information comes from the companies who have already adopted CSR practices. Their experience can prove instrumental in helping organizations navigate this new approach. Such information, however, is rarely documented but tends to be stored in the minds of those who already implement CSR.

This review, prepared for the annual MAALA\* conference held in celebration of its tenth anniversary, is a compilation of knowledge that describes the development and management of CSR in Israel and around the world. Its content will also serve as the basis for a book to be published next year on the wide range of CSR activities conducted by Israeli organizations operating in sectors such as environmental protection, responsible workplace, transparency and ethical conduct, community involvement, etc.

I would like to thank all those who assisted me in publishing this review: The staff of MAALA, Tali Aharoni, Momo Mahadav and Shirley Kantor Shani, who promoted the idea of publishing the review in our joint meeting, Tammy Leffler for her productive comments, Shirley Kantor Shani, again, for writing the background piece that served as the basis for the chapter on the role of the CSR director; consultants Liad Ortar and Elaine Cohen of Beyond Business Ltd. for writing the background piece that served as the basis for the chapters on Reporting and Measurement; to the CSR leaders in the companies reviewed: Mike Avner, from the Strauss Group, Avraham Bar-Ilan from Bank Hapoalim, Yossi Levy and Dr. Avigdor Sonenshein from RAFAEL, Orit Kot from Bank Leumi, Vered Raz from the Fishman Group, Yossi Shoval and Revital Bitan from Intel Israel, and Sybil Goldfiner, CEO of *comme il faut*; Eyal Tzofan from Bank Leumi, who provided me with the Bank's CSR report and encouraged the Bank's sponsorship of this review for the benefit of those wishing to broaden their knowledge and develop their activities in this field.

I hope that this review and the subsequent book will prove helpful to those interested in this important field, which is ultimately designed to improve the quality of life of people around the world.

**Shuki Stauber**

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\* Maala — the leading not-for-profit organization promoting business for social responsibility in Israel

### What is CSR?

Corporate social responsibility (CSR) is the umbrella term for a series of rules of conduct adopted by corporations that strive to be considered as 'good' citizens, who treat their stakeholders<sup>1</sup> appropriately. Behavior of organizations, especially businesses, which is based on CSR principles, is not a simple matter because its very essence contradicts the natural definition of management of the organization as an entity that seeks to achieve certain goals. The achievement of business goals occasionally comes at the expense of advancing the interests of others – employees, environment and the general public.

This natural contradiction is highlighted because businesses naturally aspire to maximize their profits and, at times, this may be at the expense of the well-being of other stakeholders: employees, for whom better pay or job conditions might reduce profit; customers, for whom the creation of a monopoly may result in more expensive, reduced quality products; competitors, who will be disadvantaged if a corporation bribes influential government officials; and the environment, which could suffer from the flow of waste into rivers and streams located close to industrial plants, due to lower cost, inadequate waste disposal methods. There are many other examples of this.

#### Contribution to the Community is Not Enough

Criticism has often been voiced against companies who do not treat their stakeholders appropriately. Occasionally, to pacify them, organizations engage in activities to benefit the community, on a once-off or ongoing basis. Most of these activities are philanthropic in nature but not necessarily linked to the company's operations. Such activities may include donations to weaker sectors of society. In addition, many companies have, for many years, been active in supporting the community without the incentive of public acknowledgement, but by virtue of the philanthropic approach of the owners, who held the view that the corporation profits from the community that purchases its products or services and should therefore compensate the community accordingly. Some organizations held the belief that such activities are a kind of preventive measure, designed to quell criticism of predatory organizations which engage in the sole pursuit of profits, often at the expense of the well-being of others.

In recent years, this approach has changed. A series of events spurred many businesses into acknowledging that making donations to the community, large and as attractive though they may be, is not enough. In other words, organizations cannot donate vast sums of money to museums or disadvantaged children while brutally quashing the competition, exploiting subcontractors' employees or polluting the environment. The organization cannot ultimately wash its hands of these violations just because it generously donates to the poor. Organizations are expected to display overall commendable conduct which is not limited to profit generation but extends to the social and environmental benefits of its operations. This approach is known in professional jargon as the triple bottom line: i.e. not one bottom line (profitability) but three bottom lines (social and environmental benefits as well).

<sup>1</sup> Stakeholders are all the individuals, organizations, groups and entities that affect the organization's activities or that are affected by the organization, e.g. customers, suppliers, sponsors, local community, etc. In accordance with the principles of social responsibility, every organization has a wide array of stakeholders, with whom the organization should maintain dialogue and advise of decisions affecting them.

## What Triggered This Change in Approach?

Several emerging, short-lived global trends coincided to create the increased demand for good 'citizenship' by organizations:

1. The exposure of large-scale business scandals, such as those at US giants Enron and Worldcom, resulted in the elimination of one of the largest accounting firms in the world, wreaking tremendous havoc and reinforcing the demand for regulation and controls, which subsequently translated into more business reviews and audits. Organizations realized they had gone too far and that they had to improve their behavior.
2. Globalization has empowered multinational corporations to the point where they wield far greater influence and power than many governments. Size carries responsibility and these companies realized they had no choice but to behave responsibly instead of focusing on profit, or else the results of their inappropriate activities would boomerang on them within a relatively short time. And as if that wasn't enough, their actions might harm the planet — the environment and social community in which they operate.
3. The rapid development of global communications systems, and especially the evolution of the internet, has made companies' behavior transparent for everyone. Information about their activities spreads quickly. Today, it is far more difficult to conceal improper behavior than ever before. Fashion company Nike learned this the hard way when reports circulated about its exploitation of children in its outsourced factories in developing countries. Internet company Yahoo was widely criticized for agreeing to reveal to government authorities the identities of surfers who posted online criticism of the Chinese government (an American congressman called Yahoo a "technological giant and moral midget").
4. The third sector, non-profit organizations (NGOs), is rapidly developing. Many NGOs view their activities as being in the frontline of the battle against businesses that abuse their power to generate profits. NGOs are becoming a factor that all businesses, large and powerful as they may be, cannot ignore.
5. In recent years, drastic climatic changes have become a core topic in public discourse. Global warming received significant momentum from Al Gore, who almost became President of the United States, and his book, "An Inconvenient Truth". Today, many organizations are beginning to grasp the degree to which they impact environmental quality and are preparing to make significant improvements in this area. In addition to positioning environment-friendly efforts as a responsible approach, they do so also to minimize public criticism and avoid possible penalties from the regulators.
6. The attention gained by CSR in recent years has sparked increasing interest among large and small-scale investors who consider aspects of corporate conduct, and not only potential financial returns. Companies understand that 'good citizenship' increases the attractiveness of their shares. As a result, SRI (socially responsible investment) indices have been developed to assist in investment decisions by allowing investors to incorporate ethical considerations into stock portfolio decisions. Today, the SRI market is estimated to account for approximately 10% of the entire capital market around the world. The development of 'green' investment funds is one of the most prominent manifestations of this phenomenon.
7. The level of sophistication of employees in corporations is increasing rapidly, as is the organization's dependency on them. Research shows a growing trend of employees expecting decent behavior from their employers. Such corporate behavior facilitates the recruitment of employees who are in high demand and the retention of good employees.
8. The impact of CSR has given rise to the establishment of global and local reporting and measurement systems, which allow rating and ranking of organizations relative to others. The ranking is meant to serve as a stamp of approval for non-financial performance. This is another factor which encourages businesses to pay significant attention to CSR.
9. Image — Once the best organizations began adopting CSR, other organizations could not afford to lag behind and miss this image-boosting benefit. For example, involvement in social projects, especially in developing countries, has become a popular way for corporations to enhance their brand and escape criticism for being cynical profit-making machines. Today, no CEO of a major multinational wants to be perceived as someone who is not doing anything for Africa.



## Key Areas of CSR Activity

In order to operate in a corporate socially responsible manner, organizations must define practical areas of activity and clear internal criteria for measuring and comparing the organization's past and present performance, improvement, and performance relative to other organizations.

CSR activities are commonly categorized into eight main fields of operation that encompass the range of the company's relationships with its stakeholders. These fields include:

1. Business ethics — appropriate conduct, for example, prevention of corruption.
2. Corporate governance — includes adequate transparency and reporting through mechanisms established in the management team and board of directors to ensure the business complies with ethical principles, such as fair representation of external directors; separation between management and board of director duties; transparency in the management of executive remuneration; and the management, reporting and transparency of social-environmental issues.
3. Products, advertising, marketing and customer relations — all facets of commercial fairness.
4. Partnerships and the supply chain — a fair attitude towards business partners and suppliers. (The catalyst for the development of this area was work with third world suppliers. See later.)
5. Enforcing human and civil rights in all areas of operations.
6. Commitment to environmental quality and to the principles of sustainability — a broad philosophy that focuses on maintaining and meeting current human needs without compromising future generations' ability to sustain themselves, while minimizing negative environmental impacts through reduced energy use, recycling of raw materials, wastewater treatment, etc.
7. Creating a fair work environment, e.g. complying with labor laws and protecting employees' dignity; providing a progressive work environment which develops human capital, balances work and leisure, etc.
8. Community involvement, including corporate donations, in-kind contributions and employee volunteering policies.

The activities can obviously be categorized in other ways, e.g. capital market professionals may prefer reviewing a company's performance according to an environment, society and governance (ESG) framework. The author of this review, for example, prefers a behavioral management classification which derives from the weight assigned to each of the types of activity in the organization's current operations. Based on this classification, the three fields of community involvement, protection of the environment and a fair, progressive workplace, are standalone areas, whereas the five other areas mentioned earlier can be classified collectively as 'decent corporate behavior'.

The evolution of CSR becomes clear if we follow the evolution of its title. CSR was initially called social responsibility. However, this title still reflected the traditional approach of donation to the community, overlooking other areas of activity (while the broader sense of "responsibility for society" covers all fields, the word 'social' emphasizes the social/community context), and so the name social-environmental responsibility was adopted. In the third phase of its evolution, the concept was renamed CSR, which emphasizes the corporation's responsibility rather than the subject. This review uses only this last title, but, as will be presented later on, many organizations are still using the other titles to describe their activities.

## CSR Strategy – From Defensive Action to Value Creation

As explained earlier, responsible corporate behavior arose primarily from the desire to take preventive action, to minimize criticism and to avoid regulatory penalties and lawsuits due to improper practices. CSR was frequently perceived as part of the organization's risk management, a kind of preventive medicine. It was only at a later stage that the corporate world reached a more advanced level of community-oriented activity based on the desire to do well and to look good. A number of highly uncomfortable events in the corporate world seriously tarnished the reputation of global companies. These include the devastating explosion in Bhopal; the lack of drive to develop medication for AIDS victims in developing countries; child labor abuse by outsourced manufacturers of apparel manufacturing giants; the sale of fast food that leads to obesity, and disclosure of the identity of internet surfers in China. Corporations prepared to improve their reputation: they began to communicate with governments and NGOs, and to write codes of ethical conduct and transparency. They even collaborated with their competitors to establish agreed codes of conduct to mitigate the risks of criticism and lawsuits as well as to improve their image.

We are currently witnessing the first signs of the next phase of CSR evolution, which promotes CSR as being an integral part of the organization's business operations and capable of generating benefits and business opportunities. This approach is particularly favored by managers because it is based on the understanding that CSR is not just a liability (the activities of CSR, commendable though they might be, are expensive) but also a source of potential revenue. In other words, with the right management and a degree of creativity, it is in fact a blessing in disguise. In the professional jargon that has evolved around CSR, this approach is called "Doing well by doing good", namely, the organization benefits by creating benefit for society and environment.

A prime example can be found in the form of the major car manufacture **Toyota**, which developed its hybrid car, the Prius, both from a desire to help the environment (save fuel) and to appear as a company that innovates responsibly – as well as to create a differentiated product in its primary area of operations in order to meet market demand.

Another example of a project that directly benefits both stakeholders and the corporation can be found with the global food company **Nestlé**. In order to penetrate the Indian market, Nestlé needed a substantial local source of milk supply. The company obtained permission from the government to build a dairy that was to receive milk from farmers in the region. Receiving quality milk from poor farmers, however, proved difficult. Nestlé decided to resolve the situation by building refrigeration rooms and making visits to the farmers in the fields. Working in collaboration with veterinarians, agronomists, nutritionists and quality control staff led to improvement in the quality of cow feed, reduced calf mortality and increased milk production. As a result, the farmers' standard of living also improved. They received higher rates for their dairy products (versus agreed government rates), and their need for loans was reduced. In addition, several new schools in the region were opened. These activities gained much publicity throughout the country, and Nestlé reporting increased demand for its products.



## Dilemmas, Criticisms, Issues

The discussion above has shown that CSR-based management is the correct thing to do to, definitely where these activities not only protect the organization and its image but add business value.

At the same time, many organizations still hesitate to implement significant CSR activities. Many of the organizations that have already begun implementing CSR are still feeling their way and deliberating the best way to proceed. After all, CSR entails additional management and financial resources, and gives rise to dilemmas that must be resolved and problems that must be addressed. We will examine the key dilemmas, criticisms and issues related to CSR implementation.

### Principal Dilemmas and Criticisms

1. The large number of subjects associated with CSR and a company's ongoing management of the business might lead to problems of inconsistency in its approach. For example, Toyota, previously mentioned as an organization that integrates CSR and business opportunity, developed the Prius but also joined the car industry lobby that fought against stringent fuel saving standards.
2. As a response to years of frustration in which they felt that many companies behave in any way they please, the public demands more than companies are capable of delivering. As such, the lack of public appreciation for the tremendous investment made by responsible companies can trigger further frustration and exhaustion and thwart the process.
3. The investment is not worth the effort. Once the company undertakes certain commitments, it is subject to regulation and audits, and if the process is not adequately managed, the company can end up with losses instead of gains.
4. The direct business benefit is limited. Most customers will not compromise price and quality for the sake of CSR principles. Most consumers would gladly buy a green product if it costs the same, comes from a reliable manufacturer and requires no special effort on their part to use it. It goes without saying that the green product is expected to provide the same performance as "non-green" equivalents. This is a significant challenge for any product.
5. Competition between organizations is not always fair. Many organizations make unfounded claims which are hard to detect. As a result, honest organizations stand to lose the benefit they expected from their CSR investments. A survey of more than 1,000 products claiming to be ethically-manufactured found that nearly all of them failed to disclose the entire truth.
6. Different market approaches lead to unfair competition and consequent disadvantages, such as between the European market and the Chinese market. For example, a European company may cease doing business in Sudan which is accused of encouraging genocide, while a Chinese company, which is intent on achieving rapid growth, may close its eyes to the hardship of the Sudanese people.
7. Is "doing good" good for everyone? Demanding that suppliers improve their operations can result in more damage than good. For example, the demand to improve conditions for textile employees in a country like Bangladesh can lead to job losses in that country, unless productivity levels increase to compensate for the extra cost.

8. The complexity of a feasibility study makes it difficult to work out the real benefits of CSR. For example, it can be argued that the British ought to purchase roses from Holland rather than from Kenya because delivery from Kenya consumes far more jet fuel. By contrast, growing roses under greenhouse conditions in Holland (Kenya, in contrast, is a natural greenhouse) consumes vast amounts of energy, but this fact tends to be overlooked.
9. When CSR is part of the business because it is good for business, the spirit of benevolence loses out to commercial interests. When this happens, CSR betrays its original intention of giving back to the environment and the community.

These dilemmas are exacerbated when CSR is not incorporated into the company's current business plans but relegated to the sidelines to provide an appearance of being "good". (This is still the case in most instances.)

10. When CSR activities are out-of-touch with the company's core business, it becomes more difficult to sell the need for CSR to management, let alone show a correlation between CSR activity and success of the organization or organizational division.
11. If the organization's goal is to make profits, then spending money on CSR is unjustified use of shareholders' money (a principle which contradicts the essence of CSR). It should be remembered that in other countries, particularly in the United States, shareholders are not a small, opinionated group of wealthy people, as the case in Israel may be. Rather, in many cases, shareholders are dozens and even hundreds of thousands of individuals.
12. If CSR is not part of the business but only 'nice to have', as many claim, then the current recession will push the topic off the corporate agenda due to its high cost in financial and management resources.

Therefore, in order to improve CSR's chances of survival and to deflect the criticisms aimed at CSR, a win-win approach must be adopted to create organizations which practice CSR not just on moral grounds but with a business justification. For example, a logistics company may cut fuel expenses to help reduce air pollution but also to save the company money; or a food company may develop a healthy food range to fight obesity and related illnesses but also to attract new customers and increase the company's revenues.

#### Implementation issues

1. The broad range of CSR activities might lead to lack of focus.
2. CSR activities are often not an integral part of the organization's strategic thinking, but rather the whim of an influential "champion" who drives the CSR effort.
3. The initial enthusiasm is often accompanied by passionate declarations of intent which transform into disappointment and failure once the organization is required to address the problems of implementation.
4. Poor management of the process might lead to issues of credibility and trust if actual results fall short of the promised benefits.
5. Attractive looking CSR reports sometimes cover up for poor performance.
6. Setting mandatory standards for suppliers is not the same as enforcing these standards. For example, suppliers can manage dual records, not pay overtime to their employees, or work with tertiary subcontractors which the socially-responsible organization cannot always inspect or audit.

## Development of Corporate Responsibility

Despite the constraints and dilemmas, CSR has been adopted by a growing number of sectors. Global companies can no longer ignore CSR and are moving in this direction, realizing that public pressure makes this transition inevitable. Global companies are spearheading the adoption of CSR because of their size and because of their international reach. Size and reach allow them to make a difference in the economies of many nations, especially in the third world, as well as in the quality of life of their residents.

As such, globalization is the grease in the CSR wheels, fuelling it and serving as the main reason for its expansion. Hence, sweeping changes in national economic policies which result in commercial barriers, trade quotas and other measures designed to protect local economies might endanger further development of CSR. Today, however, there seems to be stronger inclination to support globalization. CSR is one of the mechanisms designed to mitigate resistance to globalization.

### Characteristics of CSR Evolution Around the World

1. Cooperation between businesses and:
  - a. Third sector organizations, which are transforming from watchdogs that supervise business behavior to parties cooperating with businesses in CSR projects. Various collaborations are formed with UN assistance agencies.
  - b. Competition: despite the tremendous efforts invested in the promotion of 'responsible' conduct codes, there is still a high risk that companies will fail in activities whose nature contradicts a CSR approach. In order to mitigate the risk, companies cooperate with other companies, mainly from the same economic sector. This cooperation is forged between others through the establishment of conduct codes suitable for a specific business sector. For example, agreements between companies in the diamond industry are designed to reduce the trade of "blood diamonds".
  - c. Government: the regulator, by its very nature restricts and supervises, becomes a partner in the activities which fundamentally were meant to be under government's responsibility. Companies, for their part, gain cooperation from a key stakeholder that affects their overall activity, thereby reducing the risk of regulation damaging their business. For example, dialogue is used to create agreements without which restrictive legislation would have resulted.
2. Companies are increasingly inclined to act in areas related to their business. For example, **Coca-Cola** cooperates with Greenpeace to reduce carbon emitted from automatic vending machines and manual drink dispensers. Ten years ago, this type of cooperation would have been inconceivable.
3. Globalization drives global companies into transferring a significant part of their domestic CSR activities to other countries. For example: in the mid-1990s, most of **IBM's** philanthropic spending was in America. Today, approximately 60% of this spending is channeled to other countries.
4. Cash donations are no longer as important as they used to be. For example, in 1993, 95% of IBM's donations were cash sums. Today, only 35% of its donations are made in this way. The lion's share of the company's budget is directed to a range of activities that advances the company's CSR. IBM also gains management benefits, for example, with a program that sends young executives to a developing nation for one month to work on a community support project. Benefit to the company: in addition to the positive activities for the community and the environment in their

own country, young managers gain experience in working in the global world. The activity becomes part of their executive training.

5. The importance of logistics companies around the world is significantly increasing (as is their influence on CSR). This is happening because these companies, by nature, control the transportation highways of the world. For example, they strongly influence our ability to deliver food to famine-stricken regions; as a transporter of diverse goods, they are major consumers of fuel with strong influence on the quality of the environment. For example, the management of the **TNT** logistics company decided to help its employees benefit from a greener lifestyle at home and at work. As a first step, the employees' travel budget was reduced by 20%. This move saved more money than the sophisticated conference call system which can be used directly from employees' desks (and which renders many overseas trips unnecessary).
6. Companies are beginning to incorporate CSR principles in new projects. CSR is becoming an integral part of the assessments of new investments, assessing not only the business feasibility of projects but also the reaction of stakeholders (e.g. local community, social / environmental activists and the government) to these initiatives.
7. "Social Enterprise" is the name of a developing field of entrepreneurship. The economic developments of the past decade have created a cadre of highly wealthy people, mostly from the software and financial industries. These people are interested in a different type of philanthropy: they not only want to feel good about having a positive effect on those around them, but also they also want to turn a profit. Companies are beginning to cooperate with social entrepreneurs and collaborate in for-profit "social investments".
8. "Green" investment funds are springing up everywhere. Every major investment house has at least one green fund, or a fund with a similar, CSR-related focus. These funds invest in companies that demonstrate CSR. Their investment decisions are based on business considerations — the premise being that a company that behaves like a "good citizen of the world" creates additional value which positively affects its business development and growth rate.

### **The Nature of Companies That Adopt a CSR Approach**

There is no one single model of CSR-based conduct. Every company that decides to adopt CSR does so for different reasons and considerations. The modes of operation differ from company to company, and are influenced by a range of diverse needs and constraints. The following section lists examples of Israeli organizations that have begun to adopt this approach, illustrating the different ways they apply CSR.

At a basic level we can characterize businesses that seek to adopt a CSR approach into three categories:

1. The pioneer CSR companies, which view CSR as a strategic approach rather than simply a declaration of policy. These companies usually generate appropriate ways for addressing complex issues such as the introduction codes of conduct throughout their global supply chain (suppliers and subcontractors), or factual accuracy of the claims printed on their product labels ('green' products, or products whose manufacturing process does not involve exploitation of employees, etc.) These companies also understand the direct business benefits of this approach. CSR in these companies is managed accordingly: the CEO declares commitment to CSR, the CSR manager reports directly to the CEO, the board of directors is involved in monitoring and CSR activity based on measurable criteria, etc. There are still a relatively small number of companies in this category.

2. Many companies demonstrate interest in CSR. They do not claim to be leaders in the field, nor do they find it necessary because of the level of commitment required. In many cases, they also understand that initial over-enthusiasm might lead them to disappointment. The main motivation of these companies to adopt CSR is to do good and to look good. As this is mainly a public relations approach, the responsibility for CSR in these companies is often assumed by the marketing or marcom departments. In addition, a significant part of the activities is often a report summarizing all the activities which represent standard practice for the company, culminating in an impressive CSR report.
3. Companies with limited interest in CSR, or ones with no interest in this field whatsoever are usually entities involved in low profile industries, and which, consequently, are rarely exposed in the media. These companies might start out in countries where there is no criticism of activities that fail to comply with CSR principles, or be headquartered in countries that have no interest in CSR, such as Russia.

As things seem today, we may conclude that the business nature of a company is a combination of principles and values with business and commercial capabilities, as illustrated in the chart below:

Approach to CSR	Business Capability	Business Characteristic
Negative	Low	Poor business
Positive	Low	Faltering business
Negative	High	Business at risk
Positive	High	Successful business

### Defining Policy and Activities

A review of the primary, explicit and implicit reasons that the companies reviewed for this report adopt CSR reveals three recurring reasons:

1. They are local branches of multinational corporations, part of a global corporation which, as described in the first section of the review, maintains prominent CSR activity.
2. Large Israeli companies cannot afford to overlook the global CSR trend, especially if they seek to export or develop operations abroad. The limited size of the Israeli market motivates many of Israel's large companies to expand overseas.
3. The third type of company is already involved in many activities which are based on CSR principles (community contribution, ethical conduct, investment in employee development, impact of company's operation on the environment, etc.). If so, why not institutionalize these activities into a CSR framework and benefit from the added value?

Below are examples of the way CSR policies are developed in the following Israeli companies:

**Bank Leumi** and **Bank Hapoalim** are financial institutions and Israel's two largest banks.

The **Strauss Group** is a major family-owned food business.

The **Fishman Group** of companies is fully or partially owned by the Fishman family.

**Intel Israel** is a local branch of a multinational corporation.

**Rafael** is a government-owned defense company.

**comme il faut** is a medium-sized private company.

#### Financial Organizations – Banks

**Bank Leumi's** CSR activities are limited to local initiatives. According to bank executives: "For many years, the bank has been involved in areas that are now classified as CSR, such as employee volunteerism. This activity was uncoordinated, the result of local initiatives related to the employees' immediate environment and their customer base. This action was not reported in the bank's annual report or managed from an overall perspective. Similar activities were also maintained in other areas of CSR, such as care for the environment. For example, waste and energy saving activities; or a country-wide project to improve the accessibility of ATM machines was led by the head of the Procurement and Real Estate Division, part of Bank Leumi's Operations Division. In contrast, financial donations were reviewed strategically and managed by the bank's Public Relations Division."

In order to understand how the bank began formulating CSR policy, we should look back to 2003, when the bank's management decided to formulate the "The Leumi Way" code of ethics, in order to create a uniform, ethical language for all Leumi employees, and to assimilate ethical considerations into decision-making processes.

The code of ethics was also designed to provide a strategic response to addressing ethical issues. Once the code was fully assimilated, the decision was made to expand CSR activities. As a first step, the bank mapped its CSR activities and produced its first CSR report.



**Bank Hapoalim** has also adopted a range of CSR activities in recent years. For example, extensive activity is maintained in community relations, energy saving, paper recycling, and more.

CSR trends (particularly in global banking) did not go unnoticed by Bank Hapoalim, whose management decided at the end of 2006 to convert a host of individual CSR activities<sup>2</sup> in an integrated, strategic way. This caused the bank to adopt a broader perspective along with goal-setting and measurement tools.

Bank Hapoalim's approach to social responsibility incorporates the desire to do good for society and the environment (in the broader sense of the term) as a first phase, and seek business benefits as a second stage. For this reason, the bank tends to use the term "shared value". The model introduced by the bank consists of two elements:

1. Resource management, which focuses on internal activity (organizational resources). This element includes the following two areas:
  - (i) Quality of employees' lives and well-being, including involvement and transparency, personal and professional development, welfare of employees and their families and equal opportunity.
  - (ii) Responsible environmental conduct, including management of physical resources (logistics) while protecting the environment.
2. Conduct with external stakeholders. This element also includes two main areas:
  - (iii) The benefit of the customer, including value creation for customers in a variety of ways, such as access to services, timely response and access to their needs, satisfactory resolution of complaints, development of "green" products and services, provision of dedicated services to populations with special needs, etc. All of these can be a platform to generate business benefit.
  - (iv) Empowerment of society and the community — creation of value for a wider range of stakeholders, such as suppliers, the community and the local economy.

It was decided that the bank's CSR activities would be managed from an overall systems perspective while aligning with a range of management methodologies (e.g. change management and project management), and international standards. The first phase of action included comprehensive diagnosis and mapping of gaps against indices of criteria developed by the bank. Most efforts were initially channeled towards upgrading the internal organization's application of CSR.

This description of the approach of the two large banks illustrates the differences in CSR policies in organizations which are very similar. **Bank Leumi** decided to generate a CSR report to drive action and then continue with additional CSR activities, whereas Bank Hapoalim decided to drive additional activities before producing a report, so as to achieve the highest classification of report (see later for reports from the two banks).

<sup>2</sup> With the possible exception of community relations, which was managed centrally as part of the bank's strategy.

## Industrial Company

**Strauss Foods Group** believes that CSR is far from trivial and requires strong commitment. At Strauss, CSR elements are incorporated in the company's organizational culture. CSR is also listed in the company's vision as one of its goals. As such, it becomes a goal that must be achieved, which requires action and whose results will be reviewed and measured. This is not just a statement.

Strauss has values, goals and a vision "creating wonders from basics". At a second level are the values which underlie Strauss' activities, and from which it derives its code of ethics, and the third level includes visionary goals. The vision and values are long-term whereas the visionary goals are updated every five or six years. In 2005, six visionary goals were defined to be achieved by 2009, one of which involved the assimilation of CSR principles in the group.

The decision to perceive CSR as a "visionary" goal is deeply rooted in the legacy of the company's founders and owners — the Strauss family. As part of the reformulation process of the Strauss vision, shareholders were asked about their expectations of the company. They responded that they expected "growth with sustainability", i.e. to achieve growth in a way which is consistent with CSR principles. Other stakeholders, e.g. employees, responded in a similar fashion.

Strauss implemented the visionary goal of social responsibility in stages. The first stage involved selecting focused areas of CSR. The move to the next stage was to be made only when the first one was completed. Strauss executives believe that the code of ethics constitutes the basis for CSR, so the company began formulating a code of ethics for the entire group. Similarly, management began introducing principles of corporate governance.

## Family Ownership

The business model of the **Fishman Group**, owned by the Fishman family, is a unique example of CSR management. Unlike Strauss, which is focused on the food sector, the Fishman Group comprises companies in various sectors, some of which are large companies employing thousands of employees (e.g., **Home Center**, **HOT**) and small companies with dozens of employees (e.g. **Telepharma**). Some of the companies are fully owned by the Fishman Group (e.g. the **Globes** economic daily newspaper) while others are partially owned (not less than 20% ownership). The family (as does the Strauss family) regards community involvement as one of its most important principles. However, unlike Strauss, in this type of holding structure, it is impossible to establish a single CSR approach because each company has its own needs and characteristics, and most of them have partners who are not required to agree or accept the Fishman family's CSR approach.

To address this difficulty, the family developed a unique model. It named a community relations coordinator, based in the group's HQ, who is responsible for assisting each of the group companies determine its own approach for interacting with society and environment. In this way, the social vision of the Fishman Group is the adhesive that binds all of its member companies.

How does this community involvement-oriented approach incorporate into the broader CSR vision? The group notes that most of its activities center on community involvement. However, because the market trend follows a broader scope, based on the CSR philosophy, Fishman is beginning to consider activities that are not limited to social involvement but relate to environmental responsibility and business ethics. The change of focus included changing the name of the Community Relations Department to the CSR Department. However, these new activities are still limited. Most resources are still channeled towards community-oriented activities.

### Multinational Corporation

Three main reasons motivated **Intel Israel** to perceive its CSR as part of its management strategy:

1. "Being an asset to our communities" is one of Intel's values. It is rooted in the basic perception that businesses must give back to their community in which they do business: "being a good neighbor". This approach is also reflected in the list of values printed on employee ID tags.
2. Intel Israel is part of the global Intel Corporation, which assigns tremendous importance to social responsibility in every country in which it operates. An example of this approach was global Intel's announcement to contribute one million volunteer hours to the community on the occasion of the corporation's 40<sup>th</sup> anniversary. This volunteerism effort replaced the traditional annual employee celebrations. As the trend of community-oriented activity evolved in global companies, Intel Israel emerged as a leader in this field.
3. Intel is a corporate giant in Israeli terms, an employer of thousands of workers, and has received government R&D grants worth hundreds of millions of dollars. This has generated an extremely strong commitment towards Intel Israel's many stakeholders: employees, community, suppliers, etc. The CSR operations of Intel Israel are therefore not limited to international initiatives but include additional locally-driven ventures. The "localized" CSR policies are reflected in Intel Israel's CSR report.

The company executives say, "When Intel started in Kiryat Gat, expectations were high. Employees were convinced that all their problems would be solved. At that time, we were beginning to formulate our community involvement model. For example, before getting started, we set up teams that included representatives from the local community. Together, we reviewed how to cooperate for mutual benefit. We felt it was important to promote and develop the city, to communicate with our stakeholders and to be transparent in our operations."

## Government-owned Company

Up until 2000, the contribution to the community of defense company **Rafael** was reflected mainly in local initiatives, including some initiated by the company's retirees. The company management cooperated with these initiatives on a case-by-case basis. At the start of the new millennium, the changing trends in Israel and around the world in social action did not go unnoticed by Rafael. The company introduced a more structured framework of community action through the "Rafael's Flowers" project, in which company employees volunteer to assist in science and technology education in schools in the area of Kiryat Yam.

The philosophy behind the project was to do good for the community while compiling a database of future employees for Rafael. The project is overseen by a steering team, a project manager and Rafael's Community Relations Manager. It provided the foundation for structured activity which expanded into other areas, such as providing assistance to people with special needs and to care-giving institutions.

The development of CSR in Israel affected Rafael, too. Its long-term relationship with the organization Maala, which promotes CSR in Israeli corporations, played a major role.

CSR at Rafael is a formal framework for a range of activities that were already being carried out in the organization by virtue of its management philosophy and policies, requiring Rafael to comply with many CSR principles. The company management stresses that the main motivator for CSR has nothing to do with promoting the company's reputation, marketing or risk management<sup>3</sup>. Rather, it is the desire to empower the company employees, make them proud of their workplace, their volunteerism and the public recognition that the company gains. In addition, Rafael's CEO emphasizes that the company is committed to other national challenges in addition to defense, which involve the society and the community.

## Medium-sized Private Company

**comme il faut** is a women's fashion company founded in 1987 and which currently employs 180 people. According to the company founder and CEO, medium-sized companies are usually not expected to adopt CSR in the same way as large corporations. Therefore, when considering the company's CSR approach, greater weight was given to ideological considerations rather than business benefit.

However, comme il faut too believes that CSR-based management does generate business benefits, especially in differentiating the business and highlighting its uniqueness. Over the years, the company promoted its CSR philosophy by incorporating social themes in its annual fashion catalog. In addition, the company spearheaded the advancement of its main goal — increasing society's awareness of the status of women and providing women with opportunities to realize their potential. comme il faut's management believes that by promoting empowerment of women, society as a whole stands to benefit from women's capabilities. Aware that the fashion industry tends to ignore older women, the company designed a special catalogue using 70-year old models wearing the company's fashions.

<sup>3</sup> On environmental quality and safety issues, elements of prevention of environmental and safety risks that may be attributed to the nature of company activities.

## The Implementation Function – the CSR Manager

### Evolution of the Role and its Characteristics

CSR managers<sup>4</sup> have sprung up in companies that pioneered CSR, most of them global or other large companies. In Israel, in the year 2000, most companies were relatively small and there were no CSR managers. In 2008, dozens of managers are fulfilling this role on a full-time basis or as part of another role.

A prime example of the development of the role in Israel over time is found in a large consumer goods company: the social responsibility director (as he or she is called in this company) began working in the company as a community relations director in the Human Resources Department. The company realized that social responsibility was directly associated with the brand, the company's reputation and its relationship with consumers. Consequently, the function was renamed "social responsibility management" with expanded authority and budgets. The department was transferred to the marketing department.

The department's status changed accordingly. Whereas in the past, the department manager had to actively persuade managers to listen to ways in which social responsibility would benefit them, the manager is invited to nearly every significant meeting. His or her input is sought on various business developments such as new product packages. Recently, the corporation's website was redesigned, with social responsibility as a prime feature.

The view of the CSR manager position differs in each company. For example, some believe that the CSR manager should plan and execute CSR programs (such as community involvement, ethical programs or environmental quality programs).

Another more popular approach views the CSR manager as a motivator and liaison function who should assist organizational executives in discovering the link between their business goals and aspects of corporate social responsibilities. This approach encourages the incorporation of CSR principles into every process in the organization. To achieve this goal, all managers must be convinced that CSR is necessary, a CSR platform must be adopted and managers must understand that responsible behavior serves the company's interests. This is the principal task of the CSR manager. This task includes activities such as updating managers about new and future trends, generating internal cooperation, maintaining dialogue with external and internal stakeholders and compiling CSR metrics, audits and reports. This approach means that the CSR manager supports the managers who practice CSR in the business. They must be persuaded of the importance of CSR and must be helped to promote its assimilation in their departments and in the entire organization.

In order to succeed in this position, the CSR manager should have relevant capability to drive organizational change among managers. This is a complicated task since compliance with CSR principles is not a legal requirement. If the request to comply with CSR principles comes from a CSR manager who is "approved" by the company's top management, refusing can be uncomfortable. Yet, busy managers might be reluctant to respond to CSR requests if they believe that compliance will increase their workload, or if they simply do not believe in its necessity.

<sup>4</sup> Note that the title may differ from one company to another. In some cases, this position goes by its original title of "community relations manager" or "social responsibility manager". For the sake of uniformity, we will continue to refer to this function as "CSR manager".

Accordingly, CSR managers must possess the following skills and capabilities:

1. He or she should be familiar with the company's organizational systems and well-versed in its organizational politics.
2. He or she must understand the organizational communication channels and know how to use them.
3. He or she should have communication skills and influencing abilities.
4. He or she should be closely familiar with the advantages of CSR as well as the difficulties of its implementation.
5. He or she must be capable of assisting managers to cope with the difficulties they encounter.
6. Energy and the ability to motivate others into action are very important.
7. The CSR manager should speak the language of other managers and gain their trust. He or she must be able to present the benefits of CSR for all involved. He or she should be fluent in CSR terminology and know how to incorporate it into the company's business discourse.
8. Because CSR is still about new activities, it requires resourcefulness and creativity to overcome new obstacles.
9. The CSR manager must have strategic thinking and a multidisciplinary perspective that allows for strategic planning of the ideal system and implementation.
10. The new CSR manager (since this is a relatively new concept, most of them are new) must be an "internal organizational entrepreneur" and possess entrepreneurial skills.

### **The Role of the CSR Department in the Organization**

It has already been pointed out in this review that a direct reporting relationship between the CSR manager and the company's CEO is essential to ensure sufficient importance is attributed to CSR. As previously mentioned, this is the case in global companies for whom CSR is very important. However, in many other cases, even if the CSR manager has the explicit encouragement of the CEO, he or she continues to report to other executives or is required to fulfill additional roles.

Below are some of the findings of a 2005 CSR study:

In approximately 15% of the companies reviewed, CSR is managed by an independent, dedicated department, whereas in other companies, it is managed by a different department, e.g. corporate communications — 31%, human resources — 8%, marketing — 4%. CSR departments were also located in the legal department, strategy department, operations department, risk management department, and others.

In Israel, in the main, CSR is managed by the human resources department, although in recent years, we see other departments also entering the field, such as corporate communications, marketing, legal, etc.

The decision regarding where in the organization to locate the CSR department is not the result of planning but rather of historical development: in many instances (and companies in Israel are a prime example), the position is assigned to whoever performed the role of community relations manager. CSR is traditionally associated with human resources since it deals with "people issues" like contribution and employee volunteerism. When this is the case, CSR usually remains within the HR framework.

In the rest of the world, we notice differences between retail or consumer-oriented companies that have marketing, public relations or corporate communications departments which take responsibility for managing CSR, and business-to-business companies, such as high-tech companies, in which CSR is managed by the human resources department. The needs and challenges of companies in both categories differ, as does the specializations of the departments that manage CSR.



The authors of the study mentioned above argue that a necessary skill of the CSR manager is the ability to link the internal and external CSR activity. For this reason, many companies place CSR in the corporate communications department. In addition, CSR is often led by the “CSR champion” who started the process in the first place. This is one reason for determining the location of the department on the organization chart, its influence and its mode of operation. For example, in a major retail chain, the CSR manager is the VP of human resources, who declares that he feels committed to implement CSR regardless of his position. In contrast, in a large industrial corporation, the responsibility for CSR is assigned to the company spokesperson since she requested to take on this role. There are several other examples.

### Examples from Israeli Companies

At **Strauss**, the CSR manager is a member of the management team, serving also as the chief legal advisor and company secretary. Assimilation of CSR is carried out with the support of 25 managers from the company’s business units in Israel and overseas. They are known as the company’s social responsibility trustees and their role is to make sure that Strauss’s CSR programs are carried out on the business unit level. In addition, they must formulate plans that are appropriate for their business unit. These are generally managers who report to a business unit manager and include people from a range of functions — human resources, finance, technology, marketing, etc.

Strauss trains and supports the trustees. Every few months, these trustees participate in a global forum and, during a two-day meeting, they attend lectures on CSR and discuss a range of issues related to CSR assimilation in the company and its divisions. In this manner, Strauss hopes to make CSR part of the routine activities of each group. For example, the department’s annual work plan must contain a section on CSR. The trustees are the experts regarding any aspect of ethical or social and environmental responsibility in their business unit.

The policy at **Intel** is to have an external relations manager in each of the locations around the world to handle issues such as government relations, community relations, and contribution to education, environment, volunteering in the community and press relations. Active CSR groups have been formed as a result of expanded community relations<sup>5</sup>. The company’s philosophy is that the various CSR areas should not be handled separately (environmental quality, contribution to the community, responsible workplace, etc.) but as a comprehensive CSR action program managed in an integrative manner. Several years ago, Intel Israel added human resources, EHS (environmental health and safety), internal audit and ethics staff to these work groups.

Intel Israel’s External Relations Group has been operating for 15 years. Formerly known as “Community Relations”, the group was part of the Human Resources Department. At a later stage, company management concluded that this function should be given a more central role at Intel Israel. The unit (“group”) became independent and its head, the external relations manager, became a member of the company’s management team.

<sup>5</sup> The company’s corporate culture encourages teamwork. Even the traditional organizational “departments” are known at Intel as “groups”.

The CSR manager works within the group. Her place in the External Relations Group is rooted in the view that CSR means responsible organizational behavior. Consequently, its main manifestation is in its relations with the internal and external organizational processes.

Company executives say, "Organizations are deliberating the positioning of CSR departments — in human resources, in marketing, as the responsibility of the company secretary. They do not know where to classify it. We believe that the correct position is in external relations, because this shows that our approach to CSR is genuine and not a gimmick. Our operations have been CSR-oriented for many years already, but we just never called it that. When we began defining and structuring our CSR approach, it was clear that this was part of our relationship with the community. There was no need to search for a category for CSR activities."

At **Bank Leumi**, CSR is located in the Human Resources Unit and is run by the human resources manager. When the decision was made, in 2003, to formulate a code of ethics in a process involving employees throughout the organization, it was obvious that the process would be led by human resources — the department which has the knowledge, tools, resources and overall organizational perspective necessary to carry out this task. The project of drafting the code, which was led by the manager of the Training Division and the manager of Human Resources Strategy and Development, was completed in 2005. Managers found that it was only natural that CSR be managed by the person who successfully coordinated the drafting and assimilation of the code.

Unlike many instances in which the community relations unit grows into the organization's CSR unit, **Bank Hapoalim's** extensive community relations activities continue to be run by the original community relations department. In order to aggregate the bank's activities in various fields into a single conceptual framework, the bank appointed a CSR manager — a senior executive who reports to the Human Resources and Logistics Division Manager, who in turn, report to the bank's CEO. Since initial activities focused on internal organizational aspects of implementing CSR, this positioning in the division responsible for the bank's internal resources, proved effective.

According to the bank's philosophy, the CSR manager should encourage the department managers at the bank to adopt and implement CSR. He or she should influence them to understand the value and feasibility of CSR from their own perspective (not just because the bank management said this is an important initiative). This is a continual change process. Some of the activities promote management objectives, such as driving efficiency, improved quality of the environment, increased employee motivation, and even creation of business opportunities. All of these facilitate the sense of common benefit.

As previously stated, the **Fishman Group** appointed a CSR manager for the group's companies to assist them in their social activities. Because this manager reports to the owners, not to the company managers, she serves more in the capacity of a strategic, supportive and facilitating partner, e.g. in the planning of activities and in the establishment of ties with organizations assisted by the group's companies. Hence, the CSR activities themselves (at the Fishman Group, most of them still focus on social involvement) are carried out by company managers. They are determined based on the needs and approaches of each company.

In most cases, the party responsible for CSR in the group companies fulfills an additional role. For example, at **Home Center**, the CSR manager is also the recruitment manager. In other companies within the Fishman Group, CSR (which, as previously mentioned, largely focuses on community involvement) is part of the human resources department. In the absence of such a department at the company<sup>6</sup>, CSR is managed in the marketing unit, or by another unit. At **Telepharma**, for example, which employs 70 people, the general manager's secretary is responsible for CSR.

CSR managers in the group's companies meet in a forum that is facilitated by the group's CSR manager. The last meeting was attended by approximately twenty participants, most of whom come from human resources and marketing functions. Once a year, the group holds a CSR event that is attended by many members of the management teams of the group's companies. During the event, commendations are given to the companies which performed well in the previous year. The event reflects the importance which the Fishman family attaches to the social involvement of the companies it owns.

CSR at **Rafael** is managed in the Welfare and Social Responsibility Department reporting to the VP of the Human Resources, Organization and Logistics Division, formerly known as the "Welfare and Community Relations" Department.

CSR was positioned in this division for several reasons:

1. The division is involved in key areas related to CSR — employees and logistics. This division is also linked to the environmental quality and safety unit.
2. The entire approach grew bottom-up, at the initiative of employees, and requests reached this division and were addressed.
3. Employee empowerment is one of the main goals of CSR. The department's manager dedicates half of his time to promoting CSR at Rafael. His deputy is also involved in promoting CSR.

<sup>6</sup> The main reason is the size of the company. Companies below a certain size usually do not need a dedicated human resources department.

## Ongoing CSR Management

Because the CSR manager in organizations is the main coordinator and provider of support for managers, a significant percentage of his work involves maintaining a dialogue with department managers in the organization. This is carried out in a variety of ways, including direct dialogue in dedicated forums, and training and provision of materials, either printed or electronically. A significant part of CSR activities relates to internal communications.

One of the main tasks is the need to map the diverse organizational activities that were common practice in the organization before CSR was established. Community involvement is a prime example. Investments in employee development or fair trade practices are additional examples. They form part of CSR, even if they were not originally defined as such. The process of mapping CSR organizational activity becomes twice as important when the organization wishes to produce a CSR report<sup>7</sup>.

### Examples of CSR management activities in Israeli companies

**Bank Leumi** provides a typical example of a mapping process prior to the issue of a CSR report and its approval by the GRI organization (see later).

Once the decision was made that the first stage would be mapping the activities by producing a CSR report, a committee composed of representatives from the bank's divisions was convened. These representatives were bank division executives, generally department heads. They were selected based on their ability to lead this type of project.

The committee included those who would be responsible for collecting material on each aspect of CSR (such as environmental quality, accessibility, community contribution, etc.). A huge amount of information began streaming from the field to the parties responsible for reporting on CSR. For a year, information about the diverse activities of the bank's groups and branches was collected. The information was obtained in a variety of ways: files, reports, etc.

The next stage involved the screening and processing of the material. These activities were carried out in conjunction with external consultants, who also supported the writing of the report. Once the writing was completed, it was submitted to GRI for approval. This was the first report submitted by an Israeli company to be approved by an international organization. The report was submitted at Application Level B, which satisfied the bank because this was regarded as challenging for a first-time report. It was decided that a CSR report would be produced by the bank every two years.

Many organizations initiate CSR activity by compiling information about current activities. Based on this information, they draft the first CSR report. **Bank Hapoalim** decided to adopt a different approach. Rather than a report which reflects the current situation, the bank wanted it to serve as a retrospective study, i.e. the report is not the end in and of itself. The bank's management wanted to create an organizational foundation for corporate responsibility, adding more dimensions to the current status.

<sup>7</sup> Sometimes this is the main reason for the mapping process – especially in the first stages of adopting a particular approach.

Only after meaningful performance results were obtained was the decision made to prepare for a written report in line with the highest standards. The starting point was a review of current activities versus the GRI reporting framework, but the bank found that these were too general to meet its requirements. Consequently, the bank established a system of approximately 400 parameters and the concepts of CSR were translated into detailed, practical metrics, while maintaining compatibility with the GRI framework.

These parameters were defined in conjunction with external consultants. After reviewing the performance of financial organizations around the world, the bank adjusted its activities to achieve compatibility with generally accepted indices. The bank examined its activities based on these indices. Gaps were identified and a plan of action to change and improve each of the relevant departmental activities was formulated. For example, following a review of the labor relations with the bank's sub-contracted employees, the bank decided it must prevent unfair dismissal of these employees by the subcontractor. Today, it requires personnel suppliers to submit quarterly and annual turnover reports. The bank's Purchasing Department examines these reports to ensure employees' rights are upheld. Contractors who violate labor rights risk termination of their contract with the bank. This is also a prerequisite in the bank's request for proposals for bids from personnel contractors, and it is written into the contracts with these contractors.

The initial assimilation of CSR included the establishment of nine teams of experts and bank executives, four of which focus on environmental management. The teams carried out an in-depth diagnosis of the bank's status based on the predefined parameters, and made suggestions for further improvements in every aspect. The CSR manager coordinated team activities and participated in the meetings of each team.

Realizing that success is an important motivator and increases acceptance of change, tasks which can be completed quickly and at low cost were implemented first, for example the replacement of disposable plastic or styrofoam cups with paper cups. More complex activities, such as a collection and disposal system for electronic waste from employees' homes, which required a more complicated logistics system, were carried out at later stages. In addition, discussions are held on a regular basis in meetings of the bank's management and board of directors. Recently, the bank's CSR report was issued with the highest application level: A+. (The + sign indicates that the report has been assured. see later).

CSR at **Intel** is spearheaded by a steering committee composed of members of the company's management team. Heading the committee is Intel Israel's CEO and the committee also includes the manager of environment in Israel, the external relations manager, the human resources manager and the chief financial officer. The committee decisions are carried out by four subcommittees, each of which focuses on a designated area: community relations, environmental, fair employment and ethics. The CSR manager is responsible for coordinating the committee activities.

Intel published an annual CSR report globally. Naturally, the report covers the activities of the corporation's worldwide locations. While the management of Intel Israel could be content with having its CSR activities described in the global report, it decided that it would issue a local report to complement the international report, given the broad range of CSR activities carried out in Israel.

As part of the structuring of its CSR activities, **Rafael** decided to prepare and publish social responsibility reports. In the first stage, the reports will be circulated internally to map the actual activities, with each report covering a specific activity. The first report was dedicated to community relations, because this area could report concrete activity that could be documented relatively easily. The second report related to the working environment. This, too, was relatively easy to map and define in areas such as accessibility or safety.

Subsequent reports focused on environmental quality and the code of ethics. As previously mentioned, advocates of this approach believe that the main goal of reporting is employee empowerment. Rafael reports are primarily for an internal audience. In preparing some of the reports, Rafael was assisted by external consultants. In addition, as an additional component of the development of CSR, Rafael is preparing for compliance with the SII 10000 standard.

As part of its involvement in Maala, Rafael was awarded the highest rating (platinum) in the Maala ranking in its category (non-public companies). Community relations activity at Rafael has been continually supported by a steering team for several years. Another team was recently set up for environmental quality and working environment. Members of the steering teams are from various related departments. They meet approximately once a month, but team members maintain regular contact as needed.

Rafael believes that mobilizing executives to become involved in community work is very important for CSR success. The recruitment and retention of hundreds of employees as volunteers is a crucial management task, since Rafael, as a government company, cannot donate money but only volunteer hours. Rafael executives say: "The support of the top management and middle management, and the cooperation of the teams are the prime factors in our success in recruiting and retaining volunteers."

The decision to create a more structured framework for CSR activity at **comme il faut** was driven by trends in CSR management in Israel and around the world. The company's CEO believed that the time had come to reflect and carefully examine the company's activities in this and other areas. By mapping the activities, the company could take corrective action, expand and improve. For example, a review of the activities of suppliers, an essential part of the company supply chain, was undertaken to ensure consistently ethical conduct in their activities on behalf of *comme il faut*.

As with other organizations, a key step designed to support progress in responsible management was the decision to produce a CSR report, known in the company as the Social and Environmental Responsibility Report 2007-2008, entitled "Women Who Influence". The report was also designed to provide a response to a dilemma the company regularly faces, namely that the company promotes a broad socially responsible platform but, on the other hand, only affluent clients can afford its products, while the ones whom the company promises to help empower, cannot afford them, as the company manufactures and markets high-end, high-quality fashion. The company regards their highly transparent report as a critical tool that assists in presenting the *comme il faut* business model and explains the rationale underpinning their approach.



The report was drafted in conjunction with an external consultant according to the highest international standards. It was then submitted to the GRI for approval at Application Level A. The company is proud to emphasize that this was the first Israeli report submitted for approval at this level. The information included in the report was compiled based on GRI indicators and collected through conversations and surveys held by external consultants. The issues addressed in the surveys were selected by company management.

One of the surveys was held among the company's employees. Another was held among hundreds of the company's customers and other among stakeholders. An online version of the report was posted on the company's website to reflect its efforts to reduce the consumption of paper as part of its environmental awareness. The report will be issued every two years.

## CSR Activities in the Public Domain

One of the main phenomena of public CSR activity is the wide range of professional, local and international organizations which report on the activities of corporations and provide a platform for public disclosure. These are measurement and certification organizations. As an external party, they produce a set of parameters and then rank or certify the reporting company accordingly.

The measurement and scoring make a significant contribution to a methodical and comparable disclosure of CSR activities. It supports companies' desire to benchmark themselves against other companies in order to improve. The very willingness to be measured and compared helps create awareness for CSR.

There are three main types of CSR activity frameworks:

1. Reporting — the leading framework is GRI.
2. Measurement and ranking — carried out by focused social or business organizations, for example, the Stock Exchange or Standards Institution.
3. Supportive activity by a public organization like the UN.

There are two key shortcomings to the participation of companies in public activity through CSR programs:

1. Companies are usually evaluated according to the claims they make. In addition, participation in measurement and ranking costs money. These two characteristics may lead to suspicions that the results are biased.
2. The very participation in measurement and ranking sometimes becomes the key activity, covering up for poor CSR performance.

Nonetheless, the advantages outweigh potential shortcomings, and indeed, measurement and ranking organizations of CSR activity are prospering.

Reporting, measurement and ranking are the topic of the next part of this review because they are extremely important for companies involved in CSR, especially in the early stages of entering the world of corporate responsibility.

## CSR Reporting

Thousands of companies around the world report their social-environmental responsibility activities. Since 1992, more than 17,000 social-environmental responsibility reports have been published. These reports were published for a variety of reasons, the main one being their desire to establish a dialogue with their stakeholders. By disclosing their activities and providing an opportunity to review them, a company conveys that it desires to demonstrate transparency and build trust with the stakeholders who are impacted by the company's operations. This takes into account the fact that CSR activities and reporting are made of the company's free choice and not because the company has to comply with the law or regulations.

As such, in addition to providing information and figures which reflect the business impact on its stakeholders, an adequate report also covers the company's plans for improvement. To make the report worthwhile, the reporting business should list the challenges it is facing.

During the 1990s, companies with developed social awareness, such as the American Ben & Jerry's and the British Body Shop, began publishing social responsibility reports. This approach of voluntary disclosure of non-financial reports was initially perceived as the eccentricity or unique management style of the owners of successful consumer companies. Developments in CSR led to the institutionalization of the reporting. The most tangible expression of this was the establishment of the Global Reporting Initiative, or GRI. GRI defines itself as an "organization managed by many stakeholders who cooperate in providing global standards for sustainability reporting."

GRI was founded in 1997 in conjunction with UNEP — the UN Environmental Program, and CERES — the Coalition of American Social and Environmental Institutional Investors and Organizations. In 2002, GRI became an independent organization. GRI's initial goal was to advance transparency in businesses and to encourage performance measurement, particularly in the area of environmental quality. In 2000, this goal was expanded into sustainability reporting, and general reporting guidelines were issued. These guidelines underwent a feedback process by 31 businesses and were revised twice, in 2002 and 2006. The 2006 guidelines are used by thousands of organizations as a framework for reporting to allow for some comparison between organizations and organizational performance. In addition, in order to sharpen the reporting focus, metrics were developed for specific sectors like logistics and transportation, electric industry, etc.

Country-specific metrics are now being developed for the reports which focus on the unique needs and characteristics of each country where the company operates. These metrics focus on country-specific issues, for example, Jewish-Arab coexistence in Israel with other issues classified as specific for Israel<sup>8</sup>.

Even if a company makes no significant effort to foster co-existence between Israelis and Palestinians, since this issue is vital to Israel's national agenda, the public is entitled to know how this issue is reflected in the activities or philosophy of the reporting company.

The GRI reporting frameworks allows for three levels of disclosure:

Level A is the highest reporting level and includes maximum disclosure: company profile and policies, details of feedback from stakeholders on material issues and data related to all performance indicators.

Level B indicates a progressive level of reporting by organizations that have not completed all the preparations for an in-depth report. It includes disclosure of policies and procedures (management approach), and data related to twenty performance parameters.

Level C is designed for companies which do not seek to become the leaders in this area but nonetheless feel it is important enough to disclose externally. This level of reporting is suitable for private companies or for the initial reports by companies that have not yet managed to collate all the data required by the performance indicators. Critics of this reporting level claim that this is primarily a PR exercise, while advocates argue that the very effort of reporting sows the seeds for more in-depth reporting at a later stage. Level C reporting includes a company profile and comments on ten performance parameters.

<sup>8</sup> Other issues classified as specific for Israel include road accidents, reserve military service, corporate government, accessibility and the relations between central and peripheral Israel.

## Reporting Effectiveness and Credibility

A 2008 GRI survey of 1,700 readers of reports found that 85% of the readers felt their impression of the reporting company was enhanced by the report. This leads to a question about the credibility of the reports and whether the focus on a company's successes creates an incorrect image. To provide a response to this inherent problem, a quality assurance industry has developed around CSR reporting with independent organizations that provide the reporting companies with an external stamp of credibility for their reports. In a way, this is similar to the audit by an accountant of a firm's financial statements.

Corruption scandals, such as that experienced by Enron (which was a significant catalyst to the development of CSR around the world) taught the world that even certified and reputable auditing and regulatory authorities are not free and clear of "inaccuracies". Similar concerns can also arise regarding assurance carried out on voluntary CSR reports. However, the very willingness to be reviewed and improve is commendable.

The GRI defines several principles for ensuring the credibility of CSR reports. These principles, when enforced, reduce the risk of inaccuracies during the assurance process. In the early years of CSR reporting, accounting firms were the first players to act in this field as consultants on the writing of the report or as its auditors. Since they came from the auditing field, they could offer their clients an additional service. Over time, however, when it was realized that non-financial reports cannot be judged according to the same standards as financial statements, other consulting firms that specialize in assurance of CSR reports joined the market, representing a stand-alone discipline.

## Reporting in Israel

CSR reporting in Israel is still in its infancy. Although an increasing number of businesses are adopting CSR activities, the goal of achieving accepted international reporting standards is still a long way off (see summary of the reasons in the "Conclusion"). In 2007, only two of the CSR reports published in Israel were included in the CorporateRegister.com database: the **Bank Leumi** and **Nesher** reports (environmental report only). Other reports published in Israel, such as **Intel Israel's** report, were not registered on the international site (where the Intel global report is registered).

## Rankings and Measurement

Rankings and measurements are carried out by various organizations in different countries. Some were established specifically for this, to encourage CSR. With the development of thinking on CSR, and the view that it is part of a company's business activities, stock markets around the world have begun paying attention to CSR. As previously mentioned, this stems from the understanding that CSR activities affect stock performance.

The New York and London Stock Exchanges, as well as TASE (see later) have unique indices that reflect the performances of companies that have adopted CSR. Since 1999, the American Stock Exchange has included trade on the Dow Jones Sustainability Index (DJSI). The index covers hundreds of stocks from various sectors of leading publicly owned companies in every aspect of CSR. Their CSR performance is measured based on the results of a specific questionnaire. A similar index, FTSE4Good, was launched on the London Stock Exchange in 2001.

Similarly, a standards industry has been developed according to similar principles. This includes measures adopted in the previous decades to improve quality and quality assurance, e.g. ISO 14001 for environmental quality and SA 8000 for human rights. In addition, a comprehensive CSR standard — ISO 26000 — is currently being drafted. An important standard in the quality assurance of CSR reports is the AA1000AS standard of AccountAbility, an international organization, headquartered in the United Kingdom, which seeks to promote “responsibility for the development of sustainability”. AccountAbility consists of many stakeholders, from large businesses to experts and academics who have developed measurement and standardization tools.

### **Rating and Measurement in Israel**

In Israel, the Maala ranking (which is carried out in conjunction with TASE) is considered the main tool for assessing and rating the CSR performance of public companies. The ranking program was launched in February 2005, with the CSR index covering 20 leading public companies traded at TASE companies with the highest weighted social contribution on the stock exchange. The index derives from the Maala Ranking for Corporate Social Responsibility in Israel. The criteria for the rankings are set by leading figures from the academic and business sectors in Israel.

In 2006, 49 companies were rated, 36 of which were public companies. In 2007, 53 companies were rated, 35 of which were public companies. The ranking questionnaire includes approximately one hundred questions in five sections: business ethics, human rights and working environment, community involvement, environment and corporate governance. In 2008, 60 companies were ranked, 39 of which were public companies and 21 were private, government and other companies traded overseas. This year for the first time, a new section of corporate governance was added to the ranking.

### **Other Supporting Activities**

Alongside the extensive activity of organizations such as the GRI and AccountAbility, key international organizations joined the CSR trend with their own CSR assessment rules. Two examples include the International Labor Organization (ILO) and the Organization of Economic Cooperation and Development (OECD). Other organizations established CSR rules and regulations (e.g. a 2006 amendment to the British companies law which requires that publicly-owned companies submit reports on social and environmental issues).

Among the main international organizations involved in this field is the UNGC — the Global Compact set up by the UN, which drafted a policy framework to advance cooperation between businesses and the UN to promote CSR activities. Companies that sign this international convention declare their commitment to 10 principles, in areas such as environment and anti-corruption. In addition, they promise to submit an annual public report about their progress in these areas. The GC was officially launched in Israel in 2008.

## Conclusion

It appears that CSR is beginning to become part of the everyday business discourse. The history of its formation, which was accompanied by massive media coverage, the joining of world leaders and the willingness of global organizations to join the system for whatever reason have resulted in significant accomplishments within a relatively short period of time. This led to the institutionalization of relevant procedures, from international and intra-national audit and measurement systems, to board of director decisions declaring CSR to be part of the organization's strategy and to the creation of organizational processes that advance CSR activity.

Today, CSR activity focuses on adoption of CSR in organizations and on increasing public awareness. A general goal is that the media hype around CSR will gradually reduce, not because the perceived importance of CSR is reduced but because CSR will become part of routine business to the extent that it will be normative in many organizations (not just in businesses). For the time being, this goal is still a long way off.

In Israel, CSR is still in its infancy. While Israeli companies were late to adopt CSR compared with businesses in industrialized nations, they are catching up now with intensive CSR activity.

The slightly late entry of Israeli companies into the CSR arena is due to several reasons, mainly the comparatively small size and reach of Israeli companies. It has already been noted that the leaders in this field are global companies whose influence on other countries is broad in comparison with the limited impact of Israeli companies. In other words, Israeli companies, as relatively small players in the global market, have less need to lead in CSR, considering the resources investment required to attain this kind of positioning.

On the other hand, since the Israeli market is small and limited in size, many Israeli companies are looking to expand overseas. To become legitimate global players, they must play by the accepted rules of the game. In a world in which everyone does business with everyone, Israeli companies will be expected to comply with CSR principles. For this reason, CSR is now penetrating the Israeli market at an accelerated pace, with companies seeking to close the gap, especially versus other businesses in Western countries.



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- Orit Kot from **Bank Leumi**
- Vered Raz from the **Fishman Group**
- Yossi Shoval and Revital Bitan from **Intel Israel**
- Sybil Goldfiner, CEO, **comme il faut**

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**Shuki Stauber** is the author of management books, and a journalist, lecturer and senior management consultant. Shuki has authored nine books and hundreds of articles in financial newspapers and management journals, most published as a personal column.

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- **'The Job - Yours!'**
- **'Outsourcing'** — in cooperation with EDS, Flying Cargo, Manpower and Albar
- **'Customers Service'** — in cooperation with Cellcom, Discount Bank, Visa Cal, Samlat, and the technology and logistics department of the IDF
- **'Lawyers and More'**
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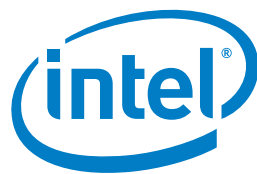
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