MICHIGAN
ROSS SCHOOL OF BUSINESS

Ross School of Business at the University of Michigan

Independent Study Project Report

TERM : **Winter 2008**

COURSE : **STRAT 399**

PROFESSOR : **Jim Walsh**

STUDENT : **Ari Siegel**
Brad Stulberg

TITLE : **How To Do CSR: Strategy And CSR Integration**

HOW TO DO CSR

STRATEGY AND CSR INTEGRATION

April 2008

Ari Siegel – Junior, University of Michigan Business School
Brad Stulberg, Senior, University of Michigan Organizational Studies

HOW TO DO CSR

Corporate Social Responsibility, often referred to as CSR, is emerging at the forefront of forward thinking business strategy. One need not look further than the contents of well respected business journals and executive surveys to gather a sense of the vast interest surrounding the integration of business and society. A fast growing and diverse body of stakeholders are calling on the business community to address a whole manner of social and environmental concerns. This energy has spread quickly and widely. CSR frequently headlines newspaper opinion pages, corporate websites, and business school course guides.

Even with the latest thrusts of momentum, this brewing shift in the business paradigm is still in its infancy. The organizational community has yet to discover a best, let alone common practice for CSR. In hopes of contributing to and moving this discussion forward, the authors of this paper examined ten corporations that have recently achieved high levels of CSR. In examining these companies, the authors offer insights about the components they found to be key to the development of successful CSR strategies. But before trying to make sense of insights for the future, it is important to reflect upon the recent past and take stock of the events that gave rise to CSR itself.

THE RISE OF CSR: A BRIEF HISTORY

The deregulation of the late Seventies coupled with communication technology improvements of the Eighties and early Nineties both enabled and made favorable the expansion of the globally leveraged corporation. As firms grew across geographic borders without a central governing body to regulate them, some of the world's most powerful corporations found themselves operating under largely self-defined rules. At the same time, corporations and their brands became integral parts of local societies; quickly creating jobs, spurring innovation, and generating unprecedented economic prosperity.

As a result of these gains and the powerful corporate lobbies that highlighted them, governments in the West and in the Developing World have and continue to give Multinational Corporations exceptional freedoms. Unfortunately, many corporations have exploited unregulated operating environments to maximize profits by conveniently externalizing a host of social and environmental costs. Perhaps the negative effects of these externalities were salient in the local communities that housed corporate operations, but these harms were generally overlooked by the two most powerful stakeholders at the time: consumers who welcomed low prices and ownership who welcomed unprecedented profits.

It would only be so long before the consequences of an 'externalize-all-costs' strategy spiraled out of the control. While the exact timing may be disputed, unjust corporate behavior reached a tipping point when a few big events made headlines around the world. The Exxon Valdez spill, the Nike sweatshop fiasco, and the Bhopal contamination - - to name just a few - - became visible to the masses and upset a wide array of stakeholders all over the world.

In response to these disconcerting stories, a wave of activists, empowered by new information technology, broadcast such corporate misconducts to anyone who would listen. This triggered an interesting trend that continues today. Blogs and small-time newsletters are regularly the first channels to fill with allegations against corporations. In a growing number of cases, though, shortly thereafter, stories of corporate transgressions are often picked up and transmitted to a much larger audience by the mainstream media. Consequently, public opinion started to demand that corporations take greater responsibility for a full menu of pressing global issues. Topics diverse as product safety, climate change, human rights, and resource degradation entered the business sphere. The corporate world needed a response.

CSR AND THE TRIPLE BOTTOM LINE EMERGES

Although the precise underlying motives may never be fully uncovered, most CSR experts agree that a few first-mover corporations launched inaugural corporate social responsibility campaigns mainly as a means to protect their battered reputations.[1] Soon after the earliest companies acted, several of their industry rivals followed, and the first wave of CSR took form.

The historically slow-moving and lately branded-as-evil corporation was entering an entirely new arena; one that happened to be guarded by NGO's, energetic activists,

---

[1] Elkington, John. Cannibals with Forks. Oxford: Capstone Publishing Limited, 1999.

and millions of generally disgruntled consumers. As a result, in its formative years, CSR was almost always framed in opposition to standard business paradigms. Businesses would continue to thrive off of externalizing models to generate profits, while their greater association with social and environmental initiatives would simply be an added cost.

In the absence of a cohesive framework, individual companies began taking specific actions in response to stakeholder concerns regarding social and environmental matters. While the isolated CSR projects of some corporations subdued a fair amount of external scrutiny, a handful of observers realized that largely uncoordinated efforts both within single businesses, and entire industries, yielded sub-optimal outcomes. As more and more companies started to experiment with Corporate Social Responsibility, John Elkington, an environmental consultant, realized the need for a framework to guide this new breed of corporate behavior. Drawing upon years of consulting experience, Elkington birthed the Triple Bottom Line, a framework that asks companies to evaluate economic, social, and environmental performance.[1]

In no time, progressive companies and clients of Elkington adopted the Triple Bottom Line framework to conceptualize their full CSR effect. With the Triple Bottom Line acting as its' newly founded guiding force, CSR and similar schemes spread swiftly, even becoming the norm in a few select markets. It was not long before companies without CSR campaigns realized that they might need them just to compete.

While the advent of the Triple Bottom Line helped numerous companies enhance their corporate citizenship, even more importantly, the Triple Bottom Line became the common platform on which the business and scholarly communities could discuss CSR. As more corporations began acting on and evaluating their operations through the lens of the Triple Bottom Line, executives and scholars alike took notice of an interesting phenomenon; maybe CSR did not represent a total shift in the business paradigm after all. Quite contrary, it was beginning to look like integrating Corporate Social Responsibility into a company's greater strategy could stimulate a business's ability to make profits. A collection of esteemed business minds from multiple scholarly disciplines set out to investigate and frame a fundamental question that had the power to reinvent how much of the world thinks about business. Is there an opportunity for companies to *do well by doing good?*

DOING WELL BY DOING GOOD

Although this work is still unfolding and the body of knowledge rapidly growing, the results have been quite encouraging. Here we provide a brief snapshot of this work and just a few highlights from it. The following examples come in no particular order, and while we wish we could go into more detail on each case, that task in itself would command volumes of publications.

For starters, early findings have illustrated that corporations can achieve commercial marketing objectives through the sponsorship of social ventures. The marketing power of these sponsorships is most effective when there is some type of fit between a company's mission, products or services, and the social venture that they sponsor.[2] Aside from being applied as an external marketing strategy, CSR can also be used as an internal marketing strategy. Corporate Social Responsibility programs that are both perceived and experienced as meaningful can be deployed within organizations to help "companies attract, retain, and motivate talented employees."[3]

Corporate Social Responsibility can penetrate even deeper into the business model, as corporations can exploit CSR-driven social sector partnerships to act as grounds for real-life research and development. Instead of testing new products and services in focus groups or other constrained settings, reduced cost or pro bono social sector projects often provide companies with new knowledge, capabilities, and lessons learned. A great example of this occurred when IBM began to create information technology tools for select educational communities. What was merely thought of as charity at the time has led to numerous and profitable product innovations at IBM. As Rosabeth Moss Kanter said nearly ten years ago, companies ought to "view community needs as opportunities to develop new ideas, serve new markets, and solve long-standing business problems."[4]

Just a few years after Moss Kanter published her wise thoughts, C.K. Prhalad and Stuart L. Hart took CSR's revenue generating potential one step further when they

---

[2] Simmons, Carolyn J., Becker-Olsen, and Karen L.. "Achieving Marketing Objectives Through Social Sponsorships." Journal of Marketing 70(2006): 154-169.

[3] Bhattacharya, C.B., Sankar Sen, Daniel Korschun, and "Corporate Social Responsibility as an Internal Marketing Strategy." Slan Management Review. Fall(2007): 1-29.

[4] Kanter, Rosabeth Moss. "From Spare Change to Real Change, The Social Sector as Beta Site for Business Innovation." Harvard Business Review (1999): 123-132.

began preaching their *Fortune at the Bottom of the Pyramid* concept. The two business scholars stressed that by looking away from typical consumer markets, corporations may find that "low-income markets present a prodigious opportunity for the world's wealthiest companies to seek their fortunes and bring prosperity to the aspiring poor." Enormous untapped markets can be found in historically overlooked areas of the developing world. Additionally, Prhalad and Hart suggested that the type of low margin and high unit volume models demanded by this market would inherently force companies to improve their operational and capital efficiencies; clear benefits in any market.[5]

As the link between CSR and everyday core business became more evident, one of the world's most acclaimed strategists, Michael Porter, laid out what we feel is a monumental doctrine. In his paper *Strategy and Society*, Porter convincingly argues that the notions underlying CSR and the Triple Bottom Line need not be thought of separately from core business strategy. Rather, if properly integrated throughout an organization, the very basic premises at the foundation of Corporate Social Responsibility may comprise the best strategic toolkit for any company looking to succeed in the future. This positive entanglement of CSR and strategy is most powerful

[5] Prahalad, C.K., Hart, and Stuart L.. "The Fortune at the Bottom of the Pyramid." Strategy+Business 26(2002):

when a company aligns its CSR mission to its core competencies and business model, creating an implicit shared value between business and society.[6]

While Porter's ideas were extremely eye lifting at first, this pioneering conceptualization of CSR shouldn't seem so surprising. As a matter of fact, far from counter intuitive, Porter's philosophy for thinking about CSR is quite logical. Values have and will continue to shift in the external environment, but the underlying structure of the firm is not likely to change much at all. If firms want to generate profits and monetary return for their respective shareholders, management must both find and appeal to employees and consumers. In oversimplified terms, the entire CSR movement may be a manifestation of the corporation's response to the changing values of the served and the increasingly loud calls to address the needs of the underserved. This is where the immediate future of business lies.

Visionary corporate leaders like Gary Smith of Timberland have realized this very important notion; that the most pressing resources of the firm demand the positive interaction of business and society. In a recent address broadcast by Stanford's Social Innovations Conversation Channel, Smith declared that "Timberland's ability to get Generation Y depends on Timberland's commitment to making the world a better place."[7]

---

[6] Porter, Michael, Mark R. Kramer, and "Strategy & Society: The Link Between Competitive Advantage and Corporate Social Responsibility." Harvard Business Review (2006): 1-14.

[7] Smith, Gary. *Doing Well by Doing Good in the Supply Chain.* A Stanford Social Innovations Conversation Discussion. Podcasted listed in 2007.

The good news is that Gary Smith is not alone. Recent McKinsey Quarterly publications show that social and environmental issues are at the forefront of many executive's minds. Moreover, these studies show that an overwhelming majority of corporate leaders think that social and environmental issues should be fully integrated into corporate strategy. The bad news is that there is a gap between what executives know they should do and what the companies they lead are actually doing.[8]

While the business community has gotten its head around the 'what' is CSR and the 'why' engage in CSR, the business community appears to be stuck on the 'how' to do CSR. In order to "make the world a better place" and make their businesses better performers, corporate leaders must figure out creative ways to implement and integrate CSR into their company's greater strategies and business models. We hope that the following contents help move the business community in this direction.

METHADOLOGY

We identified 'high achiever' companies by looking at authoritative lists[9] which are commonly referenced in the CSR community. We selected specific companies based upon their high-rank appearance on multiple lists as well as the availability of

[8] Bielak, Bonini, Oppenheim, Debby, Sheila, Jeremy. "CEOs on Strategy and Social Issues." McKinsey Quarterly Oct(2007)

[9] Lists were selected based upon popularity in the CSR community and include: Goldman Sachs ESG Sustain rankings, Davos Economic Forum World's Top 100 sustainable Companies, CNN Money Ranking of Socially Responsible Global 500 Companies, and the *Corporate Responsibility Officer's* Top 100 Best Corporate Citizen Rankings

information surrounding these companies. From there, we profiled our selected companies using a descriptive case based approach. Looking across cases, we identified four key areas that enable and support the successful implementation and integration of CSR into corporate strategy. These key areas are:

1. The development of strategic stakeholder partnerships
2. Trust building through transparency & communication
3. Full organizational participation in CSR
4. The creation of viable metrics and measurement techniques.

STRATEGIC STAKEHOLDER PARTNERSHIPS

Intimately involving a wide array of stakeholders in social and environmental project contributes to the creation of sustainable long term corporate strategy

It is no secret that a variety of stakeholders have a vested interest in the operations of a firm. What has changed is that we are no longer in a day and age when consumers and labor account for almost all stakeholder clout. The stakeholder constituency has widened to involve new powerbrokers that most notably include NGO's, opinion forming scholars, foreign governments, and the communities' local to a corporation's operations. Navigating through, let alone pleasing such diverse and decentralized stakeholders can be extremely challenging for management. But if engaged correctly, these stakeholders can become strategic assets to firms.

The high-achieving companies that we evaluated excel in engaging an extensive grouping of stakeholders, especially those that are external (and in some cases thought of as in-opposition) to the firm. The positions of these stakeholders give them legitimacy as objective observers and actors. Not only did our sample of high achiever companies engage this type of stakeholder, but instead of simply trying to 'please' them, we found that high achieving CSR companies co-create with stakeholders. Through regular planning sessions, transparent dialogues, and comprehensive communication, firms leverage stakeholder input to shape policies that align their economic interests with the social and environmental interests of stakeholders.

This type of co-creation often generates a variety of strategic advantages for a firm. Most apparent, companies can mitigate the risk of stakeholder dissatisfaction at the implementation or post implementation stage of a project if stakeholders are intimately involved in the early stage planning and project implementation process. Notwithstanding the management of risk and reputation, strategic stakeholder partnerships can also help businesses identify new opportunities that may be overlooked by in-house strategy teams. If partnerships are truly founded upon a high degree of interest alignment, stakeholder groups can even help businesses create new products, services, and markets.

Hindustan Lever, of the parent Unilever brand, has been involved in ongoing discussions with over 300 stakeholder partners, including development NGOs, Microcredit banks, and multiple state governments and their various departments. Over the course of hundreds of meetings, Hindustan Lever and their partners jointly identified two of India's most pressing needs; sanitation products and employment for women minority groups. These two societal needs were connected and aligned to Hindustan Lever's business model. Soon thereafter, the Shakti program was born.

Hindustan Lever worked hand in hand with the government of Andrha Praedash, India, to get access to and employ women from self-help groups across the state. Hindustan Lever then worked with a host of NGOs and nonprofits to teach these women basic business and entrepreneurial skills. In under a year, Hindustan Lever and its stakeholder partners transformed hundreds of impoverished women into a powerful sales force and savvy distribution channel for Hindustan Lever sanitation products.[10]

Historically, similar entrepreneurship projects amongst Andhra Predash women have had 3% success rate. The Shakti project's current success rate is over 90%, and the program has and continues to grow to localities well beyond Andhra Predash[11]. By acting on societal needs that were explicitly identified by stakeholders, Hindustan Lever has empowered and educated Indian women while simultaneously improving sanitation and personal hygiene throughout rural areas of India. At the same time, the company has secured a unique distribution channel that gives them an enormous strategic advantage in accessing a market of millions. By the end of 2006, 30,000 Shakti entrepreneurs reached over 100,000 villages, bringing with them sanitation products, and taking home salaries far above average local wages.

The Shakti program is an ongoing effort, and Hindustan Lever still relies heavily on stakeholder input to drive the project's success. To this day, the company speaks on a

[10] Unilever Sustainable Development Report, 2006. Pages 4-12.

[11] www.hllshakti.com. *About Us/Where Are We Today* sub-Section.

monthly basis with Ms. Ramalakshmi, the Andrha Predash woman's empowerment commissioner. In attempts to further spur economic development in Andrha Pradesh and other rural areas, Hindustan Lever is now organizing the Shakti entrepreneurs they trained to set up kiosks in community houses all over the country. These kiosks will provide information to rural citizens on a number of pertinent topics; covering everything from agriculture, education, finance, employment, entertainment, and horticulture. While Hindustan Lever supplies most of the kiosk content, it is translated into the respective local languages by a number of NGO's. These include notable organizations such as Azimpremji, a foundation for children's education, and Tata consultancy service's adult literacy program, ICRISAT[12].

Hindustan Lever is currently examining the Shakti model's feasibility in other developing countries. Whether or not the model is applicable elsewhere, Hindustan lever has successfully integrated social change with its long term strategy. This success owes thanks to Hindustan Lever's long term engagement with a number of strategic stakeholder partners.

In an initiative similar to Hindustan Lever's Shakti project, Danone, the French food and beverage maker, is partnering with Mohammed Yunus's Grameen bank. Via discussions with Grameen analysts and other development organizations, Danone's corporate leadership was made aware of specific elements regarding the nutritional deficiencies that plague thousands of individuals across Bangladesh. Danone's food

[12] www.hllshakti.com. *About Us/Where Are We Today* sub-Section.

scientists had a simple yet powerful solution; fortify Danone yogurt with the nutrients that are most lacking in the population.

Grameen stepped in to provide efficient channels for the distribution of nutritionally enhanced yogurt. Leveraging its network of microfinance institutions all over Bangladesh, Grameen Bank will get the fortified yogurt to where it is needed most. In an act that may not bode well on the next few quarterly reports, Danone agreed to extremely low and affordable price points for the yogurt. While Danone may see a short-term loss on the balance sheet for the Bangladeshi market, the company will realize a much greater long-term gain from their experience with developing untraditional distribution channels and product innovation geared toward less conventional markets[13].

While the strategic stakeholder partnerships formed by Hindustan Lever and Danone both led to the creation of new revenue streams, another one of our high achieving companies leveraged strategic stakeholder partnerships to help control costs. The somewhat shocking marriage of Exxon Mobil and the U.S. Forest Service and Illinois Department of Natural Resources serves as a great illustration of how a large corporation can engage its most fierce historical opponents to co-create a better future; in this case for both the environment and Exxon Mobil.

Marred by a troubled past, Exxon Mobil's leadership realized that the company's reputation for unruly environmental behavior was costing the Exxon hugely. Paying a

[13] Bloom, Alex. "Grameen Group, Group Danone eam up to set up Social Business." Financial Express April(2006).

lot in lip-service and paying a lot more in settlement fees to a host of NGOs and local communities at the post implementation point of projects was a poor and responsive strategy. To help reverse this trend and prevent these problems before they arise in the future, Exxon Mobil's Public Issues Committee realized a strategic CSR prospect in the Midewin National Tallgrass Prairie, which borders the company's Joliet Refinery in Illinois. Unfortunately, due to a wide range of environmental causes, not all of which are Exxon's fault, only 3% of the prairies remain untouched. Instead of framing this as an enormous PR nightmare, Exxon's Public Issues Committee saw this as a great opportunity to build a strategic stakeholder partnership.

Today, Exxon Mobil plays a key role working hand-in-hand with the U.S. Forest service to restore the prairie ecosystem and bring back full native vegetation. While this match may seem a bit odd at first, Exxon Mobil brings to the problem an array of funds as well as qualified scientists. In return, the U.S. Forest System not only gives Exxon more credibility in environmentally conscious circles, but it also gives Exxon critical knowledge that will help the company design future operations in more environmentally responsible ways. While this project is specific to a single refinery in Illinois, the lessons learned in ecosystems management will be applicable to other refineries and even extraction areas. Building upon this knowledge and partnership not only promises to cut Exxon's PR and settlement costs, but it also promises society a cleaner and more protected natural environment[14].

[14] Exxon Mobile. 2006 Corporate Citizenship Report.

In yet another example of a strategic stakeholder partnership, Timberland is trying to change the apparel industry to improve labor regulations in factories, bettering the company's operational competitive advantage at the same time. Timberland has long been dedicated to corporate social responsibility; pairing with charities, foundations, and constructively working to curtail environmentally degrading outputs. In their past strategic stakeholder partnerships, Timberland's approach mirrored that of Unilever, Danone, and Exxon Mobile; the shoemaker sought out stakeholders and partnered with them to co-create for the benefit of both parties.

Yet this was not enough for Timberland, which recently took company CSR to a new level, an even more strategic level, by *inviting* any stakeholder with a vested interest in the company to contribute their CSR input through Timberland's Voices of Challenge program. In this past year's CSR report, Timberland reserved multiple pages for stakeholders to author criticisms and challenges toward the company's social and environmental practices. Through these challenges, which are published in the CSR report, Timberland is able to identify key development areas in the company's CSR/strategy integration.

Through the Voices of Challenge program, numerous stakeholders brought to light the fact that contract factory wages are so being so compressed that factory employees are forced to work overtime. The extensive overtime hours had been overlooked by company and factory management since factory workers were often eagerly volunteering to work these hours; not because they wanted to but because they needed to.

Once the issue was exposed in Timberland's Voices of Challenge Program, insight and ideas came streaming in from a variety of places, including integral on-the-ground players like Peter Tsai, the CSR department manager from Pou Yen, which is a Vietnamese contract factory that produces for multiple brands. Since the cycle of low wages and overtime hours is an industry wide issue, Timberland also invited other big industry players to weigh in, including Dan Henkle, the senior vice president of Social Responsibility at Gap Inc. Timberland's senior management surveyed the information provided by all stakeholders that participated in the Voices of Challenge program and realized that factory wages were a real and pressing issue.

With the problem clearly identified, Timberland wasted little time in working to find a solution, consulting with factory-labor experts, like the president of Social Accountability International, Alice-Tepper Marlin.

As a result of these conversations, Timberland pinpointed two key levers that will help curtail excess overtime hours in the apparel company's contract factories: 1. better planning in regard to demand cycles and product turn-around time, and 2. raising wages to more substantive amounts so workers will not feel forced to 'volunteer' themselves for overtime[15].

[15] The Timberland Company. 2006 Social Responsibility Report. Pages 16-40 (Voices of Challenge Program)

While Timberland is currently acting to institute these changes, they are also working with the same stakeholder partners to create new industry standards around overtime hours, turn-around pressures, and wage control. By voluntarily working with stakeholders to lead the way in this arena, not only is Timberland pushing a new policy within their business, but they are also proving to industry operators and observers that there is a better and possible way to manage contract factory labor. If Timberland and their strategic stakeholder partners can work together and demonstrate success, they will have great influence in calling for the entire apparel industry to adopt improved working-hour standards. If new standards are in fact normalized, not only will Timberland have improved the lives of many workers in the developing world, but they will have already institutionalized contract labor practices that many of their competitors will be diving into for the first time.

In an amazingly systematic way, Timberland's *Voices of Challenge* program created an open forum for stakeholder input and a venue to involve these stakeholders in overcoming the very challenges they (the stakeholders) expressed. Via strategic stakeholder partnerships, Timberland is moving society forward, pushing the apparel industry forward, and gaining a critical first mover advantage in contract labor management.

While it is not easy for management to include a diverse group of stakeholders, some of which may be initially perceived as adversarial, it is even harder for management to be aware of and develop strategies for a myriad of social and environmental issues on their own. Our research shows that when corporations partner with stakeholders, both the societal advantages and strategic advantages are clear.

TRUST BUILDING THROUGH TRANSPARENCY & COMMUNICATION

Making CSR strategy transparent communicates values externally, strengthening stakeholder relationships.

Trust is a key ingredient in building effective strategic stakeholder partnerships. Trust not only shrinks transaction costs between corporations and their partners, but it is also critical in promoting the prolonged engagement of various stakeholders in firm activities. While transparency is integral to building the foundation upon which this powerful type of trust rests, transparency loses much of its potential value if it not transmitted via clear communication. The establishment of these modes of communication can take many forms such as stakeholder meetings, regular CSR reporting, and various consumer channels. The high achiever firms that we examined use a combination of these vehicles to demonstrate their commitment to the social and environmental values they espouse.

Furthermore, we found that successful firms use the aforementioned communication modes to provide evidence of their commitment to creating shared values with stakeholders over the full life cycle of a strategic CSR initiative. This lifecycle can be broken down into four main stages of development; 1. exploration & strategy planning, 2. initial implementation, 3. mature implementation, and 4. consumer awareness.

The exploration and strategy planning stage of a CSR project is the initial step prompting the integration of CSR and strategy. The goal during this period is for corporations to gain the insight of external stakeholders, helping to to discover areas of societal and environmental concern that may align with the business model.

High achiever companies proactively seek out stakeholders with knowledge resources that can generate ideas for CSR opportunities. Briefly revisiting Unilever's Shakti program, Hindustan Lever met with a congregation of development NGOs and public officials before the company had solidified a strategic vision to explore areas in which the company could exploit its scale for social business opportunities. Key to the success of these communications was a general sense of transparency; both Hindustan Lever and the respective stakeholders were forthright about their intentions. In this case, both Unilever and their various nonprofit partners all stated their available inputs and desired outputs. This type of honesty prevents unanticipated confrontations later and subsequently guarantees the sustainability of the partnership.

During the initial implementation stage of a CSR project, firms begin to act upon the ideas generated through stakeholder collaboration. The goal of this stage is to build an actionable framework for implementing the project. Thus, consistent communication is vital to ensure stakeholders remain engaged throughout the process and for stakeholders to confirm that the corporation's actions adhere to their avowed shared values. Companies also have the opportunity to reinforce the values they share with their stakeholder partners. While there are literally hundreds of ways to do this, we found that a very powerful yet simple method is though a press release[16]. When a company issues a press release, they are committing to partnership in front of a wide and important audience; often times their entire consumer and investor universe. This works to do two things. First, after a company has issued a press release they are more likely to stick to the mission and complete it as outlined. In this sense, a press release is another self- regulating tool. Second, stakeholders like to see their names in the media besides those of their partners, giving them added legitimacy and publicity.

Another way to foster continuous stakeholder involvement is to use CSR reporting as an outreach mechanism. As previously discussed, Timberland's Voices of Challenge program not only signals the company's dedication to CSR, but it serves as an open invite for stakeholders to work with the apparel giant. Through this program, Timberland engages stakeholders by inviting them to co-create the CSR report, providing a platform for stakeholders to express their opinions on current operations. While Timberland is not alone in this type of communication, Voices of Challenge and similar programs are quite rare. While thousands of companies now publish CSR reports outlining their performance on social and environmental issues, very few utilize these reports to truly engage stakeholders. We found that high achieving companies use CSR reports as an outlet to engage stakeholders. Through providing a forum within CSR reports, top notch firms are offering a two way line of communication for expert NGOs and activists to co-create CSR strategy.

[16] Danone Press Release. November 18, 2006. Danone Financial Fund for Social Ventures.

During the mature implementation stage of a project, firms solidify and refine their CSR strategy. A firm's objective for stakeholder partnerships during this stage is to continue strengthening communication and reporting the successes and failures of the project, reinforcing the positive and identifying areas of further growth potential.

CSR reports are an extremely powerful tool for achieving these objectives. Reports allow companies to lay out their entire CSR strategy and analyze the strengths and weaknesses of their activities. Identifying successes of CSR projects validates the utility of prior partnership interactions, reinforcing the importance of such interactions going forward. Identifying failures of CSR activities highlights areas for growth in which to apply future partnership interactions, attention, and resources.

Transparency adds legitimacy to CSR reports and signals honesty to stakeholders. Firms perceived as being honest in their dealings have a better chance of continuing successful future partnerships and developing new ones. Nike made corporate transparency history in 2005 when it published the names and locations of its factory supply chain sites[17]. Since that point, Levi Strauss and Timberland have also published their sourcing locations in an effort to gain trust. While not every firm provides such a radical level of transparency, many high achieving firms do contract external auditors to verify the accuracy of their CSR reports. Building an image of transparency and honesty assures future stakeholders that the company is truly committed to the values it espouses.

[17] Andy Savitz, author of the *Triple Bottom Line,* lecture at the University of Michigan on Corporate Social Responsibilty Careers. March, 2008.

After developing strategic stakeholder partners and co-creating a successful CSR project, firms leverage their accomplishments to build brand equity with consumers and other stakeholders during the consumer awareness stage of the CSR project lifecycle. The objective at this final phase is to communicate the firm's achievements clearly to consumers and stakeholders, paving the way for quality interactions in the future.

Supplementing CSR reports, most firms utilize existing marketing channels to target consumers who share the values that the company has committed to with its CSR activities. Socially responsible consumers are attracted to a firm that is committed to their same social values. These values are expressed to consumers not only by the company, but also by the external stakeholder partners that consumers may reference in their purchasing decisions. This is especially true with a widely esteemed stakeholder partner. As consumers cannot always verify the accuracy of statements from a firm about their CSR activities, stakeholder partners that are viewed as legitimate act as a source of verification, ultimately creating trust in a brand.

Each stage of a CSR project's lifestyle provides opportunities to build strong strategic stakeholder partnerships through transparent communication. The high achiever companies we studied exploited these opportunities to strengthen their partnerships, social/environmental impact, and brand equity.

FULL ORGANIZATIONAL PARTICIPATION IN CSR

Successful companies involve multiple groups within the organization when they create and act on CSR strategy. While the pathways may differ, all of the high-achiever companies we examined had clear routes for the transmission of CSR values throughout the organization.

If a company's CSR agenda is truly to become integrated with its strategy, the CSR program must have the full support and understanding of all individuals in the organization. There are multiple benefits if all internal players are aware of and onboard with a company's CSR strategy. The CSR values themselves are more likely to be acted upon, and these values can be used as an effective internal governing/management mechanism. What's more, full organizational participation ensures that a company avoids falling into the common trap of a piecemeal approach to CSR, which yields far from optimal outcomes for both business and society.

The high-achieving companies that we analyzed all had effective means of communicating and diffusing CSR values throughout their organizations. The question that naturally follows is of course; how do they do it? We found high achieving companies obtain full organizational participation that supports the integration of CSR and strategy through three main outlets: 1. Integrated board structures, 2. the codification of CSR values in company-wide rules and regulatory manuals, and 3. institutionalized mechanisms for non-hierarchal CSR creation and value sharing.

A clear way to ensure that CSR strategy is both perceived and acted on as a high strategic priority throughout an organization is to incorporate CSR strategy into executive board structure. While hundreds of corporations are already dedicating distinct committees, groups, and panels to CSR strategy, their actual CSR is still often implemented in a non integrated and piecemeal fashion. What separates high-achievers from the rest is that high achieving companies not only have dedicated governance bodies, but they systematically ensure that these bodies communicate and share CSR values across the entire executive board, and more importantly, with on-the-ground management.

Timberland's executive board has only four committees; Audit, Governance & Nominating, Management Development & Compensation, and CSR[18]. While its existence on the board is a signal of CSR's importance at Timberland, CSR's priority is amplified by the fact that the CEO of the company sits on the CSR committee. The CEO's presence on the CSR committee signals a clear value to both internal members of Timberland as well as outside observers; CSR is a critical aspect of Timberland's greater strategy that has support from the very top.

Nonetheless, this in itself is not solely responsible for the success of Timberland's CSR. As we dug deeper, we found that aside from the CEO's presence on the committee, the CSR board committee has a sub-group arrangement responsible for the oversight of social and environmental issues key to Timberland. External relations, transparency & accountability, environmental stewardship, global human rights, and community involvement are all subgroups branching from the CSR committee. The heads of these smaller organizations report to the Vice President of CSR and the

[18] www.Timberland.com . Corporate Governance Section.

Corporate Culture officer, two officials dedicated to the strategic implementation of CSR at Timberland.

Timberland's internal CSR organization ensures that the data, information, and outputs of the topic-specific subgroups are integrated in strategic decision making. These CSR indicators make their way through the CSR board committee, eventually reaching the CEO of the company. These indicators are also integrated throughout the entire executive board. Thanks to the planned construction of board membership that mandates board members sit on multiple committees, information from the CSR committee reaches all other committees through first hand board member cross pollination.

After CSR is incorporated into strategy at the board level, it is the job of the Corporate Culture office and the Vice President of CSR to disseminate the strategic CSR agenda throughout the organization. At this point management becomes a full participant, implementing the CSR values in daily operations. Through careful organizational design, Timberland integrates CSR into corporate strategy and dedicates the necessary resources to make sure strategic plans convert into strategic actions.[19]

Not all of our high-achiever companies that utilized board structures as a way to integrate CSR and strategy reserved board committees explicitly for CSR. Baxter Health has no board committee devoted exclusively to CSR. Rather, Baxter Health's Corporate Social Responsibility Office meets at least quarterly and reports to both the board's

[19] The Timberland Company. 2006 Social Responsibility Report. Pages 6-14

public policy committee and the board's audit (financial) committee. Although there is not a distinct CSR committee, Baxter's reporting structure ensures that CSR information is included in strategic decision making by having a dedicated CSR office report to the board committees that particularly align with CSR initiatives. This upward streaming of CSR information guarantees that CSR is integrated into board level strategic decision making and planning. Concurrently, a downward streaming of values that encourages day-to-day behavioral compliance at all levels of the organization also starts with the Corporate Social Responsibility Office. The office develops and amends a CSR charter, which is then passed down to and implemented globally by multiple regional ethics and compliance committees. Taking an approach slightly different from Timberland, Baxter Health serves as another prime example of how to leverage board power in designing an organization for the integration of CSR and strategy[20].

Even companies that have a historical record pointing to CSR success can still benefit from designating structures that support CSR at the board level. After multiple CSR accomplishments, a winning partnership with the Grameen Bank, and high rankings on a number of CSR lists, Danone recently decided to devote a board committee to social responsibility. Although the bar is already high at Danone, company insiders believe that a board committee will only propel even stronger CSR performance.[21] This leads us to believe that institutionalizing the CSR/strategy nexus has multiple long-term

[20] Baxter Health. 2006 Sustainability Report. Pages 6-20.
[21] Danone. 2006 Social Responsibility Report. Section 1: Strategy and Commitments.

benefits. Intimately involving CSR in corporate governance structures is a clear cut way to institutionalize CSR within an organization.

This is not to say that the integration of CSR and strategy must occur at the board level. Another powerful way to integrate CSR and strategy throughout an organization is to codify CSR values in company-wide rules and regulatory manuals. Marathon Oil's *Code of Business Ethics* includes information on how to confront all sorts of issues pertaining to CSR, with sections on behavior toward governments, business partners, employees, community members, etc. This manual is distributed to thousands of employees and translated into various applicable languages. Information in the *Code of Business Ethics* is managed and supported by the Business Integrity Office. Training sessions, questionnaires, and mandated surveys act as self- regulatory mechanisms to ensure that actual employee behavior aligns with the code[22].

Marathon further sponsors its code of business ethics by providing a 24 hour, toll free, confidential "Business Integrity hotline." Employees can call in to discuss and/or report unethical behavior, breaches of outlined business ethics, or to seek advice on how to best adhere to the code in tough day-to-day operating situations.   Of the 203 hotline callers in 2006, nearly 90% received an immediate company response or saw action taken in less than one business day. What's more is that the vast majority (65%)

[22] "Code of Business Conduct." 2007. Marathon. 15 Apr 2008 http://www.marathon.com/Investor_Center/Corporate_Governance/Code_of_Business_Conduct

of calls were inquiries and not allegations, illustrating that employees truly value the company's "ask before acting" culture[23].

Marathon Oil's example illustrates that a well crafted textual manual, backed by venues of active support, can work to integrate a company's CSR values throughout the entire organization. Marathon's lip service to CSR may be expressed in a paper manual, but their dedication to integrating CSR and strategy is clear through the resource heavy systems that promote and make actionable these codified values.

Still, some companies remain intent on avoiding bureaucratic structures as a means to any end. Whole Foods, another one of our high-achiever companies, fits this mold.

METRICS AND MEASUREMENT

Creating financial projections and a quantifiable system of metrics allows for goal setting as well as performance tracking and communication.

Careful planning is another key factor in the success of a CSR project. Resources are wasted when projects are unguided and performed ad hoc. Firms that have had little experience with CSR may have difficultly knowing exactly which resources to commit at what time to ensure CSR success. The high achiever firms we studied handle CSR projects in the same manner that they handle any other project. Performing a financial analysis to assess project viability, establishing specific goals

[23] Marathon. *Living Our Values.* 2006 Corporate Social Responsibility Report. Pages 20- 30.

to guide work flow, and measuring performance with these metrics are critical parts of CSR projects.

The planning process begins with an assessment of the financial viability of a particular project. Profitable firms carefully assess the costs and benefits of any project before committing resources; CSR projects are no different. Firms must project a project will add value, and quantify this added value in order to justify project costs. Top ranking corporations for CSR 'do well by doing good' only after they have determined exactly how 'well' they will do for how much 'good.' Scenario planning tools and financial projection models aid in predicting these costs and benefits, especially when many of the benefits are positioned to occur in a long term time horizon.

Most firms do not make publicly available these projections. Baxter Healthcare, however, publishes in its Sustainability Report an Environmental Financial Statement laying out their environmental costs incurred and their environmental income, savings, and costs avoided. Creating pro forma Environmental and Social financial statements are useful tools to assess the financial viability of projects. Pro forma statements provide a mechanism for companies to weed out mere philanthropic endeavors from strategically beneficial CSR activities[24]

[24] "Sustainability at Baxter." 2007. Baxter Health. Apr 2008. http://sustainability.baxter.com/sustainability_at_baxter/index.html.

After selecting only profitable CSR projects, specific quantifiable goals are set to guide the work flow of the project. While the ultimate goal of a project is to create shared value for the firm and its strategic partners, specific sub-goals aid in the attainment of this final end. Specific goals can be parceled out to each actor involved in a CSR project to ensure work gets completed efficiently and in line with the ultimate goal. Specific goals narrow the efforts of project resources towards relevant activities and allow actors to work towards a tangible end. High achieving companies set these goals around both Social and Economic Impact.

For example, Diageo sets targets on five specific performance indicators for their environmental goals. The company had the goal for greenhouse gas emissions, for example, of producing 247 grams per liter of production. By creating a specific, realistically attainable, and measurable goal, Diageo identified an area where resources could be channeled and applied those resources until the goal was achieved. The company could communicate the goal to relevant actors who could affect the greenhouse gas emissions to focus their attention on attaining the specific goal. In this way, the goal serves to guide work flow.

Specific goals also function as the metrics by which firms measure success. Goals are the self-proclaimed measures of success or failure for a particular time period. If a firm has achieved its goals, it has been successful. In 2006 Diageo actually caused greenhouse gas emissions of 231 grams per liter of production. Since this amount is less then the goal of 247 grams, Diageo deemed its efforts successful. On the other hand, if a firm has not achieved its goals, the efforts are deemed unsuccessful and the goal becomes an area for future growth. Diageo did not meet its 2006 goals for wastewater polluting power and solid waste land filled; two areas which are now identified as areas to focus more resources to achieve these goals[25].

LOOKING AHEAD

While the term 'Corporate Social Responsibility' may be nothing more than a trend in passing, its implications are here to stay and already reshaping the business environment. Examining this evolution from the eyes of business shows many clear advantages of integrating the premises that underlie CSR with organizational strategy. We posit that this integration serves as more than just an advantage for any respective firm. Rather, a firm's ability to integrate CSR and strategy may very well be the key to its long term survival.

Individual firms, and even entire industries, have always been challenged to adapt to new environments. If they fail to adapt, they will be selected out and replaced by similar firms that are more prepared for the new environment, or by completely new firms that are more suitable for the new environment. Thus, it follows that a firm that is heavily connected to and understands its environment is best positioned to adapt to environmental changes.

The business environment has been changing since the origins of commerce, and so to have changed the mechanisms by which businesses adapt to new environments.

[25] Diageo Corporate Citizen Report 2007. Pages 21-27.

As outlined earlier in this paper, a whole host of issues from globalization, to resource degradation, to climate change, to population demographics are triggering a substantial shake-up in the world marketplace. If businesses are to thrive, let alone survive in this new environment, they must first structure themselves for change and second, recognize the changes that must be made. By integrating CSR and strategy, businesses can successfully accomplish both of these critical mandates.

As evidenced by our research and findings, the integration of CSR and strategy promotes and provides a structured mechanism for business to move closer to society, and hence be better able to adapt to the continuous transformations of society. Most interesting, our work gave surface to a nuanced yet powerful insight. *Businesses can use strategic CSR, especially strategic stakeholder partnerships, to become deeply interlinked with Society. If a business can become completely comingled with its environment, then that business will involuntarily change when its environment changes.*

The Socially oriented business is emerging as a new organizational form; one that may rise above the inevitability of natural selection. This type of organization does not create for society, but rather, creates with society. It does not resist changes in society, it changes with society.

While there is a great need for further scholarship surrounding this new organizational form, we are confident that integrating CSR and strategy will help any business advance down the spectrum toward this new and innovative organizational form. The potential gains of such an evolution hold enormous benefits for the long term sustainability of both business and society. Understanding ‘how’ to do CSR is more important than ever.

LIST OF SUBJECT COMPANIES EXAMINED

Baxter Health
Danone
Diageo
Exxon Mobile
Marathon
Nike
Royal Dutch Shell
Timberland
Unilever
Whole Foods