

Putting the Corporate into Corporate Responsibility (CR)



Introduction

More and more global corporations are making a deeper commitment to corporate responsibility (CR). One sees steady growth in the number and quality of CR reporters as well as a proliferation of company CR programmes to manage social, environmental and ethical performance. In the US, often considered a laggard in this arena, 82% of executives agree that operating responsibly benefits the bottom line.¹ Yet, at the same time, a recent World Bank survey finds that only 22% of over 100 leading multinational companies report progress in mainstreaming corporate responsibility into their day-to-day operations.²

CR is caught in a bottleneck similar to that experienced years ago by the quality management movement. Viewed with great scepticism as a costly add-on, 'Quality' languished for years as a stand-alone department. Only until a management revolution made it the centrepiece of corporate strategy and operations did Quality become aligned and embedded in the competencies and obligations of every business line, executive, manager and employee. Today it's nonsensical to define performance excellence in business without Quality at its heart.

But how do we define performance excellence in CR? Or, more tellingly, where does CR fit within a definition of business excellence?

Over the last year, the Center for Corporate Citizenship at Boston College and AccountAbility, in partnership with a group of ten global companies (IBM, GE, 3M, FedEx, Diageo, Cargill, Manpower, Omron, GM and Cemex), have come together to answer these questions and to form the Global Leadership Network on Corporate Citizenship (hereon referred to as 'GLN'). Accustomed to delivering the highest calibre of management and results along all facets of their operations, these ten companies express a sincere commitment to continuously enhance their performance as corporate citizens. Yet, like an increasingly vocal number of institutions and individuals, they have become dissatisfied with the existing definitions and criteria of 'excellence' in CR.

The criteria, as they largely stand today, share several common features. At one extreme, *de facto* excellence relates to how well companies comply with a variety of standards, codes and systems related to social, environmental and ethical behaviours. Such systems generally look

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[see over for Philip & Vicky's biogs]

- 1 S. Rochlin, K. Witter et al., The State of Corporate Citizenship Survey (Center for Corporate Citizenship at Boston College, 2004): 9.
- 2 J. Berman and T. Webb, Race to the Top: Attracting and Enabling Global Sustainable Business (Washington, DC: World Bank, 2003).

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³ See, for example, www.conversations-with-disbelievers.net.

retrospectively, and do not focus on shaping strategic decisions and behaviours moving forward. At the other extreme, excellence is defined by whether a company believes in and follows through on crafting a business case for corporate responsibility. Despite growing evidence of the value added of CR,³ the business case is often articulated as a cost-benefit exercise that will add value to brand/reputation and staff morale, but which can be taken or left, neither contributing to long-term sustainability nor to the business bottom line.

But is this excellence? The Center for Corporate Citizenship at Boston College and AccountAbility have spent the past year delving deep into the management and operations of the GLN companies to find out.

The emerging answer is both straightforward and illuminating. As with Quality, CR must become fully aligned and embedded into the strategic operations of the business. CR activities that are not aligned to core business goals may not be fully integrated into strategic planning processes or operational management systems, and will therefore be neither robust nor viable. One could argue that CR that is not aligned could deliver insignificant add-ons or,

worse, a set of activities that actually undermine business models. In contrast, true alignment creates a commitment to CR that generates scalable, long-term sustainable value for both shareholders and society alike. Aligned CR also draws on the core competencies of business. While useful in different ways, the spectrum of CR standards, codes and tools indicates that existing CR initiatives do not support or inform strategic alignment and planning, and do not provide tools for continuous improvement.

Yet what does it mean to strategically align corporate responsibility with the core of the business? How does it look? And what difference does it make?

An emerging framework for CR excellence

The emerging framework shown in Figure 1 encapsulates the principal attributes that align and embed CR into the conception of total performance excellence.

Engaged learning

At the root is an engagement with stakeholders, which promotes learning and innovation that drives impact and performance. Such 'engaged learning' goes beyond the traditional notion of

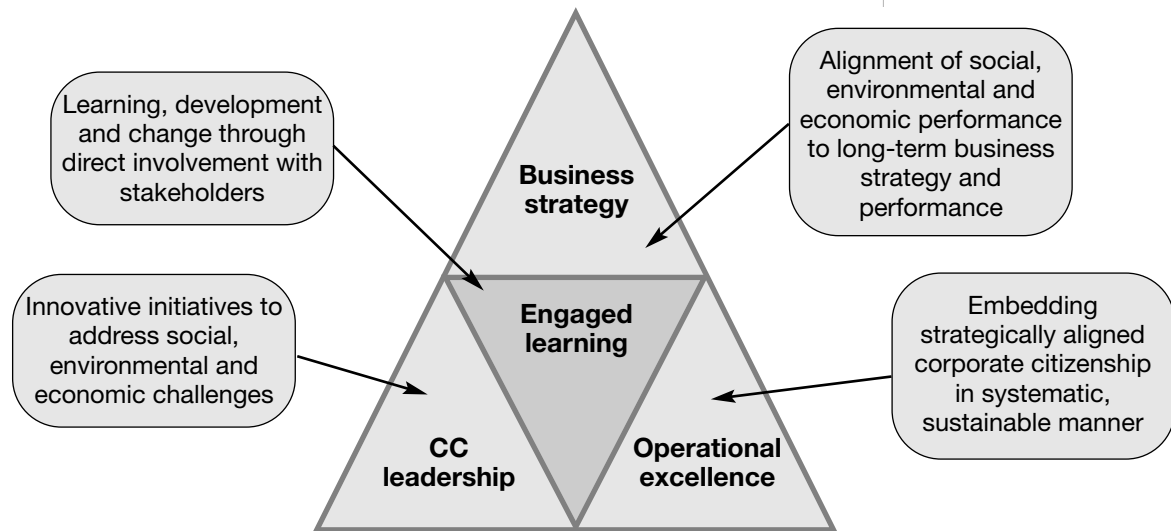


Figure 1. An emerging framework for CR excellence

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high technical quality in stakeholder engagement to that which focuses on outcomes, both inside and outside of the company.

IBM. In 1993 IBM CEO Lou Gerstner identified workforce diversity as an area of strategic focus. He wanted the company, up to and including senior executives, to better reflect the diversity of IBM's customers, business partners and potential employees, in order to embrace differences as a core component of its business strategy. While IBM had been a pioneer in a number of areas with its diversity

initiatives, what Gerstner sought was a major step forward. To put this into operation, eight diversity task forces led by senior executives from IBM's Worldwide Management Council were created to study these issues and make recommendations to the CEO, with each one focusing on a particular 'diversity group'. The goal was to uncover and understand differences among the groups and find ways to appeal to a broader set of employees and customers, so that diversity could serve 'as the bridge between the workplace and the marketplace'. According to IBM and other commentators, the effort has

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been highly successful and has helped transform IBM, in addition to driving bottom-line results. For example, the work of the task forces led IBM to establish its Market Development organisation, a group focused on growing the market of multicultural and women-owned businesses in the United States. One tactic was to partner with vendors to provide much-needed sales and service support to small and mid-size businesses, a niche well populated with minority and female buyers. In 2001, the organisation’s activities accounted for more than \$300 million in revenue compared with \$10 million in 1998.

Crucially, *learning* from stakeholders, rather than merely engaging with stakeholders, involves a deeper commitment than back-and-forth dialogue and transparent reporting. It involves a commitment to embrace critical stakeholders as a strategic asset that shapes and informs the decisions and direction of the company. Much as companies seek to inject the ‘voice of the customer’ into strategic considerations, so too with stakeholders. In the CR framework, this involves actions, relationships and connections that not only shape the behaviour of the company but also work to productively and positively shape the behaviour of a stakeholder as well. In addition, the learning from

these interactions should where possible extend beyond a bilateral relationship, to seek opportunities to influence other actors too – for instance, how that particular stakeholder itself then chooses to engage with other companies within or outside of a particular industry. Examples include BP’s learning with NGO partners in the environmental arena which helped influence the way the broader industry works with certain activists; and Nike’s commitment to work on issues of human and labour rights in its supply chain has also changed the way apparel companies engage with stakeholders connected to those issues.

Business strategy

Next, the framework suggests building a business strategy that aligns social, environmental and economic performance with long-term business value. By creating this alignment, corporate responsibility becomes part of core business and is tied to long-term value creation for both business and society. In order to achieve this, companies need to ensure their governance and performance systems are designed to support a strategically aligned approach with a process for managing dilemmas when trade-offs have to be made between core strategy

and social, environmental and economic performance. Central to embedding an aligned business strategy is organisation-wide communication around the company's commitment to that approach.

GE. The strategy for GE's Healthcare business was developed by aligning GE's core competencies with societal needs. Beyond providing products to healthcare institutions, such as hospitals, GE will now undertake consulting with these organisations around the effectiveness of their operations in order to increase the quality of healthcare and patient care.

IBM. Community needs and benefits are considered alongside the R&D efforts that IBM makes in creating new products. In some cases IBM will use the community to beta-test new products before going to market. The dual benefits of this approach are that the community gets quicker access to products that are useful to them and IBM gets valuable information about its product before going to market.⁴

CR leadership

It is generally agreed that leadership means that others follow. 'Excellent' citizens assume leadership with the intent of bringing others along. This may include others in their industry, the private sector more broadly,

government policy-makers, NGOs and grass-roots communities. Here, 'leadership' refers not only to the individual leadership of, say, a CEO committed to the sustainability agenda, but also the ability of an organisation to lead the way in dealing with some of the most challenging social and environmental issues facing business. Clearly some issues, such as climate change, are too big for any one company to deal with on its own. 'World-class' companies are beginning to work collaboratively with other industry players to tackle issues for which there are no generally agreed solutions. Indeed, some sectors share an 'industry brand'. Take, for example, the alcohol sector and the issue of responsible drinking. While there may be no competitive advantage in 'going it alone' in an industry with the same regulatory risk, there can be clear reputational advantages to taking a leadership position: 'doing it first' and bringing others with you.

FedEx. In early 2004 FedEx made headlines when it rolled out its first set of hybrid electric delivery trucks. FedEx, in partnership with Environmental Defense, did extensive research around what technology would have the greatest impact on reducing emissions and still be commercially viable for the company. While there may be a long-run

⁴ See the Litow article in this issue, page 59.

return of cost savings for the company (and economic challenges remain), it took significant upfront investment to fund this project. Inspired by FedEx leadership, other companies outside FedEx's industry are evaluating the options to modify their own fleets of vehicles.

Diageo. Diageo is committed to promoting responsible drinking and combating alcohol misuse; setting world standards in responsible marketing and innovation is therefore at the core of its strategy. The company has its own code of marketing practice, which was developed with input from external stakeholders (governments, NGOs, alcohol policy experts). This is a global code, which sets minimum standards of practice for all of Diageo's advertising, promotional and innovation activities and applies above and beyond compliance with local laws and industry codes. The Diageo code provides guidance on content and media selection to help ensure that under-age people are not targeted by any marketing activities. Compliance with this code is mandatory for all Diageo marketers who are encouraged to follow not only the letter but the spirit of the code, by for example using people in advertisements that not only are, but also look, at least 25 years of age. The company believes in embedding responsible practices in the day-to-day

work of its marketers and thus provides in-depth code training both to its employees and to its agencies around the world.

Cargill. Cargill's business unit Cargill Meat Solutions (CMS) shares its leading meat safety innovations industry-wide. 'Food safety' is something that CMS has to excel in to stay in business. As the industry has a shared risk in its battle against microbes, best practice, even among competitors, is shared. CMS innovations include initiatives such as the new 'hide wash' system to reduce the threat of *E. coli* entering the plant on animal hides. A side benefit in CMS's pursuit of improved food safety and leadership in this area is that it has developed new processes and innovations that have resulted in greater efficiencies.

Operational excellence

Lastly, the framework requires infrastructure that will allow an aligned business strategy to be embedded into the operations of the company. Infrastructure includes things such as appropriate incentives for employees, systems to support innovation, training that builds the competencies of employees to make decisions that are in line with managing a strategically aligned approach, and systems to respond to critical choices when they occur. Most

importantly, operational excellence includes performance evaluation as well as understanding the quality of strategic alignment and the impact it has on the business and on society. In turn, companies can continue to learn and improve:

3M. 3M has a Leadership Development initiative that includes a module on ethics in which employees are trained on how to employ 3M's values. 3M executives present real examples from 3M's past, when the company had to make tough decisions – decisions where business gain did not align with the company's values. Employees then discuss what they would have done in the specific situation, which they can then compare with the actual decisions made and resultant outcome for the company. Participant discussions are lively and serve to bring everyone to a common understanding of how company values have been and should be applied in various situations. In their feedback on this topic, participants indicate it is one of the most highly rated ones for their development as leaders. In addition, ethics topics, using actual and hypothetical examples, are included in quarterly executive meetings to maintain a consistent 'tone at the top'. Together these efforts provide clear alignment of values and ethics across levels of management as well as embedding them in the next generations of leaders.

GM. General Motors Audit Services periodically conducts environmental audits at GM's global operations and evaluates not only compliance issues but issues that go beyond compliance and reflect the expectations of the General Motors Corporation around environmental performance.

Putting the pieces together

The strength of the framework rests not in any single element but in the total integration of its component parts. For example a company may have innovative, strategically aligned programmes addressing pressing social or environmental issues but, unless they are embedded throughout the business and beyond, influencing the way they and others behave, can they be considered excellent or have lasting, sustainable impact?

All well and good in theory, but what does this look like, and what difference does it make in practice?

Manpower. In the late 1990s, Manpower began to strategically weigh its options for formalising a workforce development programme for low-income individuals at the same time as the information technology (IT) boom left a shortage of skilled technicians. Manpower's resultant TechReach programme works with local partnerships to place under- and

unemployed workers from low-income and minority populations into sustainable careers at the same time as addressing a particular client need. As the initiative is rolled out across the US, the business benefits of TechReach programmes are communicated to staff using simple, clear messages. In some cases the programme is literally helping keep some offices open by offering a new high-margin service to customers. This development is changing the way government agencies interact with other temping agencies.

Omron. Omron's business strategy – Grand Design 2010 – creates a natural connection between Omron's business goals and maximising the positive impact it can have on society as a whole. For example, the company has used its sensing and control technology to ensure auto safety, and has developed the universal ATM that serves all members of society – which was inspired by Omron's work with disabled people. Omron has also worked with other companies to use its technology and expertise in removing land mines in Thailand. Finally, Omron uses its employee education programmes and business performance goals to empower employees to make decisions that are both good for the business and for society.

Challenges

Of course, it is not all plain sailing. Our research to date has uncovered three challenges of alignment:

a. Managing tough choices and trade-offs

Alignment is not about finding a win-win, and the process is not easy: it took extraordinary efforts for companies to increase quality. Truly embedding the principles of CR into strategic decisions means that companies identify and work to manage trade-offs and conflicts among values. At times a win-win solution will not always be possible.

b. Developing new mind-sets, skills and competencies

As with Quality, the first requirement is for decision-makers to look at corporate responsibility differently than they have before by perceiving it as being core to business success, rather than an add-on or distinct programme. From here, companies can build skills and competencies to move from vision to execution.

c. Leading from within

It may appear that external stakeholders inhibit as much as encourage strategic alignment.

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Shareholders may view a commitment to align CR as detrimental to quarterly performance, whereas many societal stakeholders may see this as a diversion to limit the commitment to comply with codes and standards.

Yet, if we look deeper, shareholders are interested in managing risk and developing opportunities. Aligning CR helps provide them with a greater clarity on the central role and purpose

of CR for the business. Alignment also brings to scale a company’s response to material stakeholder concerns. Aligning CR is far more likely to change behaviour than any single programme or communiqué.

The challenge is for companies to move forward with the confidence that they can educate and persuade shareholders and stakeholders alike.

Conclusion

The work conducted with the ten companies of the Global Leadership Network on Corporate Citizenship has delivered a simple message. It is time to put the ‘corporate’ into corporate responsibility. As with Quality, companies should strive to align CR into the strategic operations of their business from top to bottom. When this happens stakeholders become a critical resource for learning and development. Strategy becomes an endeavour to build sustainable value. The leadership of business extends beyond markets and products to form a climate where shareholder, society and ecosystem can thrive. And managers become accountable for building systems and incentives that reinforce practices essential for responsible operations.

Companies will only truly become excellent corporate citizens when corporate responsibility is fully aligned with the strategic management of the firm. And at that time it will become nonsensical to define performance excellence in business without CR at its heart.