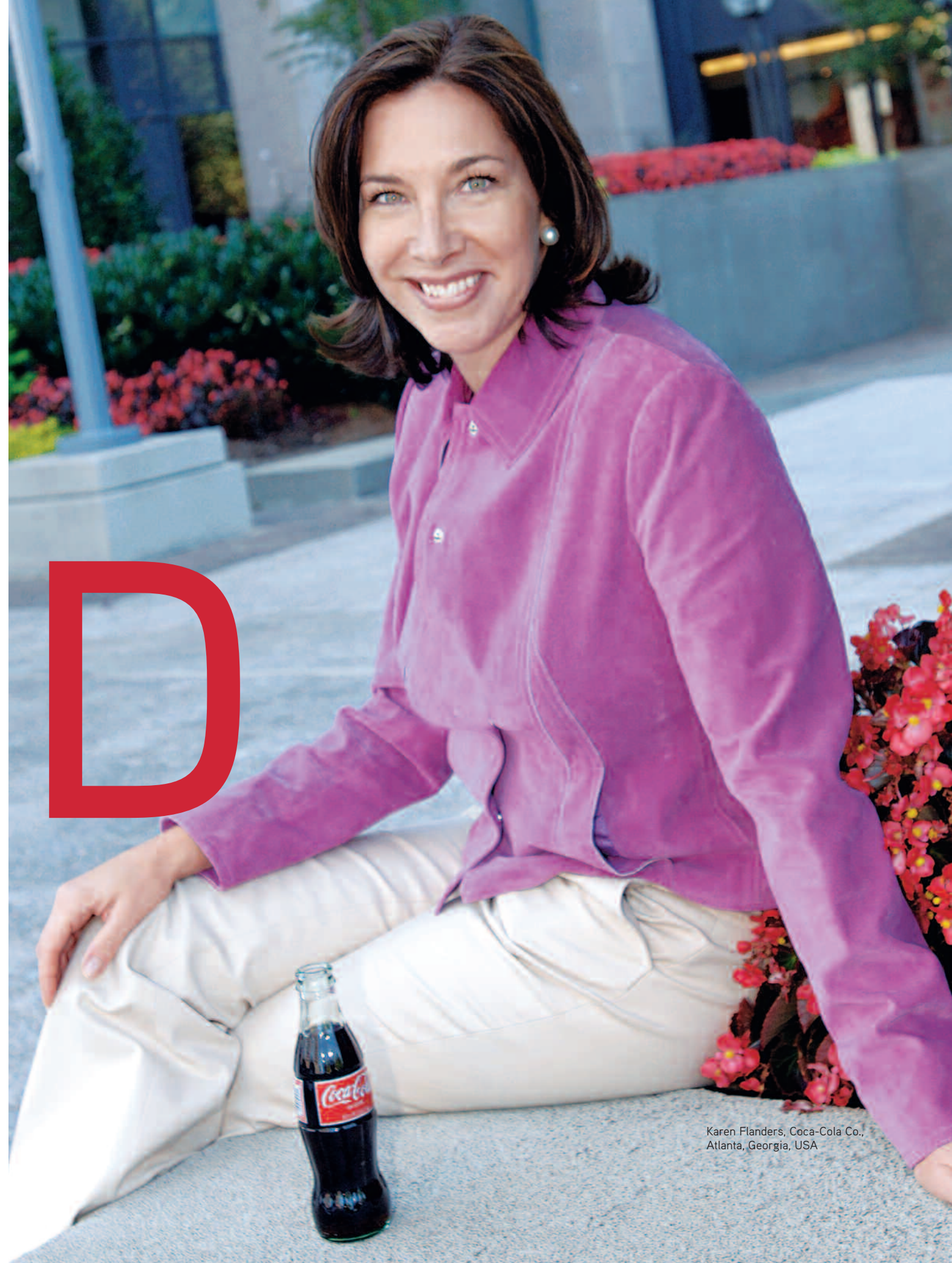


BY TOM SULLIVAN

# CITIZEN OF THE WORLD

AS ETHICAL AND ENVIRONMENTAL ISSUES TAKE CENTER STAGE, CORPORATE SOCIAL RESPONSIBILITY PROJECTS GET AN OVERHAUL WITH A NEW EMPHASIS ON METRICS.



Karen Flanders, Coca-Cola Co., Atlanta, Georgia, USA

The competition to rank among the world's best corporate citizens is heating up. And that's prompting a sea change in the way companies approach corporate social responsibility (CSR) projects.

The next generation of CSR is fueled by a range of factors, including public concern over climate change, activism by non-governmental organizations (NGOs) and debate over the role of global business deals in the developing world. To this list one can certainly add a bit of enlightened self-interest: Some of the most successful organizations boast some of the most successful CSR project portfolios. A June 2007 report by global investment banking firm Goldman Sachs found 72 percent of companies that ranked high on environmental, social and governmental issues outperformed their less progressive peers on the stock market.

Embracing CSR—and demonstrating a willingness to track those efforts—is also seen as a way to avoid costly regulations sought by the NGO community. By standardizing benchmarking and evaluation tools, companies can show the economic as well as social and environmental impacts of their initiatives.

#### GOOD FOR YOU

CSR projects literally have the power to change the world. But when companies are picking the best mix for their portfolio, it still usually comes down to which ones will deliver the best ROI.

“These things always have to be justified as expenditures to a board that isn't sentimental,” says Tom Sorell, Ph.D., director of the Centre for the Study of Global Ethics, Birmingham, England. “So, of course, companies almost invariably pick CSR projects that help their bottom line.”

Companies with the most effective CSR strategies tend to keep their core business priorities front and center when looking at projects, says Steve Rochlin, head of AccountAbility North America, Washington, D.C., USA.

Headquartered in London, England, the global group works with multinational corporations to develop CSR programs.

“Too many companies still react to external pressures or to their own whims about what seems like a good idea,” he says. “But the leading companies understand what's driving the way they make money, grow and compete.”

The manner in which companies typically select CSR projects changes as they rise up the value chain, Mr. Rochlin says. The best companies go through the following steps:

1. **Analyze and understand** stakeholder expectations.
2. **Identify** compliance and accountability systems that add value to performance and not just create costs.
3. **Create** risk management processes, cost-reduction and value-generation programs that respond to environmental and social considerations.
4. **Analyze** emerging issues that are difficult to take action on alone but pose significant risks and opportunities.
5. **Establish** a leadership position and participate in public policy debates on environmental and social challenges.
6. **Move** from a reactive inward-looking approach to a proactive outward-focused one.

#### SHARED VALUE

Beverage giant Coca-Cola Co. is one of the leaders rethinking its CSR efforts.

“A shift has taken place within the Coca-Cola Co. We used to be very focused on sustainable growth, looking mainly at our material impacts,” says Karen Flanders, director for corporate responsibility at the Atlanta, Georgia, USA-based company. “Now we're much more focused on sustainable communities. We know that the health of our business depends on the health of the communities in which we operate. Those points of connection between societal values and our own priority areas for growth are regarded as strategic areas of focus for our CSR activities.”

As part of the revamp, Coca-Cola launched a department dedicated to stakeholder engagement. The company has also begun to formalize procedures for grassroots consultations on specific issues in regions where it operates, bringing together a diverse range of interests.

“We like the notion of ‘shared value,’ those things that will support and drive the long-term viability of the business as well as meet the needs of local communities,” Ms. Flanders says.

Along with improved stakeholder engagement, the company is trying to strengthen its measurement of impacts and its reporting systems.

But it's far from an exact science. “Nobody seems to have really figured this out yet. But we're looking at international standards that we can use, such as the Global Reporting Initiative. We have performance management data that we've been tracking for more than a decade that always included quality, environmental and occupational health and safety metrics and we're now developing common metrics for social factors,” she says. “We're looking at workplace, marketplace, environment and community, and for each of these areas, we have a set of indicators and targets. We have also recently discussed setting greenhouse gas-reduction targets in negotiation with our largest bottlers.”

#### NOTHING PERSONAL

When corporate responsibility first became prominent in the 1970s, companies chose social and environmental projects that reflected their particular business values, Dr. Sorell says. But pressure from interest groups and shareholders combined with high-profile agreements on voluntary norms such as the United Nations Global Compact and the Global Reporting Initiative are changing the rules of the game.

“There has been a move away from an *ad hoc* company-by-company

## GREAT EXPECTATIONS

Responding to increasing public pressure, senior executives are showing an increasing interest in incorporating environmental, social and governance issues into their corporate strategies, according to *CEOs on strategy and social issues*, an October 2007 report by McKinsey & Company. The company surveyed 391 CEOs around the world whose organizations participate in the United Nations Global Compact.

**95%**

CEOs who said society has greater expectations than it did five years ago that companies will assume public responsibilities

**90%**

CEOs who said they're doing more than they did five years ago to incorporate environmental, social and governance issues into their core strategies

**72%**

CEOs who said companies should incorporate a stance on environmental, social and governance issues in strategies and operations

**50%**

Executives who said their companies actually do incorporate such a stance

understanding of CSR to a new type of human rights CSR,” he says.

“The thinking now is that companies should not select the norms that govern them—that it ought to be the international community that sets



The **United Nations Global Compact** is a framework introduced in 2000 to encourage businesses around the world to align their operations and strategies with 10 principles in the areas of human rights, labor, the environment and anti-corruption.

**The Dow Jones Sustainability Indexes** evaluate companies based on a defined set of criteria in economic, environmental and social categories, including labor practices, corporate governance, environmental reporting and performance. Here are the supersector leaders for 2007-2008 (as of 24 September 2007):

NAME	MARKET SECTOR	COUNTRY
BMW AG	Automobiles & Parts	Germany
Australia & New Zealand Banking Group	Banks	Australia
Norsk Hydro	Basic Resources	Norway
Akzo Nobel	Chemicals	Netherlands
Holcim	Construction & Materials	Switzerland
Land Securities Group	Financial Services	United Kingdom
Unilever	Food & Beverage	Netherlands
Novo Nordisk	Healthcare	Denmark
TNT	Industrial Goods & Services	Netherlands
Allianz	Insurance	Germany
Pearson	Media	United Kingdom
Statoil	Oil & Gas	Norway
Koninklijke Philips Electronics	Personal & Household Goods	Netherlands
Marks & Spencer	Retail	United Kingdom
Intel Corp.	Technology	USA
BT Group plc	Telecommunications	United Kingdom
Sodexo	Travel & Leisure	France
Cia Energetica Minas Gerais	Utilities	Brazil

norms," Dr. Sorell says. "And there's [almost] a whole industry involved in measuring and reporting on compliance."

With more than 10 percent of global capital invested through funds with ethical criteria, there is a huge incentive for companies to get their CSR strategy right and to provide hard evidence of their efforts, says Tommy Borglund, Ph.D., CSR consultant at Hallvarsson & Hallvarsson, a financial communications company in Stockholm, Sweden.

"If you want to be included in the Dow Jones Sustainability Index or the FTSE4Good Index, the more you can show figures that illustrate what you do the more likely you'll be chosen by ethical investors," he says.

As large corporations are called on to be fully transparent and measure the

social and environmental impact of everything they do, the concept of CSR projects may become a thing of the past. It may simply transform into standard operating procedure.

"The whole concept of a CSR project is becoming obsolete. At the very top level of corporations, people see the connection between their self-interest and investing in a sustainable world," says John Hooker at the Tepper School of Business at Carnegie Mellon in Pittsburgh, Pennsylvania, USA.

Not everyone shares his optimism, however. Pressure is mounting, mainly from the NGO community, to introduce legally enforceable CSR standards.

"It's naïve to think that it always makes better business sense to have effective environmental and social corporate responsibility programs in place. It's often costly and it needs to be better regulated," says Hannah Ellis, coordinator of the Corporate Responsibility Coalition, London, England.

She advocates companies applying international standards such as those set by the International Organization for Standardization.

Those kinds of demands will push more companies to adopt quantifiable targets for CSR projects, Dr. Sorell says.

"Companies are amazingly sensitive about the introduction of a legal regime that might cost them money," he says. "So I think that you will see them act to avoid it, and better self-regulation will be their first position."

### PROVE IT

For extractive industries, assuring stakeholders that environmental and social projects deliver what they promise is a basic requirement. Without that effort, the business would not survive.

"For some companies, CSR is absolutely critical to their license to operate," says Ian Wood, vice president community relations at resources company BHP Billiton, Melbourne, Australia.

"If you have a track record where you're consistently delivering social benefits,

you're protecting the environment and rehabilitating impacted areas after mine closures, then you're likely to get opportunities that companies that don't perform to that standard simply won't get."

Over the last year, BHP Billiton has developed an evaluation tool using feedback from local communities to benchmark its CSR projects.

"Project development is a critical step in the whole process. If you get that wrong, you color the local stakeholders' perception of the whole business development right through into operations," he says. "And the old saying is true: Unless you can measure it you're probably not managing it very well. Every year we report detailed data against roughly 15 key CSR performance indicators and say if we're ahead or behind schedule."

### RIGHT TRACK, WRONG TRAIN

Although increasingly a part of core business, some CSR projects just aren't a good fit. And some may need adjusting over time. Electronics major STMicroelectronics developed a wind-farm project to produce clean energy and reduce the company's greenhouse-gas emissions.

"At the beginning of the project we had quite an ambitious idea to develop several wind farms," says Kate Rigge, Ph.D., corporate responsibility director at STMicroelectronics in Geneva, Switzerland.

"But over time we realized that the investment involved in expanding this type of project was not necessarily the most effective approach as it wasn't part of our core business," she says. "So we decided to change our strategy slightly and focus more on using alternative and renewable energy sources provided by specialized companies. We started out with an ethical consideration and had to adjust to achieve an effective result."

In other cases, Mr. Rochlin says, companies need a complete overhaul of their CSR strategy.

"Over the last 10 years we've seen companies designing and redesigning their CSR strategies on a periodic basis," he says. "Some are doing it as part of their strategic evolution and some are doing it because they're really struggling to get it right."

### A WAY OUT

Given the vast array of potential projects to choose from and the plethora of proposals coming from NGOs, consultancies and investors, it's no wonder companies go through a steep learning curve with CSR projects.

"It's natural that companies change their projects according to their strategy but of course they have to be very careful to avoid not living up to things they have promised," Dr. Borglund says. "If a project is irrelevant for them and not really connected to a major issue they are responsible for, then maybe they should think of doing something else instead," he explains.

But even the suggestion of killing off a CSR project can have huge repercussions, including boycotts. "Exiting CSR projects can be very sensitive and very difficult," Mr. Rochlin cautions.

That's precisely why companies should have an exit plan in place from the outset of any CSR project, Mr. Wood says.

"With community programs, you can develop partnerships with service providers that run their natural course and you move on to something else," he says. "But we're always careful not to get into a dependency relationship when we set up a partnership, and we have exit strategies in mind when we establish the partnerships. Long-term programs are not necessarily a good thing if they create dependency or take the focus away from potentially more productive opportunities."

In the new version of CSR, companies know that doing good doesn't have to be bad for the bottom line. PM



**TIP**  
Don't mistake charity for corporate responsibility.



With aid organizations queuing up for corporate sponsorship, it's easy for companies to confuse charitable donations with corporate social responsibility (CSR) projects, says **Tommy Borglund**, Hallvarsson & Hallvarsson.

"There are so many charity organizations contacting companies and saying, 'We could give you a CSR strategy if you just engage in our projects.' But that's the wrong place to start," he says. "A charity project might be one element of a CSR strategy but it should be connected to a company's business."