

# A STRATEGIC APPROACH TO CORPORATE SOCIAL RESPONSIBILITY

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*Kellie McElhaney*

Corporate social responsibility is taking the world of business by a storm. For the past several years, CSR has been the main theme of the World Economic Forum at Davos. In 2008, CSR was front and center again as Bill Gates spoke of the need for more “creative capitalism—an approach where governments, nonprofits, and businesses work together to stretch the reach of market forces so that more people can make a profit, or gain recognition, doing work that eases the world’s inequities.” If your company doesn’t already have a CSR strategy or CSR initiatives, it probably soon will, as CSR has become standard operating procedure for today’s companies.

So what exactly is CSR, and what does it mean to you—and to your organization, employees, customers, and shareholders?

I have been teaching, researching, and consulting in the field of corporate responsibility for more than 15 years, currently at the business school that the *Financial Times* ranks as number one in the world. In that time, I have seen CSR move from strategically dis-

connected philanthropic giveaways to an integrated business strategy, linked to core business objectives and core competencies, providing positive financial returns for the company as well as positive social or environmental impact in the world. As I document in my book, *Just Good Business: The Strategic Guide to Aligning Corporate Responsibility and Brand*, most companies understand that CSR can be good business strategy, yet for the majority of those engaged in it, their CSR strategy compendium still consists of a hodgepodge of disconnected activities unlinked to their business goals and competencies. And any time you have a corporate strategy that is not focused with laser sharpness on your business goals, you are leaving resources, opportunity, and value on the table.

## What CSR Is—and Isn’t

For all the talk about corporate social responsibility within business circles and in the media, there is scant understanding of what CSR really is, and—moreover—what it is not. Net Impact, whose mission is to make a

positive impact on society by growing and strengthening a community of new leaders who use business to improve the world, defines CSR simply as *using the power of business to create a better world*. In my own work, I think of CSR in terms of corporate strategy, and advocate that firms use CSR as part of their portfolio of business strategies. I therefore developed and use the following definition of *strategic* corporate social responsibility:

*A business strategy that is integrated with core business objectives and core competencies of the firm, and from the outset is designed to create business value and positive social change, and is embedded in day-to-day business culture and operations.*

One common problem in defining CSR within a company is that the concept of corporate social responsibility itself goes by many different names. What is called “corporate social responsibility” in one organization might be given the label “spiritual capitalism” in another. During my extensive work in this area, I have encountered a variety of other terms for CSR in organizations, including corporate responsibility, sustainable development, global citizenship, corporate citizenship, values-driven business, natural capitalism, spiritual capitalism, and many more.

Regardless of the label used, I personally try to dissuade leaders from wasting a lot of time splitting hairs over a name for their own CSR efforts. I instead strongly suggest that they call it *something*, give it a name and use it consistently, and define it for themselves as a company. Many companies stop there, and that is not enough. The more critical step is that they develop and execute a business strategy around their CSR, communicate it, and brand it.

## The Value of CSR

The most researched and proven financial benefits of effective strategic CSR can be found in the areas of human resources and talent management, reputation and branding, and operational cost savings. It’s clear that employees are significantly interested in, more highly satisfied with, and more loyal to companies that

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have a proven commitment to corporate social responsibility. As a result, CSR can be used as an effective strategy to recruit and retain top talent, which has obvious positive implications for the bottom line.

The IBM Institute for Business Value recently surveyed a group of 250 business leaders worldwide, finding that more than two-thirds (68 percent) are focusing on corporate social responsibility activities to create new revenue streams. In addition, more than half (54 percent) of the surveyed business leaders believe that their companies’ CSR activities are already giving them an advantage over their top competitors. According to IBM’s report on these findings, “When aligned with business objectives, companies are beginning to see that CSR can bring competitive differentiation, permission to enter new markets, and favorable positioning in the talent wars.”

Consider this example from retail giant Wal-Mart. After receiving company-provided training on sustainability, Darrell Meyers—an employee in a North Carolina Wal-Mart store—submitted a suggestion to remove light bulbs from store vending machines. This seems like an inconsequential action—at least until you multiply its impact throughout a large organiza-

tion. Vending machine lights stay lit 24/7—constantly consuming a steady stream of electricity—and they periodically need to be replaced by maintenance workers. Not only would Darrell's idea be good for the earth (by reducing energy consumption), it would save the company money, reducing its costs. As it turned out, Darrell's suggestion promised to save Wal-Mart more than \$1 million a year, and it was quickly implemented.

## Creating a CSR Strategy

Management guru Peter Drucker perhaps said it best: "What gets planned gets done." Leaders have long known that to achieve their company's goals, they need strategies that get everyone in the organization headed in the right direction at the right time, and that ensure that resources are mobilized where required. Consider, for example, a typical corporate strategy—in this case, the 2006 Hewlett-Packard (HP) strategy to "Establish HP as the world's leading information technology company."

HP's goal is both clear and inspiring to the company's employees. And just as clear are the three interdependent strategies that HP established for achieving this goal: targeted growth, capital strategy, and efficiency. If you are an HP employee, you know that if you contribute to one or more of these three strategies, you are helping the company achieve its greater goal of information technology supremacy. And more, as an employee you know that every year, your performance will be measured on your success in contributing to one or more of these strategies.

Unfortunately, few CSR strategies are as clear and compelling as HP's corporate strategy. Because the actual goals for most CSR efforts aren't in support of typical corporate functions such as marketing, manufacturing, sales, and so forth, many companies aren't exactly certain of what goals to set for them, or what strategies to pursue. The result is often a random collection of unfocused, unlinked, and unrelated strategies in search of an overarching goal.

When leaders work with their people to craft a CSR strategy for their companies, they should at minimum pursue the following course of action:

*Senior leadership and management of the firm, including the board, must make an authentic, firm, and public commitment to CSR, and engage in it.*

In many organizations, CSR is born organically among lower-level employees. But for such a CSR initiative to have legs, senior executives must be brought on board, commit to it, and engage in it. A clear vision of CSR needs to be embedded within and reflect the core values of the firm, and to be linked to the mission, vision, and values of the organization—recognizing that it creates not only social or environmental value, but that it creates business value as well. CSR can and should be treated and managed as a core business strategy just like the strategies of marketing, R&D, capital expenditures, and talent management. CSR should report to a top-level leader in the company, as opposed to being sidelined in the corporate foundation. The board of the company should be engaged as well, and be responsible for the CSR strategy on a par with their responsibility for other business strategies like accounting, finance, and marketing. Innovative companies like Timberland have board committees overseeing corporate responsibility, and Gap takes board members on factory tours in China so they can see the value of supplier codes of conduct and audits. Generally the higher CSR reports in the company, the more closely linked it is to providing value.

*Determine the top three business objectives and priorities of the company, and develop a CSR strategy that will contribute to the achievement of those business objectives.*

When developing a CSR strategy, the company's leaders must first determine what specific business

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objectives this strategy must support. Defining business objectives is not as easy as it might appear at first glance. Ask any group of business managers within a company to describe their business objectives and priorities, and you're likely to get different answers from each. I once consulted with a tech company in Silicon Valley whose top executive quickly answered the "top three business objectives" question with this response: "Growth, growth, and growth." However, her human resources director looked quite pained, responding that until they were able to triage the company's 82 percent turnover rate, they were going to have a difficult time growing, growing, growing.

CSR can certainly be used as a talent attraction and retention strategy if it is communicated clearly to potential and current employees, and they can engage in it. A conversation needs to occur at a deeper level so that the CSR strategy can serve to provide for these general objectives. Is it growth in new markets, and if so, which ones? CSR can be used as a strategy to open up new markets for energy-efficient products, for example. Is it penetrating new customer segments or grabbing market share from competitors, and if so, which market segments? CSR can be used to grab market share from competitors if communicated effectively to customers who care about environment-friendly product lines.

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*Align CSR strategy with the firm's core competencies.*

CSR in most businesses is typically executed in a very ad hoc, nonintegrated fashion. CSR initiatives originate from all parts of an organization and are rarely linked directly to what the firm actually knows, does, or is expert in. Firms should, however, seek causes and social and environmental strategies for which they own part of the solution. This requires focus and discipline and sticking to what you know despite the myriad worthy causes and issues in our world.

Consider Ford Motor Company Foundation's support for breast cancer research—in the amount of \$100,000 each year to the Susan G. Komen Breast Cancer Research Fund. No one would argue that this is not a worthy cause with significant need, but there is no strategic link between the company's support for breast cancer research and the building of cars and trucks. Automotive companies know cars, transportation engineering, and design. It makes far more sense for an automobile manufacturer like Ford to support research in alternative-fuel vehicles or to address the global and environmental challenges around gasoline dependency, because these initiatives fit the firm's core competencies and business objectives of selling more cars while potentially creating new products and revenue streams.

*Fully integrate CSR into the culture, governance, and strategy-development efforts of the company, and into existing management and performance systems.*

CSR can be both a risk-mitigation strategy and an opportunity-seeking strategy, and leaders should look for the "sweet spot" within their organizations—that is, the intersection between business and social or environmental returns. CSR will not be fully embraced and executed with as much precision as the more commonly measured functions such as sales and staff management until it is built into the recognition and performance appraisal system for a company's employees. Johnson & Johnson measures its employees on both their functional job performance and their performance on J&J's ethical credo. Wal-Mart, when selecting suppliers, indexes them on price, quality, in-stock statistics, and sustainability scores. Sustainability is integrated into the company's internal buying processes.

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*Develop clear performance metrics, or key performance indicators, to measure the impact of CSR strategies.*

CSR performance metrics should be internal—such as reputation improvements, gains in market share, brand perception, increased sales, decreased operational expenditures, and employee satisfaction—as well as external, focused on society and the environment. With no performance metrics in place, there will be no way to prove that the strategy was effective, which means that the strategy will not be sustainable over the long haul.

Consider the example of General Electric, which launched its Ecomagination program in 2006 with the view that it would become a value-creating strategy for the firm:

*Ecomagination puts into practice GE's belief that financial and environmental performance can work together to drive company growth, while taking on some of the world's biggest challenges . . . the GE commitment to products and services that are as economically advantageous as they are ecologically sound.*

GE views CSR as part of its business strategy—to sell more goods and services and create value for the firm—and its approach meets my own definition of CSR as it also exists to create positive environmental value by focusing on increased energy efficiency. Ideally, as an increasing number of companies begin to view CSR

as a business strategy—and succeed in creating value, including increased sales, new market entrance, and brand differentiation—their competitors will follow suit and even collaborate, raising the benchmark and rules of the game for everyone.

## **Branding and Communicating Your CSR**

I can't count how many times I've heard corporate executives—everyone from CEOs to VPs of corporate communications to brand managers to directors of corporate responsibility—list the myriad reasons, risks, and fears for not publicly communicating their company's work in the area of corporate social responsibility. Convincing these gun-shy corporate leaders to tell their CSR story can be a real and ongoing challenge. The problem is, you cannot avoid communicating.

Some business leaders embrace the value of strategic CSR, yet to fail to communicate, thus suggesting that they do nothing in the area of CSR. Companies expend millions on branding and messaging their reputation, products, and services, but do not link the ways in which their products and services contribute to a better world, such as HP's deep and long-term commitment to recycling. Then Dell comes along with a printer and promises to plant a number of trees for each unit purchased; it communicates this clearly to consumers, and suddenly Dell becomes known as an environmentally friendly company to HP's loss. Consumers cannot factor into their decision making that which they do not know.

This is a significant lost opportunity.

Branding a firm's CSR content, once it is truly developed, executed, and integrated into the organization, can be an innovative and valuable business strategy to reach critical constituencies inside and outside the corporation—employees, suppliers, business partners, investors, peers, and consumers. Like anything else in business, to be effective, it has to be done right.

Levi Strauss has always promoted employee volunteerism internally, and this has done wonders for employee

satisfaction, engagement, and retention. But for the first time that I've ever seen something like this happen, Levi launched a campaign to get its customers involved in volunteering within their communities. Levi Strauss has named May 1st "501 Day"—a day designated by the company for employees from Levi Strauss & Company headquarters, offices, and stores across the country to volunteer with community-based nonprofits. VolunteerMatch set up a Web-based platform where you can log onto Levi.com, enter your zip code, and find all the various volunteer opportunities in your area where you could go out and work alongside Levi volunteer employees.

This approach is particularly effective because Levi isn't just telling and showing consumers what its people do, but is instead saying, "Do it *with* us." VolunteerMatch is the quintessential Web site for matching volunteers with opportunities, and its staff have set up many corporate platforms—providing the horsepower behind many corporate volunteer sites. Simply enter your zip code and interests—environmental, women, youth, education—and specify when you are available to work: weekends, evenings, or during the day. The system will immediately provide you with listings of opportunities based on your criteria.

Consumers today are looking for a relationship, not just a transaction. CSR can be an effective way to build relationships that products themselves can't; it's hard to build a relationship just around the act of buying a pair of jeans—or any other product. You're probably already in the habit of managing your messaging, and hence your reputation, strategically and consistently, and spending a great deal of money doing so. Think of CSR as another component of this strategic communication and messaging management. Perhaps it can even be one of its most important components.

Particularly with CSR communication and branding, consistency is key. Once you have engaged deeply with all stakeholder groups and have selected the appropriately fitting causes and opportunities, constantly and consistently communicating a simple strategic message will add value. This means integrating your CSR message with your core branding strategy externally to con-

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sumers, of course, but this also means communicating a clear and consistent message internally to employees and externally to potential employees, suppliers, retailers, governments, communities, and peers.

### **Moving Forward**

If you are serious about helping to drive a CSR strategy through your own business, then you should be acutely aware of where global corporate social responsibility is headed in the future. CSR trend analysis suggests the following points:

- Consumers are increasingly interested in taking action on issues such as climate change.
- CSR and branding campaigns that resonate with consumers are those that address the consumer's interest, provide easy-to-digest education, and spark dialogue and action.
- Reputable campaigns are those that are innovative and substantiated by the company's authentic commitment and ability to demonstrate tangible results toward its CSR goals.
- Partnerships are critical as a pathway forward, either between companies or with NGO partners. They help build credibility, and no one company can go it alone against an issue as large as global warming or AIDS.
- CSR is not going away any time soon. The Millennial generation, which is now hitting the workforce, is demanding and driving this reality.

- Your competitors are developing CSR strategies. Don't let them get ahead of you, because it is difficult to catch up once you get behind. CSR does not tend to show instant results—it is a longer-term venture.

In the future, the focus will not be on whether or not to engage in CSR but on how to do it smarter and more strategically, and on how to integrate it into day-to-day business strategies. The focus will also be on how best to communicate and brand your CSR. Although still relatively young, the CSR space is getting crowded. However, the space of smart, effective, strategic CSR is less crowded, and the space of well-branded, well-communicated CSR is wide open, so grab the leadership spot for your industry now.



*Kellie McElhaney is John C. Whitehead Adjunct Professor of Corporate Responsibility and founding director of the Center for Responsible Business at the Haas School of Business at the University of California, Berkeley. She developed and launched this new center in 2003, and it has helped place corporate responsibility squarely as one of the core competencies and competitive advantages of the Haas School. She is also author of "Just Good Business: The Strategic Guide to Aligning Corporate Responsibility and Brand."*