

Social Responsibility Series

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PART 6
OF A 6-PART SERIES

Developing a comprehensive CSR strategy for your organization



David Hemler
President
Microsoft Canada Co.

In the final installation of Microsoft Canada Co.'s six-part series on Corporate Social Responsibility, Professor Roger Martin, Dean of the Rotman School of Management, discusses how to best implement the knowledge and wisdom shared by the contributors to this series.

Martin and our panelists emphasize what has become abundantly clear in this series—that the business world is still in the early days of developing robust models, theories and strategies for CSR. But this does not dim the optimism of our panelists. All are excited about

bottom line and then connect it, in a way that makes sense, to their business interests. Once a socially responsible vision is established, employees and other stakeholders can get behind and support it.

Perhaps the theme that has emerged most strongly over the past few weeks is a need for the CSR strategy to be rooted firmly in the values of the company and for there to be broad acceptance and participation across all levels of the company.

In this way, socially responsible behaviour

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the journey ahead and are able to distill many of the key CSR elements that have been raised throughout this series.

While every company must interpret CSR somewhat differently and develop a CSR strategy that best suits their business, all agree that companies need to grasp the broad implications of CSR, understand the impact it has on the

should be viewed as an investment in the company's brand and its reputation with customers, in the retention of its human capital and finally in its success as a business.

We hope you enjoyed this six-part series exploring the growth of CSR in the Canadian business community and we hope that it has stirred a passion for CSR in you and your business.

- PART 1 What's a CEO to do?
- PART 2 Where to begin? A framework for developing your CSR strategy
- PART 3 Transformational leadership and moral reasoning
- PART 4 Enhancing CSR in your organization
- PART 5 Social alliances: company/non-profit
- PART 6 Developing a comprehensive CSR strategy for your organization

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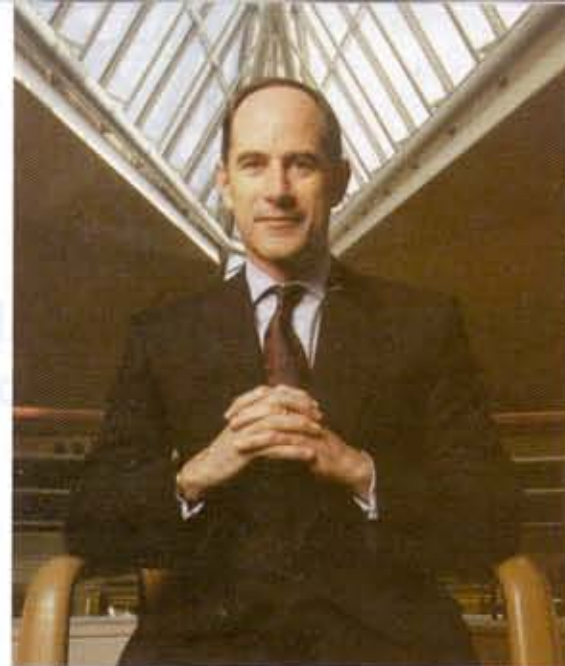
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A process for developing a CSR strategy for your organization

by Prof. Roger Martin, Dean, Rotman School of Management and Director, AIC Institute for Corporate Citizenship @ Rotman (right) and Rod Lohin, Executive Director, AIC Institute for Corporate Citizenship @ Rotman



The challenge—to develop and implement a corporate social responsibility strategy that adds tangible value to the world and your organization. But how do you do it?

It isn't easy. Prof. Michael Porter, one of the world's leading strategy gurus, said recently at the Rotman Business and Society conference that corporate citizenship "is a really primitive area of corporate practice. It reminds me of strategic planning in 1960—there's very little practice here—we have a long way to go."

You'd think that the right place to start would be to look at the work done by leading companies and practitioners and assemble best practices. At the AIC Institute for Corporate Citizenship @ Rotman, we started by commissioning an inventory of the fundamental theories and models of corporate citizenship.

Instead of a patchwork of interesting cases, we wanted to understand the core elements of a corporate citizenship strategy and construct a process to build one appropriate to specific companies with a specific set of markets and competitive dynamics.

What we found was at least 93 different citizenship models by academics and practitioners. We quickly learned that we needed a set of criteria with which to measure corporate citizenship models and the strategies that emerge from them.

In our opinion, corporate citizenship models must be consistent with the following criteria. They must be **connectable** to accepted managerial theories, systems and tools so that managers don't feel they need to abandon the familiar attributes of their context in order to utilize the citizenship model. They must be **concrete**, that is, sufficiently actionable rather than abstract. Suggesting to CEOs that they should "do the right thing" isn't enough. Models must also be **measurable**, producing results that can be anticipated and measured. They must be **organic**, linking to leaders as human beings rather than as automatons who make predictable decisions or who don't care about the world around them. It is crucial that they are **particular**, or applicable and helpful to decision-making in many different situations. And last, they must stand the test of time and changing contexts by being **evolutionary**.

Unfortunately, based on our analysis of citizenship models, not one met all these criteria. The one that comes closest, Roger Martin's "Virtue Matrix," provides a useful lens through which to view your current corporate citizenship activities and develop a strategy and set of priorities for future action.

To identify where your organization stands today and identify strategic opportunities, you

can literally take a step-by-step approach through the quadrants of the Virtue Matrix. Two previous articles in this series have outlined this approach in broad terms.

Here, we'll focus on how to take a first cut into the four quadrants of the Virtue Matrix: **Civil Foundation—Compliance**; **Civil Foundation—Choice**; **Structural Frontier**; and the **Strategic Frontier** to develop your corporate citizenship strategy.

The compliance quadrant. Are you in compliance? Being in compliance is table stakes for companies operating today. If you're not in compliance with key laws and regulations that cover your organization and its industry, you're going to find it difficult, if not impossible, to see any returns on your investments in other corporate citizenship initiatives. Clearly, this is a complex area involving many aspects of an organization's operations. As an example, The Gap (like many others in the retail sector) has learned the price to be paid by having its supply chain out of compliance with labour standards at home and abroad and has taken many positive steps to improve. How do you confirm compliance? Seek out help from legal and risk management experts. It's that important.

The choice quadrant. Does your organization choose to adhere to or exceed cultural norms and conventions where you operate? Do you have a more or less global set of cultural standards that you apply around the world? At its worst, globalization allows companies to avoid operating environments with a strong "civil foundation." Your challenge is to maintain a high standard wherever you operate to ensure that your customers, employees and other key stakeholders have a consistent experience with your company. For instance, Novartis has committed to "competitive and fair wages, which clearly exceed what is needed to cover basic living needs" wherever they operate—even when that goes beyond local labour standards.

The structural frontier. In which collective action is necessary. Does your industry share common citizenship issues that no one company could impact alone without bankrupting itself? If so, you might consider working jointly on solutions. For example, the world's largest cement companies recognized the common challenge presented by the fact that they produce an astonishing 5% of the world's CO₂ emissions annually. Under the leadership of Switzerland-based Holcim, the cement industry is collaborating to develop alternative mineral cement with far lower emissions.

The strategic frontier. Fourth, and with perhaps the highest potential for generating tangible value for your company, is the strategic frontier, in which intrinsically motivated action can create value for the world and the company. What can you do that differentiates your company? What fits your organization's unique capabilities, contributes to your key relationships and benefits your communities best? Ericsson—one of the world's leading telecommunications equipment companies—leverages its greatest strengths, enhances customer and employee relationships and builds on a long history of helping in times of disaster through its global citizenship strategy. Its program, called Ericsson Response, seeks to improve the world's response to disasters by utilizing its global reach and telecommunications expertise.

Once you've done the digging to understand where you stand and thought hard about where you can add more value, consider your strategy across the four quadrants. Where, if anywhere, do you need to commit to improved compliance and/or adherence to norms and conventions? What are the one or two critical collective actions you want to champion in the structural frontier? And finally, what are the one or two unique projects you want to initiate in the strategic frontier?

Clearly, we still have much to learn. However, like strategic planning, a discipline is emerging. As Michael Porter says of business people confronted with the challenges of corporate citizenship, "I think we do ourselves a disservice when we don't really have the pride in our potential and the impact that we can have. And I think the more we can be clear about what we're doing and why we're doing it, the more we can be strategic about it in terms of which issues we're taking on and which ones are important issues that we just can't take on—the more we can be clear about that, the more respected business will ultimately be." ■

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Each of the articles in this series is accompanied by a discussion featuring an expert panel with special interest in Corporate Social Responsibility.

Discussing some of the issues raised by Martin and Lohin's "A process for developing a CSR strategy for your organization"



Paula Knight
Director, Corporate Communications and Citizenship, Microsoft Canada



Andrew Pelletier
Director of Corporate Affairs, Wal-Mart Canada Corp.



Brenda Riddick
Vice President, Strategic Human Resources, Scotiabank

1 Is developing a strategy where we're headed with CSR?

RIDDICK A strategy is extremely important. We realized going at CSR on an ad hoc basis—with one-off events—was not where we needed to be.

We needed to think long term. A major hurdle is understanding what CSR is. Finding the broader definition was key. We found more than fifty definitions of CSR. We had to determine what it meant for us. That took time. Ours is very much a stakeholder approach. Others have a risk management approach. You can come to it from many different angles.

KNIGHT We call CSR strategy a business imperative. It really is about moving beyond the "random acts of kindness." We thought we were doing a pretty good job. But the basis of strategy is understanding what is expected of you. We typically gave software donations to thousands of organizations and individuals across the country. But that was not viewed as enough by our stakeholders. They expected us to act as a responsible leader. Asking "who are our competitors that we need to work with on key societal issues?" is really notching it up a bit. Example: online safety. It's not just Microsoft's responsibility; it's an industry-wide responsibility.

PELLETIER There is a word that, for us at Wal-Mart, is critical to social responsibility and that is "indigenous." Our CSR strategy flows very directly from corporate culture. We don't separate the two. Brenda made an excellent point on the need to define CSR. The definition depends on who you are as a business. Probably the most important ethical issue facing the retail industry today is ethical sourcing—sourcing from overseas. How are you going to hold a supplier—say, a factory in China that you don't own—accountable for human rights, for how they are treating their workers? How are you going to do that in the context of respecting cultural differences?

The PR approach in ethical sourcing used to be, "We go into a factory of a supplier, we find something wrong and we pull out." Our model has completely changed. We think now that real social responsibility involves staying with that factory and helping evolutionize their human rights to a more first-world standard. That's not always palatable from a PR perspective but I'd argue that that is the responsible thing to do.

KNIGHT The companies that put a strategy in place and develop programs that map to what is expected of them are actually doing things that have impact. That's the difference.

We believe in the benefits of technology, what it offers children and addressing the digital divide—all those great things. But there is also a dark side to the Internet and technology in the area of online child exploitation.

As a leader, you have a responsibility to step up and say "there is a need to do something around this." We are working with law enforcement right now, really getting in there to help them and make an impact. A technology called the Child Exploitation Tracking System has resulted in the rescue of a three-year-old child from a sexually exploitative situation. There have been many more after that. It is something we all have to get behind—including our employees.

The employee area of it is critical. We know that how your employees feel about you as a company is a huge reflection of how you are perceived from a CSR perspective.

RIDDICK Employee engagement is so important. There is more and more research out there that shows that people are attracted to, and want to work for companies that share their values. Those values can bring in top talent to your organization. And, as an employee, it makes you feel really good about where you work.

PELLETIER Absolutely. CSR has to be connected to your people. They are your organization. Before we take on a cause we ask them, "Is this something you want to get behind?" We make community involvement just as important to our store managers' appraisals as sales generation.

A couple years ago, we were approached by World War II veterans about a proposed memorial in Normandy, France. The managers and employees all wanted to get behind it and saw it as a really strong Canadian initiative. So we took it on. Ethical sourcing: very complex issue. We spend an enormous amount of time at all levels of our company talking about that to our people.

2 Is the public reacting on CSR issues?

KNIGHT Through an organization called "Globe Scan", which does a CSR monitor every year, we know Canadians are far more likely to punish companies that they feel are not living up to their expectations from a corporate social responsibility perspective.

So when I make the business case for why we should be doing this, I argue it completely ties to purchase decisions. The public makes those decisions in part by the products that we have, but also in terms of how they feel about us as a company and how we are impacting society.

3 What are the key inhibitions to developing a CSR strategy?

RIDDICK There are some. To take a stand on certain things around CSR, it's like, "are you the first gopher to poke you head out of the hole?" And if you are, "what is your chance of being shot?" There's some risk there.

Another challenge is metrics. We have a balanced scorecard approach and CSR is one of our ways of being a leader, one of the strategic objectives for Scotiabank. But how do you measure that? How do you measure environmental responsibility?

There are a lot of different surveys out there, different kinds of CSR rankings. But which one has the most credibility? If you are basing your balanced score card objective on these metrics, they better be good metrics.

PELLETIER You have to have metrics. If a CSR report is just a piece of PR, then you're missing the point. A good CSR report, to me, talks about where you want to be and is somewhat self-critical in terms of saying "we are not where we want to be in this component." It takes some courage to do that.

KNIGHT CSR metrics tend to be long-term. In business, they tend to look more short term. That is part of the challenge. You won't see, necessarily, the impact tomorrow of what we did today. But over the long term, you definitely will see, for example, that "x" number of children will be impacted by this program.

4 Co-operation within industries ('collective action' in terms of the article) appears to be a growing force in CSR

RIDDICK There is cooperation, but I also think that there is competitiveness and that peer-pressure also plays a role in elevating what the standards are. I look at the equator principles for project finance over a certain amount. You follow a long series of steps—"should we finance this project? Will it harm indigenous people? Will it harm the environment?". A couple of banks do stick their necks out and say "we are going to sign on to these equator principles." Then there is pressure on others to also adopt those principles and guide themselves accordingly.

PELLETIER Industry cooperation on certain issues is key. Ethical sourcing is one example. However, the concern I have today is not with big retailers, but with small- and medium-sized retailers that are sourcing from these same countries. They don't even have vendor codes of conduct in place, let alone monitoring. They are not in the public eye, they are not being hit on the issue. But they are now coming to us and asking us to help them develop codes and standards. We are seeing an improvement—less child labor, fewer cases of employees not being paid properly.

KNIGHT A couple years ago we developed a digital library system for the blind, because only 3% of that information was available to them. IBM—with whom we compete—helped provide part of the hardware solution. We worked with other companies. The CNIB directed us on how to develop a user interface for the blind or visually disabled. It was really collaborative. With our work on online safety and child exploitation, we see 26 law enforcement agencies using this technology. It's phenomenal!

RIDDICK I think that's where your strategy comes in. Your strategy helps you focus on which initiatives you are going to select, which partnerships. If you don't have an overriding CSR strategy then you are just dabbling here, dabbling there. That makes it very difficult to communicate with your shareholders or your employees

PELLETIER I would argue that having some sort of industry-specific approach and reaching out to your competitors is an ingredient of social responsibility—especially if you are a leader in your field. Governments no longer have the resources to do a lot of the stuff that needs to be done.

5 Where have your organizations made a difference in this area?

RIDDICK I think of our micro-credit program in Kingston, Jamaica. The program is inner-city, loaning out small amounts of money, helping people develop their own enterprise at a small scale.

The capital we provide to companies that are pursuing clean energy is another area.

The employee volunteer programs and the thousands and thousands of our employees who volunteer—I am extremely proud of that. We support and build and foster community giving and participation. If an employee has an interest—it could be Habitat for Humanity, a run for breast cancer—the employees will get together as "Team Scotia" and raise money and the bank will match that amount.

PELLETIER We have a similar program, the local matching grant program, that allows the associates in every community to identify what is important locally. Maybe it's the breast cancer clinic in Squamish, B.C.; maybe it's the youth hospice in St. John's, Newfoundland. They raise money and we match it.

KNIGHT We would highlight developing technology solutions that have a key societal impact and leveraging, not just technology, but also the expertise of our people.

One of the technology partners who helped develop SARS technology to monitor the outbreak in Toronto said to me, "We put the whole company on it."

I thought, "Wow, isn't that a powerful statement." I like to think that on issues like online child safety, we put the whole company on it—from the president to every individual employee. That's what it's about.

6 If business suffers, what happens to corporate social responsibility?

RIDDICK What will keep CSR going is that it does make good business sense. It's not that we don't want to do good things. But it is more and more demonstrated that good corporate social responsibility does contribute to shareholder value. And although it has been very, very slow, we are starting to hear more in the analyst community about CSR as being a measure—this has a huge impact potentially.

PELLETIER CSR should not slow down if it is linked to your business model. And if it is not a fundamental plank of your business model, then it is not CSR. We are publishing our first CSR report—the first Wal-Mart operation in the world to do that. We hope that what we come up with in Canada is going to be a benchmark around the world.

KNIGHT I worry that if CSR has not become part of your DNA as a company, it might suffer. But reality is, in a downturn how you do business changes, no matter what area you are in. And there is a need to be creative. I don't think companies will survive without CSR. The expectation is so great.

7 So if you don't have a strategy — better get one

KNIGHT Exactly. [laughter]

PELLETIER Having a CSR strategy absolutely is critical. This is a journey, not a destination. "Twenty-somethings" entering the workforce: wow, are they ever conscious of what is going on in the world! When they come to interview they want to know what we are about ethically. That gives me confidence that there is going to be that internal impetus. We have told them it is indigenous. We don't shut that off during a downturn.

RIDDICK CSR is not something that you do, but part of who you are and what you are. If there is a downturn short-term, your strategy needs to have that long-term focus. It needs to be sustainable. It is not about the dollars that you give, it is about who you are and what your company stands for.

PELLETIER Is CSR a fad? I think the "PR-ing" of it may be a fad, but I don't think CSR is. Certainly, for the companies in this room, I don't think that it could be—we are so far into it.

KNIGHT And we believe in it. ■