Game Changing CSR

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February 2006 | Working Paper No. 18

A Working Paper of the:

Corporate Social Responsibility Initiative

A Cooperative Project among:

The Mossavar-Rahmani Center for Business and Government

The Center for Public Leadership

The Hauser Center for Nonprofit Organizations

The Joan Shorenstein Center on the Press, Politics and Public Policy

HARVARD UNIVERSITY

JOHN F. KENNEDY SCHOOL OF GOVERNMENT

Citation

This paper may be cited as: Kramer, Mark, John Kania, and Michael McBreen. 2006. "Game Changing CSR." Corporate Social Responsibility Initiative Working Paper No. 18. Cambridge, MA: John F. Kennedy School of Government, Harvard University. Comments may be directed to the authors.

A subsequent version of this paper has been published by the *Stanford Social Innovation Review*. The citation is: Kramer, Mark and John Kania. 2006. "Changing the Game: Leading Corporation Switch from Defense to Offense in Solving Global Problems." *Stanford Social Innovation Review*. Spring: 22-29.

Corporate Social Responsibility Initiative

The Corporate Social Responsibility Initiative at the Harvard Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public contributions of private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy, and the media. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among different sectors. It was founded in 2004 with the support of Walter H. Shorenstein, Chevron Corporation, The Coca-Cola Company, and General Motors.

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The homepage for the Corporate Social Responsibility Initiative can be found at: http://www.hks.harvard.edu/m-rcbg/CSRI/

Game Changing CSR

By Mark Kramer and John Kania[1]

At the nexus between corporations and the nonprofit sector lies a Faustian bargain: Corporations provide money without demanding that social problems be solved, and nonprofits honor corporations for their generosity, without interfering in their business. What if the rules of this game could be changed, so that corporations engaged their enormous capacity to lead social progress directly?

Companies today understand that corporate social responsibility (CSR) forms an inextricable part of their reputations and brand identities. Ever increasing corporate resources are being spent on improving the social, human and environmental conditions under which companies operate. These activities contribute to social progress and, as an unending torrent of sustainability reports and press releases attest, are intended to enhance corporate images. Yet the world's problems seem as intractable as ever, and very few global companies have managed to rise above the public relations din, truly distinguishing themselves through their CSR activities.

One of the primary reasons CSR has not yet significantly improved society is that the nonprofit and business sectors are for the most part still stuck in their stereotypical old roles. By ceding responsibility for solving social problems to nonprofits, companies have forsaken their ability to intervene directly in solving the world's problems. As a result, some of the most sophisticated and powerful organizations in the world remain on the sidelines of social progress.

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We do not suggest that merely because businesses *could* solve social problems, they must do so at the expense of their primary calling. Yet many billions of dollars are spent every year on philanthropy and CSR initiatives, and billions more are spent on the defensive advertising, lobbying and PR with which companies attempt to sidestep the social concerns for which they are blamed. These resources, already committed, could be spent far more effectively without detracting from the company's overall purpose. Our research shows that the companies that choose this new path will reap disproportionate rewards by building sustainable reputations that far outdistance their competitors. Whether the goal is social progress or reputational benefit, playing to win will deliver more powerful results at a lower cost.

The Old Stereotypes

The stereotypical roles of businesses and nonprofits suggest that, whatever game they may be playing, they are on opposing teams. Businesses are viewed as purely self-serving, pursuing profit in ways that are inherently destructive to human culture, well-being and the environment. Nonprofits are viewed as altruistic, charged with identifying and solving the world's problems, and acting as public watchdogs to raise the alarm about harmful business activities. Businesses have vast resources, an ability to get things done, and readily measurable results. Nonprofits are struggling for daily survival, work slowly on more complex problems, and do good works in ways that often cannot be measured. In short, nonprofits are the noble but ill-equipped David compared to the powerful but evil Goliath of business.

One need not look far to see the inaccuracies of this picture. Business may not be intentionally altruistic, but it provides the economic base that enables a self-sufficient livelihood, the creation of wealth, and the practice of philanthropy. Through taxes on income, wages and capital gains, it is the ultimate source of all public funding. At the other end of the field, nonprofits may be dedicated to social goals, but they pursue contributions with the same intensity that businesses pursue profits. Most nonprofits have far fewer resources, but they are often able to focus media attention on issues that mobilize consumers and governments. Many nonprofits struggle to survive, but the nonprofit sector as a whole is a one trillion dollar enterprise in the U.S. alone, employs about 7 percent of the workforce, growing steadily, and includes global enterprises, foundations, universities and hospitals that rival many corporations in power and wealth.

Inaccurate or not, it is the old stereotypes rather than the reality that leads many businesses and nonprofits to work in opposition to each other. Businesses, given their harmful ways, cannot be trusted to address social problems, while nonprofits, lacking adequate resources, cannot be expected to solve them. The result is a stalemate: Businesses leave social problems to nonprofits, while nonprofits blame business for creating the problems and exact charitable contributions as expiation. Neither side is in a position to devise full solutions: Nonprofits may have the will but lack the capacity, while business has the resources without the mandate.

The old stereotype of noble nonprofits and malevolent businesses inevitably casts corporations in a defensive role. Companies often view CSR as a vulnerability – an external risk to be managed with the least possible investment – rather than an opportunity for valuable social impact or competitive differentiation. When the nonprofit community raises an issue, from child labor to global warming, the usual response of the affected industries is to find the fastest and least costly way to defuse media attention and public pressure. Companies often turn to lobbying, public relations, advertising and other cosmetic measures, rather than squarely addressing the underlying problem. The specter of potential legal liability further encourages companies to deny any culpability. In the end, many companies do address the issue by modifying their operations, but only after the denials and cosmetic measures that are their first lines of defense have failed.

Given this defensive approach, businesses tend to focus their CSR activities primarily on the social risks inherent in their own operations or supply chains and for which they might become activist targets. For all other social issues businesses frequently delegate responsibility to nonprofits and limit their involvement to cash or product donations and employee volunteering. In the aggregate, such corporate philanthropy is substantial -- exceeding $13 billion in the U.S. alone last year -- but it is often so fragmented and diffuse that it creates little discernable impact. Nor is social impact often expected. Companies may be trying to build goodwill or preserve their license to operate, but they don't honestly expect that their contributions will solve major social problems like hunger or illiteracy. They are content if the recipient organization seems to be making a good effort – and so the organizations themselves are rarely held accountable for implementing solutions. The end result is a Faustian bargain in which companies donate money without demanding that social problems be solved, and nonprofits honor corporations for their generosity, without interfering in their business.

A New Way is Needed

But the world's problems do not neatly apportion themselves between the private and public sectors. Many of our most pressing challenges -- economic development, job training, housing, medical research, and the logistics of disaster or famine relief -- are rooted in circumstances where business has deep expertise that nonprofits and governments lack. Yet those capabilities are lost when businesses choose to act only through cash contributions.

Consider some of the problems that have hampered the Tsunami relief efforts. A 2005 study sponsored by the Fritz Institute of the 18 largest humanitarian organizations that led international relief efforts after the Tsunami found that the delivery of aid was severely hampered by a lack of logistics expertise. According to the study, only five organizations had access to software that enabled them to track and trace the flow of materials. And *The New York Times* reported on January 3, 2006 that 11 months after the Tsunami, the Red Cross had yet to spend $400 million of the $576 million it received in earmarked donations. Many of the companies that donated cash so generously to these nonprofits might actually have been able to deliver assistance more efficiently themselves.

Our research suggests that corporations could indeed do far more for society at less cost – and in so doing enhance their corporate reputation and brand names in ways that have a lasting impact. Companies that have adopted this approach, such as BP, Nike and Royal Dutch Shell, have been able to create social impact on a substantial scale, rapidly developing and implementing sustainable or systemic solutions that do not depend on ongoing charitable contributions.

The shift in thinking that is required to achieve these benefits is profound but simple: businesses and nonprofits must reject their stereotypical roles. Business must abandon its defensive and cosmetic approach to social issues. After all, it is hard to win a game when the team is playing only defense. Companies must also be willing to exploit their full capabilities to find and implement solutions to social problems, even if the company had nothing to do with creating the problem. And nonprofits must be willing to share their halo by accepting business as an ally rather than an opponent and welcoming its enormous capacity to solve social problems.

Taking the Offensive

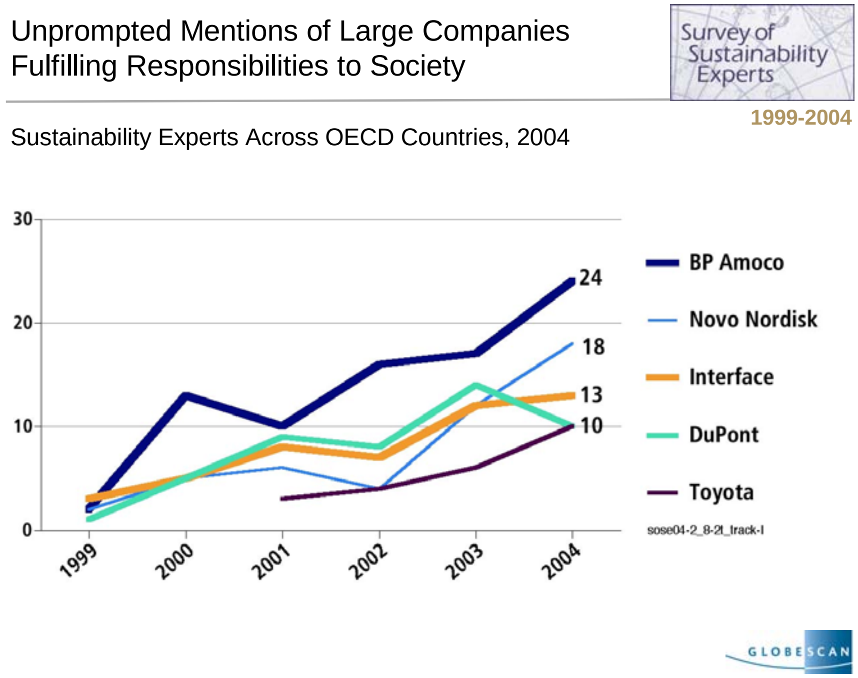
Every major company would like to be viewed as a world leader in CSR, but BP is one of the few that has succeeded – primarily because the company rejected a defensive CSR game plan and chose to play offense instead. BP first distinguished its approach to CSR on May 19, 1997 when Lord John Browne, Group Chief Executive, gave a speech at Stanford University. Lord Browne raised the issue of global warming – an issue that BP frankly need not have mentioned at the time. Today, climate change is seen as a major problem, but eight years ago its significance was far less apparent. Lord Browne announced, however, that BP would not wait for definitive scientific proof but would take action merely because "the possibility cannot be discounted and is [being] taken seriously."

The oil and gas industry was shocked by Browne's unnecessary and risky admission, entrenched as it was in defensive and cosmetic responses. The American Petroleum Institute and other energy companies, like ExxonMobil, denied any responsibility for the problem, used industry-sponsored studies to challenge the scientific evidence and mounted aggressive media campaigns to sway public sentiment, fighting -- as they still are today -- against recognition of the issue and mandatory regulation of carbon emissions.

Instead of playing defense, BP had decided to play offense. Browne publicly pledged that, within a decade, BP would reduce carbon emissions from its operations by at least 10 percent below the 1990 baseline, a more aggressive goal than was later set by the Kyoto Protocols. He said that BP would provide annual reports on its progress and use outside experts to verify its reports. In fact, BP reached its goal within five years, not ten, reducing emissions by 80 million tons. The company then announced even more aggressive targets; continuing to expand production by 5 percent per year without increasing CO_2 emissions.

BP chose a single issue to address, confronted it squarely before anyone else in its industry, publicly announced quantitative targets with aggressive deadlines, and provided annual objectively verified reports on its progress. Most important, the company delivered on its commitment, surpassing even its own projections. By doing this BP made a game-changing move, achieving a level of performance above societal expectations, and along the way, assumed the mantle of industry leadership in CSR.

The benefits to BP's reputation have been substantial. In Globescan's annual survey of sustainability experts, BP has increasingly distinguished itself from other companies over the past five years (see Figure 1). Even though the oil industry is often viewed with disfavor, BP leads the list of *Fortune* magazine's ranking of the Global 100 companies on corporate responsibility. Undoubtedly, BP's generous advertising budget has helped raise awareness of its corporate responsibility, but Globescan and *Fortune* both based their ratings on the views of sustainability experts, not on public perceptions.



Source: GlobeScan's 2004 Survey of Sustainability Experts,
a twice-year survey of SD experts from across OECD countries.

Figure 1

Starting On the Defensive

Five years before Lord Browne's speech, in 1992, Nike learned a similar lesson the hard way. The company had become the target of significant media attention after *The New York Times* reported labor abuses by one of its Indonesian suppliers. Further allegations and a major consumer boycott ensued. Unlike BP, Nike responded to these allegations by playing defense.

After all, Nike felt it had a strong case. Its suppliers were independent companies, not under Nike's ownership or control, and their labor practices were not unusual for the developing regions where they operated. Furthermore, the reality was far more nuanced than critics allowed. However oppressive the working conditions seemed to U.S. consumers, they offered badly needed jobs in areas of severe poverty. If Nike stopped doing business with the offending suppliers, competitors would gain an economic advantage without any change in labor conditions, or the factories would close and the workers would be unemployed.

What Nike discovered, is that a defensive approach didn't make the issue go away. Rightly or wrongly, U.S. consumers held U.S. companies and the products they produced to a higher standard, and the working conditions that existed within Nike's supply chain became an inescapable attribute of its brand.

Nike soon capitulated and the boycott ended. By shifting from denial to cooperation it gained an immediate uptick in its reputation. But as the company poured more and more resources into meeting social expectations, the incremental benefit to its reputation began to taper off. Appeasing the critics was not the same as building a solid reputation for corporate responsibility. To do that, Nike had to shift from a defensive to an offensive game plan.

In recent years, Nike has fully embraced the need to improve its supply chain labor practices and, like BP, took a position far ahead of industry norms. The company began by publicly acknowledging the problem and accepting responsibility for the treatment of the nearly 650,000 workers employed by its suppliers. Nike established and made public a comprehensive set of environmental, health, safety and labor standards that every new factory must meet before it is accepted as a supplier – standards so tough that 43 percent of the factories reviewed fail the test.

Nike also realized that it had to do more than set standards – it had to help suppliers reach them. When violations are found among existing suppliers, Nike works with factory managers to develop a remediation plan and monitor its implementation. Nike only abandons a supplier if it refuses to change its practices. Even then, if the factory closes, Nike works to ensure that employees receive the full severance pay they are legally entitled to.

Today, Nike has more than 90 full-time employees dedicated to inspecting factories and working with suppliers. Nike also retains independent organizations, such as the Fair Labor Association, to conduct unannounced audits. Altogether, more than 2,000 factory audits are conducted every year and the aggregate results are made public. Most astonishing of all, the company now posts on its website the names and locations of all the factories in its supply chain. Nike has also taken a global leadership role on the issues of supply chain labor practices, developing and funding industry-wide initiatives.

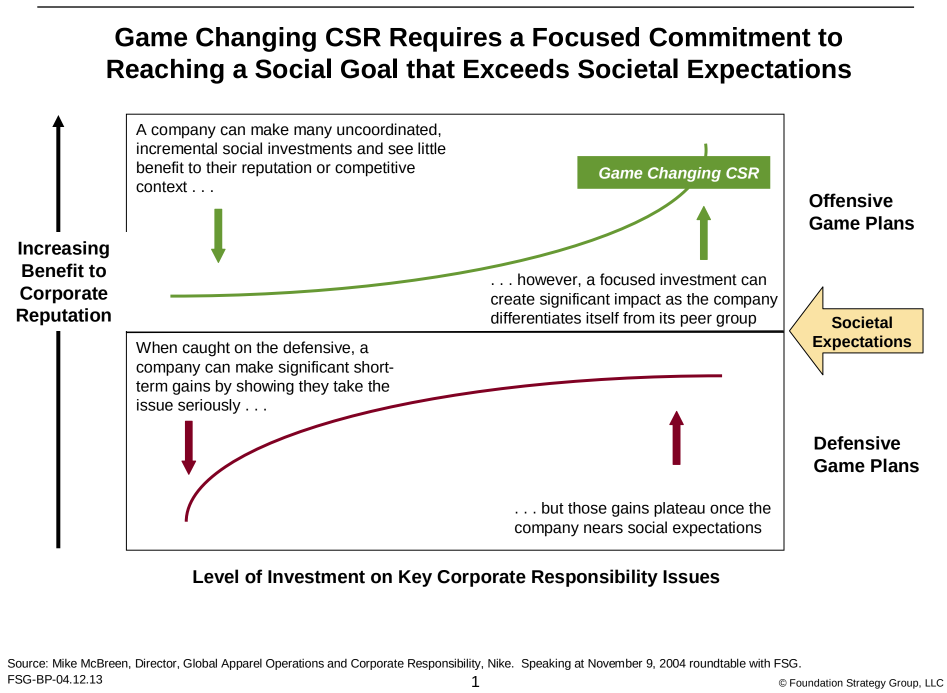


Figure 2

The approach that Nike and BP have taken provides many benefits, but it does not insulate a company from the consequences of violating public expectations in other areas of its operations. All of the goodwill that BP generated through its climate change efforts could not excuse the safety problems that led to a recent fatal factory explosion in Texas, and Shell's well-deserved reputation for corporate responsibility dropped precipitously when the company disclosed that it had substantially overstated its oil reserves. Offensive CSR can distinguish a company's reputation but cannot protect it; defensive

CSR can protect a reputation but cannot distinguish it. Both are necessary to succeed in today's business climate.

Using the Entire Team

If shifting from defensive to offensive strategies is the first step of game changing CSR, then using the full capabilities of the entire corporate team is the second. These resources can be applied wherever they are most relevant, even if it takes the company outside of its usual playing field.

Consider General Electric's health care initiative in Africa. Although Africa is not a primary market for the company's products, the devastating poverty and disease that prevails over much of the continent was of deep personal concern to the 4,000 employees in GE's African-American Forum. The company might have responded by sending a large check to any of dozens of international aid organizations, but instead CEO Jeffrey Immelt recognized the relevance of GE's capabilities to the problem. He knew that the local healthcare infrastructure depended not only on medicines and doctors, but on clean water, reliable energy, and state-of-the-art medical technology – all businesses in which GE had substantial expertise.

First, GE applied its highly disciplined six sigma problem solving approach to develop a plan for effective intervention. To be successful, GE needed to find a situation where the level of need was manageable, the political environment stable, and the existing infrastructure sufficient to use and maintain the equipment that GE would provide. Senior executives began their research by conducting over 100 interviews with experts from UNICEF, Africare, the European Union, the U.S. Agency for International Development, and the U.S. Department of State. Ultimately, GE selected Ghana and a team of senior executives drawn from GE's energy, health and water businesses traveled there in December 2003.

GE decided to begin work in one of Ghana's 110 districts. The district they chose had a population of 100,000, but no reliable power, clean water or access to health care other than a single midwife. Realizing that any solution required local ownership and participation, GE developed a cross-sector partnership that included the state health ministry, local members of parliament, the mayor, tribal leaders and nonprofit organizations working in the region. Each partner contributed to the project: The government waived import fees on the equipment that GE donated, the ministry agreed to assign a doctor to the region and to complete a half-finished abandoned hospital building, and the nonprofits worked with tribal leaders and local residents to dig trenches for water pipes and construct a building to house the generator. By October 2004 -- nine months after GE first selected the district -- the hospital was complete, fully staffed and functioning, a pace that few nonprofits could match.

GE now has eight other similar projects planned or underway in Ghana and is committed to opening hospitals in all of the 22 districts that currently lack them. In addition, GE is considering extending its work to South Africa, Malawi, Tanzania and Uganda. The experience has profoundly changed thinking about corporate philanthropy at GE. The company now realizes that in addition to making cash contributions, it can play a central role in solving global problems through the direct use of its own capabilities.

GE's accomplishments depended in part on its willingness to engage local government and nonprofits as partners in its work. Each brought different and complementary assets to the project that were essential for success. Cross sector partnerships such as these enable business, government, and nonprofits to play on the same team, rather than against each other. In many cases, these partnerships permit rapid and systemic solutions that no single player could bring about on its own.

Adopting New Roles

Companies are not in business to save the world. Their resources exist to generate profits and reward shareholders. Even so, companies have far greater ability to lead social progress than they currently exercise from the narrow and defensive role into which they have retreated. Exploiting their full potential to develop and implement solutions not only offers more powerful benefits to society, but enables companies to distinguish themselves and earn a reputation for corporate responsibility that can enhance their brands, motivate their employees, and strengthen their licenses to operate.

It is not the job of business to supplant the nonprofit and public sectors, but neither should business hesitate to engage the company's resources in solving social problems. Each sector brings different capabilities, and it is the joining together of those capabilities that gives cross-sector partnerships their extraordinary power.

Playing on the same team requires a change in attitude on the part of both business and nonprofits. Business must be willing to acknowledge genuine problems and find real rather than cosmetic or protectionist solutions. Nonprofits must be willing to trust business and work in partnership rather than opposition. It won't be easy for nonprofits or businesses to adopt these new roles, but the benefits that will accrue to society if they can do this will be immense. This single shift could stimulate greater progress than has ever before been seen in overcoming the world's most intractable problems.

Creating Game Changing CSR

There are four key principals a company should keep in mind when developing its CSR program.

1. Pick the right issue. To succeed in solving a significant social problem and enhancing its corporate image, a company needs to find the right problem to solve. It should find a single issue that is important, timely, and leverages the company's core competencies. An issue such as this is more likely to attract media attention, which will help bolster the company's reputation. Equally important, an issue that captures media attention will make it easier for the company to engage nonprofits and government agencies and create the sort of cross-sector partnerships that are essential to solving the problem.

2. Establish concrete goals and report progress. Business stakeholders long ago grew jaded to the vague pledges companies often make to address social issues. To stand out from the crowd, a company needs to publicly commit to an ambitious and quantifiable goal that goes beyond what is expected, and provide regular reports on its progress using independent external audits or reviews. A company should set ambitious goals, but it must also deliver the results it promised within a reasonable period of time.

3. Deploy the company's key assets. The truly valuable assets that a company has -- its products and services, skilled employees, industry expertise, global infrastructure, and its network of connections, credibility and influence -- are rarely tapped for social progress. Yet these company assets are every bit as powerful in solving social problems as they are in creating economic value for the company. Once a company learns to break down internal barriers and integrate its CSR initiatives with its entire value chain, new and more powerful opportunities for solving social problems will arise.

4. Work in cross-sector partnerships. The term "partnership" in CSR or corporate philanthropy is often used loosely to apply to any relationship between a company and a nonprofit organization or government agency. Often these partnerships are no more than large cash contributions accompanied by joint press releases. The most effective solutions to social problems are those that engage nonprofit, business and government agencies in cross-sector partnerships where each sector concentrates on what it does best.

A New Role for Nonprofits

However interdependent the nonprofit and business sectors may become, the economic motivations of business will never align perfectly with the altruistic mission of nonprofits. Companies may find many advantages in meeting the needs of the underserved or abating environmental harms, but there will always be social and environmental problems that run contrary to business interests. That is why the role of the nonprofit sector can never be replaced by business. But on those social issues where companies have reason to be involved, whether they are motivated by reputation or profit, substantially greater progress can be made if nonprofits can find effective ways of engaging them in cross-sector partnerships. By embracing a new and positive perspective on business' involvement, nonprofits can tap into a wealth of resources that have long been beyond their reach. There are four basic principles that a nonprofit should keep in mind when inviting a company to help change the game:

1. Seek business partners, not villains. Many nonprofits have a lot of experience developing lists of companies that may have caused a particular social problem, in order to apply public pressure on those companies to change. By focusing instead on those companies that have the resources to help solve the problem, a nonprofit will come up with a different and greatly expanded list of potential corporate partners**.**

2. Help companies set affirmative goals. Many companies are looking for ways to demonstrate their corporate responsibility by developing affirmative approaches to solving social problems. But they often lack the ability to fully understand the issues and frame ambitious but realistic goals. Nonprofits often have a deeper understanding of the social problem that enables them to help companies devise more comprehensive strategies and set more ambitious and attainable goals.

3. Ask companies for more than money. It is relatively easy for a nonprofit to target a company for a grant or a donation. It is much more difficult for a nonprofit to understand the full complement of corporate resources that a company can bring to bear on solving a social problem. To understand those capabilities and know how to ask for them requires that nonprofit managers learn a new set of skills. Mastering this new approach will not be easy, but the potential power that can be deployed when business and nonprofits work together dwarfs what money alone can buy.

4. **Share the halo with business.** Many nonprofits are afraid to align themselves too closely with business partners because it may put their reputations at risk. Nonprofits need to overcome those fears because the benefits that can be accrued from doing so far outweigh the risks. Nonprofits can look smart, creative, and efficient by tapping business capabilities, and companies can enhance their reputations by taking affirmative steps to solve social problems. It is a win-win solution, but only if nonprofits and businesses are willing to share with one another the halo effect that comes with success.