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Essay

## How to co-create corporate responsibility strategy

By CB Bhattacharya, Sankar Sen and Daniel Korschun

**Properly involving stakeholders in formulating corporate responsibility programmes results in more focus and success**

Stakeholder involvement in corporate responsibility activities is surrounded by rhetoric. Still, most companies continue to develop, implement, and manage their CR as an essentially top-down process.

Our research, described in more detail in *Leveraging Corporate Responsibility: The Stakeholder Route to Maximizing Business and Social Value*, shows quite convincingly that neither employees nor consumers are content to be passive recipients or even “enablers” of a CR programme. They want to be “enactors” and actively engage in co-creating CR initiatives with employees of the company. Co-creation allows stakeholders to become part of the solution and reduces the gap between their expectations and the firm’s response.

While co-creation is not a new idea, it is becoming increasingly important as more companies take a multistakeholder approach to their CR activities. But, not enough has been done to engage companies’ primary stakeholders, such as employees and customers, as CR is still essentially a process in which senior managers decide which issues or causes to support.

### Better connections

Companies need to connect with fewer, but more proximal and significant, stakeholder groups and not simply reach out to a wider set in the hopes of doing CR right. Our research confirms what many managers observe anecdotally, that employees are still typically passive executors of CR decisions made by top managers. The same research shows that employees want to play a greater leadership role in a

company’s CR initiatives; they want to be co-creators.

Matching gift programmes, in which a company matches employee donations to charities dollar-for-dollar, are popular with employees, because the employees can individually decide what cause they want to support and how much they want to contribute. But this example is one of few in which companies and employees see eye to eye. More often, the power is held by the company, and employees are left feeling “unempowered”, unmotivated, and in the worst case, disenchanted and disengaged.

Notably, the consumer context research by Rosen, Irmak, and Jayachandran has found similar results. When consumers are able to choose the cause in a cause-related marketing campaign, they feel as if they have been a part of the co-creation and this, in turn, increases their purchase intentions.<sup>1</sup>

A stakeholder-centric and co-creation-oriented approach facilitates dialogue between a company and its stakeholders and incorporates this input as early as possible in the CR formulation process. A critical step in co-creation is to examine how to enhance usefulness and understanding and achieve a sense of unity – the three Us – with a special eye on involving stakeholders in the process of co-creating a company’s CR initiatives to maximise all stakeholders’ advantages. This way, companies can not only support the creation of additional value for stakeholders through the co-creation process itself, but also guarantee that a full range of relevant programmes and issues are considered. The relevant stakeholder groups have created whatever is chosen in the end.

How are managers to put these insights into

*A critical step in co-creation is to examine how to enhance usefulness and understanding and achieve a sense of unity*



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Companies can boost stakeholder self-esteem

*There are four steps to successful CR formulation: articulation, generation, distillation and selection*

action? There are four steps to successful CR formulation: articulation, generation, distillation and selection. Articulation and distillation are more reliant on managerial input, while generation and selection present co-creation opportunities, actively engaging key stakeholders in CR decision making.

#### **Articulation**

The most critical task for those engaged in formulating CR strategy is to decide what type of CR value should be created and to formally articulate the objectives of CR activity in a particular instance. Only after this step can one decide on the most appropriate stakeholder groups to target for involvement. The end should be clear, or it will be extremely difficult to determine the means to achieve CR value. CR strategy may differ substantially according to the desired goal. A much broader stakeholder focus is needed when the goal is to improve corporate reputation and brand equity than when the goal is to attract and retain employees.

Those formulating CR strategy need to determine the exact objectives and articulate this in such a way as to create buy-in. Corporate leadership has to offer initial support of the initiative so that the necessary resources are available and continue to support the initiative long-term to ensure implementation and results. A valuable way to better co-create CR goals with fellow employees and get broad-based internal buy-in is to build shared understanding among colleagues by learning from knowledgeable others in the business.

Consider Aramark, a leading provider of food services, facility management and uniforms. In

2006, executives at the company reviewed their CR activity, finding that while substantial and beneficial, the fragmented nature of its efforts was wasting potential opportunities to create CR value. In their bid to revamp their CR strategy, company executives reviewed archives and research studies at the Centre for Corporate Citizenship at Boston College, attended conferences and classes, and learned about best practices and execution challenges by meeting with various executives from companies such as Starbucks, Verizon, and Reebok who had launched successful CR initiatives.<sup>2</sup>

#### **Generation**

As the world moves towards an “involve me” culture, in which stakeholders increasingly want to be a partner of an organisation, the generation of ideas for CR projects can facilitate active participation. Once objectives have been decided and relevant stakeholders identified, we recommend that companies engage and interact with stakeholder group members to generate a portfolio of CR initiatives that are in line with the objectives. Companies can do this by engaging individual stakeholders or by “digging deeper”, which produces better results.

One technique to go deeper is called “laddering”. Laddering does more than simply ask which features are most important to consumers. In this technique, the researcher identifies key product features and keeps probing the respondent to articulate the functional and psychosocial benefits that the features provide. In the end, the researcher asks which values these benefits help fulfil.

This product-focused method is a starting point. To increase effectiveness the stakeholder should be engaged in interactive dialogue. Stakeholder participants might be asked about their views of CR in general; their views of CR within the industry and focus of the company; their expectations of the company; the attributions they make about the company’s current activities; and the rewards they would stow upon companies they consider socially responsible.

Our research has shown two main psychological benefits for a stakeholder when it is affiliated with a socially responsible company, namely self-esteem and self-coherence. CR can improve a person’s perception of self-worth, through his or her association with the company. For example, stakeholders often claim that buying from a socially responsible company makes them feel good, or that they take pride in working for a company that is also a good corporate citizen.

CR can also bring greater coherence to a stakeholder’s life by making interactions with the company a natural expression of how he or she sees herself or himself, especially when the CR issues a company addresses coincide with the interests of the stakeholder. One example would be when an

employee who is very interested in helping the homeless works for a company that has a CR initiative in this area. Each interaction with the company reinforces the stakeholder's sense of who they are and provides them with a sense of self-coherence and continuity with their values.

### Distillation

After a set of CR initiatives have been generated together with stakeholders, managers still have to prioritise or "distil" the initiatives, putting them in line with the core competencies of the company and what the company can best deliver. Even the best CR initiative is wasted effort if the company cannot correctly implement it.

A practical approach to the distillation phase is to create a matrix (often called a materiality matrix) plotted according to the dimensions: the importance or attractiveness to stakeholders and the importance to the company in terms of the likely influence of the initiative(s) on business success. This phase should filter the co-created set of alternatives from the generation phase to a smaller set that can be implemented successfully by the company.

### Selection

Managers select the top initiatives and identify which stakeholder segments to target in the final selection stage. Certain initiatives are likely to be perceived as more useful (eg, because they care more about the issue), have better levels of understanding about a particular initiative (eg, because they make more intrinsic attributions) and/or provide higher levels of unity with the company (eg, because they perceive a stronger identity overlap). All of these factors would be helpful for managers to explore before selecting and implementing a particular initiative.

Within the selection stage, those deciding upon CR initiatives within the organisation should begin to partner with the non-profit firm (or firms) that will implement the initiative. After having completed the steps of articulation, generation, and distillation, there should be a relatively broad understanding of the parameters of the initiative that will be selected and implemented.

Companies and NGOs should begin early to find a "common ground" to build long-term partnerships also based upon co-creation. A development team, with members from the company and the NGO, can describe the CR activity as a group of features such as the cause, the implementation of the cause (marketing, volunteering, etc), proposed non-profit partners, proposed type and level of stakeholder engagement.

After the programmes have been short-listed and described, the stakeholder groups should be brought into the co-creation process. They can help the company identify the most attractive

programme, typically through the methods of quantitative marketing research.

Our research has shown that companies have to put their employees and even consumers at the centre of their CR efforts, empowering them as co-creators of effective CR strategies.

It is not enough to engage these stakeholders in the formulation of the CR strategy. The groups should be enactors of CR and take responsibility in the execution of the CR strategy as well.

Based on both our research and our conversations with companies, we have identified three factors that drive the success of the CR implementation strategy:

- 1) whether the stakeholder is an enactor or merely an enabler;
- 2) whether the connection with others in the company and its programme is primarily horizontal or vertical;
- 3) whether management keeps the process of evaluating the programme formal or informal.

### Enactor versus enabler

For CR initiatives to be truly effective, companies need to make their employees the primary enactors in social responsibility programmes. Employees are networked within their community and therefore feel more qualified to implement CR at the ground level. Shifting the primary responsibility for their CR programmes to employees does not absolve the company of its responsibility to be an effective enabler.

The company must maintain clear, open, continuous, two-way communication and enable the

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Volunteering plays its part

interchange of ideas both vertically and horizontally across employee groups. It must also provide guidance and resources to the employees that go beyond allowing CR involvement on company time. Ideally, company leaders and employee

*Management still plays the key role in distilling ideas and implementing projects*

groups would work together to integrate CR activities into coherent job products. Sufficient funding and material resources are also a must for successful implementation. To sum it up, employees must be the primary enactors in CR initiatives.

Of course, consumers should also be considered in this regard as well. Although they are not as close to the company as employees, they can also make a difference as enactors. When a company communicates clearly with the consumer, offers guidelines for implementation, and rewards the consumer, the co-creation experience can be maximised.

One recent example is programme initiated by Disney called "Give a Day. Get a Disney Day." In this programme, consumers can volunteer a day of service at a participating organisation and then, after having verified the participation, they receive free admission to a Disney theme park for a day. "Badging" and "documenting" are two examples of how a company can solidify the CR engagement within the community. Disney, for example, could "badge" consumers by creating and giving away T-shirts to show those who have volunteered their time. Consumers can also be encouraged to "document" their experience on social networks or by blogging.

#### **Horizontal versus vertical**

CR implementation should connect all of the enactors in a meaningful way, being therefore horizontal. This practice helps to create a "community of virtue". By embedding stakeholders in the company network, they become not only closer to the company, but also closer to other important members of the network. This, in turn, creates meaningful ties with other network members and therefore to the company.

CR provides a "higher purpose" for stakeholders, thereby helping to create "social capital". Social capital is considered to be the glue that empowers social action and helps to create a successful community of virtue. Social capital can broadly be described in terms of the trust, mutual understanding, and shared values and behaviours that bind members of human networks and communities and make cooperative action possible.<sup>3</sup>

#### **Formal versus informal**

As a trend, informality helped businesses be more innovative. In the context of CR initiatives, formal processes are often better at fostering more effective co-creation among employees.

Our research suggests that companies should put specific systems in place for the employee and consumer realms to facilitate co-creation. These include organisational monitoring, evaluation, and reward systems. We encourage companies to monitor and manage stakeholder contributions formally. Such formal processes could be to define stakeholder roles and tasks, to integrate these into company operations, and to obtain stakeholder feedback.

So, in conclusion, while co-creation in itself is not a new idea, it has not been systematically and consequently used in CR areas, although it has significant potential. Systematically engaging and embedding stakeholders in the formulation process helps managers maximise the three Us (understanding, usefulness, unity) as well as key variables such as caring and closeness, all of which go towards simultaneously creating more business value and more social value.

Companies should involve key stakeholders – especially employees and often consumers – as they respond best to being directly involved. By embedding stakeholders in CR programmes, companies can help to create a "community of virtue" that in turn enhances a sense of unity with the company.

Stakeholders can best contribute to generating ideas and selecting causes of greatest interest, but management still plays the key role in distilling ideas and implementing projects. Companies should determine their primary goals and then target the relevant stakeholder groups to co-create their CR programmes, coming up with a portfolio of possible initiatives. Managers can then use qualitative and quantitative research techniques with targeted stakeholders to arrive at specific social causes and programme ideas in the end.

The best approaches to CR co-creation allow stakeholders to be enactors rather than enablers, to have their connection be primarily horizontal or in the form of a network rather than vertical, and for the programme itself to be managed in a formal rather than informal manner. This allows the company to demonstrate its commitment to the programme as well as provide a clear method for rewarding the involved stakeholders. ■

This article is an edited version of chapter 7 "Co-creating CR strategy" of the newly published book "Leveraging Corporate Responsibility: The Stakeholder Route to Maximizing Business and Social Value", Cambridge University Press.

Leveraging Corporate Responsibility was written by CB Bhattacharya, E.ON chair in corporate responsibility, and dean of international relations at ESMT European School of Management and Technology in Berlin, Germany, along with Sankar Sen, professor of marketing at the Zicklin School of Business, Baruch College, and Daniel Korschun, assistant professor at Drexel University's LeBow College of Business.

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Stef Kranendijk, chief executive of Desso

## Rather than romanticise nature, learn from it

**Stef Kranendijk is chief executive of Desso, a Netherlands-based manufacturer of carpets for home and commercial use, and artificial grass for sports. Since his appointment in 2007 he has spearheaded the integration of a “cradle-to-cradle” approach into Desso’s value chain. Kranendijk spoke to Ethical Corporation’s Oliver Balch.**

**Ethical Corporation:** What’s “cradle-to-cradle” exactly?

**Stef Kranendijk:** As opposed to cradle-to-grave, cradle-to-cradle takes its concept from nature. In nature everything goes in cycles. There is no material waste in nature because everything is being reused by micro-organisms or plants. So rather than romanticise nature, this approach is trying to learn from it. The end objective is that you make products whose materials are pure enough to be disassembled after use and made into new products or returned to the biosphere.

**EC:** How did you come across this approach?

**SK:** It came as something of a revelation, to be honest. I’d never heard of cradle-to-cradle until a consultant in Holland gave me a DVD about it. My interest was immediately triggered. It’s such a logical, meaningful, relevant concept. It also brought on a moment of panic, though. I realised that, to do this, we’d need to completely change the way we work – in research and development, in manufacturing, and the way we market and sell. That’s precisely what we’ve done.

**EC:** What makes this approach so relevant in your opinion?

**SK:** The carpet industry in the UK alone disposes of 600,000 tonnes of used carpet into landfill every year. In France and Germany it is generally incinerated. With the seven billionth human being about to be born, we have to think of new ways to reduce our waste of resources. I passionately believe we should all be much smarter about how we design products and use resources. Instead of worrying about cutting

back on everything, this way we can then offer hope to future generations. We need go from the linear economy to the circular economy where resources and materials are in a continuous loop.

**EC:** Why did you think cradle-to-cradle would be beneficial for Desso?

**SK:** Quite apart from helping to shape a world in which we can promote economic growth and wealth without denigrating our resources, it’s in our own commercial interest. The architects and designers we work with are enormously impressed by our approach. Our customers are pleased to be able to buy greener products as well.

**EC:** How is this approach changing the way Desso does business?

**SK:** Take our carpet tiles, which represent half our business. We’ve put 90% of these under rigorous assessment to get rid of all unwanted chemical components. They all have detailed phase-out plans to get rid of any unacceptable materials. As part of this process, we’ve developed a new carpet backing called EcoBase, which is 100% safely recyclable.

**EC:** Is Desso actively promoting recycling then?

**SK:** We’ve set up our own recycling business unit, called Refinity. We take back used bitumen-backed carpet tiles – both our own and those of our competitors. Using our own proprietary technology, we then separate the yarn from the backing. We sell the bitumen to the road and roofing industry. As for the yarn, that goes to one of our suppliers, which has built a €20m depolymerisation plant in Slovenia



Stef Kranendijk

*Cradle-to-cradle is such a logical, meaningful, relevant concept*

to recycle it into new yarn. None of this was happening three years ago.

**EC:** What’s been the biggest challenge in terms of implementing this approach?

**SK:** Getting our raw material suppliers and their suppliers to give us the raw materials we want. We had to work directly with the likes of Dow Chemical, BASF and others in the chemical industry. Not all wanted to give us the exact percentages of the ingredients in their products. To get around that, we set up a tripartite agreement whereby the suppliers would provide the data to our research partners, Epea International, without us seeing it. These are the kind of obstacles you need to overcome to make progress.

**EC:** How do other business leaders respond when you discuss this concept with them?

**SK:** I discuss the issues with many business leaders at companies such as M&S, Unilever, B&Q, Nestlé, Philips, DSM and so on. The idea is spreading quite fast, though not every company can embrace it all as fast and as completely as we have. Some of them are big supertankers and it will take time to turn them around. Ultimately, I can only convince other business leaders if I can prove to them that this approach earns them more money. In our case, our profit margin – before interest and tax – in our carpet division has gone up from 1% in 2006 to more than 9% in 2010. That gives real credibility to the cradle-to-cradle concept. ■

### Fast facts: Desso

Headquarters: **Waalwijk, the Netherlands**  
 Date founded: **1930**  
 Forecasted annual sales turnover: **in excess of €220m**  
 Annual profit (EBIT) in the carpets division: **9%**  
 Number of employees (current): **c.1100**



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Essay

## Why companies must build the business case

By David Grayson

**Leading companies understand why being a good corporate citizen leads to economic success**

The “business case” for corporate responsibility was given new resonance this summer by the News of the World phone hacking scandal and the events that followed. For the media companies involved, “corporate responsibility” had been reduced to an optional extra that could be abandoned when management creates a culture of sales targets (circulation and advertising) and profitability improvements at all costs.

In the end, that narrow perspective cost people’s jobs and reputations, a great deal of money and, ultimately, the business itself. That’s a high price to pay for ignorance.

In contrast, there is a growing number of companies whose leaders see that corporate responsibility is about how companies behave in their core operations: how they go about their business and how they make their money.

For such companies – particularly those whose performance has been recognised through Business in the Community’s Awards for Excellence and its Corporate Responsibility Index – responsible business behaviour is embedded in the DNA of the business. It’s part of the organisation’s culture and strategy, manifesting itself in what gets said and done by everyone from boardroom executives to those working at the front lines of the most remote business units. Corporate responsibility is a coherent part of the corporate “story”. It’s not something a company does; it’s what a company is.

“The idea that managing the impact of commercial activity on society and the environment brings business benefits is gaining momentum,” writes columnist Sarah Murray in the latest Financial Times Special Report on Responsible Business<sup>1</sup>.

“Addressing social and environmental concerns is becoming part of mainstream business.”

### Revisiting the business case

The companies whose leaders “get” the importance of embedding corporate sustainability and responsibility deep into a business are becoming more intelligent at managing their own corporate sustainability and responsibility programmes – and assessing their impacts on business and wider society.

This is particularly evident in research on the corporate responsibility business case conducted recently by the Doughty Centre and Business in the Community<sup>2</sup>. We worked together to update the 2003 Arthur Little study<sup>3</sup> that examined the arguments for companies to take responsible business more seriously. We also reviewed companies’ submissions for BITC’s Corporate Responsibility Index.

Many academic articles, as well as numerous management consultants’ reports, have been produced since the 2003 study. We found that both the academic theory and practitioner arguments were remarkably consistent with each other.

Our study – which encompassed both an academic and practitioner literature review as well as companies’ own reports of their activities in their BITC’s Awards for Excellence and CR Index submissions over the period 2003-10 – identified seven key business benefits. In order of the frequency with which they were cited, these were:

1. **Brand value and reputation** – benefits realised from responsible business that improve the value of the brand and/or the reputation of the brand or organisation.

*A growing number of companies see that corporate responsibility is about behaviour in core operations*

2. **Employees and future workforce** – benefits from responsible business practice that affects the working life of employees, and the ability to attract and hold on to talent. This includes employee motivation, productivity, recruitment, satisfaction, retention, engagement, and loyalty.
3. **Operational effectiveness** – improvements and innovation in an organisation's practices and processes as a direct result of being more responsible and sustainable, creating more effective operations and higher levels of efficiency.
4. **Risk management** – benefits resulting from CR efforts that improve the organisation's ability to identify and reduce exposure to risk, and prepare for and manage risks better.
5. **Direct financial impact** – direct benefit to the financial performance of an organisation. For example improving access to capital, reducing costs, and improving shareholder value.
6. **Organisational growth** – an opportunity for overall organisational growth derived from being a responsible business, whether through new markets, new product development, lateral expansion, new customers, or new partnerships/alliances.
7. **Business opportunity** – new opportunities or innovation generation created for all stakeholders specifically because of their efforts in being a responsible business. This can result in new business development, but critically it is about win-win opportunities for a variety of stakeholders.

In addition, there were two new categories of benefit that emerged in the most recent years covered by the review.

- **Organisational leadership** – defined as “leadership achieved through helping society” which results from a radical change in the internal corporate values and external market reconstitution.
- **Macro-level sustainable development** – defined as “the impact and responsibilities an organisation has to higher level economic, social and environmental issues”.

The emergence of this last benefit signals an important trend – namely that, as companies have become progressively sophisticated in their management of sustainability issues, the more aware they are of the close interdependence between the fate of their business and that of the world at large.

They are recognising that their businesses have a direct stake in ensuring the success of sustainable development – and therefore their efforts to mitigate the impacts of climate change, poverty, famine, health pandemics, corruption and other global socio-economic, political and environmental crises are not bolt-on extras to the business but are direct investments in the long-term viability of the business.



Is it accepting sustainability?

### The emergence of 'shared destiny'

What is particularly striking about companies recognised in BITC's 2011 Awards for Excellence<sup>4</sup> is that the boundary between what gets described as “business” on the one hand and “social” and/or “environmental” benefit on the other is becoming blurred. For example:

- **EDF Energy's Zero Harm programme**<sup>5</sup> – this aims to achieve “zero harm” (no incidence of workplace injury and no form of work casual or work aggravated illness). The case study cites cost savings, reductions in work-related ill health incidence rates, days lost and musculoskeletal health problems as “business benefits” while employee pride, advocacy and perceived management interest in employee health and well-being – which could also be construed as business benefits – are cited as “employee benefits”.
- **Tata Consultancy Services' Adult Literacy Programme**<sup>6</sup> – this utilises TCS IT expertise to create Computer Based Functional Literacy (CBFL), a multimedia software package that tackles adult literacy in a 40-hour programme. By shortening the development time for CBFL products in different languages, TCS can address wide-scale Bottom of the Pyramid literacy problems more swiftly (a social benefit). However, the roll-out of these products, engaging employees and families as volunteers in the process, also helps open up new markets and boosts recruitment, retention, motivation and enhanced company perception – all clear business benefits.
- On the environmental side, The **Co-operative Group** has focused on reducing its own greenhouse gas emissions as well as providing or withholding of finances to companies in order to

*Businesses have a direct stake in ensuring the success of sustainable development*



ANDRES RODRIGUEZ/GETTY IMAGES

Empowered employees achieve more

### *The purpose of the corporation must be redefined as creating shared value*

reduce the impact of the products and services offered. These activities have reduced the environmental impacts of the Co-op as well as its clients and other stakeholders. But they also reinforce the Co-op's corporate reputation as a leading advocate for sustainability, attracting and retaining customers who have cited ethics/environment as a reason for opening and maintaining an account.

- Finally, construction company **Wates Group**, BITC's Company of the Year, has engaged a wide range of its stakeholders – including employees, customers, suppliers as well as risk specialists and a network of social enterprises – to redefine its approach to sustainability. Its activities encompass employee development and engagement, community transformation, carbon footprint reduction, elimination of waste and responsible sourcing through its supply chain. This has created a wide range of business benefits including enhanced employee engagement and responsible leadership, improved operational effectiveness, new business opportunities, more effective risk management and enhanced brand reputation.

What does the close alignment of these business and societal benefits signify? In the January/February 2011 edition of *Harvard Business Review*<sup>7</sup>, Professor Michael Porter and Mark Kramer have written that in light of recent historical trends, "the purpose of the corporation must be redefined as creating shared value, not just profit per se".

However, the work of these leading-edge companies whose achievements have been recognised by BITC and others suggests that something far more exciting is going on: that enlightened business leaders are recognising that their companies have a "shared destiny", not only with their employees,

customers, suppliers and others in their immediate sphere of influence, but with a much wider range of stakeholders with whom they are inter-connected.

By engaging the hearts and minds of individuals in these extended stakeholder networks – which can encompass even their own industry competitors (eg the Extractive Industries Transparency Initiative, the Kimberley Process certification scheme and other sector-wide sustainability initiatives) – businesses can build vibrant powerful engines of societal change, in tandem with growing and developing their own companies.

### **Engaging and building your stakeholder community**

What is evident from these companies' corporate responsibility case studies is that their success depends on creating a sense of "shared destiny" among the company's key stakeholder groups, particularly among employees and suppliers as well as wider community constituencies. Cooperation, not competition, is central to this process.

The power of cooperation has been recognised by Harvard Law School Professor Yochai Benkler. In the July/August 2011 edition of *Harvard Business Review*<sup>8</sup>, he draws on research in evolutionary biology, psychology, sociology, political science, and experimental economics to argue that people behave far less selfishly than most assume. Evolutionary biologists and psychologists have even found neural and, possibly, genetic evidence of a human predisposition to cooperate. These findings suggest that instead of using controls or carrots and sticks to motivate people, companies should use systems that rely on engagement and a sense of common purpose.

The same principle applies to building a community of engaged stakeholders to achieve sustainability goals. Our Doughty Centre team believe that engagement is central, not only to embedding sustainability in companies, but to ensuring the success of the company in its widest possible sense. Our team has developed a roadmap for stakeholder engagement<sup>9</sup> as well as a more recent how-to guide for engaging employees with corporate responsibility<sup>10</sup>.

But to create a foundation for engagement with sustainability, one has to begin, not just with the business case for corporate responsibility but at a more fundamental level, with a clear sense of what the business is for: the case for business.

In his landmark 1990 RSA Lecture<sup>11</sup>, Prof Charles Handy made a simple but profound argument: that in the interests of business as well as wider society, companies should be reconceived as wealth-creating, self-governing communities, not as properties. Each corporate community must answer for itself the question, "what is our company for?" He argued eloquently that profit-making was a means, not an end, and every company needed to

discover a purpose beyond itself. That purpose needs to be embodied a vision that is ambitious and yet accessible to everyone in the corporate community.

Answering this basic question cannot be achieved with a sanitised mission statement written down by a few top executives in a management strategy meeting. Dialogue with your corporate community's stakeholders is central to this process (see, for example, our Doughty Centre how-to guide on CR knowledge management<sup>12</sup> to understand the central role of corporate storytelling).

Knowing what your company is for, in the broadest possible sense, means understanding:

- **What your company is trying to achieve** (eg "to help people and businesses throughout the world reach their full potential" (Microsoft)).
- **Who is in your extended corporate community** (eg for many leading-edge companies, this includes not just the usual suspects close to the centre of the organisation, such as customers, employees and investors, but stakeholders who are more geographically remote, for example individuals in Bottom of the Pyramid groups working in factories at the furthest reaches of the supply chain).
- **How your company can best achieve its purpose in ways that respect all the members of your corporate community** (eg promoting the health and well-being of employees; alleviating poverty or tackling illiteracy among potential customers, employers and/or suppliers at the Bottom of the Pyramid; preserving the long-term integrity of natural resources shared with others).

It is only in this context that one can define what corporate sustainability and responsibility means to your company. That definition will be unique to every business. Ideally it should be broad enough – in its vision of who is part of your corporate community and the scope of the timeframe over which your business expects to operate – to encompass innovative, longer-term projects focused on creating sustainable value with a diverse mix of partners (see, for example, our Doughty Centre Occasional Paper on the work of social intrapreneurs<sup>13</sup>).

In this way it becomes possible to progress beyond maintaining reputation and legitimacy, and cost and risk reduction, to innovation and repositioning, and growth path and trajectory, the four quadrants in Hart and Milstein's Sustainable Value Matrix<sup>14</sup>.

Finally, your core purpose must be something that people feel, not just think. It needs, above all, to inspire people to work together to achieve some higher goal, through actions great and small, every day they come to work. Because, more than strategy or business plans, inspiration is what you will need most on your company's journey to sustainability. ■



CHRISTIAN DEBERTONARISTINE.COM

Success means creating "shared destiny" across the supply chain

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- 5 See [http://www.bitc.org.uk/resources/case\\_studies/afe2818.html](http://www.bitc.org.uk/resources/case_studies/afe2818.html).
- 6 See [http://www.bitc.org.uk/resources/case\\_studies/tata\\_adult\\_literacy\\_1.html](http://www.bitc.org.uk/resources/case_studies/tata_adult_literacy_1.html).
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*Inspiration is what you will need most on your company's journey to sustainability*



Chief sustainability officers

## CSOs in the C-suite

By Oliver Balch

**Company leadership teams are finding space for sustainability positions. But who occupies them, and what skills are needed for the job?**

For the first time in a decade, Jeffrey Fulgham has no one reporting directly to him. The veteran water industry executive prefers it that way. It frees him up, as he puts it, “to do what I need to do”.

So what is that exactly? In short, get GE Water onto a sustainable footing. For a multinational business with operations all over the world, that’s no small task.

Internally, Fulgham needs to steer the company in reducing its overall water footprint. Part of that entails devising water management processes and setting targets. It also involves scoping the market for cleantech investments that will help his company cut water consumption.

Externally, the trained mechanical engineer needs to work with GE Water’s customers – which include giant agribusinesses and food and drink companies, among others – to help their operations and products become more sustainable too.

Little wonder that GE Water decided that the job spec needed clout. Early last year, Fulgham was appointed to the newly created position of chief sustainability officer.

The role gives him a precious seat at the executive management table. Part of the company’s dozen-strong senior leadership team, Fulgham reports directly to the chief executive.

Fulgham is one of a growing number of sustainability professionals to be granted access to the hallowed inner circle that is the C-suite. Ikea, Dow Chemical, Accor, Siemens, Dupont and Albermarle are among those with similar high-ranking positions.

The shift up the organogram reflects the

increasing importance attributed to sustainability as a business-focused concern.

Three out four chief executives now say that their board takes an active role in “considering and acting upon” sustainability concerns, according to the United Nations Global Compact CEO Survey 2010. That’s up from fewer than half in 2007.

However, traditional executive teams are not equipped to manage what is a complex, multidisciplinary subject.

Chief executives note the complexity of implementing strategy across functions (49%) and competing strategic priorities (48%) as the top barriers to implementing sustainability, according to the same report.

### Concern for sustainability

“Many [chief executives] are now looking for a trusted pair of hands to lead this right across the business,” says Peter Lacy, managing director of sustainability services at Accenture and co-author of the Global Compact survey.

Terminology varies from company to company. Chief sustainability officer, or CSO, is gaining traction. Vice-president or (global) director of sustainability or corporate (social) responsibility are becoming commonplace too.

Likewise, specific roles differ. Some are more “green” focused, a direct extension of the environmental management field. Others link more to general business strategy. A good number comprise a combination of both.

Broadly speaking, however, the to-do list of a board-level sustainability executive can be whittled

*Traditional executive teams are not equipped to manage what is a complex, multidisciplinary subject*

down to three main tasks.

First, he or she must fight sustainability's corner in the boardroom. As Fulgham points out, the CSO needs to continually "question and challenge" business-as-usual thinking. "As a line level function down in the organisation, you wouldn't have that clout or opportunity to really drive the leadership team," he adds.

Having that clout allows the CSO to present a long-term perspective when C-suite colleagues are, as their jobs generally demand, looking towards the next quarter.

Second, they need to be the face of the company's sustainability efforts. A CSO that cannot stand on a conference podium, address a room of sceptical journalists or run a senior-level internal workshop will not be long in the job.

Last and not least, a CSO needs to get things moving. That means driving sustainability through every level of the business.

### The CSO skill set

Each task requires its own skill set and knowledge base. One core attribute pertinent to all three roles is the ability to communicate with people, both inside and outside the organisation.

"A lot of people in the C-suite really have trouble speaking to employees on the plant floor. And many can't speak to neighbours or NGOs," says Robert Pojasek, sustainability practice leader at consultancy firm Capaccio Environmental Engineering.

Most business leaders now acknowledge that global challenges require cross-sector responses. A core component of the CSO skill set, therefore, is the ability to liaise with non-traditional stakeholders and ensure that their viewpoints inform board discussions.

Indeed, GE Water's Fulgham credits the flexibility of his role with enabling him to spend time out on the road talking with customers and other stakeholders.

A firm grip on the business fundamentals is a second key imperative. Understanding how sustainability fits into corporate strategy is vital if board buy-in is to be won. The same goes for a CSO's knowledge of basic business operations.

"Getting things done is all about understanding the business case and the business drivers," argues Ellen Weinreb, chief executive of Sustainability Recruiting, a US executive search firm.

It's also, she concedes, "about politics". Sustainability remains a relatively new concept. If it is genuinely to be integrated, that means change. Change, in turn, means treading on toes.

Raffaello Raimondi, senior search consultant principal at sustainability recruitment firm Allen & York, agrees. The first job on a CSO's list is often to challenge accepted norms and radically change a corporation's culture, he says.

"Companies need someone that comes in at board

## A CV for the C-suite: Steve Howard, chief sustainability officer, Ikea

Steve Howard's job spec at Ikea makes for daunting reading. As CSO, he's responsible for the company's environmental performance, managing product and supply chain impacts, and making sustainability "attractive and affordable for everyone".

Howard joined Ikea from the **Climate Group**, a pro-business environmental non-profit that he co-founded. During his six-year tenure as chief executive, he advised and briefed a raft of leading companies, chief executives and government leaders on climate change issues.

Before that, Howard – and strictly speaking, it's Dr Howard: the man has a PhD in environmental physics – spent 15 years wearing various other advisory hats. For much of that time, he was a partner at **environmental consultants ERM**, where he led on corporate social responsibility. Before that, he founded the Global Forest and Trade Network for charity **WWF International**. The job entailed leading an international team that assisted 700 companies on forest and supply chain issues.

Howard's expertise is much in demand on the non-exec circuit, too. He retains involvement with the Climate Group as a trustee. He is also an advisory board member of **Vantage Point Venture Partners** and an adviser to the **Planetary Skin Institute**. He is also a judge of the **Virgin Earth Challenge**.

In 2009, he won the accolade of "social entrepreneur UK" at the Ernst & Young entrepreneur of the year awards. The Sunday Times has named him among the UK's top 100 environmentalists.

He also competes in triathlons.

Steve Howard took up the role of chief sustainability officer at Ikea in January 2011. As a member of the global retailer's executive management committee, he reports directly to president and chief executive **Mikael Ohlsson**.

level and sends signals that will impact every single structural function within the organisation," Raimondi says. The CSO should therefore be ready for a "defensive reaction at first", he adds.

In-depth technical knowledge of sustainability management is not essential for board access. In this sense, the job spec is markedly different from a functional sustainability role.

Naturally a familiarity with the principles of environmental management, governance, stakeholder engagement and business ethics are important. The 79 lead indicators of the Global Reporting Initiative, however, are not.

"You don't have to know everything about everything," says Pojasek, who also runs an executive training class at Harvard University.

More important is the ability to identify "what is important and what isn't", and then to ask the right question of the right person.

### Experience required

As a consequence, most CSOs are plucked from career streams other than sustainability.

Describing the ideal CSO's background, Allen & York's Raimondi points to a minimum of ten years' industry experience in an engineering or process-driven role. Time in a sell-side role or another function that requires soft skills also features high on his checklist.

Other basics would include a masters in business administration and quite possibly experience with a leading strategic or environmental consultancy.

Someone who fits Raimondi's description of having got "their hands dirty" in a business function is Jerry Lynch. A Kellogg School of Management

*The first job on a CSO's list is often to challenge accepted norms and radically change a corporation's culture*

## Chief sustainability officer: the skills required

- Sophisticated understanding of the **global corporate responsibility** landscape and best practice.
- Ability to work successfully with people of **diverse functional and cultural** backgrounds.
- Can anticipate **trends and issues** in business and society.
- Excellent written and oral **communication** skills.
- Professional and **experienced practitioner** in the sustainability/CR space.
- Strategic **planner** and influencer.
- Strong **interpersonal skills** and ability to interact with senior executives.
- Excellent reputation for **judgment**.
- Applicable training in sustainability **reporting** standards.
- Business acumen.

Source: Structuring and Staffing Corporate Responsibility: A Guidebook, Corporate Responsibility Officer Association

**Nearly two-fifths of US companies still have no corporate responsibility function at any level**



Blue sky thinking required

MBA graduate, he became chief sustainability officer at food giant General Mills last year.

Before that, Lynch had spent 15 years in various senior marketing and commercial roles. His CV includes four years as director of marketing for General Mills Europe, Middle East and North Africa.

That is not to say that an exceptional candidate cannot rise through the sustainability ranks. Sophie Goldblum-Flak, for example, was partner in charge of innovation and sustainable development strategies at consultancy firm Accenture before joining the board of French hotel group Accor Hospitality.

As executive vice-president, her tasks at Accor are much broader than sustainability alone. Her brief covers business transformation, innovation and new technologies, as well as sustainable development.

Finding candidates of such pedigree is not straightforward. Of course, there are some with what Weinreb calls the “wow” factor (see box). Goldblum-Flak, for example, entered the boardroom in 2010 at the age of 38.

However, while it’s not “out of the question” to find a single individual with all the requisite skills, knowledge and attributes, Accenture’s Lacy argues that it is “unlikely”.

That leaves companies in a dilemma: on the one hand, the most senior sustainability manager lacks the skill set required of a senior executive; on the other, the board-level executive leading on sustainability lacks the “content or stakeholder skills”.

In most cases, it is important for a chief executive to ensure that whoever takes responsibility at senior management level “has a cluster of experts to fill those gaps”, Lacy says.

But while CSOs are an emerging phenomenon, they are certainly not universal.

Nearly two-fifths of US companies (38%) still have no corporate responsibility function at any level, according to the Corporate Responsibility Officer Association (CROA).

While the term is frequently used to describe a company’s most senior sustainability professional, it doesn’t always correspond to a seat at the board. Usually, in fact, it doesn’t.

Sustainability Recruiting’s Weinreb recently evaluated all the CSO roles in major US corporations. She eliminated those roles without senior leadership authority or a 10-K listing (the Securities and Exchange Commission’s filing identifying a company’s accountability to shareholders). She was left with a list of four.

### Board bundle

More typical is for sustainability to be rolled up with other responsibilities into a single board position. According to the CROA, 41% of boards have a member designated to lead corporate-responsibility-related initiatives.

A classic example would be Shell. While the global oil major boasts a sizeable sustainability team, board responsibility falls to the executive director of the company’s upstream international business.

Sustainable development is just one of half a dozen issues in the portfolio, which includes core business activities such as exploration and new business development (not to mention hotspots such as Nigeria and north Africa).

That is not to say CSOs must be on the board to be effective. Much depends on their reporting lines, Weinreb says. “If they are reporting to the COO or the CEO, then they are going to get support from above and below.”

Barton Alexander, chief responsibility officer at US brewer Molson Coors, agrees. Granted a “dotted line” to the chief executive and the executive leadership, Alexander reports directly to the head of public affairs.

As the company’s resident expert, he is regularly called in to board discussions to help advise on issues and inform decision-making.

“Whether I am sitting there [in the boardroom] full time or not seems not as important as the fact that this group accepts this dimension of the business as core to our business success,” he says.

He cites another argument too: ownership. At present, all employees have a degree of responsibility for sustainability. Appointing a board-level role exclusively for sustainability could shift that burden onto one person’s shoulders.

However skilled, such a scenario would test the capabilities of any senior level CSO. ■