

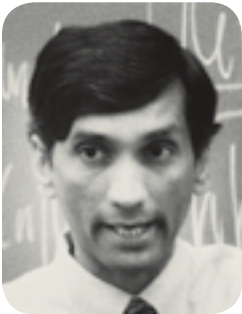
Corporate Social Responsibility Strategy and Boards of Directors

By Herman B. “Dutch” Leonard and V. Kasturi “Kash” Rangan

How can boards best organize themselves and act so as to add perspective and value with CSR?



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Companies today face increasing demands for corporate social responsibility (CSR). Correspondingly, they have important new opportunities to build business value through judicious

choices and actions to improve social and environmental conditions in the communities in which they do business. Whereas firms once might have been able to prosper by concerning themselves almost exclusively with financial results, most now find it at least prudent—and many are finding it directly valuable—to manage a wider array of the impacts that they generate (or can influence), from environmental conditions to employee health and safety to social conditions like the quality of public education.

How can boards best organize themselves and act so as to add perspective and value in these matters? First, they must develop the capacity to examine and evaluate individual CSR-oriented actions, a process that requires both an

understanding of the motivation behind them and an assessment of their impact on society and on the firm. Second, they need to ensure that the firm’s CSR activities constitute a coherent and effective CSR strategy. Third, they have to see to it that their firm’s CSR strategy and decision-making are integrated into the company’s overall strategy.

Start with the Softest Investments, and Build Your Way Out

Generally, it is not a good idea to start by reviewing all CSR efforts at once. Firms engage in a variety of activities in manufacturing, in their supply chain, and in cause marketing that already commands the attention of appropriate operational leaders. Detailed oversight by directors may be unwarranted, and will likely be unwelcome. Instead, directors should first examine the things in which they are most directly involved: the firm’s charitable activities, especially its largest ones.

Most companies engage in some form of philanthropic activity either through direct donations or a corporate foundation. Look especially carefully at the soft activities that do not mesh with

the business activities of the firm, either on the input or the output side. See whether and how they are supposed to generate value for the firm. Is there a reason why we should support these activities? Are we more interested in these specific social benefits than others, or in a better position to help promote them because of our position in the industry or our connections in the supply chain, both upstream with suppliers and downstream with customers? Or are there, instead, other activities that make more sense for us to support?

This is an area where a board can add value. Most companies engage in a variety of unconnected charitable activities at the behest of one senior leader or another, somehow hoping that in the long run, this will embellish the company’s reputation. It is the board’s job to bring coherence to these investments—first, because it is their fiduciary responsibility, but more importantly because they can bring a visionary assessment of how such activities, when properly integrated, can deliver future value for the firm.

Next, check out your core business processes to identify their larger social consequences. For example, inquire whether your manufacturing processes could

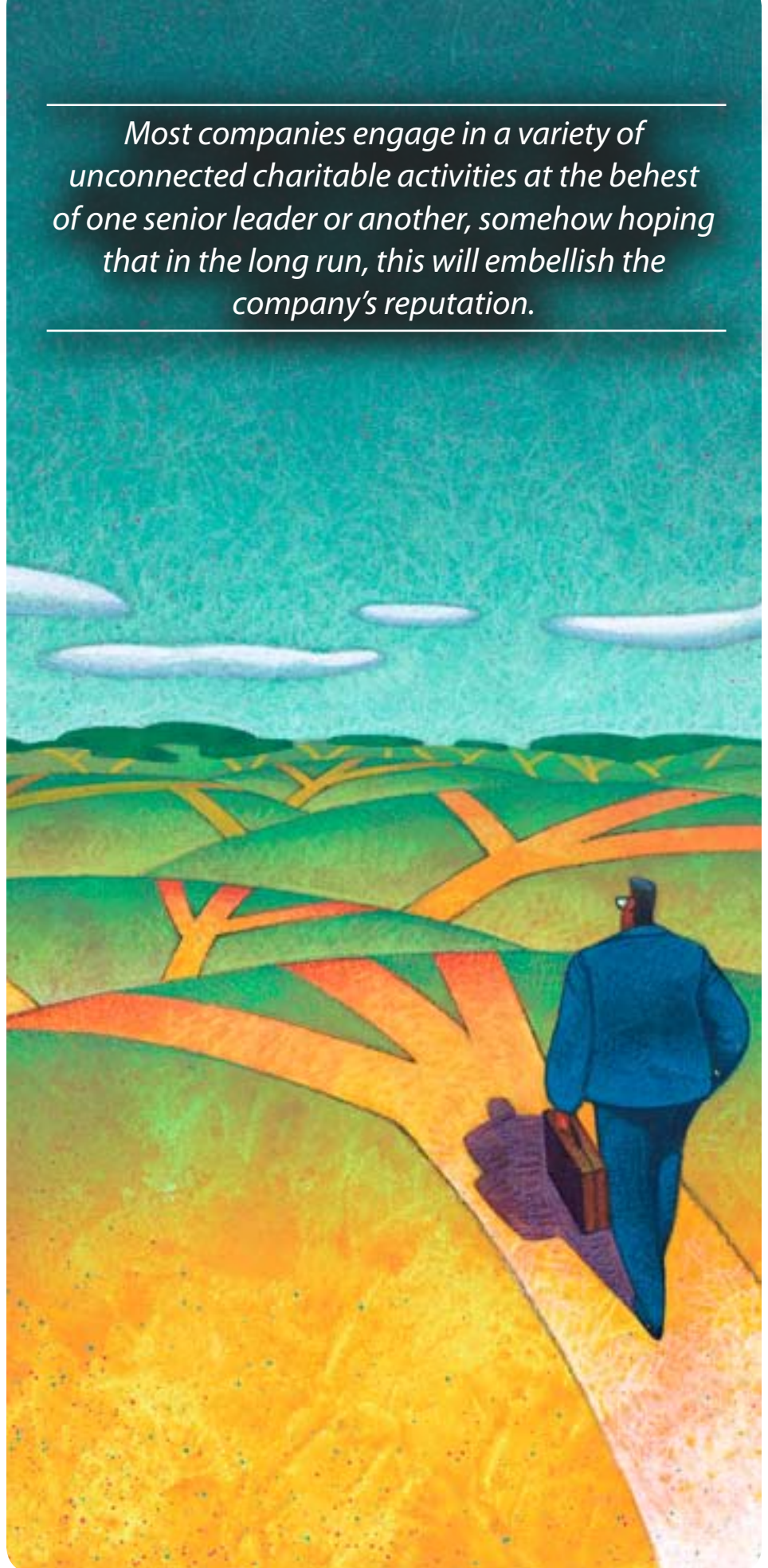
be made more efficient to reduce waste and environmental impact (and, simultaneously, your costs), and whether your products can be designed to use less packaging or be more readily recyclable. Much of the homework on this audit should already have been done by the operational managers. The board's role here is simply to ensure that the pieces of the puzzle are put together, enabling it to see and shape the firm's larger CSR strategy.

Finally, work your way out from the center of your own activities, in two directions: up your supply chain to vendors, and down your value chain to customers. Make sure management has looked at its purchases of raw materials. Are they sustainably harvested? Would it make sense for the company to work with its suppliers to help them address working conditions in their factories in ways that would also improve worker morale and productivity (and thus, not incidentally, lower costs)? Can you work with your customers to reclaim and recycle parts of your products after they've been consumed? Are your cause marketing programs and community relations activities truly building your brand?

Examining Individual Philanthropy-related Actions and Activities

To judge the merits of individual CSR-related programs or activities, board members must understand their basic purpose. Directors can begin by recognizing the various reasons why companies might engage in activities that, in the first instance, create social value rather than directly produce financial results. One reason may be a sense of moral obligation—because

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they (and/or their shareholders, managers, and fellow directors) believe it is “the right thing to do.” When there is an important social problem (such as 9/11 or the aftermath of Katrina), and the firm is in a good position to do something about it, the firm’s owners and leaders may agree that they want to take action simply out of a sense of moral concern.

Moral obligations aside, companies more commonly act on social matters because they see a business case for social response. They believe that, in either the short or longer run, such a strategy will produce direct benefits for the firm—as, for example, with efforts to reduce environmental impact, which improve production efficiency, eliminate waste, and reduce input costs—or will result in indirect advantages (whose benefits may take longer to recognize). For instance, a program that allows employees paid time to volunteer in local nonprofit activities may build support in the community that might later improve opportunities for getting more favorable regulatory treatment from local officials.

In contrast, we find that firms are often vague about why they are pursuing specific activities. When asked, they can say little more than that “it seemed like a good idea” or that they felt that they “should do something.” Our view is that the more explicit they can be about their intentions, the more likely they are to achieve real results—for society and for the firm.

If the intent of the program is (at least in part) to generate value

for the firm, boards should also examine whether a given action is basically defensive or is part of a strategy to create new value. Businesses can pursue CSR actions either to protect existing value (for example, to keep from losing the ability to operate in a country or community, or to avoid a possible boycott of its goods)—or to create new value (as when they access a new market segment by adapting products or services to address the needs of low-income populations).

Overseeing the Building and Operation of a Firm’s CSR Strategy

Once the board understands the basic “theory of value” of a given activity—how and why it is supposed to create value, and for whom—the next challenge is to assess whether it is in fact working. The board needs to see to it that performance objectives have been set, that indicators of success have been established and are being monitored, and that processes are in place for learning about how the program can be improved on a continuing basis.

Beyond examining individual components of the firm’s CSR activities, the board must face the larger responsibility of ensuring that the firm has a coherent collection of CSR activities that are aligned with one another and with the overall strategy of the firm. Well-intentioned CSR activities with little intrinsic connection to the firm’s skills and main business strategy are likely to create management distractions rather than build firm value.

In reviewing the CSR portfolio, boards must therefore examine the coherence of the CSR strategy as a component of the firm’s overall strategy by asking:

- How do these actions fit together with one another—and with our general strategy?
- Is the CSR strategy internally coherent?
- Does our approach to CSR take advantage of our key skills and distinctive competencies—or does it require us to develop new capabilities that we do not otherwise need?
- Are decisions about CSR integrated into our basic business systems and decision processes?

When individual CSR activities are carefully understood so that we know why we are undertaking them, what results we expect from them, what their impact is, and how we can improve them over time, and when we have formed a coherent collection of these activities and integrated our decision-making about them into our main business strategy, CSR will become an ongoing company function that builds long-term value for shareholders as well as stakeholders.

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