CHAPTER FIVE

Corporate Responsibility

In the previous chapter, we discussed the importance of corporate reputation—the sum of an organization's constituency perceptions built up over time. An increasingly significant contributor to corporate reputation is the notion of corporate responsibility (CR), which is a corporation's social and environmental obligations to its constituencies and greater society. This new lens is increasingly being used by constituencies ranging from the general public to investors to analyze and critique modern-day corporate behavior. In fact, some companies are fundamentally changing the way they conduct their operations to include responsible practices, and groups such as B Corporation and ISO 26000 are providing frameworks and guidelines on how companies can better manage their relationships with society.

When did society's expectations of corporations shift to include responsible and accountable behavior in addition to profit making? As recently as two decades ago, the general public viewed "do-gooding" as the primary domain of nonprofit organizations and good Samaritans. At the time, many considered businesses to be purely self-interested entities. Positioned in a corner directly opposite charities, the purpose of a corporation was profit maximization, with any efforts to give back to the community limited to check-writing and philanthropy at an arm's length. Milton Friedman, a University of Chicago economist, embodied the belief that businesses should be strictly economic, whereas governments and nonprofits should handle social and environmental issues. In the 1970s, Friedman's doctrines became famous through his *New York Times Magazine* article, "The Social Responsibility of Business Is to Increase Its Profits," in which he declared: "What does it mean to say that 'business' has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but 'business' as a whole cannot be said to have responsibilities, even in this vague sense."[1]

In the 1970s, society began to more actively question the means by which corporations generate profits, acknowledging for the first time that corporate practices and society's well-being are closely linked.[2] Corporations became more

[1] Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *The New York Times Magazine*, September 13, 1970.

[2] Joshua Daniel Margolis and James Patrick Walsh, *People and Profits? The Search for a Link between a Company's Social and Financial Performance* (London: Lawrence Erlbaum Associates, 2001).

Mini Case Study

In October 2005, Lee Scott, Walmart's president, announced a large-scale strategy to reduce the company's impact on the global environment. The strategy was an effort to "become the most competitive and innovative company in the world" and had three goals: (1) to be supplied by 100 percent renewable energy, (2) to create zero waste, and (3) to sell resource-efficient and environmentally sustainable products.

Walmart wields significant influence—in 2014, it topped the *Fortune* 500 list as the world's largest company by revenue, bringing in $476 billion. It employs more than 2 million people and is the largest retailer in the world. Even in 2005, when Walmart's sustainability strategy was conceived, the company was a behemoth—it had 6,000 stores worldwide and 84 percent of Americans had shopped at a Walmart that year. Its power in the retail industry was derived from its strict supply chain efficiency, which allowed it to charge much lower prices than its competitors.

In general, Walmart addressed issues of environmental sustainability defensively, rather than proactively, in response to pressure by environmental groups. Thus, the 2005 sustainability strategy was a break from tradition. The strategy would be long-lasting, deeply embedded in Walmart's operations, and closely tied to the company's financial performance. Scott enlisted a consulting firm to conduct an environmental impact assessment that would enable Walmart to cut costs through an environmental strategy and differentiate from the competition. The environmental impact assessment, conducted in conjunction with the Environmental Defense Fund (EDF) and Conservation International (CI) identified five primary areas for improvement: greenhouse gas emissions, air pollution, water pollution, water use, and land use.

In June 2005, a team of Walmart executives, employees, and consultants identified three focus areas that would drive the goals for reducing Walmart's environmental impact: energy, waste, and products. The team defined 14 "Sustainable Value Networks" that drove Walmart's environmental agenda related to energy, waste, and products in the high-impact areas mentioned earlier. Each of these Value Networks was championed by an executive, and cross-functional teams were created to drive sustainability in different parts of the business. Importantly, sustainability became an added responsibility for existing roles, rather than a new functional group within the organization. It was a new paradigm for approaching the job. Additionally, Walmart sought sustainability ideas from outside stakeholders—it drew NGOs, suppliers, eco-friendly competitors, academics, and critics into the sustainability conversation.

The teams then executed a structured process to determine how Walmart could modify its business model to better meet the needs of the communities in which it operated. In sourcing seafood, for example, Walmart instituted several changes across the value chain.

In 2005, global fisheries were under severe pressure due to overfishing. Fishing was an inefficient activity in terms of fuel use and was getting worse as wild fish stocks continued to decline and boats had to venture further out to sea to catch fish. In addition, farmed fish typically had high concentrations of toxins and antibiotics, both of which are harmful to humans when consumed in large quantities. In an effort to secure its short-term and long-term seafood supplies (Walmart's seafood volume was growing 25 percent per year), Walmart engaged the Marine Stewardship Council (MSC) in certifying its suppliers for sustainably caught wild fish. Walmart aimed to have 100 percent of its seafood certified within three to five years.

Established in 1997 by Unilever and World Wide Fund for Nature (WWF), the MSC program developed a broad set of certification standards based on the UN Code of Conduct for responsible fishing. The certification is implemented through independent, MSC-accredited certifying agencies that audit fisheries and processors to ensure that marine resources are harvested sustainably "from boat to plate." Certified fisheries have their finished products labeled in with the MSC eco-label, thus raising consumer awareness. The MSC hoped that the certification process would pressure the industry to adopt more sustainable fishing practices.

In addition to working with MSC, Walmart developed other initiatives to address larger issues of fishery sustainability. These not only affected Walmart's suppliers, but also governments, customers, and NGOs. For example, Walmart worked with NGOs to establish marine reserves and no-fish zones to allow depleted fisheries to recover. By the end of 2006, 30 to 40 percent of Walmart's wild-caught fish were certified under MSC. By 2014, 90 percent of its wild-caught seafood received MSC certification.

Sources: "WalMart's Sustainability Strategy," Stanford Graduate School of Business, April 2007 (revised June 2010); https://www.gsb.stanford.edu/faculty-research/case-studies/wal-marts-sustainability-strategy.

environmentally aware once large-scale disasters such as Union Carbide's chemical leak in Bhopal, India, in 1984 and the Exxon *Valdez* oil spill in 1989 sparked widespread uproar about the irresponsibility of big business.[3] In the 1990s, a series of exposés in the mainstream media revealed to many consumers for the first time the "sweatshop" labor conditions and child labor used in garment and footwear supply chains by companies such as Nike. The exposés led to consumer outrage and boycotts, which prompted corporations to adopt codes of conduct to protect workers' rights.

Today, companies are increasingly aware of the impact that their operations have in their many communities, and beyond. We see companies forging into unprecedented territory by tackling issues ranging from income inequality and global pandemics to climate change and access to clean water—issues previously considered to be unrelated to their organizational mission. They are implementing community programs and partnerships with nongovernmental organizations (NGOs) and, most innovatively, are adapting their own business models to be more responsible and sustainable. In the new millennium, the for-profit and nonprofit sectors are no longer at odds; instead, the once-distinct lines between them are blurring. The 2012 Edelman Goodpurpose Study[4] found that 87 percent of global consumers felt that "business needs to place at least equal weight on society's interests as on business interests." The study authors suggest that "purpose" is now the fifth "P" in the classic 4Ps marketing model (product, price, placement, and promotion). "Purpose" is a driving force behind consumer preferences—Edelman's 2012 study described it as "a core strategy for profit and growth based on linking an organization's reason for being to improving lives and impacting society." The study also showed that 76 percent of consumers believe it is acceptable for companies to both make money and contribute to positive social and environmental change.[5]

Many global executives today view corporate responsibility as being critical to their business strategy and operations. The 2014 PWC CEO Survey revealed that most CEOs acknowledge that they need to track their companies' impact across social, environmental, and financial dimensions. The same study showed that 75 percent of CEOs believe that looking out for societal needs beyond those of investors, customers, and employees is good for business.[6] A 2011 KPMG study suggested that companies and investors are increasingly looking at corporate responsibility initiatives as a proxy for "risk management, management quality, business reputation, and fundamental to the long-term performance of a company as well as enhanced long-term sustainable returns to investors."[7]

[3] "Just Good Business," *The Economist*, January 17, 2008.

[4] 2012 Edelman Goodpurpose Study, Edelman, 2012, www.slideshare.net/EdelmanInsights/global-deck-2012-edelman-goodpurpose-study/1.

[5] Ibid.

[6] 17th Annual Global CEO Study, PricewaterhouseCoopers, 2014, www.pwc.com/gx/en/ceo-survey/.

[7] International Survey of Corporate Responsibility Reporting, KPMG, 2011, www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/2011-survey.pdf.

What Is Corporate Responsibility?

Corporate responsibility (often referred to as *corporate social responsibility*), *corporate citizenship*, *sustainability*, and even *conscious capitalism* are some of the terms bandied about in the news media and corporate marketing efforts as companies jockey to win the trust and loyalty of constituents around the world.[8] The acronym ESG, which stands for environment, social, and governance, is also used to describe corporate responsibility initiatives. The term *triple bottom line*, popularized in 1994 by John Elkington, founder of British consulting firm SustainAbility, is also used in corporate responsibility conversations and refers to profit, people, and planet.[9] With such a wide array of terms actively in use in business lexicon, we will define corporate responsibility at the outset of the chapter to guide the rest of our discussion on its effects on corporate reputation.

Corporate responsibility (CR) describes an organization's respect for society's interests, as demonstrated by taking ownership of the effect its activities have on key constituencies—including customers, employees, shareholders, communities, and the environment—in all parts of its operations. In short, CR prompts a corporation to look beyond its traditional bottom line (economic profit or loss) to consider the greater social implications of its business. This accountability often extends beyond baseline compliance with existing regulations to encompass voluntary and proactive efforts to improve the quality of life for employees and their families as well as for the local community and society at large. A responsible company makes a concerted attempt to reduce the negative social and environmental footprint of its operations through a thoughtfully developed strategy implemented over the long term and not merely through temporary, stopgap measures such as monetary contributions to charitable causes.[10] For example, ExxonMobil donating $250 million over 32 years to sponsor Masterpiece Theatre qualifies as philanthropy, but it cannot be categorized as CR because it makes no effort to mitigate the lasting impact of the company's operations. In contrast, Starbucks' efforts to minimize the negative effects of its coffee supply chain and retail operations by purchasing beans from fair trade growers and paying its employees wages higher than industry averages serve as cornerstones of its CR strategy.[11]

Many times, a company's corporate responsibility efforts involve donations of time and expertise, as opposed to cash. However, *Corporate Responsibility Magazine* observed in 2010 that the days of "checkbook philanthropy" were over and noted that contributions of in-kind products, services, and experience represented greater than 65 percent of corporate contributions.[12] In 2010, 64 percent of global consumers felt

[8] "Conscious Capitalism: Now *Creed* Is Good," BBC News, May 4, 2000.

[9] "Triple Bottom Line: It Consists of Three P's: Profit, People and Planet," *The Economist*, November 17, 2009, www.economist.com/node/14301663.

[10] "The ROI of CSR: Q&A with Geoffrey Heal," *Columbia Ideas at Work*, Columbia Business School, Spring 2008.

[11] Ibid.

[12] Jay Whitehead, "Black List Methodology," *Corporate Responsibility Magazine*, 2010, http://thecro.com/content/bad-business-crs-black-list.

that it was no longer enough for a company to only donate money. Instead, consumers felt that companies must incorporate good works into the fabric of their business.

As companies focus on organizing and prioritizing their CR efforts, they are increasingly connecting with other organizations to develop guidelines and standards. As of 2014, more than 7,000 businesses in 145 countries around the world signaled their commitment to sustainability of human and environmental resources by participating in the "Global Compact" of the United Nations (UN).

To help guide companies in their corporate responsibility efforts, the UN Global Compact drew upon several diplomatic human rights and sustainability documents when crafting its list of Ten Principles. Companies can use this list to guide their corporate responsibility initiatives.

The UN Global Compact Ten Principles

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.[13]

The UN also launched the Principles for Responsible Investment initiative in 2006 to help investors identify and invest in companies with strong corporate responsibility practices. By 2014, more than 1,200 investor groups with combined assets of $US 45 trillion under management had joined the initiative.[14]

[13] "The Ten Principles," United Nations Global Impact, www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html.

[14] www.unpri.org/about.

FIGURE 5.1
Strategy and Society: The Link between Competitive Advantage and Corporate Social Responsibility

Generic Social Issues	Value Chain Impact	Competitive Context
• Social issues that are **not significantly affected** by the company's operations, nor materially affect its long-term competitiveness	• Social issues that are **significantly affected** by the company's activities in the ordinary course of business	• Social issues in the company's external environment that affect the **underlaying drivers of competitiveness** in the locations where the company operates

Source: Michael E. Porter and Mark R. Kramer. Harvard Business Review, December 2006.

In shaping a CR strategy, a corporation ideally acknowledges and integrates the full spectrum of constituencies' "extra-financial" concerns—social, environmental, governance, and others—into its strategy and operations. The Global Reporting Initiative (GRI) describes five interdependent capital asset classes: financial, human, natural, social and technological.[15] *The Economist* has described CR as "part of what businesses need to do to keep up with (or, if possible, stay slightly ahead of) society's fast-changing expectations."[16] Developing an authentic CR strategy signals a corporation's intent to look beyond short-term financial returns and focus on long-term success and sustainability by managing those expectations. This consideration often requires the executives of public companies to fight prevailing pressures to achieve strong quarterly results at the expense of longer-term, often less tangible benefits.[17]

Despite these challenges, Harvard Business School guru Michael Porter and consultant Mark Kramer argue that CR is a strategy that, if implemented thoughtfully and thoroughly, can enhance a corporation's competitiveness. They analyze the interdependence of a company and society by using the same tools used to analyze overall competitive positioning and strategy development. In this way, CR can be used strategically to set an "affirmative [CR] agenda that produces maximum social benefit as well as gains for the business."[18] In 2011, Porter and Kramer published a seminal paper in the Harvard Business Review titled *Creating Shared Value*. The problem, they say, lies in companies that "view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer term success." In essence, they advocate for companies to espouse a broader definition of value—one that not only emphasizes profit, but also addresses the relationships that businesses have with the communities and environments they affect. A CR strategy should not be reactive but should

[15] "Carrots and Sticks: Promoting Transparency and Sustainability," Global Reporting Initiatives, 2010, www.globalreporting.org/resourcelibrary/Carrots-And-Sticks-Promoting-Transparency-And-Sustainability.pdf.

[16] "Do It Right," *The Economist*, Special Report: Corporate Social Responsibility, January 17, 2008.

[17] Henry Mintzberg, Robert Simons, and Kunal Basu, "Beyond Selfishness," *MIT Sloan Management Review* 44, no. 1 (Fall 2002).

[18] Michael E. Porter and Mark R. Kramer, "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility," *Harvard Business Review*, December 2006.

proactively identify the social consequences of a company's entire value chain—the full spectrum of all of the activities it engages in when doing business—to pinpoint potential problems and opportunities wherever business and society intersect.[19]

KPMG's 2013 Survey on Corporate Responsibility found that businesses derived significant value from reporting on their CR initiatives through innovation, improved reputation, and improved communication within companies.[20] A recent IBM survey found that 87 percent of executives were focusing on CR activities that would help them to improve efficiency, and 69 percent were focusing on CR activities that would help with new ideas for revenue generation.[21]

To help companies with strong corporate responsibility platforms gain more credibility and recognition, an American nonprofit, B Lab, created the concept of the B corporation certification, with the "B" standing for "Benefit." B corporations are companies that meet "rigorous and independent standards of social and environmental performance, accountability, and transparency." Companies can apply to B Lab for B corporation status much in the same way that companies can apply to certifying bodies to achieve fair trade, organic, or LEED certification. In 2014, B Lab reported that more than 1,000 applicants across 34 countries had become B corporations. These companies represent 60 industries and include investment groups and construction firms. Consumer product companies such as King Arthur Flour, Dansko, Method, Seventh Generation, Guayaki, EO Products, and Numi Organic Tea have achieved B corporation status.

On its website, B Lab lists the following reasons that companies may want to become a B corporation: "Differentiate your brand, maintain mission, save money [particularly via partnerships and discounts negotiated for members by B Lab], generate press, attract investors, improve and benchmark performance, and build a movement."[22]

In addition to its own certification, B Lab has taken its mission a step further and is working with state governments to legitimize the B corporation as a legal incorporation option. Similar to the C corporation, S corporation, limited liability company (LLC), and limited liability partnership (LLP), B corporation status reflects the organizational structure of a company, as well as the tax laws that affect it. By 2014, 25 states, including California, Hawaii, Virginia, Maryland, and Vermont recognized B corporations, and 14 states were considering legislation for recognizing them.[23] B Lab is pursuing this agenda because it believes that "current corporate law makes it difficult for businesses to consider employee, community, and environmental interests when making decisions."

[19] Michael E. Porter and Mark R. Kramer, "Creating Shared Value," *Harvard Business Review*, January–February 2011.

[20] "International Survey of Corporate Responsibility Reporting 2013," KPMG, 2013, www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013.pdf.

[21] "Corporate Social Responsibility: Leading a Sustainable Enterprise," IBM Institute for Business Value, 2009, http://public.dhe.ibm.com/common/ssi/ecm/en/gbe03226usen/GBE03226USEN.PDF.

[22] www.bcorporation.net/.

[23] www.bcorporation.net/.

With more states, including New York, reviewing B corporation legislation, and with consumers agitating for more corporate responsibility, it seems increasingly likely that corporations that do not make an effort to carve out their own CR niche will be left trailing their competition.

The Twenty-First Century's CR Surge

Corporations are increasingly aware that as they look out for society's best interests, they are actually looking out for their own interests, too, particularly in the long run. As Charles Handy notes, "business needs a sustainable planet for its own survival, for few companies are short-term entities; they want to do business again and again, over decades."[24] Businesses do not exist in a vacuum—they inevitably intersect with society and are mutually dependent for their survival. As *Financial Times* Assistant Editor Michael Skapinker argues, "companies cannot thrive in collapsing societies. Without political stability, the future of business is grim. . . . Even in the most stable countries, companies need the community's approval to function. Opinion can turn against them fast: witness European consumers' distaste for genetically modified food, or the attacks on pharmaceutical companies over the pricing of AIDS drugs in Africa."[25] This argument includes corporations' need for an environmentally stable context in which to operate. Pressing environmental and social issues today—from climate change to income inequality—pose serious threats to "business-as-usual" operations. Sal Palmisano, Chairman of the Board and former CEO of IBM, describes the new expectations corporations must meet to survive in light of these risks: "All businesses today face a new reality. . . . Businesses now operate in an environment in which long-term societal concerns—in areas from diversity to equal opportunity, the environment and workforce policies—have been raised to the same level of public expectation as accounting practices and financial performances."[26]

Corporations slow to adapt to this new reality pay a price. An often-cited example is Walmart's 2004 discovery of a report prepared by McKinsey & Co., subsequently made public by walmartwatch.com, of a public education campaign devoted to challenging Walmart to become a better corporate citizen. The report revealed that up to 8 percent of Walmart consumers surveyed at the time had ceased shopping at the chain because of its reputation, which at the time included a perceived CR deficit.[27] Walmart's CEO at the time, Lee Scott, reacted with the comment: "We thought we could sit in Bentonville, take care of customers, take care of associates—and the world would leave us alone. It doesn't work that way anymore."[28] In a published statement, Scott also admitted Walmart had been caught off-guard by its entanglement in social and environmental issues: "To be honest, most of us at Walmart have been so busy minding the store that the way our critics have tried to turn us into a political

[24] Charles Handy, "What's a Business For?" *Harvard Business Review*, December 2002.

[25] Michael Skapinker, "Corporate Responsibility Is Not Quite Dead," *Financial Times*, February 12, 2008.

[26] Daniel Yankelovich, *Profit with Honor: The New Stage of Market Capitalism* (New Haven: Yale University Press, 2006), p. 9.

[27] Marc Gunther, "The Green Machine," *Fortune*, August 7, 2006.

[28] "The Debate over Doing Good," *BusinessWeek*, August 15, 2005.

symbol has taken us by surprise. But one thing we've learned from our critics . . . is that Walmart's size and industry leadership mean that people expect more from us. They're right to, and when it comes to playing our part . . . we intend to deliver."[29]

People today are expecting more. *The Economist* has described CR as "a do-gooding sideshow" that has now turned mainstream.[30] In 2010, IBM surveyed 1,500 global CEOs and found that 76 percent of the CEOs believed that they are expected by customers to increase their focus on social responsibility initiatives.[31] In today's world of heightened awareness of climate change, human rights, and scarcer resources, a corporation's "extra-financial" behavior—how well it treats its stakeholders and the world in which it operates—contributes greatly to its trustworthiness. Trust is not an abstract notion; it can have a significant impact on a company's bottom line. For example, the 2011 Trust Barometer published by the international public relations firm Edelman revealed that 73 percent of people have refused to buy the products or use the services of a corporation they do not trust.[32]

Large corporations started the new millennium on a precarious note, the effects of which still linger today. Enron's and WorldCom's respective scandals shocked the world and undermined the average person's trust in the motives and operations of big business. Enron's now famous Code of Conduct—last published in July 2000, prior to the company's downfall—described such fundamental values as respect, integrity, communication, and excellence. Belief in the altruistic motives of big business subsequently crashed; by 2002, a *BusinessWeek*/Harris survey reported that 79 percent believed that "most corporate executives put their own personal interests ahead of employees and shareholders."[33] Over a decade later, the general public still demonstrates low levels of faith in corporations. In 2014, Gallup reported that only 22 percent of Americans say they have a "great deal" or "quite a lot" of confidence in big business, compared to about 75 percent for the military.[34]

Corporate Responsibility and the Media

At the same time, widespread Internet access—with more than 3 billion people online as of 2014[35]—has redefined the notion of transparency for corporations. The Internet and social media sites such as Twitter and Facebook now serve as powerful forums for like-minded people to educate and organize themselves. Individuals also now have a powerful tool for spreading once proprietary company information. It is easier than ever for constituents to monitor companies and to criticize them for everything from human rights violations that take place in a distant corner of a company's supply chain to carbon emissions that

[29] Yankelovich, *Profit with Honor*, p. 10.

[30] "Just Good Business."

[31] "Capitalizing on Complexity: Insights from the Global Chief Executive Officer Study, IBM," 2010, www-935.ibm.com/services/c-suite/series-download.html.

[32] Edelman Trust Barometer 2007, www.edelman.com.

[33] Yankelovich, *Profit with Honor*, p. 24.

[34] "Confidence in Institutions," Gallup poll, May 2014, www.gallup.com.

[35] Internet World Stats, www.internetworldstats.com, June 28 2015.

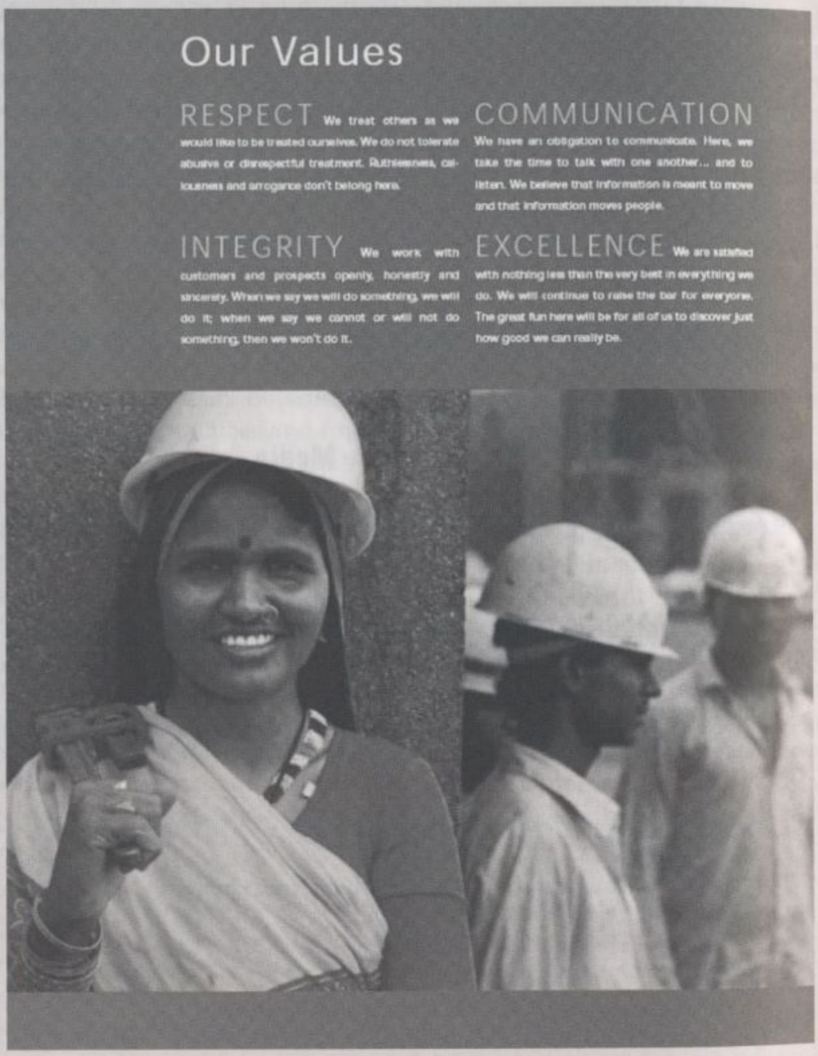
Enron's 1998 Annual Report, "Our Values"

RESPECT: We treat others as we would like to be treated ourselves. We do not tolerate abusive or disrespectful treatment. Ruthlessness, callousness, and arrogance don't belong here.

INTEGRITY: We work with customers and prospects openly, honestly and sincerely. When we say we will do something, we will do it; when we say we cannot or will not do something, we won't do it.

COMMUNICATION: We have an obligation to communicate. Here, we take the time to talk with one another . . . and to listen. We believe that information is meant to move and that information moves people.

EXCELLENCE: We are satisfied with nothing less than the very best in everything we do. We will continue to raise the bar for everyone. The great fun here will be for all of us to discover just how good we can really be.



Source: Enron Corporation (1998). Enron Corporation Annual Report. Houston, TX.

are in excess of local regulatory limitations. Even traditional media are benefiting from the Internet when reporting on corporate responsibility issues. In 2010, *Corporate Responsibility Magazine* published a "black list" of the 30 companies that it rated worst in terms of transparency regarding their corporate responsibility practices. *Corporate Responsibility Magazine* made a point of noting that the 30 "black list" companies had underperformed both the S&P 500 and the magazine's list of "100 Top Corporate Citizens," based on the three-year total return.[36] This controversial list became fodder for many online blogs and websites, and so reached a much wider audience than its magazine counterpart alone.

Further attention is paid to corporations' CR efforts through a proliferation of socially responsible indices and rankings, such as the "Best in Social Responsibility" category on *Fortune*'s Most Admired Companies list. In 2009, *Newsweek* began publishing its annual Green Rankings to evaluate corporate responsibility initiatives. Many corporations today vie for inclusion on widely admired indices including the FTSE4Good Index—an index created by benchmarking company FTSE and designed specifically to help measure the performance of companies meeting globally recognized corporate responsibility standards.[37] Another index of such companies is the Dow Jones Sustainability World Index, which is comprised of the top 10 percent of 2,500 companies worldwide according to long-term economic, environmental, and social sustainability criteria.[38]

These communication channels and points of engagement directly influence constituencies' impressions of a corporation. A corporation lacking a CR strategy and a clear communication plan for its CR strategy runs the risk of losing control of its reputation in today's highly networked and highly scrutinized business environment. Take, for example, the case of oil giant BP after the 2010 Deepwater Horizon accident in the Gulf of Mexico, discussed in Chapter 4. BP had spent some $200 million over 10 years to present itself as environmentally responsible through its "Beyond Petroleum" campaign. However, in April 2010, one of BP's deep-water drilling facilities failed, resulting in 11 lives lost and an estimated 5 million barrels of oil spilled in the Gulf of Mexico. The largest oil spill in history, BP's Deepwater disaster affected miles of coastline, thousands of businesses and killed all manner of marine birds, mammals, and fish.

Importantly, this is an early example of a disaster that received almost immediate global attention in a world connected by Facebook and Twitter, highlighting the imperative for tightly controlling traditional and social media communication. One study in connection with the Deepwater Horizon spill found that Wikipedia, whose content is created collaboratively, was a big influencer of public opinion regarding the spill.[39]

[36] Dirk Olin and Mark Bateman, "Bad Business—CR's Black List," *Corporate Responsibility Magazine*, March 2010.

[37] www.ftse.com/Indices/FTSE4Good_Index_Series/index.jsp.

[38] www.sustainability-index.com.

[39] www.instituteforpr.org/the-wiki-crisis-bps-deepwater-horizon-oil-spill-on-wikipedia/.

Despite BP's attempts to control the public relations maelstrom, social media outlets were central to informing public opinions about BP. One development was the creation of a satirical Twitter handle, @BPGlobalPR, that had nothing to do with the company but amassed some 180,000 followers (an order of magnitude above BP's actual Twitter account) and loaded tweets such as:

- "Think about it this way, the ocean is like rootbeer and oil is like ice cream. We just made America a giant rootbeer float!"
- "Please DO NOT take or clean any oil you find on the beach. That is the property of British Petroleum and we WILL sue you"
- "Thousands of people are attacked by sea creatures every year. We at BP are dedicated to bringing that number down. You're welcome!"

In response, both BP and Twitter asked that the creator of the handle make clear that he was not affiliated with BP.

The Upside of CR

Although CR is taking center stage thanks to a business environment of proliferating risks, adopting a socially responsible strategy can offer a compelling upside to corporations. Contrary to Friedman's claims, responsible business practices do not necessarily undermine a corporation's profit motive. In fact, many CEOs today describe acting responsibly as pragmatic—it makes good business sense. A well-executed CR strategy can translate into an array of benefits, including attracting and retaining customers, identifying and managing reputational risks, attracting the best-quality employees, and reducing costs. Walmart—top company on the *Fortune* 100, driven by a fierce cost-cutting mantra—explains the value of CR from a strategic perspective. In former CEO Lee Scott's words: "By thinking about sustainability from our standpoint, it is really about how do you take the cost out, which is waste, whether it's through recycling, through less energy use in the store, through construction techniques we're using, through the supply chain. All of those things are simply the creation of waste."[40] Cutting costs allows Walmart to charge even lower prices, which supports its mission of helping customers to "Save Money. Live better." General Electric (GE) has also achieved significant cost savings through eco-friendly action, investing in alternative energy technologies in 2002 when oil was priced at $25 per barrel. In 2011, with oil prices six times higher and rising, GE is reaping the benefits of the demand it predicted nine years ago.[41]

The scale and nature of the benefits from CR activities for an organization can vary depending on the business and are often difficult to quantify, though increased efforts are being made to link CR initiatives directly to financial performance. In the meantime, a strong business case exists that CR positively affects the bottom line.

[40] "Alan Murray," *The Wall Street Journal*, March 24, 2008.

[41] Morgen Witzel, "A Case for More Sustainability," *Financial Times*, July 2, 2008.

Reputation Risk Management

Managing reputational risk is a central part of any robust corporate communication strategy. As Berkshire Hathaway CEO Warren Buffett once famously noted: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently." Corruption scandals or environmental accidents can devastate a carefully honed corporate reputation in a matter of days. These events can also draw unwanted attention from regulators, courts, governments, and media. Building a genuine culture of "doing the right thing" within a corporation—the foundation of any genuine CR strategy—can help offset these risks.

Brand Differentiation

In crowded marketplaces, companies strive for a unique selling proposition that can separate them from the competition in consumers' minds. Corporate responsibility can help build customer loyalty based on distinctive ethical values. Several major brands, such as Stonyfield, Seventh Generation, TOMS shoes, and The Body Shop, are built on such ethical values. GE CEO Jeffrey Immelt emphasized the importance of differentiating a brand by staying ahead of issues and evolving with ever-changing constituency concerns: "When society changes its mind, you better be in front of it and not behind it, and [sustainability] is an issue on which society has changed its mind. As CEO, my job is to get out in front of it because if you're not out in front of it, you're going to get [ploughed] under."[42]

Talent Attraction and Retention

As we discuss in more detail later in the chapter, a CR program can aid in employee recruitment and retention. It can also help improve the image of a company among employees, particularly when they become involved through fundraising activities, community volunteering, or helping shape the company's CR strategy itself. Using these tactics to strengthen goodwill and trust among present and future employees can translate into reduced costs and greater worker productivity. In 2010, an estimated 34 percent of employees said that they would take a pay cut to work for a socially responsible firm.

Once a company decides to implement corporate responsibility practices, it should be sure to communicate them to its employees and other key constituencies to maximize the return on its efforts. That same 2010 study found that a full 53 percent of employees were not sure if their company had any CR practices in place.

License to Operate

Corporations want to avoid interference in their business through taxation or regulations. By taking substantive voluntary steps, they may be able to persuade governments and the wider public that they are taking current issues such as health and safety, diversity, or the environment seriously and thus avoid intervention. Expenses today can result in future cost savings or increased revenue streams from new, socially responsible products and services. Consider DuPont saving more than $2 billion from energy use reductions since 1990—an upfront investment that,

[42] Ibid.

years later, continues to pay in spades.[43] In the words of Abby Joseph Cohen, senior U.S. investment strategist at Goldman Sachs, "Companies are taking a broader view that allows them to see that a cost today may reduce future liabilities, and the reduction of those future liabilities in turn has a positive impact on their cost of capital."[44] Acting before regulations force them to can position corporations as well-respected leaders in responsibility and sustainability.

CR Critics

Despite mounting evidence in support of CR's benefits, followers of Milton Friedman and others continue to argue there is no place for social responsibility in business. These critics rail against CR as detracting from a corporation's commercial purpose and effectiveness, thereby inhibiting free markets. In this view, responsibility and profitability constitute a zero-sum game; corporations are for-profit institutions whose primary purpose is profit and who lose competitiveness through altruistic, profit-diminishing behavior. Some critics claim CR is little more than a public relations strategy, in which companies cherry-pick their good activities to showcase and ignore the others, creating an inaccurate image of a socially or environmentally responsible company. Others contest that CR programs are often undertaken in an effort to distract the public from the ethical questions posed by their core operations. In general, however, constituencies are increasingly calling for more corporate responsibility and demanding that companies rise to the occasion.

CR and Corporate Reputation

As we move on from our overview of CR and its general benefits, we will focus our discussion on one central question: what kind of contribution can responsible business practices make to the strengthening of a corporation's reputation? Research indicates its effect is growing, with more than one-half of business executives believing that a recognized commitment to corporate responsibility contributes "a lot" to a company's overall reputation.[45] Studies have also confirmed that the average person's decisions about what to buy and with whom to do business are influenced by a company's reputation for social responsibility. In turn, CR has become a critical means to build trust with corporate constituents. College-educated Americans today have begun viewing social responsibility as more important than an overall corporate brand or financial performance, second only to the quality of their products and services when deciding which companies to trust. In 2010, a study revealed that, despite the recession, 70 percent of consumers were willing to pay more for a product from a socially responsible company.[46] Interestingly, the 2012 Goodpurpose Edelman study found that consumers in emerging markets (China, India, Malaysia, United Arab Emirates, and Brazil—dubbed "Purpose

[43] Porter and Kramer, "Strategy & Society."

[44] Stephanie Strom, "Make Money, Save the World," *The New York Times*, May 6, 2007.

[45] *Safeguarding Reputation*, No. 2, Weber Shandwick/KRC Research, 2006.

[46] Corporate Social Responsibility Branding Survey, 2010.

Bull Markets") are more likely than their counterparts in developed countries to support brands that are socially and ethically responsible. Eighty-two percent of consumers in Purpose Bull Markets are more likely to recommend a brand that supports a good cause than one that does not.[47]

Although the evidence for engaging in corporate responsibility initiatives is compelling, companies should be aware that instituting and publicizing CR activities in an effort to boost reputation can backfire. A *McKinsey Quarterly* article presented research that found that companies with poor perceived product quality can actually be *hurt* by publicizing their CR efforts because consumers then assume that the company is focusing on the wrong issues. The study's authors recommend that companies follow these three steps: (1) "don't hide market motives" (consumers understand a need for profit), (2) "serve stakeholders' true needs," and (3) "test your progress."[48] A recent study indicated that sustainability factors were still very rarely the primary purchase driver.[49] Research published in 2011 in the *Journal of Service Research* found that, particularly in the case of an educated consumer, being known for high-quality products and services more effectively protects a company's reputation than being known for good corporate responsibility does.[50]

Despite the risks, the acknowledgment of CR's significant effect on reputation, constituency trust, and even the bottom line, many corporations are not capitalizing on these trends. A significant gap exists between executives recognizing the importance of CR and companies taking action to implement a thoughtful and effective CR strategy. Although almost three-quarters of CEOs say companies should integrate environmental, social, and governance issues into their strategies and operations, only half say that their respective companies are actually doing so.[51] This gap presents an opportunity—many corporations still have the chance to take responsible action and, in doing so, differentiate themselves from the competition and build valuable goodwill.

We now examine several key corporate constituencies—customers, investors, employees, NGOs, and environmentalists—to take a closer look at each group's evolving expectations of corporate responsibility and what corporations can and should be doing in response to strengthen their reputations.

Consumer Values and Expectations: Taking Matters into Their Own Hands

Millions of everyday consumers possess the unprecedented power to determine the fates of corporations. In his book *Supercapitalism*, former U.S. Labor Secretary

[47] 2012 Edelman Goodpurpose Study.

[48] CB Bhattacharya, Daniel Korschun, and Sankar Sen, "What Really Drives Value in Corporate Responsibility," *McKinsey Quarterly*, December 2011, www.mckinseyquarterly.com/What_really_drives_value_in_corporate_ responsibility_2895.

[49] The Futures Company, "How to Sustain Sustainability," 2011, http://futuresco.thefuturescompany.com/file_ depot /0-10000000/0-10000/1/conman/How+to+Sustain+sustainability+1.pdf.

[50] Andreas B. Eisingerich and Gunjan Bhardwaj, "Does Social Responsibility Help Protect a Company's Reputation?" *MIT Sloan Management Review*, March 23, 2011, http://sloanreview.mit.edu/the-magazine/2011-spring/52313/does -social-responsibility-help-protect-a-companys-reputation/.

[51] Debby Bielak, Sheila M. J. Bonini, and Jeremy M. Oppenheim, "CEOs on Strategy and Social Issues," *The McKinsey Quarterly*, October 2007.

Robert Reich contends that the average person had an easier time expressing values as citizens through democracy 30 years ago.[52] He argues that today many use their role as consumers to communicate those same values at the cash register.[53] We also see more individuals taking matters of philanthropy into their own hands. Founded in 2005, Kiva—a California-based website that connects lenders and borrowers from around the world—has amassed some 1.2 million lenders who make online donations in $25 increments. These lenders have funded more than 1.3 million borrowers from Tanzania to Tajikistan with $US 580 million lent thus far.[54] On its website, Kiva boasts a 98.96 percent repayment rate. The site has sparked a new model of philanthropy, connecting donors and recipients, eliminating the middleman, and, in the process, empowering individuals. At the same time, consumers' personal values are reflecting a greater individual commitment to responsibility. In 2014, Americans gave almost $US 359 billion to charities, a historic high.[55]

Compelling evidence exists that consumers are willing to use this individual empowerment to act on their values—reaching into their pocketbooks to pay more for the sake of corporate responsibility. Consider fair trade coffee, which is priced at a premium compared with regular, noncertified coffee. The International Fair Trade Association defines fair trade as incorporating "concern for the social, economic and environmental well-being of marginalized small producers . . . not maximiz[ing] profit at their expense."[56] Despite the higher price tag, demand for fair trade products continues to grow; Fairtrade International reported that global consumers spent approximately €4.36 billion ($US 5.66 billion) on certified products in 2010, a 28 percent increase over 2009.[57]

Organic food—viewed by many as better for their health, for the health of farm workers, and for the environment—has experienced a similar explosion, benefiting organic food retailers such as Whole Foods. The U.S. sales of organic food and beverages have grown from $US 1 billion in 1990 to $US 39.1 billion in 2014.[58] The United States had an estimated 14,500 certified organic farms in 2011, up from 10,000 in 2006, but analysts worry that demand is still outstripping supply.

In addition to going the extra mile to pay more for socially responsible products, consumers have been willing to punish corporations for their lack of corporate responsibility. Research reveals that 35 percent of all Americans have avoided a product because they perceived a company as not socially or environmentally responsible.[59] The practice dates back to 1830, if not earlier, when the National Negro

[52] Matt Woolsey, "Supercapitalism: Transforming Business," *Forbes*, September 6, 2007.

[53] Ibid.

[54] www.kiva.org

[55] "Giving USA: Americans Donated an Estimated $358.38 Billion to Charity in 2014; Highest Total in Report's 60-year History," Giving USA Foundation, 2015, www.givingusareports.org, June 29, 2015.

[56] Andrew Downie, "Fair Trade in Bloom," *The New York Times*, October 2, 2007.

[57] "High Trust and Global Recognition Levels Make Fairtrade an Enabler of Ethical Consumer Choice: Global Poll," GlobeScan for Fairtrade International, October 11, 2011, www.globescan.com/news_archives/flo_business/.

[58] "Industry Statistics and Projected Growth," Organic Trade Association, June 2015, http://ota.com/resources/organic-industry-survey.

[59] Andrew Winston, "Conflicted Consumers," *Harvard Business Online*, June 2008.

Convention called for a boycott of slave-produced goods and has prompted shifts in corporate behavior throughout the past two centuries.[60] The Rainforest Action Network established its influence as an NGO by orchestrating a boycott of Burger King in 1987 for importing beef from countries where rainforests are destroyed to provide pasture for cattle.[61] Burger King's sales subsequently declined by 12 percent, prompting Burger King to cancel $35 million worth of beef contracts in Central America and announce an end to rainforest beef imports.[62] Or consider Shell reeling from its poor handling of its 1995 decision to dispose of an oil storage platform that it no longer needed, the Brent Spar, by simply sinking it in the Atlantic Ocean. Environmental NGO Greenpeace staged protests, using vivid and emotional language, prompting a widespread boycott of Shell stations in northern Europe, with sales volumes in Germany dropping as much as 40 percent in June 1995.[63]

Not only must corporations be aware of the changing values and behavior of consumers, they also must remember that expectations of corporate responsibility are far from homogeneous across the globe, differing to a sometimes large degree across countries, regions, and hemispheres. Monsanto, the world's largest seed company, suffered for failing to recognize the strong opposition to genetically modified (GM) foods prevailing in Europe, based on fears that GM crops can create animal and human health issues and take a negative environmental toll. Despite soaring food prices, Europeans appear to be particularly apprehensive about the use of such crop technologies,[64] whereas similar concerns are far less prevalent in Monsanto's home base in the United States.

Investor Pressures: The Growth of Socially Responsible Investing

Earlier in the chapter, we discussed Milton Friedman's argument that there is no place for social responsibility in for-profit entities. In this view, executives are merely agents of investors, the individuals who own the corporation.[65] How does Friedman's argument reconcile with investors' increased use of capital markets as a mechanism to encourage socially responsible corporate behavior? Investors today are demonstrating an increased interest in socially responsible companies, rewarding them by using CR more frequently as part of their criteria to invest. Almost two-thirds of Americans cite a company's record of social responsibility as "an influential factor when making a decision to purchase stock or invest in a company."[66] As a result, between 10 and 12 percent of money professionally managed in the United States today can be categorized as socially responsible investing (SRI),[67] including social or environmental goals and an investment strategy that employs screening, divesting, or shareholder activism. As *Fortune* magazine describes, this development

[60] Leo Hickman, "Should I Support a Consumer Boycott?" *The Guardian* (UK), October 4, 2005.

[61] Rainforest Action Network, www.ran.org.

[62] Ibid.

[63] David P. Baron, "Facing-Off in Public," *Stanford Business*, August 2003.

[64] Sam Cage, "High Food Prices May Cut Opposition to Genetically Modified Food," Reuters, July 8, 2008.

[65] Friedman, "The Social Responsibility of Business."

[66] "Rethinking Corporate Social Responsibility."

[67] "The ROI of CSR: Q&A with Geoffrey Heal," Columbia Ideas at Work.

constitutes a multitrillion-dollar "wager that socially responsible companies will outperform companies that don't engage a wide array of stakeholders, from shareholders and customers to employees and activists, in an ongoing conversation about what can be done better."[68] High-profile investment management shops driven by socially responsible missions are springing up, such as Generation Investment Management, founded in 2004 by former U.S. Vice President and Nobel Peace Prize winner Al Gore and former Goldman Sachs Asset Management head David Blood, with an investment philosophy that integrates sustainability research with rigorous fundamental equity analysis. The investment strategy is by no means altruistic; it is based on a conviction that sustainability will be an important contributor to long-term business performance. In Blood's own words:

> For long-term investors, assessing a company's ability to create enduring value depends on both financial analysis and analysis of other material, yet often non-traditional, factors. Climate change is one such factor that is a concrete business risk *and* opportunity for some industries, and an emerging issue for others. Researching how well companies are prepared for a lower-carbon world is plain common sense when looking at a long-term investment horizon. Investors of all stripes are beginning to price this into their investment decisions.[69]

Even China—a country with a less-than-pristine environmental and human rights record—announced its $US 200 billion sovereign wealth fund's intentions to seek profits in socially responsible companies by avoiding investments in such industries as gambling, tobacco, and arms manufacturing.[70]

Several large financial institutions, such as Goldman Sachs and UBS, are adapting their research departments to meet the growing demand for equity research that integrates environmental, social, and governance considerations. With a specialized team operating out of London, Goldman Sachs' "intangibles research" incorporates social and environmental risks into its corporate research and analysis, stating that "risks and opportunities arising from climate change and its regulation will be of increasing interest to investors in coming years."[71] Goldman Sachs also launched its GS SUSTAINS initiative in the United States. Executive director of the program Marc Fox explains the economic rationale behind paying attention to extra-financial risks: "We are looking to develop a new way of measuring companies that does not necessarily fit in to the accounting framework. The ultimate goal is to identify long-term investment drivers."[72] Goldman's research is yielding proof that corporate responsibility and sustainability could serve as proxies for good management. What started decades ago as a highly specialized type of investing—gaining momentum through the Vietnam War and the anti-apartheid movement in South Africa—has become a mainstream investment strategy used regularly by pension funds and insurance companies around the world. Active socially responsible investment is on the rise. In the United States, assets that are considered to be socially responsible investments have been growing at a faster rate (34 percent)

[68] Telis Demos, "Beyond the Bottom Line," *Fortune*, October 23, 2006.

[69] David Blood, "A New Climate for Investment," *Financial Times*, September 23, 2006.

[70] "China Fund Shuns Guns and Gambling," *Financial Times*, June 13, 2008.

[71] "Goldman Sachs Nears $1 Billion in Renewable, Clean Energy Investments," *Energy Washington Week* 3, no. 24 (June 14, 2006).

[72] Ibid.

since 2005 than the total universe of investment assets under professional management (3 percent). By 2012, an estimated $US 3.74 trillion was part of a socially responsible investment.[73]

Responsibility Inside and Out: Employee Involvement in CR

In Chapter 7 on internal communications, we underscore the essential role employees play as brand ambassadors for a corporation. The same holds true in the implementation of a CR strategy. The next generation of corporate leaders is actively searching for responsible practices in corporate track records as they recruit and pick a place to start their careers. In 2011, *Harvard Business Review* shared research finding that 88.3 percent of MBA graduates from top programs would take a pay cut to work for an ethically responsible company and would be willing to forgo an average of $US 8,087 in compensation.[74] Top business schools around the world are offering a greater number of corporate responsibility, values-based leadership, and sustainable enterprise courses and programs, addressing business students' desire not just to work hard but to do some good at the same time.[75] Net Impact, an association of 20,000 business professionals working to improve corporate responsibility, reports that it has active chapters at 90 percent of top MBA campuses.

Once a corporation has attracted top talent, engaging those employees from all levels of the organization in a company's CR efforts is imperative. Employees are often the primary spokespeople for a corporation, responsible for much word-of-mouth information shared and impressions formed. Furthermore, making employees central to a CR strategy can boost employee goodwill and morale, decrease turnover, and increase operational efficiencies by encouraging employees to identify opportunities for sustainability and cost-savings.[76] Many corporations are missing out on this upside—though more than three-quarters of executives say corporate citizenship fits their companies' traditions and values, only 36 percent report talking to their employees about corporate citizenship.[77] IBM serves as an example of a company successfully engaging its employees in CR issues, hosting regular brainstorming sessions focused on corporate responsibility and sustainability. It often refers to its now famous, and still largest, first "InnovationJam" held in 2006.[78] During this InnovationJam, more than 150,000 IBM employees, family members, clients, and partners in 104 countries joined in an online conversation on IBM's global intranet (www.ibm.com/ibm/think-2007). Driven primarily by IBM employees, more than 46,000 observations and ideas were posted on how to

[73] "Report on Sustainable and Responsible Investing Trends in the United States 2012", The Forum for Sustainable and Responsible Investment, 2012, www.ussif.org/files/publications/12_trends_exec_summary.pdf

[74] "New MBAs Would Sacrifice Pay for Ethics," *Harvard Business Review*'s "The Daily Stat," http://web.hbr.org/email/archive/dailystat.php?date=051711.

[75] Strom, "Make Money, Save the World."

[76] Gabrielle McDonald, "In-house Climate Change: Use Communication to Engage Employees in Environmental Initiatives. (The Green Revolution)," *Communication World*, November–December 2007.

[77] "Time to Get Real: Closing the Gap between Rhetoric and Reality, The State of Corporate Citizenship 2007," Boston College Center for Corporate Citizenship, December 2007.

[78] www.collaborationjam.com/.

translate IBM's technologies into economic and broader societal value. IBM allocated $100 million to exploring 10 promising business opportunities suggested, including creating access to branchless banking for the underprivileged masses around the world and working with utility companies to increase power grid and infrastructure efficiency.

Stanley Litow, IBM's vice president of corporate citizenship and corporate affairs and president of IBM's Foundation, further explains IBM's approach to corporate responsibility: "In the *Harvard Business Review*, Rosabeth M. Kanter described the IBM approach as going from 'spare change to real change.' With the spare change approach, the company makes X amount of dollars and it gives its spare change back to the community, with the goal being generosity. But with the real change approach, you take what is most valuable to the company—in our case, our innovation technology, and the skill and talent of our people—and contribute it into the community. The real change approach is strategic, it's a systemic part of the way we operate as a company, and that is the case for tie-in to business strategy. In the end, it's even more generous to do it that way."[79]

Strong evidence exists that the general public now views genuinely responsible behavior as starting *inside* the four walls of an organization. As Fleishman-Hillard posted on its website following the 2011 Fortune Green Brainstorming Conference, "A company cannot meet its sustainability or reputation goals without a smart strategy that incorporates employees."[80] After conducting research with Fleishman-Hillard, the National Consumers League reports that 76 percent of American consumers agree that for a company to be socially responsible, it should prioritize salary and wage increases for employees over making charitable contributions.[81] Observers credit the Google workplace environment for its strong social responsibility reputation, because the company does not traditionally score in the top five for its environmental or cause involvement on the major rankings.[82] As Robert Fronk of Harris Interactive explains: "corporate responsibility, in the minds of consumers, starts with your own employees first."[83] Corporations have an excellent opportunity to differentiate themselves based on such *internally* responsible behavior. There is a sharp contrast today between executive talk and action pertaining to the treatment of employees. Although four out of five senior executives "see the importance of valuing employees and treating them well," only half of companies surveyed offer health insurance to employees, and less than one-third provide either training or career development to low-wage employees.[84]

[79] "From Spare Change to Real Change: An Interview with Stanley Litow," *LEADERS*, April 2010, www.leadersmag.com/issues/2010.2_Apr/Making%20a%20Difference/Litow.html.

[80] "Trends in Corporate Sustainability," Fleishman-Hillard blog, April 6, 2011, http://sustainability.fleishmanhillard.com/2011/04/06/trends-in-corporate-sustainability/.

[81] "Worker's Rights: Social Responsibility All about Worker Welfare, Survey Says," www.nclnet.org/worker-rights/107-corporate-social-responsibility/303-social-responsibility-all-about-worker-welfare-survey-says.

[82] Harris Interactive, "The Annual RQ 2007–2008."

[83] Ibid.

[84] "Time to Get Real."

Building a Values-Based Culture

A critical element of valuing employees is codifying corporate beliefs—including those pertaining to employees and other constituencies—in a set of corporate values for each employee to embody. A clear and prominent set of values or code of ethics instilled in employees should ideally serve as a navigational compass for everyday work activities. Employees who live and breathe their company's values are far less likely to engage in legal or ethical breaches. A strong, values-based culture can also contribute to an organization's competitive edge, increasing employee pride, loyalty, and willingness to go the extra mile for the sake of the corporation's mission.[85] Former IBM chairman Thomas J. Watson described the importance of corporate values and strong employee faith in them in this way:

> Consider any great organization—one that has lasted over the years—and I think you will find that it owes its resiliency, not to its form of organization or administrative skills, but to the power of what we call beliefs and the appeal these beliefs have for its people. This, then, is my thesis: I firmly believe that any organization, in order to survive and achieve success, must have a sound set of beliefs on which it premises all its policies and actions. Next, I believe that the most important single factor in corporate success is faithful adherence to those beliefs. And finally, I believe that, if an organization is to meet the challenges of a changing world, it must be prepared to change everything about itself except those beliefs as it moves through corporate life.[86]

For a values-based corporate culture to take root and thrive, the tone must be set from the top. Warren Buffett, CEO of Berkshire Hathaway and noted philanthropist, is adamant about this, taking an active role in clearly communicating his ethical expectations to his employees. Using blunt, everyday language—and analogies that any employee can easily identify with—he explicitly states intolerance for ethical wrongdoings, citing ethics as more important than profits. Most important, Buffett creates a clear connection between the individual actions of employees and corporate culture, in turn shaping the organization's overall reputation. Buffett emphasized this personal accountability in a now legendary September 2006 memo to Berkshire Hathaway employees: "Your attitude on such matters, expressed by behavior as well as words, will be the most important factor in how the culture of your business develops. And culture, more than rule books, determines how an organization behaves. Thanks for your help on this. Berkshire's reputation is in your hands."

Research underscores the enormous impact corporate leaders have on the atmosphere of a workplace and the values and behavior encouraged within it. Deloitte has found that 75 percent of employees identify either their senior or middle management as the primary source of pressure they feel to compromise the standards of their organizations.[87]

[85] Francis Joseph Aguilar, *General Managers in Action: Policies and Strategies*, 2nd ed. (Oxford: Oxford University Press, 1992).

[86] Ibid.

[87] "Trust in the Workplace," Ethics & Workplace Survey, Deloitte, 2010, www.deloitte.com/assets/Dcom-UnitedStates/Local%20Assets/Documents/us_2010_Ethics_and_Workplace_Survey_report_071910.pdf.

Memorandum

To: Berkshire Hathaway Managers ("The All-Stars")
From: Warren E. Buffett
Date: September 27, 2006

The five most dangerous words in business may be "Everybody else is doing it." A lot of banks and insurance companies have suffered earnings disasters after relying on that rationale.

Even worse have been the consequences from using that phrase to justify the morality of proposed actions. More than 100 companies so far have been drawn into the stock option backdating scandal and the number is sure to go higher. My guess is that a great many of the people involved would not have behaved in the manner they did except for the fact that they felt others were doing so as well. The same goes for all of the accounting gimmicks to manipulate earnings—and deceive investors—that has taken place in recent years.

You would have been happy to have as an executor of your will or your son-in-law most of the people who engaged in these ill-conceived activities. But some-where along the line they picked up the notion—perhaps suggested to them by their auditor or consultant—that a number of well-respected managers were engaging in such practices and therefore it must be OK to do so. It's a seductive argument.

But it couldn't be more wrong. In fact, every time you hear the phrase "Everybody else is doing it" it should raise a huge red flag. Why would somebody of a rationale for an act if there were a good reas able? Clearly the advocate harbors at least a sm about the act if he utilizes this verbal crutch.

So, at Berkshire, let's start with what is legal ways go on to what we would feel comfortab being printed on the front page of our local pa never proceed forward simply on the basis of that other people are doing it.

A final note: Somebody is doing something Berkshire that you and I would be unhappy abo knew of it. That's inevitable: We now employ w 200,000 people and the chances of that numbe through the day without any bad behavior occu nil. But we can have a huge effect in minimizi activities by jumping on anything immediately wh is the slightest odor of impropriety. Your attitude matters, expressed by behavior as well as wo be the most important factor in how the cultur business develops. And culture, more than rul determines how an organization behaves.

Thanks for your help on this. Berkshire's repu in your hands.

Source: www.ft.com "Full Text of Warren Buffet's Memo October 9, 2006.

Ensuring that employees are striking a healthy balance in their lives i important piece of building an ethical culture. Deloitte's Ethics & Workp vey also found that an overwhelming 91 percent of employed adults pol they are more likely to behave ethically in the workplace when they m good work–life balance.[88] A positive working environment reduces st frustration levels, thereby diminishing the likelihood of cutting corner unrealistic demands. It is disturbing to consider research by corpora tracking service DYG SCAN pointing to a pattern of employees no longer in employer loyalty, concern, and personal commitment.[89] Investing in e to foster a sense of mutual accountability and encouraging the free airing without fear of reprimand or retaliation can go a long way toward stren an ethical culture.[90] Taking another step to provide employees with re such as ethics training to prepare them for dilemmas or a hotline to c occurs—can be critical to keep a corporate culture aligned with the stro that must underpin all successful corporate citizenship efforts.

[88] Allen, "Creating a Culture of Values."

[89] Yankelovich, *Profit with Honor*, p. 43.

[90] David Gebler, "Is Your Culture a Risk Factor?" *Working Values Ltd.*, September 2005.

Strategic Engagement: The Continued Influence of NGOs

In today's business context of precarious trust in corporations, nongovernmental organizations continue to rank among the most trusted institutions in the world. Edelman's 2014 Trust Barometer reveals the gap between the level of global trust in NGOs (64 percent) and trust in government (44 percent).[91] As Edelman describes: "NGOs have moved quickly into the 'trust-void' and have taken advantage of the downward spiral in public perceptions of government, media, [and] corporations… 'thought-leaders' are two to three times as likely to trust an NGO to do what is right compared to large companies because they are seen as being motivated by morals rather than just profit."[92] Making active use of social networking sites including Facebook and video-sharing sites such as YouTube has enabled NGOs to recruit thousands if not millions of new supporters on the Internet in recent years to spread their agendas with unprecedented speed and volume.

In recent years, the public has come to trust NGOs more than they trust corporations or governments, particularly pertaining to CR issues such as health, the environment, and human rights.[93] According to one global advocacy group focused on sustainability: "[NGOs] are the moral compass and ethical watchdogs against the forces of government and capitalism that seek to despoil the planet and crush the faceless majority."[94] These voluntary organizations rally around a particular cause and hold corporations accountable for their behavior, launching campaigns against them whenever they fall short of expectations. In turn, NGOs have come to realize that such anticorporate campaigns can be far more powerful than anti-government campaigns, particularly when targeting well-known, global brands. They possess several characteristics that enable them to catch public attention and approval. First, NGO communications are often sophisticated and controversial, and thus more likely to receive media attention. Second, the smaller size and agility of NGOs enable them to act faster than more bureaucratic corporations with layers of legal protocol.[95] The pervasive use of the Internet and its communication tools such as Twitter and Facebook has only strengthened and lengthened the reach of NGO communications, enabling local organizations to voice their messages to a global audience and pose an even greater threat to corporate reputations. Organizations including Amnesty International, Greenpeace, the National Wildlife Federation, Oxfam, the Rainforest Action Network, Friends of the Earth, Sierra Club, and Public Citizen maintain active blogs to spread messages and engage new supporters on CR and sustainability.[96] As a result, the chairman of Goldman Sachs International

[91] 2014 Edelman Trust Barometer, www.edelman.com/insights/intellectual-property/2014-edelman-trust-barometer/about-trust/global-results/.

[92] "Non-Government Organizations More Trusted Than the Media, Most-Respected Corporations or Government," http://developmentgateway.org, p. 2.

[93] Edelman Trust Barometer 2015.

[94] International Foundation for the Conservation of Natural Resources Fisheries Committee, "IFCNR Special Report: How NGOs Became So Powerful," February 20, 2002.

[95] Paul A. Argenti, "Collaborating with Activists: How Starbucks Works with NGOs," *California Management Review*, November 1, 2004.

[96] "Corporate Social Responsibility and Sustainability in the Blogosphere," Edelman, 2006.

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and former chairman of BP, Peter Sutherland, places NGOs alongside multinational corporations in terms of world influence: "The only organizations now capable of global thought and action—the ones who will conduct the most important dialogues of the 21st century—are the multinational corporations and the NGOs."[97]

For the most part, NGOs have achieved great success in controlling this dialogue, proactively engaging corporations to effect the change they seek. As Randall Hayes, founder of the Rainforest Action Network (RAN), explains: "If you [as an NGO] are not talking to business, you are just preaching to the choir. The real change to protect the environment is going to come from the business sector; we can't depend on government regulation to solve our problems."[98] Therefore, NGOs pick their targets with great care and in recent years have recognized the rising power of the capital markets to influence responsible corporate behavior. In 2000, RAN launched an ongoing advocacy campaign against Citigroup and its environmental record, staging visible demonstrations at corporate headquarters in New York, organizing consumer boycotts, and running a full-page ad in the *International Herald Tribune* that depicted then CEO Sandy Weill as an environmental villain.[99] In 2003, Citigroup agreed to meet with RAN to discuss environmental strategy, resulting in what RAN dubs the most far-reaching commitment made by any bank to date.[100] Mounting pressure from RAN and other NGOs has served as the catalyst for more than 80 financial institutions to sign on to the Equator Principles—a clear and consistent standard for assessing and managing environmental and social risk in project financing—since June 2003.[101] Various NGOs targeting a number of banks simultaneously was a highly effective tactic, breeding a sense of CR competition among leading financial institutions to trump one another's commitments, thereby making it much more difficult for any socially or environmentally damaging project to slip through the cracks and gain financing.

The widespread influence of NGOs reaffirms the need for corporations to think strategically about relationships with these organizations when building and executing a CR strategy. NGOs have the power to wreak havoc with eye-catching, direct, and powerful communication campaigns. As a result, corporations must identify opportunities to collaborate with NGOs and establish relationships before a crisis strikes or negative press airs. The CR team within a corporation should attempt to anticipate the mind-set of NGOs, pinpointing issues of mutual concern from their critical vantage point. Companies must not only be poised to discuss these issues with their NGO critics but should also foster ongoing dialogues on CR topics with all constituents to gauge existing concerns and communicate the efforts they are making to address them. Finally, and perhaps most critically, a company's corporate communication team should be actively involved in crafting the NGO and overall CR communication strategy to ensure consistency across all messages shared with internal and external constituents.

[97] Speech by David Grayson, "The Public Affairs of Civil Society," January 26, 2001.

[98] SustainAbility, Global Compact, and United National Environment Programme, "The 21st Century NGO: In the Market for Change," June 2003, p. 30.

[99] Matthew Yeomans, "Taking the Earth into Account," *Time Europe* 165, no. 19 (May 9, 2005).

[100] Christopher Wright, "For Citigroup, Greening Starts with Listening," *Ecosystem Marketplace*, April 4, 2006.

[101] www.equator-principles.com, retrieved July 2, 2015.

Being Green: The Corporation's Responsibility to the Environment

Earlier in the chapter, we described corporations as requiring a healthy and prosperous society to exist. In 2006, former U.S. Vice President and Nobel Peace Prize recipient Al Gore's highly acclaimed documentary *An Inconvenient Truth* revealed that environmental stability is not something to be taken for granted. The film vividly depicted the environmental concerns of this century and bred increasing anxiety over climate change among millions of consumers. In turn, increasing evidence exists that constituents are rewarding companies that are environmentally responsible, doing their bit to preserve the planet. A recent study found that 72 percent of global consumers expect corporations to take action to preserve and sustain the environment.[102] Companies are scrambling to meet this demand and position themselves in an environmentally friendly light. In 2008, Chris Hunter, then Vice President at environmental consulting firm GreenOrder and a former energy manager at Johnson & Johnson, observed: "Ten years ago, companies would call up and say 'I need a digital strategy.' Now, it's 'I need a green strategy.'"[103]

Environmentally responsible behavior can not only attract consumers, it can also offer enormous cost savings for companies willing to make the upfront investment. Many companies—including Whole Foods, Microsoft Corp., Macy's Inc., and Target Corp.—have partnered with solar developers to reduce carbon output and reliance on utility-supplied power, setting 15- to 20-year electricity fixed costs, which are often less expensive than retail prices.[104] Walmart has become an unexpected leader in environmentally responsible practices, surprising countless skeptics who voiced doubt when it unveiled its green plan in the fall of 2005. Working with the Rocky Mountain Institute (RMI), a sustainability and energy efficiency "think-and-do" tank based in Snowmass, Colorado, Walmart conducted an "efficiency overhaul," auditing energy use across its supply chain.[105] Switching freezer case lighting from incandescent to cooler LED bulbs is projected to save Walmart $US 2.6 million per year, and installing diesel backup generators in the company's truck fleet to reduce engine idling will save $25 million annually.[106] The green plan has cost Walmart $US 500 million, but it anticipates substantial savings on the horizon, including $300 million from trucking fleet fuel efficiency alone by the end of 2015.[107] RMI senior consultant Lionel Bony describes such efforts in terms of corporations staying ahead of the curve to stay competitive in a future business context that will be defined by dwindling resources and stringent environmental regulations: "[Y]ou can either do it now and take some time to do it incrementally, or you can do it when it's right in your face."[108] In 2010, 64 percent of global consumers indicated that they would support increased government regulation to protect the environment, even if it would mean a negative impact on corporate profits.[109]

[102] 2010 Edelman goodpurpose Study.

[103] Ben Elgin, "Little Green Lies," *BusinessWeek*, October 29, 2007.

[104] Ibid.

[105] Chris Turner, "Getting It into Your System," *Access Review* (FedEx), vol. 2, 2008.

[106] Ibid.

[107] Ibid.

[108] Ibid.

[109] Ibid.; "2010 Edelman goodpurpose Study."

Those companies that act as environmental leaders can seize an opportunity to truly differentiate their brands in a sea of corporations claiming corporate responsibility. Coca-Cola is assuming such a leadership position in the water conversation arena and in the process is protecting the resource most critical to its production process and future profitability. In June 2007, Coca-Cola announced its investment of $US 20 million over five years to improve global water conservation, partnering with the World Wildlife Fund to preserve seven of the world's major rivers.[110] In 2006, Coca-Cola used 290 billion liters of water to produce its beverages—approximately one-fifth of daily water consumption in the United States and an increasingly precious commodity, particularly in the developing countries that represent some of Coca-Cola's most lucrative markets.[111] By 2025, the World Wildlife Fund anticipates two-thirds of the world's population will face water shortages,[112] a dangerous prospect for Coke. As Neville Isdell, then CEO of Coca-Cola, stated bluntly during his announcement of the company's long-term goal to become "water neutral" by returning all water used in its beverages and their production to nature and communities through conservation, recycling, and other programs: "Water is the main ingredient in nearly every beverage that we make. Without access to safe water supply, our business simply cannot exist."[113]

Coca-Cola is also making efforts to repair the trust of certain stakeholders damaged by prior water controversies, most notably when the NGO Centre for Science and Environment alleged that certain company products contained trace amounts of pesticide residues in India in 2003. Jeff Seabright, Coca-Cola's Vice President of Environment and Water Resources, admits that the company's initial public relations during the crisis was ineffective and that the company has used the episode as a valuable lesson that perception is just important as reality in successfully running a responsible and sustainable operation. In Seabright's words: "If people are perceiving that we're using water at their expense, that's not a sustainable operation. We sell a brand. For us, having goodwill in the community is an important thing."[114] Looking to the future, Chinese consumption represents significant revenue opportunities for Coca-Cola and countless other multinational corporations. To protect the opportunities in this market—riddled with environmental problems—Coke has partnered with NGOs to boost environmental education and encourage river conservation and rainwater harvesting in the country.

With increased attention to corporations' environmental efforts, NGOs and the general public will be watching to see whether companies deliver on their lofty promises. Consider FedEx—an environmental leader awarded a Clean Air Excellence prize by the Environmental Protection Agency in 2004 for its plans to replace its 30,000 medium-duty trucks over the next 10 years with clean-burning hybrid trucks, sparing the atmosphere 250,000 tons of greenhouse gases annually.[115]

[110] Dune Lawrence, "Coca-Cola to Spend $20 Million on Water Conservation," *International Herald Tribune*, June 6, 2007.

[111] Ling Woo Liu, "Water Pressure," *Time*, June 12, 2008.

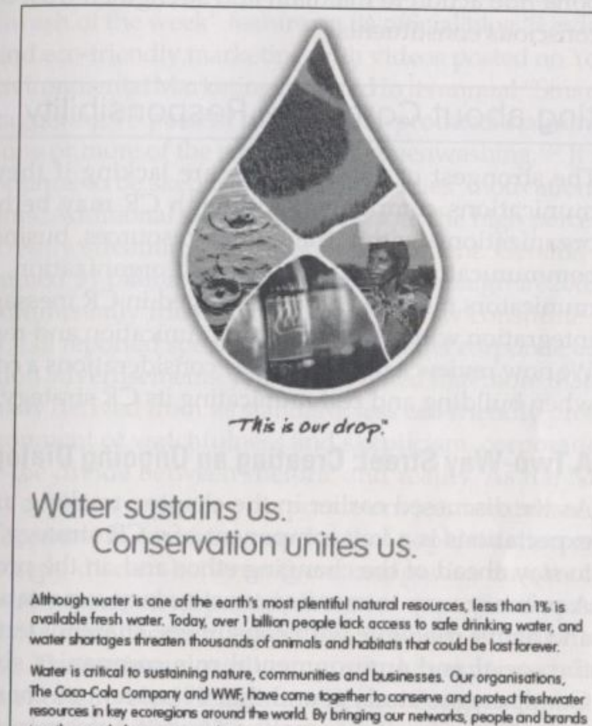
[112] Ibid.

[113] Ibid.

[114] Ibid.

[115] Ibid.; Elgin, "Little Green Lies."

The overnight shipping leader has not fully delivered on its commitment; by 2013, FedEx reported that only 577 all-electric and hybrid vehicles were in use, representing a tiny percentage of its fleet.[116] As FedEx VP for environmental affairs and sustainability Mitch Jackson explained, profitability is the underlying reason for the lack



[116] http://about.van.fedex.com/2013-environment-efficiency.

of follow-through: "We do have a fiduciary responsibility to our shareholders. We can't subsidize the development of this technology for our competitors."[117]

As we move on to discussing best practices in CR communications, we will highlight the importance of backing promises and claims of responsibility with bona fide action to maintain and strengthen trust and goodwill with increasingly conscious constituents.

Communicating about Corporate Responsibility

The strongest of CR strategies are lacking if they do not include a clear communications component. Although CR may be housed in varying areas of an organization—within the human resources, business development, or corporate communication departments of an organization, for example—corporate communicators must be actively engaged in CR messaging to ensure consistency and integration with the overall communication and reputation management strategy. We now review a number of key considerations a corporation should keep in mind when building and communicating its CR strategy.

A Two-Way Street: Creating an Ongoing Dialogue

As we discussed earlier in the chapter, tracking and responding to constituency expectations is a key component of a CR strategy's success, enabling a company to stay ahead of the changing ethos and, in the process, strengthen its reputation. A primary way to monitor constituency expectations is by fostering an ongoing and active dialogue with consumers, shareholders, and the general public about the social and environmental role companies should play. The 2012 Edelman Goodpurpose study found that 69 percent of consumers want brands to make it easier for consumers to make a positive difference, a 6 percent increase over 2010.[118] A lack of dialogue can lead to a lack of awareness of external opinions on issues of corporate responsibility. A recent IBM study reveals that customers are the chief stakeholders driving corporate social responsibility, yet 76 percent of businesses surveyed admit they don't understand their customers' CR concerns, and only 17 percent of businesses are even asking about them.[119]

The Dangers of Empty Boasting

Given the array of potential benefits CR brings to the table—including loyal workers and customers—many companies are eager to position themselves as responsible. Unfortunately, this eagerness has produced a wave of companies trumpeting actions that are not necessarily backed by substance. In its most recent State of Corporate Citizenship report, the Center for Corporate Citizenship at Boston College's Carroll School of Management found that although most executives believe that CR is important, and 54 percent believe that CR is even more important during a recession, only 40 percent of all companies (and 65 percent of large companies) have a person or team

[117] Ibid.

[118] Ibid.

[119] George Pohle and Jeff Hittner, "The Right Corporate Karma," *Forbes*, May 16, 2008.

dedicated to corporate citizenship issues.[120] Corporations make false or hollow claims at their own risk: vigilant NGOs and other corporate critics are quick to pinpoint any inaccuracies. For example, "greenwashing" is a popular term used to describe the act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service.[121] The Rainforest Action Network offers a "Greenwash of the week" feature on its official blog "Understory," exposing the reality behind eco-friendly marketing with videos posted on YouTube.[122] In 2010, TerraChoice Environmental Marketing reported in its annual "Sins of Greenwashing" study that a staggering 95 percent of consumer products claiming to be "greener" were guilty of one or more of the seven sins of greenwashing.[123] It is no wonder that constituents continue to be skeptical about companies' motivations and the realities behind CR claims. Additional suspicion stems from the high percentage of advertising dollars currently streaming into CR-related content. General Electric unveiled its highly acclaimed $1 billion "Ecomagination" campaign in 2005, featuring a collection of environmentally friendly products that now constitute 7 percent of GE's sales.[124] In 2007, GE reported spending nearly all of its corporate advertising budget on Ecomagination advertisements. Journalists noted that more than 90 percent of GE sales were actually derived from its standard, less eco-friendly products.[125]

In this environment of watchfulness and skepticism, corporations need to work hard to bridge the divide between rhetoric and reality. As the Natural Marketing Institute (NMI) explains regarding corporate environmentalism: "[T]he future of the green movement will require a new level of sophistication and clarity as consumers increasingly discern between those companies that are truly sincere versus those that are perceived as participating for superficial reasons."[126] Even the leading hybrid car manufacturer Toyota has not been immune to the criticism of false advertising. The environmental community has expressed dissatisfaction with Toyota over its efforts to block legislation before Congress to boost fuel economy for all new vehicles from 25 to 35 miles per gallon by 2020, claiming the target is technologically unrealistic. In response, a "How Green is Toyota?" campaign was launched by a number of environmental groups, resulting in more than 100,000 e-mails sent to Toyota's top U.S. executive.[127] In October 2007, protesters draped a Toyota dealership in Detroit with images of flag-wrapped coffins and the tagline "Driving War and Warming."[128] Toyota answered by launching its biggest advertising campaign to date, featuring a commercial of the Prius constructed using grass, twigs, and earth and asking: "Can a car company grow in harmony with the

[120] "Weathering the Storm: The State of Corporate Citizenship in the United States 2009," Center for Corporate Citizenship at Boston College Carroll School of Management.

[121] TerraChoice, www.terrachoice.com.

[122] http://understory.ran.org.

[123] "The Sins of Greenwashing," TerraChoice with Underwriters Laboratories, 2010, http://sinsofgreenwashing.org/findings/greenwashing-report-2010/.

[124] Strom, "Make Money, Save the World."

[125] Elgin, "Little Green Lies."

[126] Lifestyles of Health and Sustainability 2007, Consumer Trends Database, www.nmisolutions.com.

[127] Keith Naughton, "Toyota's Green Problem," *Newsweek*, November 19, 2007.

[128] Ibid.

environment? Why not? At Toyota, we're not only working toward cars with zero emissions. We're also striving for zero waste in everything else we do." The ads unleashed new criticism of Toyota's eco-awareness as little more than a slick PR effort, sparking a new round of protests using Toyota's own slogan, "Why not?"[129]

The Transparency Imperative

With the Internet granting NGOs and average consumers unprecedented corporate access, pressure is mounting for companies to reveal proactively both the good and the bad elements of their operations. Companies have achieved success in turning a critical eye on themselves and citing where they can be doing better on the CR front. For example, Nike and The Gap became the first to reveal the names of their overseas factories—acknowledging the shortcomings in their respective global supply chains—and set a new benchmark several years ago.[130] In much the same manner as mystery shoppers gauge the quality of in-store customer service, Nike conducts surprise inspections of its global manufacturers to ensure they meet worldwide standards.[131] Patagonia has taken transparency a step further through its interactive website "The Footprint Chronicles," tracking the negative impact of its products on the environment "from design to delivery."[132] The site highlights Patagonia's environmental shortcomings and emphasizes its willingness to keep improving: "We're keenly aware that everything we do as a business—or have done in our name—leaves its mark on the environment. As yet, there is no such thing as a sustainable business but every day we take steps to lighten our footprint and do less harm."[133] Such self-critical transparency can help build trust with constituencies. Transparency is also important for companies seeking favorable media coverage for their CR reporting and CR initiative updates. In a recent blog post entitled, "I Published My Sustainability Report . . . So, Where's My Media Coverage?" on the Fleishman-Hillard website, the highly regarded PR and marketing communications consulting firm provides the following advice to companies: (1) "don't sugarcoat your story," (2) "be real," and (3) "be detailed." The blog posting goes on to quote a sustainability reporter for *Fortune*, Marc Gunther, who shares the following insight: "Sustainability reports arrive almost daily now. A company's report needs to stand out from the crowd. Ideally, by pushing the envelope in some way—being forward-thinking, or unusually transparent, or willing to talk honestly about setbacks and frustrations as well as accomplishments and points of pride."[134] Positioning oneself as fallible—and determined to do better—can go a long way in winning the hearts of story-seeking journalists and skeptical consumers who are now armed with unprecedented insights into companies' business practices via the Internet

[129] Ibid.

[130] Jeffrey Hollender and Bill Breen, "Can You Be Green without Also Being Transparent?" *Harvard Business Online*, June 19, 2008.

[131] William J. Amelio, "Worldsource or Perish," *Forbes*, August 17, 2007.

[132] "The Footprint Chronicles," www.patagonia.com.

[133] Ibid.

[134] Elin Nozewski, "I Published My Sustainability Report . . . So, Where's My Media Coverage?" Fleishman-Hillard Sustainability blog, December 15, 2011, http://sustainability.fleishmanhillard.com/2011/12/15/i-published-my-sustainability-report-so-where%E2%80%99s-my-media-coverage/#.

and the widespread voices of critical NGOs. Consumers today are savvy enough to recognize that identifying a problem is the first necessary step toward solving it.[135]

Getting It Measured and Done: CR Reporting

Providing metrics—hard-and-fast evidence of CR efforts and results—will become increasingly important as more stakeholders pay close attention to the claims and realities of corporate behavior.

In such a metrics-conscious environment, the demand for corporations to issue crisp and clear CR reporting will only continue to increase. During 2010, 5,200 CR reports were published, growing exponentially from the mere 27 reports produced in 1992,[136] with Europe producing more than three times as many CR reports as either Asia or North and Central America, which tied for second place.[137]

The 2013 KPMG Study found that 93 percent of the 250 largest companies report on CR efforts to varying degrees. Of the 4000 companies surveyed for the study, 71 percent reported on corporate responsibility, an increase of 7 percent over 2011.[138] What makes a CR report effective? First, it should appeal to the full range of a corporation's constituencies, providing both quantitative and qualitative evidence of CR efforts. Other important traits of a CR report include the disclosure of the bad as well as the good, acknowledging room for improvement, relevant and direct content (without burying truths in dense reports), creative and engaging delivery of facts, and the engagement of employees and other constituencies in the creation of the reports.[139] Starbucks uses its CR reporting as an opportunity to engage with groups ranging from environmentalists and coffee suppliers to academics and board members to ensure content is relevant and meaningful.[140] More creative formatting, such as storytelling through video, can also be an effective way for organizations to humanize their CR reporting. Finally, much like an audited annual report, an external verification statement from a neutral third party can increase a CR report's credibility. In 2009, however, only 25 percent of CR reports included such external verification.[141]

Quantifying CR efforts can pose significant challenges given the many intangible aftereffects of responsible behavior, many of which take years to accrue. Environmental impact is much easier to quantify than social impact, but companies should make efforts to measure wherever and however possible. Columbia Business School Professor Geoffrey Heal argues that environmental reporting could also be improved by standardizing it in a format similar to the Generally Accepted Accounting Principles (GAAP) to enable cross-company comparisons[142] and possibly even fuel CR

[135] Hollender and Breen, "Can You Be Green without Also Being Transparent?"

[136] "CR Reporting Awards 07 Official Report: Global Winners & Reporting Trends," CorporateRegister.com, March 2008.

[137] Ibid.

[138] "International Survey of Corporate Responsibility Reporting 2013," KPMG, 2013, www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/corporate-responsibility/Documents/corporate-responsibility-reporting-survey-2013.pdf.

[139] Ibid.

[140] Amy Anderson, Starbucks Communications Program Manager, 2008 International Association of Business Communicators International Conference, June 23, 2008.

[141] "CR Reporting Awards 07."

[142] "The ROI of CSR."

competitiveness among companies. The Global Reporting Initiative (GRI) produces a global standard in sustainability reporting, which more than 1,000 organizations from 60 countries use, but its guidelines do not include quantification.[143] Although critics can easily ignore or discount anecdotal evidence of CR successes, crisp numbers—backed by a clear methodology and explanation—are far more difficult to dispute.

Conclusion

With a record number of companies devoting significant budgets and human capital to CR efforts, there is more CR chatter to compete with, which makes it difficult to differentiate a company as responsible. By July 2008 an article in the *Environmental Leader* had dubbed this effect "green fatigue" or "green noise."[144] In this environment, responsibility is no longer an option; it is a necessary condition that a corporation must meet to maintain positive relationships with its constituents and ensure its ongoing survival. The following list of key takeaways can ensure a thoughtful communication strategy is properly integrated to fuel the success of a corporation's CR program.

1. *It Starts on the Inside*

Throughout the chapter, we have emphasized the importance of engaging employees in a CR strategy. Walmart cites employee engagement in its CR efforts as a critical part of its green plan's success. Each employee is encouraged to make voluntary changes in his or her life to make a positive individual contribution to the environment—from using compact fluorescent lights to riding a bike to work—which helps them rally more personally around Walmart's corporate environmental efforts and share those messages in-store with consumers.[145] At Walmart Canada, vice presidents draw from the lower ranks of the company's 75,000-employee pool to pull together 14 "Sustainability Value Networks," teams that submit proposals and action plans on topics including greenhouse gas reduction and operational waste reduction.[146] Ensuring a CR strategy resonates strongly with employees can help drive greater efficiencies and positive feelings of ownership and membership in a company that stands for something greater than profits alone.

2. *Collaborate with Friends and Foes*

The old adage holds true in CR communications: keep your friends close and your enemies even closer. The continued influence of NGOs presents an opportunity for corporations to forge partnerships to defend against attacks and build credibility with the millions of consumers who hold these cause-driven organizations in high regard. McDonald's, for example, worked closely with the Environmental Defense Fund in the early 1990s to change from plastic, foam packaging to paper through a collaborative effort. Earlier in the chapter, we discussed Citigroup's strategic discussions with RAN as a first critical step in its staking a trailblazing position of environmental leadership among fellow financial services firms that then followed suit by signing on to the Equator Principles.

[143] Ibid.; Global Reporting Initiative, www.globalreporting.org.

[144] Valerie Davis, "Are Consumers Falling Off the Green Wagon and Should We Care?" *Environmental Leader*, July 10, 2008.

[145] David Dias, "Giant Steps," *Financial Post Business* (Canada), July/August 2008.

[146] Ibid.

3. Present the Bad with the Good

The importance of transparency cannot be overstated in the implementation of a CR strategy. Companies that do not disclose or downplay the negative attributes or effects of their operations do so at their own peril. Given the sophistication and vigilance of NGOs and the average consumer with a Twitter account, today, a company's constituents will likely find out the truth whether or not the company proactively tells them. Being transparent means being clear in CR communication and not clouding realities with vague or verbose prose. Admitting mistakes and missteps is the first, necessary step to correcting them. Constituents will be more forgiving and trustful of a company that openly discusses its challenges in implementing CR initiatives than they will be of companies that attempt to mask or misrepresent shortcomings. Clarity also means using metrics and quantifying CR efforts wherever possible and, just as important, explaining the methodology. Constituencies will only appreciate and engage with a company's CR strategy if they are able to understand what it is and how the results are being measured.

4. Stay One Step Ahead of Antagonists

Corporations should keep a finger on the pulse of influencers, critics, and all constituents to gauge existing opinions and spot potential trouble brewing well in advance of a CR crisis erupting. This monitoring will enable a company to tell its own story and maintain a strong grasp on its reputation. In the words of Mary Jane Klocke, Director of North American Shareholder Marketing at BP: "Engagement raises brand awareness, offers valuable insights and perspectives from key stakeholders and gives us avenues of influence and opportunity to get the facts out . . . rather than have the [socially responsible investment or SRI] community receive its information from the media or other third parties."[147]

5. Match Rhetoric with Action

Constituencies today have little patience for self-aggrandizing corporations that inaccurately inflate their CR efforts or do not deliver on promises made. The greater the number of corporations that vie to win approval through CR efforts, the more savvy and discerning constituencies will be in separating hollow rhetoric from bona fide results. Companies should also be careful to never express complacency in their efforts to be responsible. Just as the business environment—and a corporation's intersection with social, environmental, and governance issues—is constantly in flux, so a CR strategy must be continually reshaped.[148] David Douglas, vice president of eco responsibility at Sun Microsystems, explains: "A big mistake is to send the message that your company believes it has done all it can do. There is always room for improvement when it comes to developing business practices that create social and business value. To indicate otherwise brings the credibility of your company's entire [CR] program into question."[149]

[147] Garrett Glaser, "Lessons Learned in Promoting CSR," *Corporate Responsibility Officer*, 2007.

[148] Porter and Kramer, "Strategy & Society."

[149] Glaser, "Lessons Learned in Promoting CSR."

Case 5-1

Starbucks Coffee Company

On an overcast February afternoon in 2000, Starbucks CEO Orin Smith gazed out of his office window in Seattle and contemplated what had just occurred at his company's annual shareholder meeting. In prior years, the meeting had always been a fun, all-day affair where shareholders from around the country gathered to celebrate the company's success. This year, however, Smith and other senior Starbucks executives heard an earful from the activist group Global Exchange at the meeting. Global Exchange, a human rights organization dedicated to promoting environmental, political, and social justice around the world, criticized Starbucks for profiting at the farmers' expense by paying too little for beans and not buying "fair trade" beans. Not only did the activists disrupt the company's annual meeting to the point that the convention hall security police asked the activists to leave, but they also threatened a national boycott if the company refused to sell and promote fair trade coffee. Although Smith strongly disagreed with using the shareholders meeting as a public forum, he knew there was a strong likelihood his company could face serious reprisals if it did not address the issues raised by Global Exchange.

FAIR TRADE COFFEE

Fair trade began after World War II as religiously affiliated non profit organizations purchased handmade products for resale from European producers. Fair trade was an economic model based on fair labor compensation and mutual respect between producers and consumers. By the late 1990s, the fair trade movement had gained a foothold in the United States, and in early 1999, TransFair USA, a third-party certification agency, launched its Fair Trade Certified coffee label. During that summer, Global Exchange began a campaign to educate consumers and the media about labor conditions in the coffee industry, focusing on getting the message out to specialty coffee consumers. Although the activists were successful in educating pockets of consumers, they knew their effectiveness was limited without directing blame for the farmers' woes. Global Exchange decided to take an anticorporation stance and focused its attention on the most visible brand in specialty coffee: Starbucks.

At this time, fair trade coffees were coffees that were purchased directly from cooperatives of small farmers at a guaranteed floor price. Unlike shade and organic coffees, fair trade coffee focused on the workers' economic sustainability. Fair trade coffee attempted to cut out or limit the middlemen and provided much-needed credit to small farmers so that they could end their poverty cycle. Licensing organizations in individual importing countries certified fair trade coffee from farmers listed on the Fair Trade Registry. Consequently, there was a host of different certifying agencies, and fair trade coffee accounted for different market share in each country.[1]

STARBUCKS' ISSUES WITH FAIR TRADE COFFEE

For Starbucks, the real issues were brand perception and the consumer proposition. Starbucks hesitated to sign a fair trade license, not wanting to commit until it had carefully weighed all of the implications.[2] According to

[1] Rice & McLean, p. 78.

[2] Smith, personal interview.

Source: This case was sponsored by the Allwin Initiative for Corporate Citizenship and prepared by Alison Stanley, T'02, under the direction of Professor Paul A. Argenti, with the cooperation of Starbucks Coffee Company.

Starbucks executives, their chief concern with fair trade coffee was finding top-quality beans from cooperatives that had not demonstrated an ability to produce quality beans to Starbucks standards. From earlier cupping analyses, Starbucks had little evidence that fair trade coffee met its quality standards. Starbucks was beginning to move toward purchasing more of its coffee through direct relationships with exporters or farmers and negotiated a price based on quality. The company was willing to pay higher prices for great-quality beans and had developed long-term contracts with many of its suppliers.

Mary Williams, senior vice president (VP) of the coffee department, was known throughout the coffee industry as a "tough cupper" who would not settle for anything less than top-quality beans and explained, "the relationships I have with farmers were built over the last 20 years. It's taken some of them years before I would use their beans consistently and pay them $US 1.26 or more. Now I was being asked to use another farmer who I didn't know and pay him the same price without the same quality standards?"[3] On average, farmers sent samples and met with Starbucks coffee buyers at their farms for at least two years before Starbucks accepted their beans. In weighing the fair trade coffee issue, Williams had secondary concerns with how the farmers she worked with would react when they discovered that other farmers received the same price without being held to the Starbucks quality standards. This was not a trivial issue because it was more expensive to grow high-quality beans. Further, she feared that the smaller cooperatives would not be able to guarantee that they could take back a low-quality shipment and replace it based on Starbucks' volume and quality needs.

Starbucks was also concerned about its brand exposure if the quality of fair trade coffee turned out to be very different from the rest of its 30 whole bean coffee line. Coffee quality was a critical component of the Starbucks brand, and if it was compromised the value of the brand could be seriously diminished. "Honestly, we didn't want to put our brand at risk," said Tom Ehlers, VP of the Whole Bean department. "This was an uncharted category and as marketers, we were concerned about endorsing a product that didn't meet our quality standards."[4] The Whole Bean department would face several challenges in introducing fair trade coffee to 3,200 stores in the United States. First, it would have to come up with a good story for fair trade coffee. "A lot of our business is about the romance of coffee—where it comes from and how to make it come alive for the customer. We weren't really sure where fair trade beans would be coming from because of the quality," explained Tim Kern, Whole Bean product manager.[5]

And how would fair trade coffee be priced? Starbucks coffee was a high-margin business, but if the company were to charge a premium for fair trade, how would customers perceive this? Although pricing was a secondary issue to consider, it was not a reason for Starbucks to abandon fair trade coffee. Orin Smith recalled, "In fact, a number of people believed that the sale of low quality Fair Trade coffee undermined their entire business proposition with customers: Starbucks and other specialty coffee companies had persuaded customers to pay high prices for quality coffee. This enabled roasters to pay the highest prices in the industry to coffee sellers." If quality was reduced, specialty coffee would be no different than mass market coffee and the consumer would be unwilling to pay premium prices. This would destroy the industry's ability to pay price premiums to producers.

[3] Mary Williams, Starbucks SVP Coffee Department, July 24, 2002.

[4] Tom Elhers, personal interview, Starbucks VP Whole Bean, July 25, 2002.

[5] Tim Kern, personal interview, Starbucks Whole Bean product manager, July 25, 2002.

THE STARBUCKS CULTURE

In 1990, Starbucks' senior executive team drafted a mission statement laying out the guiding principles behind the company. The team hoped that the principles included in this mission statement would help partners (Starbucks' term for employees) to gauge the appropriateness of their decisions and actions. As Orin Smith explained, "Those guidelines are part of our culture and we try to live by them every day." After drafting the mission statement, the executive team asked all Starbucks partners to review and comment on the document. Based on their feedback, the final statement (see Exhibit 5.1), put "people first and profits last." In fact, the number one guiding principle in Starbucks' mission statement was to "provide a great work environment and treat each other with respect and dignity."

Going forward, Starbucks did three things to keep the mission and guiding principles alive. First, it provided all new partners with a copy of the mission statement and comment cards during orientation. Second, when making presentations, Starbucks' leadership continually related decisions back to the appropriate guiding principle or principles they supported. And third, the company developed a "Mission Review" system through which any partner could comment on a decision or action relative to its consistency with one of the six principles. The partner most knowledgeable on the comment had to respond directly to such a submission within two weeks, or if the comment was anonymous, the response appeared in a monthly report. As a result of this continual emphasis, the guiding principles and their underlying values had become the cornerstones of a very strong culture.

After buying Starbucks, CEO Howard Schultz had worked to develop a benefits program that would attract top people who were eager to work for the company and committed to excellence. One of Schultz's key philosophies was to "treat people like family, and they will be loyal and give their all." Accordingly, Starbucks paid more than the going wage in the restaurant and retail industries, granted stock options to both full- and part-time partners in proportion to their level of base pay, and offered health benefits for both full- and part-time partners. As a result of its commitment to its employees, Starbucks enjoyed a low annual employee turnover (60 percent versus the restaurant industry average of 200 percent) and employees reported high job satisfaction. All of this satisfaction had fostered a strong culture that employed a predominately young and educated workforce of individuals who were extremely proud to work for Starbucks. Their pride came from working for a very visible and successful company that tried to act in accordance with the values they shared. According to Smith, "It's extremely valuable to have people proud to work for Starbucks and we make decisions that are consistent with what our partners expect of us."

EXHIBIT 5.1 Starbucks Mission Statement

Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow. The following six guiding principles will help us measure the appropriateness of our decisions:

- Provide a great work environment and treat each other with respect and dignity.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting, and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success.

CORPORATE RESPONSIBILITY AT STARBUCKS

Just as treating partners well was one of the pillars of Starbucks' culture, so too was contributing positively to the communities that it served, and to the environment. Starbucks made this commitment not only because it was the right thing to do but also because its workforce was aware and concerned with global environmental and poverty issues. In addition to sustaining and growing its business, Starbucks supported causes "in both the communities where Starbucks stores were located and the countries where Starbucks coffee was grown."

On the local level, store managers were granted discretion to donate to local causes and provide coffee for local fundraisers. One Seattle store donated more than $500,000 to Zion Preparatory Academy, an African-American school for inner-city youth. CEO Howard Schultz used his own money to start the Starbucks Foundation, which provided "opportunity grants" to nonprofit literacy groups, sponsored young writers programs, and partnered with Jumpstart, an organization helping Headstart children. Although the Starbucks Foundation was technically separate from the company, Starbucks made an annual donation to the foundation.

On the international level, in 1991, Starbucks began contributing to CARE, a worldwide relief and development foundation, as a way to give back to coffee-origin countries. By 1995, Starbucks was CARE's largest corporate donor, pledging more than $100,000 a year and specifying that its support go to coffee-producing countries. The company's donations helped with projects such as clean-water systems, health and sanitation training, and literacy efforts. By 2001, Starbucks had contributed more than $1.8 million to CARE.

In 1998, Starbucks partnered with Conservation International (CI), a nonprofit organization that helped promote biodiversity in coffee-growing regions, to support producers of shade-grown coffee. The coffee came from cooperatives in Chiapas, Mexico, and was introduced as a limited edition in 1999. The cooperatives' land bordered the El Triunfo Biosphere Reserve, an area designated by CI as one of the 25 "hot spots" that were home to over half of the world's known plants and animals. Since 1999, Starbucks had funded seasonal promotions of the coffee every year, with the hope of adding it to its lineup of year-round offerings. The results of the partnership had proven positive for both the environment and the Mexican farmers. Shade acreage increased by 220 percent, and farmers received a price premium of 65 percent above the market price and increased exports by 50 percent. Since the beginning of the partnership, Starbucks made loan guarantees that helped provide over $750,000 in loans to farmers. This financial support enabled these farmers to nearly double their income.

In 1992 Starbucks developed an environmental mission statement to articulate more clearly how the company interacted with its environment, eventually creating an Environmental Affairs team tasked with developing environmentally responsible policies and minimizing the company's "footprint." Additionally, Starbucks was active in using environmental purchasing guidelines, reducing waste through recycling and energy conservation, and continually educating partners through the company's "Green Team" initiatives. In 1994, Starbucks hired Sue Mecklenburg as the first director of Environmental Affairs. Although Starbucks had supported responsible business practices virtually since its inception, as the company grew, it felt more pressure to protect its image. It was Mecklenburg who developed the idea of using paper sleeves instead of double cupping.

At the end of 1999, Starbucks created a Corporate Social Responsibility department, and Dave Olsen was named the department's first senior vice president. According to Sue Mecklenburg, "Dave really is the heart and soul of the company and is acknowledged by others as a leader. By having Dave be the first Corporate Responsibility SVP, the department had instant credibility within the company." Between 1994 and 2001, Starbucks' CSR department grew from only one person to fourteen.

THE FAIR TRADE DECISION

Starbucks had defined being a socially responsible corporation "as conducting our business in ways that produce social, environmental and economic benefits to the communities in which we operate." Starbucks knew that consumers were increasingly demanding more than just a "product," at the same time that employees were increasingly electing to work for companies with strong values. In a 1999 survey by Cone Communications, 62 percent of respondents said they would switch brands or retailers to support causes they cared about. Another survey conducted in 2001 showed that 75 to 80 percent of consumers were likely to reward companies for being "good corporate citizens," and 20 percent said they'd punish those who weren't.[6] The company cared about being a responsible corporation for a variety of reasons: increasing employee satisfaction, maintaining quality supply sources, obtaining a competitive advantage through a strong reputation, and increasing shareholder value.[7]

As he looked out over the busy port in Seattle's South of Downtown district, Orin Smith pondered all of these issues. Although offering fair trade coffee was a good objective and consistent with the company's aims of being a socially responsible organization, Smith knew he could not base his decision on this factor alone. Even though Smith had a rough idea of which issues his executive team would bring up during the discussion, as the CEO he had to consider the larger picture. He drummed his fingers on the desk and asked himself how Starbucks could support fair trade coffee given that the company had limited resources, a strong reputation to protect, and shareholders who were willing to support causes only so much.

CASE QUESTIONS

1. What are the key issues for Starbucks?
2. What are the problems associated with the decision to offer fair trade coffee from a communications perspective? What are the problems associated with not offering fair trade coffee?
3. What should Smith do?

[6] Alison Maitland, "Bitter Taste of Success," *Financial Times*, March 11, 2002, p. 2.

[7] Packard, "Sustainability Practices Presentation."

CHAPTER SIX

Media Relations

One of the most critical areas within any corporate communication function is the media relations department. The media are both a constituency and a conduit through which investors, employees, customers, and community members receive information about and form images of a company. Consumers, for instance, might see a *Dateline NBC* segment on a particular firm or read an article about it in *Bloomberg Businessweek* or *The Wall Street Journal Online*. With the growth of digital communications platforms, the media's role as disseminator of information to a firm's key constituencies, including the general public, has changed dramatically in recent years. Virtually every company now has some kind of media relations department that covers both traditional and new media, whether it is one part-time consultant or a large staff of professionals.

In this chapter, we look at what media relations professionals do, and also how companies should approach the different members of the now expanded "press." We examine who the media are, how firms communicate with the media through relationship building, and what constitutes a successful media relations program in today's changing business environment.

The Evolution of the News Media

The news media are omnipresent in our society. With the advent of television in the late 1940s and early 1950s and the tremendous growth of the Internet since the 1990s, what had once been the exclusive domain of the print medium in newspapers as well as radio increasingly has become part of the visual realm through televisions, connected devices, and computers.

The arrival of television moved the "headline news" that had formerly been found in newspapers to a new, nearly instantaneous medium. Newspapers adapted by taking over the kind of analysis that had previously appeared in weekly news magazines such as *Time* and *Newsweek*. The news magazines, in turn, took over the feature writing and photo journalism that used to appear in older monthlies such as *Life Magazine* and the *Saturday Evening Post*.

Referred to as "the press" in earlier times, the expanded media are a powerful part of American society. The First Amendment of the Constitution guarantees the right of free speech in the United States, and over the years, the media have helped shape attitudes in this country on issues as diverse as gun control and hemlines, abortion and corporate pay. A free press also makes politicians accountable for