



# PROJECT ROI

**Defining the Competitive and Financial Advantages of Corporate Responsibility and Sustainability**



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## ABOUT THE RESEARCH ORGANIZATIONS

### About IO Sustainability

IO Sustainability, LLC is a research and advisory services firm. We focus on enhancing the discipline of Corporate Responsibility and Sustainability to build strategic approaches that deliver Impacts and Outcomes (IO) for an organization and its key stakeholders. IO's mission is to develop tools and solutions that promote a sustainable future for our clients. We do this through a commitment to continuous learning, research, and stakeholder engagement, and our unique multi-disciplinary approach to strategy and project implementation. For more information visit [www.iosustainability.com](http://www.iosustainability.com)

### About the Lewis Institute for Social Innovation at Babson College

The Lewis Institute illuminates pathways for students, faculty, staff, foundations, and corporate partners seeking social innovation solutions. By drawing upon Babson's core methodology of Entrepreneurial Thought & Action®, we activate unexpected and fruitful collaborations and integrative designs for action. The result is business prosperity and societal improvement. We extend our impact through the Babson Social Innovation Lab, an action tank powered by Toyota, that incubates people and ideas in the world of social innovation. The Institute resides at Babson College, the educator, convener, and thought leader for Entrepreneurship of All Kinds®, and a dynamic living and learning laboratory, where students, faculty, and staff work together to address the real-world problems of business and society—while at the same time evolving our methods and advancing our programs. For more information visit <http://www.babson.edu/Academics/centers/the-lewis-institute/Pages/home.aspx>

### About the Authors

**Steve Rochlin** is co-founder and Co-CEO of IO Sustainability

**Richard Bliss** is the Barefoot Family Endowed Chair, Associate Professor of Finance at Babson College

**Stephen Jordan** is co-founder and Co-CEO of IO Sustainability

**Cheryl Yaffe Kiser** is Executive Director of the Lewis Institute for Social Innovation at Babson College

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# I. EXECUTIVE SUMMARY

Corporate Responsibility (CR) practices have great potential to deliver financial returns on investment (ROI) as well as related business and competitive benefits. But it's not enough to engage in CR activities, one must manage them well. Companies should view their combined CR practices as value-creating assets. With proper design and sufficient investment, a company's "CR Assets" can support returns related to:

- Share price and market value
- Sales and revenue
- Reputation and brand
- Human resources
- Risk and license to operate

The potential ROI from CR for large, publicly traded companies, includes the following:

CR's potential value for market value, share price, and risk reduction		
Increase market value by up to: <b>4-6%</b>	Over a 15 year period, increase shareholder value by: <b>USD \$1.28 billion</b>	Increase valuation for companies with strong stakeholder relationships: <b>40-80%</b>
Reduce the cost of equity by: <b>1%</b>	Reduce share price volatility: <b>2-10%</b>	Avoid market losses from crises: <b>USD \$378 million</b>
Reduce systematic risk by: <b>4%</b>		Reduce the cost of debt by: <b>40% or more</b>

CR's potential value for marketing, sales, and brand/reputation		
Increase revenue by up to: <b>20%</b>	Increase price premium by up to: <b>20%</b>	Increase customer commitment in: <b>A core segment of 1-20%</b> <b>The total segment of 60%</b>
Establish CR brand and reputation value as: <b>11% of the total value of the company</b>		Avoid revenue losses of up to: <b>7% of the firm's market value</b>

CR's potential value for Human Resources		
Reduce the company's staff turnover rate by up to: <b>50%</b>	Save per additional retained employee: <b>90-200% of the employee's annual salary</b>	Improvements in CR performance has the same effect on retention as an increase in annual salary of: <b>\$3,700/year</b>
Workers willingness to accept variability in pay: <b>5% pay cut</b>	Increase productivity by up to: <b>13%</b>	Increase employee engagement up to: <b>7.5%</b>

While high quality products and services, effective marketing and sales practices, well-calibrated strategies and business models, and excellent management and operational practices remain the most important drivers of ROI, strong CR practices can both:

- Augment business performance to deliver additional ROI and
- Make up for certain deficiencies in business performance to preserve, protect, and even grow financial ROI.

From a strategic standpoint, the management and practice of CR can serve one or more of the following business-value generating missions:

Strategic, business-value creating goal	Potential target range
a) Boost how shareholders view performance to enhance share price and market value	Increasing share price as much as 6%
b) Reduce risks and protect the company's license to operate	Protecting as much as 10% of the firm's value
c) Nurture, grow, and protect CR-related brand and reputation value	Nurturing as much as 11% of the firm's value
d) Enhance competitive positioning with, and deepen the engagement of, customers	Increasing revenues as much as 20%
e) Enhance the commitment and engagement of employees	Reducing turnover as much as 50%
f) Some combination of the above	

It is not enough to simply fund or manage environmental, social, and governance programs, one must differentiate good CR management practices from less effective ones.

Companies that make a strong commitment to CR tend to generate ROI. This means:

- Articulating a commitment to clear environmental, social, and governance goals
- Aligning CR management practices with business strategy and mission
- Establishing quantifiable management metrics
- Seeking authentic stakeholder buy-in and engagement

In contrast companies perceived as not fully committed to CR are less likely to generate ROI. Such companies may engage in philanthropy and select environmental and social practices, but exhibit a disconnect between these practices and core operations.

Paradoxically, while deep alignment and commitment tends to pay off for a company's overall CR profile, for any specific CR activity – from philanthropy, to environment, to human rights in the supply chain, and others – companies tend to benefit by following the “Goldilocks” approach. Customers, employees, and shareholders look for the company to engage in just the right amount of activity. They may financially “punish” the company for doing too much or too little. This stakeholder pattern is situational and depends not just on the company's individual context, but on industry and general business patterns of behavior.

To enhance the potential for CR to deliver value, companies will benefit from adopting the management framework of:

- 1. Fit:** Make CR commitments that fit your company's core attributes and your key stakeholders' expectations.
- 2. Commit:** Make a genuine commitment to address CR issues.
- 3. Manage:** Think of, develop, and manage your portfolio of CR practices as a valuable intangible asset.
- 4. Connect:** Build key stakeholder awareness, trust, engagement, and affinity.

These findings suggest that it is time to move away from the debate over whether CR in the abstract creates or destroys value. Companies and their managers are able to exert some measure of both choice and control over the business-related benefits that their CR management will deliver. Like other investments, some CR initiatives will pan out and others won't. The implication for companies is to develop business-aligned and integrated CR strategies. This includes applying to CR some of the same management disciplines as any other business function.

The authors intend to continue our investigation of how CR drives financial and societal value, and develop ways the systems companies can use to improve the results from their CR investments and strategies.

## II. INTRODUCTION

For years a debate has raged – do corporate environmental, social, and governance (“ESG”) practices drive or distract from tangible financial, competitive, and wider business performance? With the support of Lead Sponsor Verizon and Supporting Sponsor the Campbell Soup Company, the Project ROI team of IO Sustainability and Babson College has conducted extensive research to answer this question. In the process the team has identified important lessons learned regarding the key strategies and tactics likely to deliver returns from CR.

Our finding: CR practices have great potential to deliver financial returns on investment (ROI) and related business and competitive benefits. However, it is not enough to engage in CR activities per se, one must do them well. As with every aspect of business management, some types of CR investments succeed and others fail. Companies should view their combined CR practices as a valuable collection of assets or an asset base. With proper design and sufficient investment, a company’s “CR Assets” can support returns related to:

- Share price and market value
- Sales
- Reputation and brand
- Human resources
- Risk and license to operate

Companies that commit to building CR approaches that utilize systematic business analytics and tools can adopt strategies and tactics that should increase the potential to generate financial and wider business value. These approaches can and should reinforce objectives to deliver tangible benefits for society.

### **Necessary, but not sufficient**

Environmental, social, and governance programs may contribute to overall profitability and business success, but they are dependent on the overall business context. CR practices cannot replace the quality and attractiveness of products and services. Sound CR practices cannot make up for strategic and managerial deficiencies in other business disciplines like strategy, finance, marketing, manufacturing, HR, or R&D (although they may mute the downside impacts from errors in judgment and crises).

However, the findings suggest that well-designed and managed CR practices help drive and support value in a number of ways. Given the outcomes that CR potentially generates, companies should embrace CR practices as a valuable contributor to competitive financial and business performance.<sup>1</sup>

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1 Lacey, Kennett-Hensel, & Manolis, 2014; Porter & Kramer, 2006



## About Project ROI

Verizon and the Campbell Soup Company launched Project ROI to support their efforts to continuously improve their ESG performance and to tangibly measure the benefits to business of environmental, social, and governance programs. They supported the research of IO Sustainability and Babson College, who undertook the work under the condition that the research team would share findings based on wherever the research led.

Project ROI's objective is to assess the business case for CR for the benefit of senior executives, boards of directors, and even Wall Street. The research has asked what, if any, potential ROI can CR deliver? We have then assessed:

- What are the strategies, tactics, and practices likely to create ROI?
- What lessons should executives and managers take regarding their approach to and measurement of CR practices?

Our approach relied on analyzing existing research from credible analysts and institutions. The vast majority of our sources have come from academic and peer reviewed sources. In total we have investigated over 300 studies.

We have supplemented our research with interviews of executives and CR practitioners and from our experience advising, studying, and training hundreds of companies across industries.

The existing body of research tends to focus mostly on the experience of large, publicly traded companies. There are several reasons for this:

- (1) Transparency of financial results makes it relatively easier to measure the relationship between CR and financial performance.
- (2) Many of the benefits of CR are related to balance sheet improvements, particularly relevant to publicly-traded companies.
- (3) Privately held companies do not necessarily have as much pressure to deliver profitability on a quarterly basis.

However, the research we have reviewed is diverse and in the opinion of the authors often does apply to large privately held firms. We would project, as well, that the research has certain relevance for small and medium enterprises. This is an area that requires deeper investigation.

It is important to note that asking what returns CR brings to society is a crucial question. While our research concentrates on the business case, it is important to underscore a key finding: companies that commit to CR approaches that genuinely and authentically aim to optimize their impact and to generate positive benefits for society, stand the best chance of delivering financial and business value.

## Defining Corporate Responsibility

We use four terms interchangeably: “ESG” (environment, social, and governance); “Corporate Responsibility” or “CR”; “Sustainability”; and “Corporate Social Responsibility” or “CSR.” The fact that no single term suffices to explain the practice and that every term possesses multiple (and sometimes competing) definitions creates challenges for the fields of both research and practice.

For the purposes of this report the above terms refer to a company’s efforts to:

- **Reduce the corporate footprint.** This discipline refers to management efforts to reduce the firm’s detrimental impacts on environmental, social, economic, and governance performance indicators within its surrounding community, value chain, or broader eco-system. It includes direct corporate action as well as those behaviors of the company’s wider value chain whose CR performance it influences through the policies, decisions, and incentives it creates.
- **Enhance positive solutions that improve environmental, social, economic, and governance conditions.** Sometimes referred to as the corporate “handprint,” this refers to a spectrum of practices ranging from pre-competitive investments designed to improve social and economic conditions in a new market, to research and development designed to meet CR needs more seamlessly, to philanthropy and other forms of community engagement and development.
- **Transparently disclose and report on CR performance.**
- **Determine the company’s accountability** for CR performance in dialogue with stakeholders.<sup>2</sup>





Companies struggle to design a coherent and consistent process to manage and implement CR practices.<sup>3</sup> IO Sustainability’s research and hands-on experience finds that companies typically divide CR practices across four work-streams as captured in figure 1.

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2 The researchers recognize that there are many different attributes and complexities inherent in the broader field encompassed by CR, ESG, Sustainability, and CSR and future iterations of Project ROI will continue to explore these issues in increasing granularity over time.


3 Rangan, Chase, & Karim, 2015

Figure 1: The roles and structures of CR operations

			
COMPLIANCE	ENGAGEMENT	COMPETITIVE POSITIONING	INNOVATION & TRANSFORMATION
<p><b>Major functions</b></p> <ul style="list-style-type: none"> <li>• Technical assessment, auditing, reporting and improvement of regulatory and voluntary systems</li> </ul>	<p><b>Major functions</b></p> <ul style="list-style-type: none"> <li>• Code and standard adoptions; communications, stakeholder management, partnership, program design, reporting</li> </ul>	<p><b>Major functions</b></p> <ul style="list-style-type: none"> <li>• Share value programming, pilot products, social innovation, supplier development, green production</li> </ul>	<p><b>Major functions</b></p> <ul style="list-style-type: none"> <li>• Strategic planning, R&amp;D and product development, business process redesign</li> </ul>
<p><b>Examples</b></p> <ul style="list-style-type: none"> <li>• Emissions</li> <li>• Legal and ethical conduct</li> <li>• Safety</li> </ul>	<p><b>Examples</b></p> <ul style="list-style-type: none"> <li>• Giving and volunteer</li> <li>• Engagement</li> <li>• Reporting</li> <li>• SRI, ratings, standards</li> </ul>	<p><b>Examples</b></p> <ul style="list-style-type: none"> <li>• Cost savings</li> <li>• Pilot products</li> <li>• Pilot R&amp;D</li> <li>• Cause campaign</li> </ul>	<p><b>Examples</b></p> <ul style="list-style-type: none"> <li>• Products foster sustainability</li> <li>• “Net positive” footprint</li> </ul>

The paradox companies face is that the left two columns – “Compliance” and “Engagement” – possess relatively clear structures, processes, procedures, policies, and management cycles. However, their business case and potential for ROI are hard to define.

In contrast, the “Competitive Positioning” and “Innovation & Transformation” work streams can possess more straightforward business cases. Examples that relate to these areas from Verizon and Campbell Soup include the following:



- Verizon’s Corporate Responsibility group and Wireless Business partnered with external stakeholders to design “The Coupe”, a mobile phone created specifically to address the unique needs of the disability and senior communities. The product launched in 2008 and sold 400,000 units, remained on back order for months, and moved to a second generation with “The Knack”, which quickly sold 100,000 units. In addition, Verizon Wireless also created a senior calling plan, which brought in 100,000 new customers. Verizon Wireless spending by the senior segment increased by 100 percent from 2007 to 2008.<sup>4</sup>
- Currently Verizon is pursuing a strategy of deploying technology solutions to incubate innovative approaches that target social issues in underserved communities that might not otherwise be addressed by the business itself.

4 Boston College Center for Corporate Citizenship & McKinsey & Company, 2009

This approach provides R&D and market intelligence to the business in the form of outcomes and analysis. For example, Verizon Innovative Learning Schools (VILS) provide professional development to educators in schools to help them better leverage the power of mobile technology. Verizon uses a rigorous measurement process to assess the social impact that mobile technology—when used appropriately—has in the classroom. The initial results are positive.

- The average increase in standardized math scores for VILS schools students is 6.97%, compared to the non-VILS average increase of 4.23%. 99% of teachers responding reported some positive effect on student behavior and attitudes. Verizon's business units are using this data to develop new opportunities for the business.<sup>5</sup>



- In 2010, Campbell rolled out its 2020 goal to reduce its environmental footprint by half. While efforts are taking place at all of the company's facilities globally, the Napoleon, Ohio, facility set the standard for the company's green efforts as the facility makes more than two-thirds of Campbell's beverage volume and over a third of soup volume in North America. In addition, about a fifth of company-wide electricity consumption occurs at Napoleon. To help offset the resource needs of such a high-production facility, major renewable energy projects were implemented. In 2012, the plant transitioned to natural gas and currently recycles 95 percent of materials. In addition, two projects – a 60 acre, 24,000 panel solar field, which is the largest in the United States supplying solar energy to a single private facility, and a new biodigester that converts fruit-and-vegetable waste into methane to fuel two generators – are projected to fill 40 percent of Napoleon's electric demand. Campbell spent no money to install the solar system and locked in a price for 20 years at a rate that is the equivalent to or less than what the company was paying. Based on Department of Energy projections, the solar array will reduce Napoleon's electricity costs \$4 million and eliminate 250,000 metric tons of greenhouse gas over the purchase agreement's 20-year period.
- In FY2013, Campbell launched an extensive re-lighting project at its processing plant in Dixon, California. The company replaced more than 1,800 halide lighting fixtures with more efficient LED wall packs, flood, and pole lighting. The project is expected to save 180,088 kilowatt hours annually and remove 270,000 pounds of carbon dioxide, 450 grams of sulfur dioxide, and 1 million grams of nitrogen oxide from the air EPA estimates put this reduction

at the equivalent of the carbon that would be sequestered by 104 acres of U.S. forest in one year, saving 14,245 gallons of gasoline, or removing 26 cars from the road. Campbell continues to invest in environmental compliance and sustainability initiatives, with that amount exceeding \$17 million in FY2014. These investments have paid off, yielding savings of more than \$77 million since 2009.<sup>6</sup>

One can assess the ROI for each of these examples using analytical tools commonly employed by managers. Yet, companies often find it difficult to embed these approaches in a clear system of strategic goals and objectives, management responsibility, and processes. It is even more difficult to weave all four work streams into a coherent whole.

Project ROI looks at the whole picture with particular focus on the Compliance and Engagement work streams. These represent the most difficult business cases to plan and measure. They are also necessary for companies to credibly execute strategies for the latter work streams.

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6 Interview with Niki King, The Campbell Soup Company, 2014

### III. ROI FINDINGS – FIRM VALUE, SHARE PRICE, AND RISK

Meta-analyses of hundreds of studies find a positive relationship between CR performance and financial performance.<sup>7</sup> Furthermore, there is growing evidence that CR management goes beyond correlation and has a causal relationship with financial performance.<sup>8</sup>

Overall, the market rewards leading CR performers more than laggards and those that dabble.<sup>9</sup> Research typically measures the distinction between top tier, middle-tier, and bottom-tier performers by utilizing rating and assessment systems. Many different rating and assessment systems have been developed, however a common one referenced in the literature is the KLD ratings now owned and managed by MSCI. These kind of CR ratings score companies across a range of ESG performance indicators and topics. The results allow researchers to categorize samples of companies and distinguish the level of CR commitment and quality of CR performance.

The quality, management, business integration, and communication of a company's CR approach affect market value. Collectively these have the potential to influence the way investors weigh contextual factors and reward companies for good CR management or punish them for bad.

#### The upshot:

Companies can use their CR approach to enhance market value. However, engaging in CR activities in and of themselves do not guarantee a positive ROI.

#### Company Value, Share Price, and Risk ROI Scorecard

Large, publicly traded companies that adopt effective CR approaches have the potential to generate the following returns on investment.

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7 Margolis & Walsh, 2001; Orlitzky, 2003; Pelozo, 2009

8 Flammer, 2013; Rodgers, Choy, & Guiral, 2013

9 Barnett & Salomon, 2012; Brammer & Millington 2008; Eccles, Ioannou, & Serafeim 2011; Tang, Hull, & Rothenberg, 2012; Wang & Choi, 2013

Table 1: CR Firm Value ROI Scorecard

## Enhanced market performance driven by a company's total CR profile

### *The potential value CR can generate:*

- **Leading CR performers have the potential to outdo laggards by as much as 4% - 6%.<sup>10</sup> Examples:**
  - Over a 15 year period (1991-2006) for a company in the S&P 500 Index this translates to on average: \$1.28 billion in additional shareholder wealth (an average of \$85M/year) for a cumulative return of 133%<sup>11</sup>
  - Over a 17 year period (1993-2010) an investment of \$1 in high performing CR firms grew to \$22.60. The same \$1 invested in low performing CR firms grew to only \$15.40 in the same period<sup>12</sup>
  - For a large corporation with an average market value of approximately \$48 billion, one unit increase in a CR rating would result in approximately \$17 million more in profits on average in subsequent years, a 4% increase in financial returns<sup>13</sup>
- **From between 2009-2012 an investment of \$1 in:**
  - A CR leader grew to \$1.13
  - An average performer grew to \$1.07
  - A laggard stayed at par<sup>14</sup>
- **A one-standard deviation increase in CR performance is associated with a 5.08% increase in mean equity value<sup>15</sup>**

## Enhanced market performance driven by a specific CR practice

### *The potential value CR can generate:*

- **Strong environmental practices, for example:**
  - From 2004-2007 leaders in carbon reducing outperformed laggards by 3%, with a cumulative total return of 81.85% compared to 72.67%<sup>16</sup>
- **Strong stakeholder relationship management practices, for example:**
  - Investors valued mining companies with strong stakeholder relationships 46%-86% higher than those with average or weak relationships.<sup>17</sup> Firms that treat stakeholders well excel in market valuation<sup>18</sup>
- **Effective philanthropy correlates with superior financial market valuations<sup>19</sup>**

## Reduction in the cost of equity

### *The potential value CR can generate:*

- Good corporate governance and CR practices can reduce the rate of return required by the company's ordinary shareholders in order for that investor to bear the risk of holding that company's shares by up to 1%<sup>20</sup>
- Firms with a better CR performance tend to have a lower cost of equity capital<sup>21</sup>
- Investors expect higher returns – up to 1.4% annually – on stocks facing more environmental concerns than their peers<sup>22</sup>

10 Eccles, Ioannou, & Serafeim, 2011; Koh, Qian & Wang, 2014; Luo & Bhattacharya, 2006; Park & Moon, 2011; Perez de Toledo & Bocatto, 2014

11 For the average company in the S&P500 Index. Source: Park & Moon, 2011

12 Eccles, Ioannou, & Serafeim, 2011

13 Luo & Bhattacharya, 2006

14 Perez de Toledo & Bocatto, 2014

15 Koh, Qian, & Wang, 2014

16 Innovest Strategic Value Advisors, 2007

17 Henisz, Dorobantu, & Nartey, 2013

18 Wang & Choi, 2013

19 Brammer & Millington, 2008; Jacobs, Singhal, & Subramanian, 2010; Lev, Petrovits, & Radhakrishnan, 2010

20 Derwall & Verwijmeren, 2007

21 El Ghoul, Guedhami, Kwok, & Mishra, 2011; Sharfman & Fernando, 2008 (focusing on the effects of environmental performance)

22 Chava, 2011

## Reduced share price risk and volatility driven by a company's CR approach

### Reduced share price risk

#### *The potential value CR can generate:*

- A one-standard deviation increase in CR performance from the average can cut firm-specific risk by 10% compared to its industry peer group.<sup>23</sup>
- Firms with strong CR reputations experience no meaningful declines in share price compared to their industry peer group during crises, whereas firms with weak CR reputations declined by 2.4% - 3%, a market capitalization loss of \$378 million per firm.<sup>24</sup>

### Reduced systematic risk

#### *The potential value CR can generate:*

- Strong CR performance reduces systematic risk. CR can reduce the average  $\beta$  ("Beta" – a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole) by up to 4%.<sup>25</sup>
- Better environmental risk management reduces  $\beta$ .<sup>26</sup>

## Reduced cost of debt

#### *The potential value CR can generate:*

- Superior environmental performance compared to peer group yields lower cost of debt by 40-45 basis points (bp).<sup>27</sup>
- Moving from the bottom to top governance quartile doubles the probability of an investment-grade credit rating. An investment grade credit rating reduces the cost of debt by 8% or 800 bp versus a speculative rating, leading to a reduction of \$38.4 million in annual interest expense compared to the median speculative grade firm.<sup>28</sup> Firms with below average CR pay 7 to 18 bp more than better CR performers on comparable debt instruments.<sup>29</sup>
- Higher levels of CR performance are rewarded with lower bond yield spreads. Contributing factors that reduce credit spreads include:
  - Community involvement (reducing spreads by 43.4% or ~ 40 bp for a AA-rated bond);
  - Product safety and quality (reducing spreads by 30.3%);
  - Increased employee dissatisfaction can increase credit spreads up to 88%.<sup>30</sup>
- Firms facing higher stakeholder environmental concerns than their peers pay higher interest rates on bank loans. Up to 25 bp in one study, or \$1.5 million annually for the average sample loan,<sup>31</sup> and up to 64 bp in another study.<sup>32</sup>

23 Luo & Bhattacharya, 2009  
 24 Schnietz & Epstein, 2005  
 25 Albuquerque, Durnev, & Koskinen, 2014  
 26 Sharfman & Fernando, 2008  
 27 Schneider, 2011  
 28 Ashbaugh-Skaife, Collins, & LaFond, 2006  
 29 Goss & Roberts, 2011  
 30 Oikonomou, Brooks, & Pavelin, 2011  
 31 Chava, 2014  
 32 Bauer & Hann, 2010



## How does CR drive market valuation and share price?

***“No investor has ever asked us about our Corporate Responsibility practices.”<sup>33</sup>***

The C-Suite executive quoted above appears to reflect a common experience. Another senior executive adds, “When we brief investors on our CR practices, they never have follow up questions or comments.”<sup>34</sup>

Recent research suggests this may change as analysts are beginning to make decisions and recommendations based in part on evaluations of CR performance.<sup>35</sup> Yet it seems puzzling that active CR management drives up share price when few investors seem to express concerns or interest.

Deriving market and share price value from CR does not require investors to initiate queries about a company’s CR performance. Instead, sound CR management practices appear to influence investors in three ways:

### **1) Integrating CR and intangible assets**

Investors appear to respond positively to firms that integrate their approach to CR with the investment and management of intangible assets such as talent, brand and reputation, and innovation.<sup>36</sup>

### **2) CR as a proxy for strong, well-managed companies with bright futures**

Investors appear to treat CR as an intangible asset and proxy signaling firm strength,<sup>37</sup> such as:

- A sign that the firm’s future prospects are bright.<sup>38</sup>
- An indicator of strong performance across:
  - Good management. In particular shareholders perceive that CR serves as a proxy for – and may drive – improved operating performance including improvements in labor productivity and sales growth, suggesting CR improves employee satisfaction and appeals to customers.<sup>39</sup>
  - Competitive differentiation. Any firm can imitate a specific CR program. But companies that commit to high CR performance are acquiring competencies and resources that are hard to copy or imitate and that can create a sustainable competitive advantage.<sup>40</sup>
  - Employee engagement.<sup>41</sup>
  - Organizational culture.<sup>42</sup>
  - Innovation.<sup>43</sup>

### **3) Reducing financial and other forms of risk**

Investors may perceive that CR serves as “insurance-like” protection of intangible assets when

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33 Interview with C-Suite executive, 2014  
34 Interview with senior executive, 2015  
35 Ioannou & Serafeim, 2014  
36 Luo & Bhattacharya, 2006; Surroca, Tribó, & Waddock, 2010  
37 Lys, Naughton, & Wang, 2013, and 2014  
38 Lys, Naughton, & Wang, 2013, and 2014  
39 Flammer, 2013; Wang & Choi, 2013  
40 Perez de Toledo & Bocatto, 2014; Wang & Choi, 2013  
41 Surroca, Tribó, & Waddock, 2010; Brammer & Millington, 2008  
42 Surroca, Tribó, & Waddock, 2010  
43 Surroca, Tribó, & Waddock, 2010

events challenge the integrity of the firm.<sup>44</sup>

It is interesting to note that CR brings no value enhancement for firms in “socially contested” industries (e.g., tobacco, gambling, alcoholic beverages, and firearms).<sup>45</sup>

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44 Godfrey, Merrill, & Hansen, 2009; Koh, Qian, & Wang, 2014

45 Koh, Qian, & Wang, 2014

## IV. ROI FINDINGS – SALES AND REPUTATION

**“CSR is shown to be a necessary and sufficient mechanism for stronger customer relationships...” CSR is not only something that a company should engage in based on principled grounds but also something that a company must practice for strategic reasons as their customers demand it and place relational value on it.”<sup>46</sup>**

Sound CR management has the potential to increase revenues up to 20% and to enhance the firm’s brand and reputational value by 11%. To achieve these results, companies must set a goal and apply targeted marketing strategies and tactics.

### CR Sales and Reputation ROI Scorecard

Companies that adopt effective CR approaches have the potential to generate the following returns on investment.

Table 2: CR Sales and Reputation ROI Scorecard

Revenue from increased sales	Revenue from price premiums
<p><b>The potential value CR can generate:</b></p> <ul style="list-style-type: none"> <li>Sales revenue can increase up to 20%.<sup>47</sup></li> <li>Every \$1 in corporate philanthropic contributions can generate \$6 in increased sales revenue (within limits).<sup>48</sup></li> </ul>	<p><b>The potential value CR can generate:</b></p> <ul style="list-style-type: none"> <li>Price premiums can increase up to 20%.<sup>49</sup></li> </ul>
Increased customer satisfaction and loyalty	Insurance: reduced consumer defection from product and other crises
<p><b>The potential value CR can generate:</b></p> <ul style="list-style-type: none"> <li>CR can affect variations in customer satisfaction by 10% or more.</li> <li>While CR can motivate the purchasing behaviors of up to 60% of customers,<sup>50</sup> the true core ready to open their wallet is in the 1-20% range.<sup>51</sup> <ul style="list-style-type: none"> <li>This core segment may base their affinity on CR practices and they will promote the products whose CR they believe in.</li> </ul> </li> <li>Involving customers directly in CR activities increases their trust for your company while decreasing trust in your competitors.<sup>52</sup></li> </ul>	<p><b>The potential value CR can generate:</b></p> <ul style="list-style-type: none"> <li>The estimated risk protection a well-managed CR program tied to reputation and integrity can deliver is estimated at 4% to 7% of the company’s total value.<sup>53</sup></li> </ul>

46 Lacey, Kennett-Hensel, & Manolis, 2014

47 Hainmueller & Hiscox, 2011b; Hainmueller & Hiscox, 2011c; Hainmueller & Hiscox, 2012a; Hainmueller & Hiscox, 2012b; Hainmueller & Hiscox, 2014; Tully & Winer, 2013

48 Lev, Petrovits, & Radhakrishnan, 2010

49 Ferreira, Gonçalves Avila, & Dias de Faria, 2010; Hainmueller & Hiscox 2011a; Hainmueller & Hiscox, 2011b; Hainmueller & Hiscox, 2011c; Mueller Loose & Remaud, 2013; Trudel & Cotte, 2009; Tully & Winer, 2013

50 Tully & Winer, 2013

51 Du, Bhattacharya, & Sen, 2011; Lacey, Kennett-Hensel, & Manolis, 2014; Tuppen, 2004

52 Du, Bhattacharya, & Sen, 2011

53 Janney & Gove, 2011; Peloza, 2006; Klein & Dawar, 2004; Koh, Qian, & Wang, 2014

## CR Brand and Reputation Value

### *The potential value CR management can generate:*

- 7% to 11% of a company's value comes from the firm's CR brand and/or reputation.<sup>54</sup>

## How does CR management drive Sales and Reputation Benefits?

The quality, management, business integration, leadership, and communications of your company's CR approach affect sales and reputation outcomes. If properly aware and engaged, customers will increase their commitment to and engagement with the company.

Any combination of the following can drive sales and reputation value. Section VII on strategies and tactics provides more detail on these approaches:

- Building awareness
- Reflecting the customer's own values
- Creating a pathway from guilt to pride
- Differentiation
- Engaging customers directly in CR activities
- Enhancing the following reputation drivers:
  - Perceptions of a company's citizenship
  - Governance
  - Workplace practices

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54 Boston College Center for Corporate Citizenship and the Reputation Institute, 2008; Fombrun, 2003; Gidwani, 2013

## V. ROI FINDINGS – HUMAN RESOURCES

**“...[C]orporate social responsibility...has quickly become a crucial part of any large company’s long-term strategy – not just in marketing, but in recruiting, too: ...employees now want more from their employer than a paycheck. They want a sense of pride and fulfillment from their work, a purpose and importantly a companies whose values match their own.”<sup>55</sup>**

Research finds that strong CR performance increases the commitment, affinity, and engagement of employees. This in turn enhances job performance, increases productivity, reduces turnover, lowers absenteeism, and even reduces the incidence of employee corruption.<sup>56</sup>

In addition, employee engagement links to CR in a virtuous cycle. Together they reinforce one another and enhance financial performance, sales revenue, brand and reputation value, and innovative capability.

The presence of environmental and social programs alone do not guarantee HR benefits. Companies must design effective and strategically targeted CR approaches to generate value for HR.

### CR Human Resources ROI Scorecard

Companies that adopt effective CR approaches have the potential to generate the following returns on investment.

Table 3: CR Human Resources ROI Scorecard

Enhanced productivity	Reduce turnover and increased recruitment
<p><b>The potential value CR can generate:</b></p> <ul style="list-style-type: none"> <li>Productivity can increase up to 13%.<sup>57</sup></li> </ul>	<p><b>The potential value CR can generate:</b></p> <ul style="list-style-type: none"> <li>Reduces the average turnover rate over time by 25% to 50%.<sup>58</sup> <ul style="list-style-type: none"> <li>Reduces the annual quit rate by 3% - 3.5%.<sup>59</sup></li> <li>This can save replacement costs up to 90% to 200% of an employee’s annual salary for each position that stays.<sup>60</sup></li> </ul> </li> <li>Improving CR performance has the same effect on retention as an increase in annual salary of \$3,700/year.<sup>61</sup></li> <li>Firms higher in corporate social performance (CSP) are perceived as more attractive employers than firms lower in CSP. Prospective applicants’ job pursuit, probability to interview, and probability to accept a job offer are positively associated with a firm’s CSP.<sup>62</sup></li> </ul>

55 Meister, 2012

56 Burbano, 2014

57 Tonin & Vlassopoulos, 2014

58 Ipsos Mori, 2008; Vitaliano, 2010; Wong, 2011

59 Vitaliano, 2010

60 Direct replacement costs can reach as high as 50%-60% of an employee’s annual salary, with total costs associated with turnover ranging from 90% to 200% of annual salary (Allen, 2010)

61 Vitaliano, 2010

62 Greening & Turban, 2000

Reduced compensation	Employee engagement
<p><b>The potential value CR can generate:</b></p> <ul style="list-style-type: none"> <li>Workers are willing to take up to a 5% pay cut.<sup>63</sup></li> <li>Workers who were informed about a CR program were willing to accept a lower wage and were more likely to go “above and beyond” for the employer by doing extra work not required for payment. Higher performing workers were more responsive to CR than lower performers.<sup>64</sup></li> </ul>	<p><b>The potential value CR can generate:</b></p> <ul style="list-style-type: none"> <li>Increase employee engagement by 7.5%.<sup>65</sup></li> </ul>

Table 4: Trends in Employee Attitudes

Overall work force trends	By the year 2020, Millennials will be 50% of the workforce. <sup>71</sup>
<ul style="list-style-type: none"> <li>86% of workers believe it is important that their own employer is responsible to society and the environment, with over half (55%) feeling that it is “very important”.<sup>66</sup></li> <li>76% of Americans would not take a job with a company that had a bad reputation, even if unemployed.<sup>67</sup></li> <li>75% would recommend their company if they feel it is environmentally responsible vs. 43% if it is not.<sup>68</sup></li> <li>71% want to work for a company whose CEO is actively involved in corporate responsibility and/or environmental issues.<sup>69</sup></li> <li>53% of workers said that “a job where I can make an impact” was important to their happiness.<sup>70</sup></li> </ul>	<ul style="list-style-type: none"> <li>72% of millennials said “a job where I can make an impact” was important to their happiness. 45% would take a pay cut for a job that makes social or environmental impact. 58% would take a pay cut to work for an organization with “values like my own.”<sup>72</sup></li> <li>80% want to work for a company that cares about how it impacts and contributes to society. Over half would refuse to work for an irresponsible corporation.<sup>73</sup></li> <li>61% would prefer to work for a company offering volunteering opportunities.<sup>74</sup></li> <li>55% said that the company’s “cause work” influenced their decision to accept an offer.<sup>75</sup></li> <li>7 in 10 consider themselves social activists. Three in four of these seek out employers that support a social cause.<sup>76</sup></li> <li>3 in 4 believe corporations should create economic value for society by addressing society’s needs.<sup>77</sup></li> </ul>

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63 Du, Bhattacharya, & Sen, 2013  
 64 Burbano, 2014  
 65 Wong, 2011  
 66 Ipsos Mori, 2008  
 67 CR Magazine, 2014  
 68 Ipsos Mori, 2008  
 69 CR Magazine, 2014  
 70 Meister, 2012  
 71 Meister, 2012  
 72 Meister, 2012  
 73 Meister, 2012  
 74 Nunn, 2011  
 75 The Case Foundation & Achieve, 2014  
 76 Swinand, 2014  
 77 Swinand, 2014

## How does CR drive Human Resource benefits?

The quality, management, business integration, leadership, and communications of your company's CR approach affect HR outcomes. If properly aware and engaged, employees will increase their commitment to and their admiration of their employer.

Any one, or a combination, of these factors enables CR management to drive HR value.<sup>78</sup>

- Enhancing employees' commitment to their employer<sup>79</sup>
- Enhancing employee engagement<sup>80</sup>
- Enhancing how attractive an employer looks<sup>81</sup>
- Improving job satisfaction<sup>82</sup>
- Increasing an employee's sense of pride in their employer<sup>83</sup>
- Meeting employee needs<sup>84</sup>
- Increasing confidence in and affinity towards the company's leaders<sup>85</sup>

### The upshot:

Firms can take actions to use their CR approach to enhance HR outcomes.

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78 Burbano, 2014; Carmeli, Gillat, & Waldman, 2007; Gond, El-Akreimi, Igalens, & Swaen, 2010  
79 Chun, Shin, Choi, & Kim, 2011; Hansen, Dunford, Boss, Boss, & Angermeier, 2011; Peterson, 2004; Stites & Michael, 2011  
80 Ketvirtis, 2012  
81 Albinger & Freeman, 2000; Greening & Turban, 2000  
82 Du, Bhattacharya, & Sen, 2013  
83 Ellemers, Kingma, van de Burgt, & Barreto, 2009  
84 Du, Bhattacharya, & Sen, 2013  
85 CR Magazine, 2014; Sharif & Scandura, 2014; Vlachos, Panagopoulos, & Rapp, 2013

## VI. DEFINING CR'S STRATEGIC ROLE

The research suggests that the management and practice of CR can serve at least one or more of the following business-value generating goals listed in Table 5.

Table 5: CR business-value goals

Strategic, business-value creating goal	Potential target range
a) Reduce risks and protect the company's license to operate	Protecting as much as 10% of the firm's value
b) Nurture, grow, and protect CR-related brand and reputation value	Nurturing as much as 11% of the firm's value
c) Boost how shareholders view performance to enhance share price and market value	Increasing share price as much as 6%
d) Enhance your competitive positioning with, and deepen the engagement of, your customers	Increasing revenues as much as 20%
e) Enhance your competitive positioning with, and deepen the engagement of, your employees	Reducing turnover as much as 50%
f) Some combination of the above	

A crucial step for a company to make is to identify which of the business value-creating goals it wishes to pursue. Achieving these goals means implementing a four-step process:

1. **Fit:** Make CR commitments that fit your company's core attributes and your shareholders' expectations.
2. **Commit:** CR leaders outperform both laggards and dabblers. Make a genuine commitment to address priority CR issues relevant to your company. Establish and communicate strong, bedrock commitments to responsible business practices. Like Goldilocks, find the amount that's "just right" to do.
3. **Manage:** Think of, develop, and manage your portfolio of CR practices as an intangible asset. Use this asset to mutually reinforce brand and reputation, employee engagement, innovation and R&D, quality management, and overall financial performance.
4. **Connect:** Build key stakeholder awareness for the company's CR commitments, priorities, and core practices. Develop engagement strategies and related messages that build pride, create differentiation, foster trust, and create affinity.



Section VII discusses the four-step framework in detail. To summarize, across each of the strategies, managers should take the following actions:

## Fit

- Each strategic area of the company should have a senior executive champion and team responsible for setting direction, designing an approach, conducting research, and managing processes to determine results. A vital step is to engage with this team. Learn the approach of these business strategy teams and apply it to the design of CR strategy
- Assess the priorities the business strategy teams have defined
- Using the same approach that the business teams use, assess how CR factors align with and influence key strategic priorities
- If feasible, validate the assessment with research on the perceptions, preferences, attitudes, needs, and expectations of business and CR-related stakeholders
- If feasible, compare to the performance of peer companies
- Working with business colleagues, agree on the key needs and strategies for CR to support risk management.

## Commit

- Determine if sufficiently strong CR practices are in place to support the areas of priority “fit” defined above
- Assess what additional issues may create indirect risks for priority areas
- Commit to address gaps and weaknesses and ensure that areas of priority fit are well addressed
- Commit to report and disclose performance on priority areas.

## Manage

- Establish goals – what progress and results should the company achieve on CR issues in order to support the strategic priorities chosen from Table 5
- Ensure sufficient resources are in place to support priority CR practices
- Establish links to relevant business colleagues to integrate strategies, implementation, measurement of results, and reporting.

## Connect

- When strong CR practices are in place, assess if the awareness of key stakeholders is sufficient
- Develop messages, outreach, and ways to connect to key stakeholders
- Engage stakeholders in planning, implementation, and measurement.

Brief examples bring this process and the value-creating potential of CR to life.

## Pirelli<sup>86</sup> – Reducing risks and protecting the company’s license to operate

The Italian multinational Pirelli is known for its high-end, luxury-brand performance tires. The company is the world’s fifth-largest tire manufacturer with a presence in over 160 countries, including 19 manufacturing sites, and a network of approximately 10,000 distributors and retailers.

Customers, particularly those in the luxury market, have been slow to embrace the benefits of sustainability features in the product. Yet the company forecasts that its market will increasingly be shaped by:

- Macroeconomic uncertainty: “downside risks will dominate the world economic outlook”
- Regulatory constraints: “strong move to low-carbon economies”
- Changes in social behavior: “demographic changes, aging population, virtual mobility, continued urbanization”

In this context the company has defined a year 2020 vision to be a sustainable company, meaning it will be “smart, efficient, profitable, innovation-driven, accountable and engaged with its stakeholders.” To meet this vision, Pirelli has designed a 2013-17 integrated industrial and sustainability plan. Sustainability is viewed as a driver of core business outcomes and vice-versa.

The sustainability approach needs to demonstrate a return on capital invested across the three core pillars of Pirelli’s strategy:

- Governance & risk management;
- Growth; and
- Productivity.

With regard to sustainability’s support for governance and risk management, the company took several steps in its planning process. First, the sustainability team linked to the company’s Enterprise Risk Management (ERM) process. Second, they reviewed priority enterprise risks. Third, they assessed the sustainability topics with the greatest potential to affect enterprise risks.

Finally, they defined sustainability goals that would help support ERM. Examples include:

- A rolling resistance reduction that in the Car segment will reach -40% in 2020 as compared with 2007.
- A reduction by 90% in the workplace accident frequency rate by 2020 compared to 2009 figure.
- Keeping research and development spending for premium products at 7% of net premium products sales, with the aim to further develop and increase premium products safety while lowering environmental impact.
- Growing investment in risk mitigation and prevention of business interruption.
- Adoption of increasingly advanced models for management of economic, social, and environmental responsibility in the supply chain, in view of shared development.

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86 Case vignette drawn from: “2013-2017 Industrial Plan: Sustainability Plan 2013-2017 with Selected Targets for 2020” and the Pirelli 2013 Sustainability Report.

## **CVS Health<sup>87</sup>– Nurturing, growing, and protecting CR-related brand and reputation value**

CVS Health (formerly CVS Caremark Corporation) is an American retailer and health care company. CVS Health operates over 7,700 CVS Pharmacy and Longs Drugs stores, a pharmacy benefit manager, mail order and specialty pharmacies, a retail-based health clinic subsidiary, MinuteClinic, and an online pharmacy, CVS.com. As of 2014, it ranked 35th in the Fortune Global 500 list of the world's largest companies, and 12th in the United States-only Fortune 500.

With the American Affordable Care Act (ACA and nicknamed “Obamacare”), CVS saw a major growth opportunity for its pharmacies and its rapidly expanding MinuteClinics, which offer basic primary care in stores. The company plans to expand the nearly 900 MinuteClinics that existed in 2014 to 1,500 by 2017. A crucial part of the MinuteClinic expansion strategy involves profitable partnerships with insurers and hospital systems.

CVS had to balance competing strategies that each posed substantial risks. The presence of tobacco would undermine the company's reputation as a health care provider. But dropping tobacco would cost about USD \$2 billion in annual sales, reducing earnings by 6 to 9 cents per share. The projected sales from its expanding health services were lucrative but by no means a sure bet in the eyes of investors or consumers.

In September, 2014, CVS announced to the world that it would stop selling cigarettes and all tobacco products at its more than 7,600 stores nationwide. Larry Merlo, President and CEO announced, “The sale of tobacco products is inconsistent with our purpose – helping people on their path to better health.... Cigarettes and tobacco products have no place in a setting where health care is delivered. This is the right thing to do.”

To date, the risk of pursuing a business strategy based on doing the right thing and addressing wider stakeholder expectations is paying off through reputational gains that are supporting sales and share price increases. Sales in CVS' retail pharmacy business rose 3.1%, or a half billion dollars, to \$16.7 billion. Same-store sales rose 2% while a 4.8% increase in pharmacy sales offset a 4.5% decline in front store same store sales. Overall revenue rose 9.7% from its third quarter earnings in 2013. Its operating profit increased by 4.3%. Since the announcement, the company's share price has increased by over 27%, adding \$25 billion to its market capitalization.

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87 Case vignette drawn from: Original Research by IO Sustainability; CVS Health, 2015; Friedman, 2014; Japson, 2014

## Lockheed Martin<sup>88</sup> – Boosting how shareholders view performance to enhance share price and market value

As of publication, Lockheed Martin was in the midst of a CEO-led effort to position sustainability as a key element of the company's business strategy. Lockheed Martin is one of the world's largest aerospace and security companies. The company employs 112,000 people worldwide. The majority of its revenues come from military sales. It operates in five business segments: Aeronautics, Information Systems & Global Solutions, Missile and Fire Control, Mission Systems and Training, and Space Systems. Its main customer is the US government. Additional customers include foreign governments, and commercial and other contracts.

Marillyn Hewson, President and Chief Executive Officer, has made a commitment to incorporate sustainability messages in her presentations to investors and other stakeholders. Where some companies list the highlights of their sustainability reports to investors, Hewson takes steps to clearly specify how sustainability is vital for the company's current and future success. In doing so, she explains why sustainability is a priority in terms that investors will understand and ties sustainability to financial and wider business value creation.

For example, Hewson:

Emphasizes how sustainability embeds into the company's core messages and branding related to:

- “Delivering Innovative Solutions for Today's Global Challenges”
- “Engineering a Better Tomorrow”

Links sustainability into core “megatrends” that will shape the future opportunities and risks the company must navigate:

- The rise of digital technology and the risk associated with the increasingly connected world (which the company makes the case for being a sustainability challenge in its 2014 Sustainability Report)
- Growing population and its demands on Earth's resources
- Economic uncertainty and how that influences the decisions and priorities of customers

Features products designed to respond to sustainability challenges such as:

- Environmental monitoring
- Renewable energy (ocean thermal)
- Energy efficiency solutions
- Health solutions
- Food security solutions.

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88 Case vignette drawn from: Lockheed Martin, 2015

## Unilever<sup>89</sup> – Enhancing competitive positioning with, and deepening the engagement of, customers

Unilever is a British–Dutch multinational consumer goods company co-headquartered in Rotterdam, Netherlands and London. It is one of the world’s largest consumer goods companies with products available in nearly 180 countries. Unilever is organized into four main divisions: Foods, Refreshment (beverages and ice cream), Home Care, and Personal Care. Unilever owns over 400 brands, but focuses on 14 brands with sales of over 1 billion euros: Axe/Lynx, Dove, Omo, Becel/Flora, Heartbrand ice creams, Hellmann’s, Knorr, Lipton, Lux, Magnum, Rama, Rexona, Sunsilk, and Surf.

Under the leadership of Unilever CEO Paul Polman, the company has made a commitment to put sustainable and equitable growth at the heart of its business model. The Sustainable Living Plan is designed to drive increased sales while reducing costs and risks. Unilever’s ambition is captured by a bold vision for the company to double the size of its business, while reducing its environmental footprint and increasing its positive social impact.

To meet this vision, the company has set three stretch goals for 2020:

- Help more than a billion people improve their health and well-being;
- Halve the environmental footprint of its products; and
- Source 100% of its agricultural raw materials sustainability.

In 2011, Unilever combined its marketing, social responsibility, and communications teams into one department where social good forms the backbone of marketing efforts. Before that, Chief Marketing Officer Keith Weed said, “Marketing people felt they were being held back by our sustainability challenge and that it took their eyes off the ball of growing their brands. On the other hand, the sustainability people thought marketing was part of the problem and would never take them seriously.”<sup>90</sup> Weed sees social purpose and sustainability and marketing as one in the same rather than having separate missions.

Along with the parent company, each of Unilever’s product divisions is charged with adding social purpose to its brand positioning. For example the first TV ad for the corporate brand, called “Bright Future Speeches,” puts Martin Luther King Jr. and Mahatma Gandhi side by side with young people giving impassioned speeches about fighting child hunger. The ad promotes Unilever’s Project Sunlight, an online hub of social programs benefiting children that works in concert with the charity Feeding America. The spot closes with the Unilever “U” and the logos of Lipton, Knorr, Hellmann’s, Suave, and Dove. The effort relates to an emerging strategy to deepen the connection of customers in CR activities. More than 2 billion customers in 178 countries use a Unilever product on any given day. Therefore, the company states that small everyday customer actions can add up to a big difference. Unilever sums it up with this equation:

“Unilever brands x small everyday events x billions of consumers = big difference.”<sup>91</sup>

By the end of 2012 sales had grown from 40 billion euros in 2008, to 51 billion euros, an increase of 26 percent. Over the last three years, Unilever saw a 10 percent annual increase in sales among those brands.

89 Case vignette drawn from: Roth, 2013; Unilever, 2013; Unilever, 2015; Voight, 2015

90 Voight, 2015

91 Armstrong, Adam, Denize, & Kotler, 2014, p. 484

For example:

- Lifebuoy has reached 119 million people since 2010 with its handwashing behavior change program and achieved double digit sales growth.
- Concentrated and compacted laundry detergent – which cuts CO2 by up to half – have doubled in sales.
- Signal's brush day and night health campaign has reached 49 million people so far and helped sales grow by 22 percent.
- Dry shampoos, such as TRESemme and Dove, which result in 90 percent less greenhouse gas emissions compared to washing hair in heated water, grew by 19 percent in 2012.
- Calorie-controlled Max and Paddle Pop children's ice creams grew in the high double digits in 2012.

Since Polman took on the CEO role in 2009, Unilever's stock price has grown from approximately \$20 per share to \$40 per share (at the time of publication).

## **IBM – Enhancing competitive positioning with, and deepening the engagement of, employees**

Research suggests that involvement in the company's CR practices teaches employees valuable new skills that they bring back to their regular roles for the company. IBM is working to put this in practice with its Corporate Service Corps program.

IBM is a globally integrated technology and consulting company. The company develops and sells software and systems hardware and a broad range of infrastructure, cloud, and consulting services. IBM focuses on the five core initiatives – Cloud, Big Data and Analytics, Mobile, Social Business, and Security.

With the Corporate Service Corps, employees bring their core competencies and skills in such areas as project management, strategic planning, marketing, or engineering to an entrepreneurial company based in one of the countries designated by IBM as emerging markets for growth such as Brazil, China, Ghana, India, Malaysia, Romania and South Africa.<sup>92</sup> Corporate Service Corps teams tackle issues ranging from public safety to urban agriculture.

The company highlights benefits such as:

- Talent attraction – the program is the third most influential factor for talent seeking work at IBM after money and location;
- Skills and competency development; and
- New market creation.

The company states the program produces a \$600 million return on a \$200 million investment. While the regular staff turnover rate is around 12 percent per year, the rate for employees in the Corporate Service Corps is less than 1 percent.<sup>93</sup>

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92 Meister, 2012

93 Preston, 2014

## VII. STRATEGIES AND TACTICS FOR GENERATING VALUE FROM CR

The four-step process of Fit, Commit, Manage, and Connect helps managers design and implement value-creating CR strategies. The following unpacks each step.

### Fit

#### **Align CR activities to the business**

The payoffs to companies who align CR into their business model are significantly greater than the cost savings for companies who choose to forgo it.<sup>94</sup>

Companies that align their CR efforts to their business generate higher perceived value and buying intention than non-related efforts. Efforts perceived as unrelated may decrease sales volumes.<sup>95</sup>

Aligning to the business means that CR efforts appear to make sense given:

- The company's industry, products, services, and business model;
- The strategy of the company; and
- The company's brand messaging and brand promise.

**Understand the way shareholders, customers, and employees perceive the company, their expectations and attitudes for its CR performance, their own CR preferences, and help them understand the fit that CR has for the company's financial performance**

#### **SHAREHOLDERS**

Companies have opportunities to shape shareholder perspective. The challenge is to situate CR commitments in terms and rationales that make sense to shareholders. Shareholder interpretations of CR activities consistently cluster around three themes:

- Alignment (whether the CR activities fit with their knowledge of the company's products or core competencies and the evidence that CR is actually having a positive social or environmental impact);
- Usefulness (shareholders want to know the benefits to them); and
- Unity (the company is on the same team as them, working towards common goals).<sup>96</sup>

All things equal, shareholders tend to respond favorably to:

- Philanthropy (although the returns decrease as scale expands)<sup>97</sup>;
- Respected CR third-party certifications such as ISO-14001<sup>98</sup>;
- Environmental commitments, such as emissions reductions, that align with business needs such as risk mitigation or operational efficiency;<sup>99</sup> and

94 Barnett & Salomon, 2012; Tang, Hull, & Rothenberg, 2012

95 Du, Bhattacharya, & Sen, 2007; Pelozo, 2006; Wójcik, 2013

96 Bhattacharya, Sen, & Korschun, 2011

97 Jacobs, Singhal, & Subramanian, 2010

98 Jacobs, Singhal, & Subramanian, 2010

99 Lyon, 2014; Vasi & King, 2012



- Tangible results – for example, companies that show real results in environmental performance such as lower carbon emissions receive a premium from investors.

All things equal, shareholders will tend to punish companies that:

- Make voluntary commitments that appear unrelated to their business.<sup>100</sup>
- Focus on process with uncertain outcomes (e.g., adopting a code of conduct without stating clear objectives and expectations for results).<sup>101</sup>

## CUSTOMERS

Customers have preferences and expectations for CR issues. They will respond to certain issues more positively than others. All things equal, customers tend to respond more to people-related CR commitments than green-related commitments.<sup>102</sup> However, context matters.<sup>103</sup> Green activities will likely matter more to customers, for example, when a company has a large environmental footprint.

Customers respond to what they perceive as a common sense fit among their own preferences and their impressions of the company. In this regard companies should:

- Know which CR commitments are more valued by their consumers. Start by assessing what customers judge will benefit them more directly.<sup>104</sup>
- Understand how customers perceive the common sense fit between their perception of your company and the CR commitments it makes.

For customers there is a notable corollary:

***If the company deviates from customer expectations and/or priorities, signal the causes' important to the company through the size of the commitment the company makes.***

Support a cause people wouldn't normally associate with your company only if you make a noticeably large commitment to it. If the fit isn't intuitive, a large commitment signals that the company passionately cares about the issue. Customers will be more willing to embrace a perceived "poor fit" in this context.<sup>105</sup>

## EMPLOYEES

CR generates favorable employee-related outcomes, such as job satisfaction and reduction in turnover, partially by fulfilling employees' essential ideological and developmental job needs including the need to make a positive impact and the need to continually develop their own professional skills.<sup>106</sup>

Employees use CR to help them fulfill four fundamental needs:

- Creating opportunities for self-enhancement;
- Improving work-personal life integration;
- Building a bridge to the company; and
- Creating a "reputation shield."<sup>107</sup>

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100 Lyon, 2014

101 Busch & Hoffmann, 2012

102 Tully & Winer, 2013

103 Auger, Devinney, Louviere, Jordan, & Burke, 2008; Grimmer & Bingham, 2013

104 Ferreira, Gonçalves Avila, & Dias de Faria, 2010; Pelozo, 2006; Trudel & Cotte, 2009

105 Koschate-Fischer, Stefan, & Hoyer, 2012

106 Du, Bhattacharya, & Sen, 2013

This is a key strategy that possesses corollaries:

**Identify the company's employee segments that express different CR needs and expectations from their employer**

Research finds that companies often possess three employee segments vis-à-vis their attitudes to CR: Idealists, Enthusiasts, and Indifferents. Idealists have the highest CR demand, followed by Enthusiasts, and then Indifferents.<sup>108</sup>

**Prioritize the effort to accommodate employees' needs and expectations**

With other stakeholders, companies should find the balance and fit between the company's priorities and stakeholder expectations. However, the company should be more accommodating with employees. This does not mean all decisions should attune to employee needs and preferences. However, when the company deviates from employee expectations, it is vital to help employees understand the rationale. Establish the connection between the job, the company's priorities, and the employees' needs. When an employee perceives a poor fit between a CR obligation and their needs and job role, they will look at the CR activity as a burden instead of a benefit.<sup>109</sup>

## Commit

**Be genuine, authentic, high quality, and consistent with CR commitments**

It is not enough to do CR, one must do it well. This means:

- Treat employees, customers, and shareholders well – through good times and bad. They will see that the company is genuine, strengthening their trust, improving relationships, and boosting the firm's value.<sup>110</sup>
- When a firm engages in CR deliberately and consistently, focuses on CR dimensions related to its business and industry, and starts with internal dimensions of CR, financial performance will be enhanced. Firms that wax and wane from extensive to limited CR commitments do poorly.<sup>111</sup>
- Companies with consistently high social performance receive the highest market payoffs. Even firms with low but consistent levels of social performance have higher market values than firms with occasional spikes of high social performance.<sup>112</sup>
- If there is an inconsistency between a firm's CR efforts and the company's overall reputation it negatively affects the CR-value relationship.<sup>113</sup>
- Positive actions towards the company were stronger among individuals who believe that the company had genuine concern about the issues involved.<sup>114</sup>
- Firms rated as leading CR performers are perceived as more attractive employers than firms with with CR performance. Prospective applicants' job pursuit, likelihood to interview, and likelihood to accept a job offer are positively associated with a firm's CR. When employees see their company as adhering to higher ethical standards, they become more committed to

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107     Bhattacharya, Sen, & Korschun, 2008  
 108     Du, Bhattacharya, & Sen, 2013  
 109     Economist Intelligence Unit, 2011  
 110     Wang & Choi, 2013  
 111     Tang, Hull, & Rothenberg, 2012  
 112     Wang & Choi, 2013  
 113     Servaes & Tamayo, 2013  
 114     Sen, Bhattacharya, & Korschun, 2006

the company. This commitment in turn spurs organizational citizenship behaviors toward other employees, and these behaviors in turn enhance financial performance.<sup>115</sup>

- Avoid “greenwashing.”<sup>116</sup> If new employees find that the messages about sustainable practices that initially attracted them are really just a “green veneer,” many will become resentful and some will leave. Messages about sustainability need to match the reality that new hires will experience.<sup>117</sup>

### **Engage leaders**

- Employees perceive their employers’ CR commitment to be genuine when leaders deliver a reinforcing and consistent message. This in turn builds positive feelings of commitment, attachment, and loyalty to the firm. Employees who perceive their leaders to be ethical are more likely to be satisfied with their job, perform better, and engage in citizenship behaviors.<sup>118</sup>
- When employees think that their manager possesses charismatic leadership qualities, they tend to attribute the organization’s motives for engaging in CR activities to intrinsic values, which, in turn, are positively associated with job satisfaction.<sup>119</sup>
- Ethical leadership has a significant impact on ethical climate and the ethical behavior of employees. An ethical climate was found to be positively associated with employee ethical behavior.<sup>120</sup>
- Highlight management’s commitment to sustainability—from the C-suite through to the front lines. Managers set the tone on values and organizational culture, so use managers as role models.<sup>121</sup>

### **Build upon a foundation of strong internal CR practices such as product quality and commitment to employees**

CR is most supportive of creating market value when it builds upon a foundation of strong internal CR practices.

- Positive financial returns from CR are amplified in firms with higher product quality, indicating that a proper mix or combination of external CR initiatives and internal corporate abilities likely generates and sustains financial value for the firm.<sup>122</sup>

### **CR is most supportive of creating customer value when it builds upon a foundation of perceived product quality and well-treated employees**

- In certain scenarios – such as in a product crisis – customers will trade CR for product qualities. However over time, good social attributes will not make up for poor functional attributes. For example, in the case of athletic shoes, the likelihood that someone will purchase the ethical product with a premium of \$4.00 without compromising functionality is 62%. However, with the same premium and having to sacrifice functionality the probability drops to 20%.<sup>123</sup>

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115 Chun, Shin, Choi, & Kim, 2011; Ellemers, Kingma, van de Burgt, & Barreto, 2009; Greening & Turban, 2000

116 Wikipedia defines greenwashing as: “a form of spin in which green PR or green marketing is deceptively used to promote the perception that an organization’s products, aims or policies are environmentally friendly.

117 Huffman & Klein, 2013; Jones & Willness, 2013; Willness & Jones, 2013

118 Sharif & Scandura, 2014

119 Vlachos, Panagopoulos, & Rapp, 2013

120 Lu & Lin, 2014

121 Huffman & Klein, 2013; Jones & Willness, 2013; Willness & Jones, 2013

122 Luo & Bhattacharya, 2006

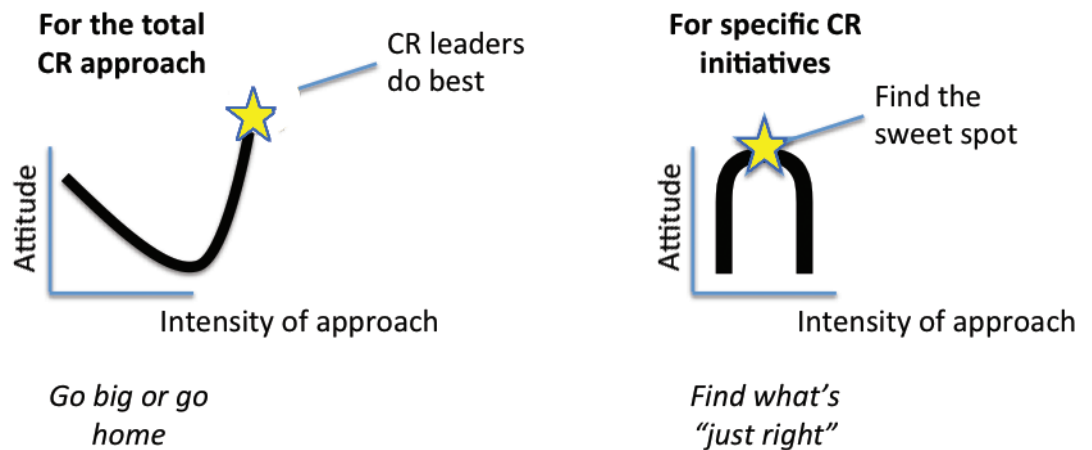
**CR is most supportive in creating HR value when it builds upon a foundation of strong internal CR practices.**

- Employees assume that if their company is ethical, the company will also treat them in an ethical manner. On the other hand companies that are not perceived as ethical might be viewed as unlikely to treat their employees ethically, resulting in a low level of organizational commitment.<sup>124</sup>

**For the entire enterprise CR approach, either go big or go small, but don't dabble**

For the company's overall CR approach, the evidence suggests that the market rewards or punishes companies according to the "U-shaped" pattern shown in Figure 2.

Figure 2: The "U-shape" and "Inverse-U shape" effects of CR investment



The market can respond relatively positively to severe laggards that exhibit poor CR performance (one can imagine the strong performance of so-called "sin" industries), but it tends to respond even more positively to those that achieve the highest levels of performance in CR. Research is finding that the greatest valuation accrues to the companies with the highest commitment to CR. However the market tends to punish those it perceives as dabbling in between.<sup>125</sup>

**For specific CR commitments, follow the Goldilocks approach**

As Figure 2 portrays, the market appears to favor specific CR investments according to an inverse, or upside-down, U-shaped curve.

Investors and customers won't respond favorably to too much of a specific CR activity, and they won't support too little.<sup>126</sup> Similarly the market will likely punish companies it perceives as over-investing in environmental activities.<sup>127</sup>

There is a sweet spot for investment. There's no standard level of investment. Each company has to find the amount that's "just right" for them by assessing the right "Fit" discussed earlier.

123 Auger, Devinney, Louviere, Jordan, & Burke, 2008; Klein & Dawar, 2004

124 Peterson, 2004

125 Barnett & Salomon, 2012; Brammer & Millington, 2008; Eccles, Ioannou, & Serafeim, 2011

126 Flammer, 2013; Lev, Petrovits, & Radhakrishnan, 2010 ; Wang, Choi, & Li, 2008

127 Lyon, 2014

## Manage

### Define and treat your company's CR performance as an intangible asset

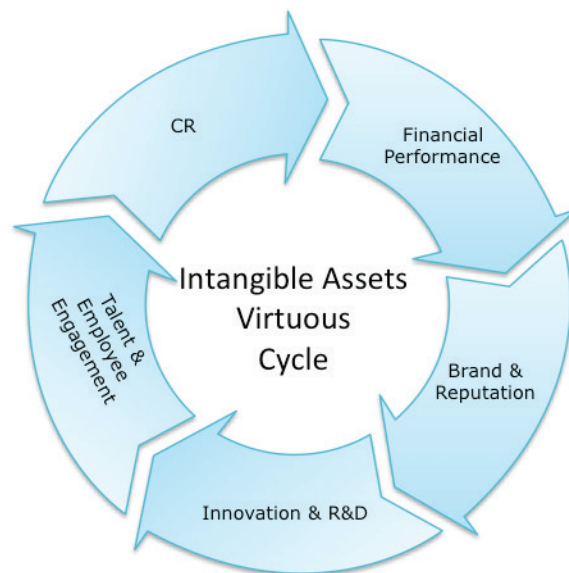
A genuine, well-designed, and well-communicated CR approach helps drive market value and serves as insurance that limits share price volatility. Effective companies view their CR approach like a resource to be nurtured and protected.

To make CR a value-generating strategy, executives must understand the contexts in which responsible practices are more likely to pay off and implement those practices with specific principles, including competence, authenticity, and communication, in mind.<sup>128</sup>

### Integrate CR into the way the company manages its other, core intangible assets

Markets value responsible companies if they blend CR activities with investments in intangible assets and effectively communicate their purpose. There is a virtuous cycle of relationships among financial performance, CR, employee engagement, brand and reputation, innovation and R&D, and organizational culture.

Figure 3: CR and intangible assets virtuous cycle



On the other hand, irresponsible CR management can negatively affect intangibles: reducing employee loyalty, harming corporate culture, harming reputation, and dragging down innovations. Intangibles are, therefore, the key elements that allow the virtuous circle of value creation to work over time. Companies interested in building and maintaining this virtuous cycle should develop and communicate CR objectives and managerial processes in the context of key intangible assets.

### Use external CR ratings as a proxy for stakeholder expectations, but consider developing a customized CR rating as well

Third-party CR ratings are useful as a guide to understand what a company's stakeholders expect from its CR performance. Evidence suggests that how a company performs on certain ratings may result in improved financial performance.

However, third-party ratings may not capture the expectations that stakeholders specifically have. Nor can they capture the strategies, products and services, leadership, brand promise, and organizational culture that the company possesses. To manage the company's CR approach as an intangible asset, it will be useful to develop a customized rating of what above average, average, and below average CR performance looks like specifically for the company, based on the expectations of shareholders, customers, employees, and external stakeholders. This is the most accurate way to determine which investments the company should make in CR in a way that will enhance value.

### **Define and treat your company's stakeholder relationships as an asset**

Increasing cooperation and positive feeling, and reducing conflict with stakeholders enhances the financial valuation of a firm.<sup>129</sup> In addition:

- Good stakeholder relations shorten periods of poor performance, allowing firms to get back to “normal” levels more quickly following problems.<sup>130</sup>
- When a firm performs well financially, good stakeholder relations help sustain it for a longer period of time. Employees may work harder and/or customers will buy more products or pay more for them.<sup>131</sup>

CR's ability to yield a return on investment depends upon the complex and value laden interpretations of the company's stakeholders. When these interpretations are taken into account, managers can configure, calibrate, and communicate CR in ways that maximize returns both for society and the company. Under the right circumstances, CR can drive employees, customers, and investors to engage in behaviors that contribute to the long-term success of the organization.<sup>132</sup>

### **The upshot:**

Develop good stakeholder relations now to benefit in the future.<sup>133</sup>

## **Connect**

### **Build awareness**

- Senior executives should view CR as a long-term commitment. A company should make a sustained effort to communicate their CR efforts such that they generate stakeholder trust.<sup>134</sup>
- Building awareness of CR commitment and performance comes with opportunities and risks. High public awareness of CR performance can enhance firm value. But firms with high public awareness are also penalized more when there are CR concerns. For firms with low public awareness, the impact of CR activities on firm value is either insignificant or negative.<sup>135</sup>
- When firms report according to a respected standard like the United Nations Global Compact, and/or get positive third-party reviews for their CR reports, they receive statistically significant higher market valuation than reporting laggards.<sup>136</sup>

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128 Diermeier, 2013  
129 Choi & Wang, 2009; Henisz, Dorobantu, & Nartey, 2013  
130 Choi & Wang, 2009  
131 Choi & Wang, 2009  
132 Bhattacharya, Sen, & Korschun, 2011  
133 Choi & Wang, 2009  
134 Barnett & Salomon, 2012; Brammer & Millington, 2008

- Only 31% of 250 surveyed businesses listed on the S&P engaged their employees on the company's CR objectives and initiatives.<sup>137</sup>
- Favorable perceptions of CR are associated with higher organizational commitment and employee engagement. Perceived social responsibility and development performance will have a greater effect on organizational identification than perceived market and financial performance.<sup>138</sup>
- CR messages can only add value if they reach job seekers. Use multiple channels to inform job seekers about your sustainability, such as company websites and careers pages, employee testimonials, recruitment handouts, conversations with recruiters, position announcements, contests, prizes, "fairs" to expose employees to CR issues, etc.<sup>139</sup>
- Communicate CR to all employees, as it has the potential to increase employees' organizational commitment, which may result in positive organizational outcomes.<sup>140</sup>
- Generating sales and reputation value starts by building awareness. Customers aware of a company's CR initiatives identify more with the company and view the company as more socially responsible compared with those who are unaware.<sup>141</sup>
- CR activities enhance value for advertising-intensive companies. CR has either a negative or insignificant value impact on firms with low public awareness.<sup>142</sup>
- Yet, building awareness of a wide array of CR initiatives is a challenge. Stakeholders often have low levels of awareness of a company's CR efforts.<sup>143</sup> This suggests that companies should pick very few CR initiatives to communicate that symbolize the wider commitment to CR. This helps cut through the clutter of marketing messages that consumers receive on a daily basis.

This leads to the following corollary:

### **Use a core initiative to symbolize your company's commitment to citizenship**

For specific initiatives to support sales, messaging should focus on an emblematic initiative, issue, and/or theme.<sup>144</sup> Customers will use this as a proxy to make judgments about the company's total CR profile. In this regard, it's important to have the full range of commitments key stakeholders expect. This is because a small group of "mavens" will make the effort to review the company's dedicated efforts. These mavens will judge whether they believe the company is sincere or greenwashing and will try to inform wider audiences.

### **Be modest and don't over-promote**

Over-promoting by aggressively and simultaneously communicating your company's CR, innovation, and advertising, can be seen as irresponsible or ineffective.<sup>145</sup>

Be modest in promoting CR to gain customer goodwill and third-party promotion. Leading brands such as Citibank, 3M, and GE value "discrete" support for social causes. Tobacco giant Phillip Morris was criticized for spending more on promoting its charitable donations than it donated, and for insincerity in airing its own anti-smoking campaign.<sup>146</sup>

135 Servaes & Tamayo, 2013

136 Akisik & Gal, 2014; Kimbro & Cao, 2011

137 Zafar, Nawaz, Farooqui, Abdullah, & Yousaf, 2014

138 Carmeli, Gillat, & Waldman, 2007; Peterson, 2004; Wong, 2011

139 Huffman & Klein, 2013; Jones & Willness, 2013; Willness & Jones, 2013; Wong, 2011

140 Stites & Michael, 2011

141 Sen, Bhattacharya, & Korschun, 2006

142 Servaes & Tamayo, 2013

143 Sen, Bhattacharya, & Korschun, 2006

144 Tully & Winer, 2013

145 Luo & Bhattacharya, 2009

146 Pelozo, 2006

**Communicate with the goal of building trust and ameliorating concern among key stakeholders**

For companies interested in generating “insurance” value to protect from risk against negative events such as product recalls, CR messages can establish a form of dialogue that establishes deeper trust.

Sound CR management has a significant impact on customer trust and loyalty. For companies with reputations in crisis, a track record of sound CR management can stem negative customer attitudes, attribution of blame, negative brand evaluation, and defection. It can help accelerate service recovery. For example, consumers’ purchase intentions following a product recall were twice as high for products of companies described as having a strong CR reputation compared with those with a weak CR reputation.<sup>147</sup>

**Building stakeholder trust requires constant effort but can lead to rewards**

- Stakeholders need to see serious and sustained CR performance before a company can accrue the financial benefits of their CR activities. A company should make a sustained effort to communicate their sustainability efforts as part of the process to build stakeholder trust.<sup>148</sup>
- Different stakeholders obtain cues about whether a firm has a genuine interest in their well-being from how the firm treats others. Companies that consistently treat customers, employees, and other stakeholder groups well perform better financially than those that play favorites. If a firm’s treatment of a stakeholder group varies markedly with time, their CR performance will demonstrate inconsistency. Inconsistent CR performers do poorly in the market.<sup>149</sup>

**The upshot:**

Consistently treat key stakeholders well – don’t favor one group over another and don’t dabble with one stakeholder group. Customers and shareholders will notice if you treat some of them well and not others. Don’t play favorites; participate in good social practices across multiple groups.<sup>150</sup>

**CUSTOMERS**

**All things equal, focus on people over the planet**

Human benefits, such as good working conditions, may be able to obtain a greater price premium and have wider appeal than focusing on animal or environmental benefits.<sup>151</sup>

Yet, when well aligned with the right company and product, environmental responsibility can still support sales in impactful ways. For example, in one study, the following green messages influenced consumer willingness to pay a premium for a food product:

- “10 Percent Less Glass” claims led to a 1.2% price premium
- “Social Responsibility” claims led to a 5.3% price premium
- “Carbon Zero” claims led to a 9.6% price premium
- “Environmental Responsibility” claims led to a 10.4% price premium
- “Organic” claims led to a 17.6% price premium<sup>152</sup>

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147 Assiouras, Ozgen, & Skourtis, 2013; Choi & La, 2013; Mattila, Hanks, & Kim, 2010; Pelozo, 2006  
 148 Barnett & Salomon, 2012  
 149 Wang & Choi, 2013  
 150 Wang & Choi, 2013  
 151 Tully & Winer, 2013  
 152 Mueller Loose & Remaud, 2013



### **Find the right pathway from guilt to pride**

Activating feelings of guilt can lead customers to respond to CR as a sales driver. However, the effects are limited. Accentuating positive messages is effective as well.

There is potential in combining both approaches, which activates consumer feelings of guilt and subtle messages of right and wrong while giving them a source of pride in their purchasing decision.<sup>153</sup>

### **Build in, but don't bolt on, CR messaging for luxury products**

CR messages can backfire for luxury brands, since customers perceive messages as undermining the claims of worth and value.<sup>154</sup> As an example, a customer might perceive that a luxury, high-end tire “made from recycled materials” will exhibit inferior performance. For luxury brands CR cannot compromise functionality.<sup>155</sup>

However, when CR aligns with customer expectations of luxury it can support sales. Tactics to “build-in” CR to a luxury brand include:

- Attributing CR activities to a more suitable sub-brand
- Priming consumers with images of powerful philanthropists, such as Bill Gates. This associates “perfection” and power with “doing good” and improving society and the environment
- Claiming directly how the CR attribute(s) improves functionality and/or establishes a differentiated status
- Engaging the guilt-to-pride pathway
- Associating with openness or tradition<sup>156</sup>

### **Build in but don't bolt on, CR messaging for price-sensitive products**

CR messages can distract price-sensitive shoppers and create impressions that the product is either over-priced or lower quality.<sup>157</sup> However, as the next tactic indicates, well-crafted CR messages can help differentiate both commodity products and price-sensitive products.

### **Use CR to differentiate a commodity item**

For most shoppers, CR considerations become a tie-breaker when other factors are in relative parity. Because of this effect, CR characteristics can drive product switching. Once a product with greater CR attributes has captured the shopper's commitment, it tends to create brand stickiness by retaining the shopper's loyalty through repurchase.<sup>158</sup>

### **Engage customers in CR activities**

Positive CR beliefs held by consumers are associated not only with greater purchase likelihood, but also with longer-term loyalty and advocacy behaviors.<sup>159</sup>

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153 Andrews, Xueming, Zheng, & Aspara, 2014; Antonetti, Paolo, & Stan Maklan, 2014; Peloza et al, 2013

154 Torelli, Monga, & Kaikati, 2012

155 Bhattacharya, Korschun, & Sen, 2011; Essoussi & Linton, 2010; Newman, Gorlin, & Dhar, 2014

156 Hainmueller & Hiscox, 2011c; Hainmueller & Hiscox, 2012a; Torelli, Monga, & Kaikati, 2012

157 Hainmueller & Hiscox, 2011c; Hainmueller & Hiscox, 2012a

158 Grocery Manufacturers Association & Deloitte, 2009

159 Du, Bhattacharya, & Sen, 2007

A company can reap superior business returns among consumers who have participated in CR activities. Participant customers form a communal, trust-based bond with the company. These customers can become loyal advocates and champions. They will promote the company against competitors.<sup>160</sup>

### **Follow the label**

Third-party certification from a credible organization supports a product's CR credentials and boosts consumer willingness to pay.<sup>161</sup>

For example, brands and retailers may be able to win market share and boost sales by offering more Fair Trade certified goods, either targeted at particular segments and priced at a premium or marketed generally at regular prices. Tests suggest that there are plenty of consumers ready to vote with their shopping dollars to support Fair Trade when it is offered as an option.<sup>162</sup>

### **Market, don't lecture**

One can observe certain companies providing customers with detailed and sometimes technical information regarding their performance on CR issues. One famous brand-name retailer would print brochures for customers to review the company's responsible supply chain program and its sustainability report.

Research suggests that providing customers with CR information in formats that NGOs and other ESG stakeholders request does not change customer intent to purchase.<sup>163</sup> The implication is that the way companies design and communicate their CR performance information should be developed in a way that is appealing for customers.

## **EMPLOYEES**

### **Use CR as a bridge to connect the personal values of employees and job seekers to those of the organization**

CR draws job seekers because it helps them connect specific organizational values to their own personal values. Job seekers want an employer whose values are a good fit with their own. The match a person feels with an organization is a major driver of job choice decisions. Clearly link CR initiatives to specific organizational values and demonstrate their authenticity. Explicitly describe company values that drive specific CR actions, such as values about protecting the natural environment, managing relationships with external stakeholders, addressing employee concerns, and being a responsible corporate citizen. Show job seekers how CR is infused in daily work activities, training programs, reward systems, operational practices and objectives, and hiring practices.<sup>164</sup>

### **Link CR to the company's commitment to people practices**

- Showcase employee-driven CR initiatives to illustrate how the company's concern for CR is tied to efforts to create meaningful and rewarding experiences for employees.
- Communicate to job seekers how CR practices connect to people practices through messages like, "We strive to reduce our environmental impact because we care about how we treat the planet, just like we care about how we treat our people."<sup>165</sup>

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160 Du, Bhattacharya, & Sen, 2011

161 Trudel & Cotte, 2009

162 Hainmueller & Hiscox, 2011c; Hainmueller & Hiscox, 2012b; Hiscox, Broukhim, & Litwin, 2011a; Nielsen, 2014

163 Auger, Devinney, Louviere, Jordan, & Burke, 2008

164 Huffman & Klein, 2013; Jones & Willness, 2013; Willness & Jones, 2013

165 Huffman & Klein, 2013; Jones & Willness, 2013; Willness & Jones, 2013

### **Use CR to build employees' pride in their employer**

- CR actions often lift a company's reputation and status, leading many job seekers to believe they'd feel proud to work for a prestigious organization admired for its sustainability. Reinforce that anticipated sense of pride by creating and celebrating a distinctive reputation for CR. Adopt sustainability practices that exceed industry norms and distinguish the company from other employers, such as by integrating CR with your brand, products, and services.
- Link CR to the organization's prestige by seeking recognition and awards from reputable third-party organizations.
- Demonstrate employee pride through testimonials and by showing how you celebrate sustainability achievements.<sup>166</sup>

### **Engage employees in CR planning and activities**

Engagement scores for employees who have been involved with their organization's CR programming in the past year are higher than those who have not. In addition, the more involved an employee is (in philanthropy, community involvement, and social innovation versus only one or two categories) the higher their engagement scores.<sup>167</sup>

### **CR initiatives can help fulfill employees' needs and draw them to identify strongly with the company when managers:**

- Bring their employees closer to the company's CR initiatives;
- Focus on strengthening employee identification with the company; and
- Engage employees in co-creating CR-value.<sup>168</sup>

### **Use CR as a differentiator to recruit highly-qualified workers**

CR increases employer attractiveness for job seekers with high levels of job choice. It plays less of a factor for populations with low levels of job choice.<sup>169</sup>

### **Leverage CR as a tool to develop global talent**

Engaged employees are happier and more productive, but CR has benefits even beyond the increased productivity that correlates with high employee engagement. Research suggests that involvement in the company's CR practices teaches workers valuable new skills that they bring back to their regular roles for the company.<sup>170</sup>

### **Create opportunities for employees to make an impact**

53 percent of workers said that "a job where I can make an impact" was important to their happiness. 72 percent of students said that "a job where I can make an impact" was important to their happiness. Most would even take a pay cut to achieve that goal. 35 percent would take a pay cut to work for a company committed to CSR. 45 percent would take a pay cut for a job that makes a social or environmental impact. 58 percent would take a pay cut to work for an organization with values like their own.<sup>171</sup>

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166 Huffman & Klein, 2013; Jones & Willness, 2013; Willness & Jones, 2013

167 Ketvirtis, 2012

168 Bhattacharya, Sen, & Korschun, 2007

169 Albinger & Freeman, 2000

170 Meister, 2012

171 Meister, 2012

## VIII. ACHIEVING THE TARGET: DIAGNOSTIC TOOL

Based on the research findings, companies can apply the following diagnostics, indicators, and metrics to:

- Assess whether their current practices position them to deliver ROI from CR practices;
- Guide the strategies and tactics they should pursue;
- Evaluate results and performance; and
- Determine areas to improve.

A company can begin the process with the following diagnostics. However, companies will benefit from customizing further their own diagnostics that fit their situation.

### **Diagnostics for the way the company FITS CR practices into its business**

#### **Define CR priorities**

- Has the company assessed the CR performance expectations of the following stakeholders? What do they suggest are the priority CR commitments the company should make?
  - Core business stakeholder including customers, employees, and shareholders
  - Priority external stakeholders (such as CR advocates and thought leaders; CR ratings, frameworks, and standards; Socially Responsible Investments (SRIs); communities; NGOs; government; relevant media; and activists)
- Has the company conducted a process to define CR priorities that fit the business and key stakeholder expectations?

#### **List the company's main CR activities. Can the company effectively explain to key stakeholders:**

- The business rationale for each CR activity (connecting them explicitly to at least one of the strategic goals listed in Table 6 below)?
- How these activities tie to the expectations, interests, and needs of shareholders, customers, and employees?
- How these activities meet the expectations of key external stakeholders?

#### **For those CR activities defined as priorities and strong "Fits" for the business:**

- Has the company defined a plan to communicate to key stakeholders the rationale for identifying these as high priorities?
- Has the company defined a business case for how its performance will support the strategic value-creating goals (see the list below in Table 6) and intangible assets (see the list below in Table 7)?
- Has the company developed plans to deliver the business case that include levels of resources (budget, staff, time, capabilities, technology, R&D, etc.) required?

#### **For those CR activities that are not priorities and strong "Fits":**

- Has the company defined a plan to communicate to key stakeholders the rationale for identifying these as low priorities?
- Has the company developed plans for the type and scope of attention these lower priorities will receive?

## **Diagnostics for the company's COMMITMENT to CR practices**

### **Commit to be a CR leader**

Has the CEO – with the approval of the Board – set the goal to:

- Be among the top tier of CR performers in its industry?
- Be among the top tier of CR performers across a wider group of benchmark peer companies?

Is the company a top-rated performer against peers with regard to key internal dimensions of CR such as:

- Policies and performance that ensure the safe, ethical, non-discriminating, and fair treatment of employees?
- Ethical practices and anti-corruption?
- Product stewardship including quality and safety?
- Health and safety?

### **Benchmark the CR commitments, strategies, and communications of peer market leaders and laggards**

- How do they compare to your commitments?
- How do they compare to your strategies?
- How do they compare to your communications?

From the benchmark assess:

- Where does the company need to catch up?
- Where does the company need to pare back or refocus?
- Where is there an opportunity to do more to competitively differentiate?

Does the company have:

- A plan(s) to maintain CR commitments through the ups and downs of economic cycles?

Does the company embed CR practices in the performance responsibilities and related appraisals of:

- Board Members?
- CEO and C-Suite Leaders?
- Senior Executives?
- Middle Management?
- Wider Staff?

## Diagnostics for the way the company MANAGES CR practices as an asset

**Define and structure the company’s CR practices as an asset that fits the business model, organizational culture, and stakeholder expectations**

- Set a value-creating goal

### Has the company set a value-creating goal for its CR practices?

- The research suggests there are five core options. While tempting to answer “all of the above” it is more practical to select one core goal while potentially adding subsidiary objectives.

Table 6: CR business-value goals

Strategic, business-value creating goal	Potential target range
a) Reduce risks and protect the license to operate of the company	Protecting as much as 10% of the firm’s value
b) Nurture, grow, and protect CR-related brand and reputation value	Protecting as much as 11% of the firm’s value
c) Boost how shareholders view performance to enhance share price and market value	Increasing share price as much as 6%
d) Enhance your competitive positioning with, and deepen the engagement of, your customers	Increasing revenues as much as 20%
e) Enhance your competitive positioning with, and deepen the engagement of, your employees	Reducing turnover as much as 50%
f) Some combination of the above	

### Do current CR practices align or misalign with goal priorities?

- For those areas that align:
  - What strategies would help them enhance their ROI potential?
- For those areas that misalign:
  - What actions would bring them into alignment?
  - Are there more productive and essential CR activities that would align?

### Integrate CR into the way the company manages its other core intangible assets in a way consistent with the value-creating goal

- Has the company set an objective for CR to support key intangible assets?
- The research suggests there are four core options. While tempting to answer “all of the above” it is more practical to select one core goal while potentially adding subsidiary objectives.

Table 7: CR support for intangible assets

Core intangible asset	Does this align with the business-value creating goal identified above?
a) Brand and reputation	Y/N
b) Employee engagement and talent management	Y/N
c) Organizational culture	Y/N
d) Innovation	Y/N
e) Some combination of the above	Y/N

**Do current CR practices align or misalign with priority intangible assets?**

- For those areas that align:
  - What strategies would help them enhance their ROI potential?
- For those areas that misalign:
  - What actions would bring them into alignment?
  - Are there more productive and essential CR activities that would align?

**Define and treat your company’s stakeholder relationships as an asset**

Has the company identified its priority:

- Core, business-related stakeholders?
- External stakeholders?

Across business-related stakeholders, has the company identified the size and attributes of the segments depicted in the following table?

Table 8: How many stakeholders fit into the following categories regarding their level of concern for the company’s CR performance?

	Strongly cares	Moderately cares	Cares somewhat	Does not care	Prefers that the company does not engage in CR
Customers					
Employees					
Shareholders					

- Across priority external stakeholders, has the company identified key segments with regard to their size and attributes?

**For these core business stakeholder segments and external stakeholder types establish baselines and track progress on:**

- Trust for the company as a corporate citizen

- Awareness for what the company stands for as a corporate citizen
- Awareness and attitudes for the company's CR performance
- Expectations for the company's CR commitments and overall CR stance
- Needs stakeholders have for the company's CR performance.

**Set baseline metrics and track progress to determine the size and strength of commitment in your company's stakeholder network. Do stakeholders:**

- Perceive they hold a stake in the company's responsibly competitive success?
- Perceive the relationship with the company as "neighbor-to-neighbor"?
- Form a knowledge & intelligence sharing exchange?
- Work as intermediaries?
- Offer constructive criticism?

**Diagnostics for the way the company makes CONNECTIONS that enable CR practices to drive ROI**

**Assess and build awareness**

Table 9: Track baseline stakeholder awareness and progress over time of the following

	Customer	Employee	Shareholder	Priority external stakeholders
<b>How do stakeholders assess the company's:</b>				
CR commitment				
CR performance				
Key CR activities and programs				
Treatment of key stakeholders				
<b>How they assess how the company's CR performance factors into the company's:</b>				
Brand and reputation				
Human resource performance				
Overall trust				
Product and service quality				
Risk management				
Share price and market value				
Stakeholder engagement				



	Customer	Employee	Shareholder	Priority external stakeholders
<b><i>How do stakeholders relate CR performance to their:</i></b>				
Level of satisfaction (e.g. customer, employee)				
Loyalty and commitment				
Overall trust				
Sense of engagement				
Support for the company's license to operate without extensive oversight, permission, or regulation				
Willingness to*:				
Give the company the benefit of the doubt during difficult times and/or crises				
Invest				
Purchase				
Seek employment				
Speak favorably about the company to others				

\* If applicable to the stakeholder

## IX. A LOOK AHEAD

The findings from this study suggest a result that has powerful implications for the management and practice of CR. That is, CR, managed well, appears to contribute to financial ROI as well as competitive and wider-business benefits. This means that companies and their managers can exert some measure of both choice and control over the business-related benefits that their CR management will deliver. Like other investments, some CR initiatives will pan out and others won't. Rather than debate whether or not CR creates or destroys value in the abstract, a more productive approach will be to develop business-aligned and integrated CR strategies. This includes applying to CR some of the same management disciplines as any other business function.

As such, this Report begins to chart what these functions should be, and points out valuable new directions for continued investigation and improvement in the years to come.

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