A REVIEW BY BRUNSWICK GROUP SPRING 2008

talking points

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Corporate responsibility's staying power: Companies have made their environmental, social and ethical performance a priority over the past decade. Despite a softening economy, three forces guarantee that CR is here to stay.

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Corporate responsibility's staying power

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The fact that annual CR reports didn't even exist a decade ago may explain why some still wonder if corporate responsibility is a dispensable fad rather than an immutable fact of modern business life.

The Economist – long a critic of CR – conceded recently that it has become a mainstream activity companies ignore at their peril. Yet in the next breath, the magazine posited that a recession would render the CR industry "a luxury companies could live without."

One simple rebuttal to the cynics would be to chart the growth of CR programs through the last recession of 2001-2002. According to the Global Reporting Initiative, the number of companies producing CR reports more than doubled during this period, jumping from 37 in 2000 to 106 in 2001 and 236 in 2002 (Chart 1). The number tripled between 2002 and 2006, comprising geographically diverse companies. These data, while compelling, do not explain the transformational forces behind the exponential growth of CR.

Three distinct drivers have converged to shape business attitudes to CR, transforming it from a "nice-to-do" trend into a "must-do" movement: I) a "New Deal" between corporations, governments and nonprofits; II) "the Millennial generation;" and III) globalization.

New Deal

A "New Deal" is emerging between global corporations, governments and non-profits. It is steadily replacing a traditional relationship of suspicion and outright enmity with something akin to a spirit of collaboration. A key impetus for this change is the shifting gravity of power from governments to corporations. The era of big government truly ended when corporations began outpacing countries in GDP. Today, 41 of the hundred largest economies in the world are companies. Exxon Mobil is bigger than Poland and Austria. Wal-Mart is bigger than Denmark. Governments are realizing that they simply cannot hope to solve major social issues without the active involvement of the corporate world and are reaching out to them as never before.

The UK's Prime Minister Gordon Brown perhaps typifies the new outreach. He is calling on captains of industry to lift Africa out of poverty by helping achieve the UN Millennium Development Goals (MDGs). Not too long ago, had you asked a global CEO what MDG meant, he or she might have replied that Chinese food tastes better without it. Today a growing number can recite all eight and list their specific targets.

Underpinning this outbreak of altruism is a healthy dose of mutual self interest. Governments clearly see an advantage in spreading the burden of expectation that they alone must solve society's endemic problems, and CEOs are seeing an opportunity both to cement friendships in high places and make strategic inroads into emerging markets. In crass terms, it is very difficult to sell stuff to the sick, the poor and the dead. Hastening the day that Africa provides sustainable economic growth is therefore seen as a win-win.

Concurrently, many nonprofits have radically altered their view of the corporate world. Until very recently, humanitarian UN agencies were something of an ivory tower looking down from an ideological perch at the venal world of big business. Several UN agencies have restructured their departments of public-

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private partnerships to reflect a changing attitude – no longer regarding corporations as the enemy, nor as faceless checkbooks, but as constructive partners for progress on issues of joint concern.

Rise of the Millennials

First identified by sociologists William Strauss and Neil Howe in their seminal work "Millennials Rising: The Next Great Generation," young people born after 1982 are having a disproportionate impact on board room decision making. Millennials represent a distinct break from preceding generations in their global, optimistic outlook. They genuinely believe they can make a positive change in the world, and expect institutions and companies vying for their loyalty to share their values. They embody the mantra: "Idealism is the new realism." Now that they have come of age, they are suddenly commanding special attention from corporations because they represent the current and future crops of MBAs entering the work force.

A clutch of recent surveys of MBA students has established a clear link between career choice and a company's CR profile. This has not escaped the attention of CEOs concerned with ensuring the best talent comes to them and not their competition. The first question recruiters often find themselves answering at career fairs is no longer "What's my first year bonus?", but "What is the carbon footprint of your company?"

Equally telling is the growing number of CEOs who will say that they got turned on to CR at the prodding of their Millennial age children. The corridors at this year's World Economic Forum meeting at Davos echoed with the conversations of CEOs sharing such anecdotes.

Globalization

The speed of transmission of good news, bad news and everything in between has transformed the global market place. Britney Spears' kid sister's pregnancy is news in Auckland and Omaha. U.S. elections are followed as closely in Bangalore as in Boise. Child labor abuses in the developing world make headlines worldwide within the same news cycle.

Early adapters to CR were responding to this new norm. Typically they were companies exposed to a PR crisis that originated far away but threatened reputations at home. Nike and Starbucks had their CR epiphanies in the crucible of battles around distant supply chain problems. Today, they have largely overcome the risk this posed to their reputations by holding themselves and their suppliers to higher labor standards.

Over time CR programs have progressed from reactions to external prompts on a single issue to proactive mechanisms for radically overhauling reputations. GE, once infamous as the largest Superfund site polluter, is now known as the biggest producer of wind turbines and a leader in green energy technology.

The most successful CR programs combine three elements that together separate them from purely marketing or PR exercises: they are authentic, they are organic and they are amplified through effective partnerships. GE's "Ecomagination," the company's environmental sustainability program, scores well in all three categories. The most evolved CR is no longer a siloed activity largely operated at arms' length by a company's philanthropic foundation, but is thoroughly integrated into its business strategy. Doing this requires that companies further align their CR efforts at all levels – product line, supply chain, workplace practices, and operations. Such truly integrated CR will benefit from synchronized communications internally and externally. In other words, companies will need to get better at telling all audiences the story of what they are doing and why they are doing it.

Does CR make money?

CR has already survived one downturn, but a stubborn question remains: Is it profitable? The answer is no and yes. There is no proven direct link between doing good and the bottom line. Depending on which basket of stocks you pick, the Dow Jones Sustainability Index (DJSI) either slightly under-performs or slightly outperforms the market (Chart 2). Motivations connected to near-term profit, including fear of consumer backlash and government regulation, rank relatively low as rationales for good CR practice (Chart 3). There are plenty of companies with horrible CR profiles making record revenues. But CEOs are attracted to CR for long-term reasons. They realize that they will lose out on the best young talent, which will erode their competitiveness over time. They are concerned about providing insulation for their company's reputation, which can take generations to build but can unravel in a single news cycle. So while CR may not be profitable now, ignoring it could be costly in the future. And beyond the profit motive, some CEOs may even be motivated by the desire to leave the planet better off. ■

Brunswick viewpoint
Getting the best return on your CR investment

In the court of public opinion, the most responsible companies aren't always those with the biggest corporate responsibility budgets. Even modest investments can have a large impact on CR when it comes to stakeholder perceptions, brand loyalty and risk management. What matters more than money is how well a company integrates CR practices into its operations and company culture, and how consistent it is about its commitment. Conveying the depth of that commitment to both internal and external audiences is crucial for any company's credibility.

CR is based on an evolving landscape of issues and influencers. In order to stay relevant, CR programs must be both strategic and flexible. Companies that are tempted to scale back their efforts during an economic downturn put their brands and reputations at risk. Conversely, those that consistently express their CR values and embed those values into their corporate DNA stand to reap significant reputational benefit over time.

A successful CR program has three underpinnings:

- It has to be authentic. Window dressing will be detected as such.
- It should be organic to the company's core products or competencies.
- It must be implemented through effective alliances and partnerships.

Do

- **Conduct an internal audit.** Companies are often already doing more CR than they realize, but their activities are disparate and ad hoc. Undertake a thorough accounting of your community, philanthropic and environmental activities, then prune and focus your efforts for maximum impact.
- **Navigate the landscape.** Determine which core issues you should be engaged in and thoroughly map the NGO and stakeholder communities concerned with the same issues. Take expert advice on who the key players are from people who can distinguish friends from foes.
- **Develop effective partnerships.** The right peer partner can leverage the efficacy of your efforts; act as a built-in validator; and transform the level of credit you get for your commitment and efforts. Brokering and maintaining these relationships is not easy and will be greatly aided by counsel from people who have solid ties to the NGO and non-profit world.
- **Align CR with the rest of your business.** Make CR a strategic priority by moving it from the sidelines to the center. If it is the sole remit of the company foundation, it will remain marginal to the business. If it is integrated into your operations and company culture this will send a strong message both internally and externally. All efforts towards diversity, supply chain integrity, sustainability, and community should be coordinated and mutually-reinforcing.

Do Not

- **Talk to everybody.** A common error of companies wishing to change their reputation on critical issues is to engage with groups before determining their agenda. It is tempting to reach out to everybody, but much smarter to carefully vet engagement.
- **Adopt a "one size fits all" issue or approach.** The drivers behind corporate responsibility vary by region, culture and context. Activities appropriate in one market may not be appropriate in another, but ensure that everything you do relates back to the overall strategic program.
- **Benchmark your practices against peers alone.** Set your standards against the highest level and commit to ambitious, but reasonable, targets achieved over time.
- **Undervalue the importance of internal communication.** Employees, suppliers, and alumni are some of the most powerful voices for your corporate responsibility efforts. External communications should not be the only means for carrying the message. ■

Global picture

Globalization - the unfettered exchange of goods, ideas and technological innovation - gave rise to the modern corporate responsibility movement and continues to be the key driver today. While local interpretations vary, globalization has made CR a common imperative for every major company, no matter where it is based and no matter where it operates.

This year's Olympic Games in Beijing underscores how globalization has transformed a robust strategy around corporate responsibility from optional to necessary. Corporate sponsors stand to make enormous gains in brand equity by associating themselves with the world's premier global event and are eyeing the opportunity to enter a vibrant emerging market.

But a conflict on a distant continent thousands of miles away threatens to spoil the party. Darfur is casting a shadow on festivities even before the games kick off in August. Advocates campaigning against the genocide in Sudan have identified China - Sudan's biggest trading partner - as the pressure point for a solution to the conflict, and are pressuring the Games' corporate sponsors to raise their voices.

It may be fair and reasonable to hold that German car manufacturers, U.S. fast food restaurants and Australian mining businesses have little or no role to play in solving the terrible situation in Sudan. A growing chorus is asking if there is a point at which corporate responsibility ends. The Beijing Olympic sponsors will need to be ready to answer this question, and their responses will be viewed alongside their record of corporate responsibility in every area: social, environmental and ethical. Companies with a clearly articulated vision will be less exposed to the reputational risk that could arise around the Darfur issue – and to any number of other risks to reputation that may arise at any time and in any place in today's global operating environment.

UK and Europe

The worldwide map of corporate responsibility illustrates that each region comes at the topic from differing angles and levels of sophistication. The roots of the modern CR movement are very much in the United Kingdom. "The British brand of corporate responsibility is seen as the gold standard," Julia Cleverdon, chief executive of Business in the Community, recently told *The Economist*.

In the 1990's Anita Roddick's Body Shop pioneered the integration of environmental and social responsibility into business practice. The approach was viewed as slightly exotic at the time, but has since become a core part of business strategy for many major UK companies. The 2006 Companies Act now requires public companies to report on their performance in every area of corporate responsibility: diversity, work place practices, supply chain integrity, sustainability, community and global issue involvement. >>

Global picture

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Many major UK companies have not waited for a government mandate, and the debate has shifted from “Is CR worth it?” to “How can we do it better?”

Sophisticated consumers are holding companies to a rigorous standard, expecting them to show leadership on corporate responsibility even as they grow increasingly skeptical of companies’ exertions in this area. A crowded field, particularly in environmental sustainability has set the bar extremely high. To take just one industry, five major retailers have announced ambitious environmental initiatives since the beginning of 2006. The response by the *Guardian* newspaper to one recent such company announcement typifies the prevailing cynicism: “does it mean what it says – or are they just riding with the mood of the times?” In the environmental arena, companies are in a double bind: they can’t afford not to exhibit their green credentials, yet they can’t expect to get any credit for doing so. Sustainable practices have become priced into the corporate responsibility equation as the bare minimum requirement to maintain reputation. UK companies recognize that they must continue down the path of sustainability, but are finding it increasingly difficult to differentiate themselves by doing so and are looking to other issue areas to gain competitive advantage through CR.

Continental Europe has closely followed the UK lead on CR. The EU issued guidelines in 2001, arguing that transparency and voluntary reporting would lead to competitive advantage in the global marketplace. In France a law requiring companies to report their CR performance has been on the books since 2002. Germany - the birthplace of the green movement in the 1980s - has a long tradition of practicing socially responsible business. Consequently, German business leaders have tended to regard the current CR movement as something of a gimmick. But global competition along with media and NGO scrutiny has pushed bigger corporations to broaden their approach and align it with emerging international standards.

Asia

Multinationals with operations throughout Asia have long operated under a microscope for their environmental and social impact on local communities. Activists in the West have been quick to point out when companies apply different labor and environmental standards in Asia from those upheld in the US and Europe. Local governments and the public often regard western companies with suspicion. As a result, these companies have learned the hard way that it pays to develop robust CR programs.

Local companies have historically not been held to the same standard. For homegrown companies and family-owned businesses organic to the region CR is still in its nascent stage. A strong tradition of paternalism persists among the wealthy elites. Prosperous individuals bestow their wealth on society in the form of schools, hospitals, temples and welfare projects. The notion that corporations may have wider obligations to society, however, is not nearly as well developed or accepted in the region.

Thanks to globalization, this is beginning to change. In addition to bringing human rights into sharp focus, the Beijing Olympics has shone a bright light on China Inc.’s disastrous environmental record. As an inevitable outcome of the impending Games, Chinese heavy industry is under much greater pressure to clean up its act. Chinese companies are also beginning to modernize their approach to the social aspects of corporate responsibility. In 2006, local and foreign companies created the Chinese Federation for Corporate Social Responsibility (CFCSR) - an effort to move from traditional philanthropy to a more holistic model of corporate responsibility.

As the global economy becomes ever more interconnected, the new giants of the region, including companies from the emerging markets of India and Russia, are adopting western style CR practices as part of an effort to be viewed as equals to their more established western competitors and to compete effectively on the global stage.

Africa

While global warming has dominated the corporate responsibility landscape for the last few years, it has now saturated the marketplace of ideas for corporations seeking to save money and gain a reputation by being greener than their competitors. Analysts have already priced in the share value of carbon reduction plans; consumers are no longer impressed by them; and government regulators regard such behavior as a baseline legal requirement.

Global corporations are increasingly turning their attention somewhere else to derive strategic advantage from CR. That somewhere else is Africa. As the world has shrunk, the endemic problems of the forgotten continent are forgotten no more. They

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will only come into sharper focus as the deadline for the Millennium Development Goals comes due in 2015. In 2000, the world's governments agreed to achieve the MDGs – a set of targets to reduce poverty, eradicate common diseases, ensure gender equality and protect the environment. The part of the world furthest from achieving these goals is sub-Saharan Africa. Now that we are at the halfway point, governments and NGOs are realizing that they stand little chance of succeeding without the help of the corporate world.

Whether they do business in Africa or not, more and more companies include a focus on Africa in their CR portfolio. Seven of the top ten companies on *Fortune's* Global 500 list include projects in Africa as part of their CR portfolio. They are taking on the onus of a basket of issues affecting the region, including: lack of clean water and sanitation, malaria, infectious diseases, HIV/AIDS and gender parity in education. Companies are entering what was once the sole domain of NGOs and governments as a new breed of "non-state actor" to help find solutions.

Many companies headquartered in the region already have a long record of involvement. Post-apartheid South Africa and neighboring countries have mandated that companies take on some of the social responsibilities traditionally the purview of government. Many regional companies, for example, are among the biggest providers of anti-retroviral drugs through their company health care plans.

For multinational corporations, there is ample room for differentiation through a meaningful CR program focused on these problems. The challenges are so immense that no one company can own any one issue. Peer NGOs with enviable reputations and media reach are numerous and ready to offer a halo to those companies that are willing to productively engage with them in constructive partnership.

Companies around the globe are coming to find that the potential payoff is threefold. By taking on such issues, they mirror the values of millennial generation MBAs. By lifting communities out of poverty, they are creating future markets. And by growing their credentials as corporate citizens, they are providing valuable insulation from other threats to reputation which, unseen now, will inevitably arise. ■

By the numbers

While it is still difficult to measure CR's bottom line impact, companies are increasingly recognizing its value.

Chart 1: The Global Reporting Initiative

GRI has developed the world's leading standard in sustainability reporting – the practice of publicly disclosing economic, social and environmental performance.

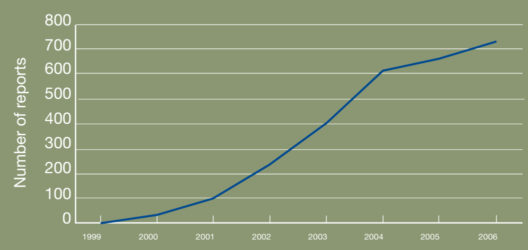

Chart 2: Comparing Socially Responsible Indexes

The DJSI either slightly underperforms or slightly outperforms the market.

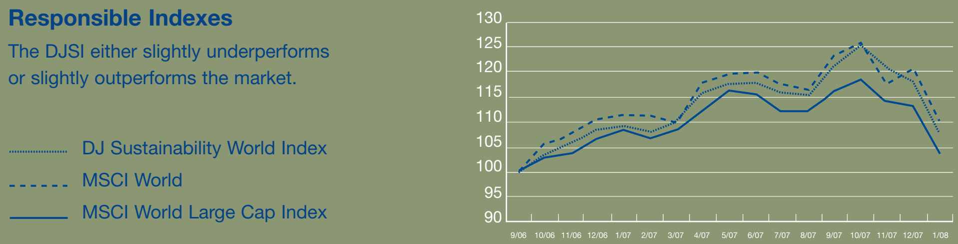

Chart 3: The Business Case

What are the main business benefits to your organization of having a defined corporate responsibility policy?*

Source: Economist Inteligence Unit | * Up to three could be selected

About Brunswick Group

Brunswick Group is a leading corporate communications consultancy with offices around the globe. The firm provides strategic advice to companies and other organizations, helping them address critical communications challenges that may affect their valuation or reputation. We specialize in media and investor relations, corporate reputation management, M&A transactions, and crisis and litigation communications.

Brunswick believes successful corporate responsibility programs must be authentic, developed organically from the company's core products or competencies, and implemented through meaningful partnerships. Brunswick approaches CR from a unique position, partly because the people offering the advice in this area – besides being expert communicators – also have high level, hands-on experience within the non-profit world and maintain a deep network of contacts in that world. We offer senior-level, strategic counsel and communications expertise to help clients build, defend and strengthen corporate reputations through corporate responsibility.

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