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An Overview of CSR Practices Response Benchmarking Report

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AN OVERVIEW OF CSR PRACTICES

RESPONSE BENCHMARKING REPORT

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We would like to thank the 19 multinationals which have participated in the RESPONSE project and which we, for reasons of confidentiality, cannot mention by name on these pages. Also we would like to thank the rest of the RESPONSE Research Team for their contributions to this report:

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EXECUTIVE SUMMARY

This report summarizes selected findings of a three-year research effort undertaken by INSEAD, Copenhagen Business School (CBS), Bocconi University, and the Leon Kosminski Academy. It is part of a larger European Commission-funded study, entitled "RESPONSE". This project has aimed at understanding how multinational firms see their responsibility towards society and how this is aligned (or not) with the expectations of their stakeholders. Preliminary findings were developed in a final report which was presented at a conference in autumn 2007 at INSEAD, Fontainebleau (please find link in the appendix).

The present report is the second deliverable of the RESPONSE project in addition to the company-specific reports. During the course of our research, we have analyzed in considerable detail the CSR practices and projects of 19 multinationals from different sectors and regions. The purpose of the benchmarking report is to draw upon the knowledge learned throughout the many interviews, careful data analysis and report writing that we have done so far, and highlight a number of key findings and best practices that can provide the companies with knowledge on the CSR practices in the field today.

It has been interesting to compare how CSR concepts have been understood and applied in different ways by each company and how some practices have stood out among the rest. We have compiled those outstanding examples in this document, not just to disseminate best practices in CSR but to offer a learning tool to the companies that have participated in RESPONSE. Our objective is that by describing exceptional CSR practices in each of the selected dimensions,

managers will be inspired to develop insightful CSR projects within their own companies.

The benchmarking report goes beyond the question of alignment between company and stakeholder perceptions of CSR, which is otherwise the core focus of the RESPONSE project. One of the first insight of the RESPONSE project is the realization that there are different possible pathways towards CSR performance. The benchmarking report is not a normative indication of the ONE best way that companies should work with CSR. Instead it picks a selection of practices from the firms studied to illustrate the different ways in which multinational companies (MNCs) approach CSR. It must be underlined that there is not one best practice or recipe for successful CSR that can be applied across all companies.

In the following chapters, we highlight the choices RESPONSE firms have made in their CSR implementation and to comment on what impacts these choices have had. We hope that this provides a source for both inspiration and evaluation of current CSR strategies.

It is also important to note that the best practices that we have identified are constrained by the sample of companies which we have researched. Beyond the 19 companies in the RESPONSE project are many other interesting examples of successful CSR implementation that we can learn from. Some exceptional cases can be found in companies which have built their whole business model around being a responsible company. We encourage readers of this report not only to learn from the results of this report but also to constantly seek out and be inspired by new and evolving approaches to CSR.

For the purpose of this report, we have identified a total of nine best practice categories, which we have grouped together in three overall categories:

- CSR policy and vision

- CSR organization

- CSR outcomes

For each of the nine categories, a number of examples of best practices stemming from the 19 multinationals have been given. Concluding each of the categories, we have listed a number of questions to help companies reflect upon their own approach to work on the given practice.

Following the nine practices we provide a comprehensive background of the RESPONSE project in the annex. There, we detail its objectives, model and methodology. Furthermore, we include a list of the 19 multinationals, which participated in the project, in matched pairs and triads with information on industry, region of headquarter and the companies' relative similarity in terms of business and size. The actual names of the 19 multinationals are kept confidential; for the purpose of this report, an alias has been found for each of the companies.

SECTION I:
CSR POLICY, VISION AND INTENT

PRACTICE 1: OVERALL CSR STRATEGY

A firm's strategic commitment to CSR is most visibly reflected in the company's mission statement and the time dedicated to the subject by top management. However, while such activities can easily remain superficial, the most important test for a firm's commitment to CSR is the extent to which CSR is made part of a firm's overall strategic business decisions. This refers to the extent to which CSR concerns are embedded in the firm's strategy content (for example M&A, R&D) and whether they are an integrated part of the firm's overall strategy process. It is at this most general level at which the company shows that it really thinks about CSR when it makes business decisions.

Values

Management Systems

Integration of CSR into
Strategic Decision Making Processes
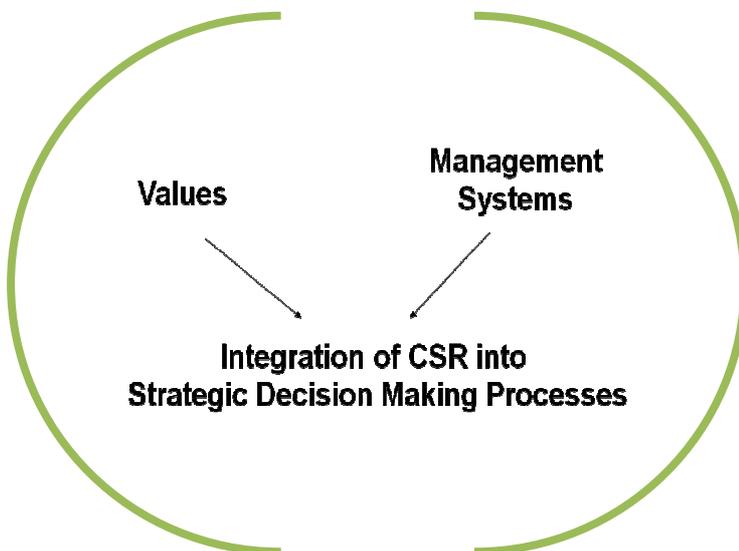
Among the firms studied, we have found that often CSR management and strategic decision-making run in parallel but segregated tracks. Few of the firms studied have actually made CSR an integral part of their overall strategy making. Drivers for CSR integration can come from two sides: CSR integration can be systems-driven or values-driven.

Systems-driven and values-driven represent two varying approaches which are both highlighted as important for creating a strong CSR strategy. On the one hand, a good corporate CSR culture driven by shared values, however, less prescriptive/restrictive scripts and management systems can act as an important driver for CSR integration. One might paraphrase this approach with "We know our

employees will act decently if they are in a moral dilemma. So we do not need to prescribe each action in detail".

On the other hand, firms with well-developed and integrated CSR management systems firms that prescribe exactly how CSR is to be enacted followed up by accounting and controlling tools can also be a very powerful and effective way of integrating CSR across an organization.

An example of the values-driven approach can be found in REMEDY. For this pharmaceutical firm, social performance has been part of its vision for over a century. Its mission statement dates back to documents drafted by the founder and states that REMEDY wants to be recognized by stakeholders as an organization that integrates social responsibility into all aspects of its business. REMEDY managers explain that responsibility has become so ingrained in its corporate culture that enforcing mechanisms (for example in the form of management systems) play only a supportive role. Self-selection among job seekers as well as a hiring process that prioritizes fit with the founder's vision for responsibility promotes the inclusion of CSR in management decisions. As a result, REMEDY is revered by stakeholders as a beacon of responsibility in an industry that is too often seen as interested in profits rather than curing patients.

One of the disadvantages of a values-driven approach is that it requires decades of patient nurturing to develop a corporate culture such as that of REMEDY. Not all firms have the luxury of to allow for such a long lead time. An excellent example of a turn-around case can be found in GENERATOR, a leading energy company. For a long time, GENERATOR had followed its industry peers on CSR issues. In 2002, GENERATOR's CEO publicly announced his objective for GENERATOR to become the global leader in sustainability. Yet the articulation of a mission focused around sustainability is by itself insufficient. Resource allocation is crucial. Realizing that it would not be easy to catch up with its rivals, some of whom had had sustainable development strategies in place for over a decade, GENERATOR supplemented its vision and strategic plan with an ambitious investment program

designed to minimize the company's greenhouse gas emissions. GENERATOR put a particularly strong focus on the development and acquisition of clean technologies. The investment strategy has paid off. Since 2005, GENERATOR has been recognized among the leaders in its industry in rankings concerning climate change strategy. Finally in the summer of 2007, GENERATOR was selected by one of the leading NGOs in this area as having the "best strategy for combating climate change" within its industry.

A second example of a rather recent convert is CODER. Stakeholder pressures oblige many firms in the information technology sector to address social responsibility issues such as access to technology, and the role of information technology in social innovation and education. Initially, it took CODER some time to recognize the importance of responding to these societal pressures. Its eventual reaction was the systematic inclusion of corporate social performance criteria into its core management reporting system. Each country manager is required to establish annual social performance targets as well as an action plan to reach those targets. CODER's system requires each country manager to plan, monitor and evaluate both financial and social performance. While it is still premature to judge the long-term impact of this initiative, CODER's approach is one of the most ambitious and far-reaching among the RESPONSE companies.

While each of these three approaches is valid, combining them may be difficult. For example, the implementation of a CSR reporting system such as CODER's may very well drive out the intrinsic motivation and supportive corporate culture that characterizes REMEDY. Priorities of investment strategies on the other hand can change over time. Thus it will remain to be seen whether EASY will continue to be at the top of its league five years from now.

> ### *Questions to ask:*
>
> 1. *Is social responsibility a corner stone of your corporate values? How have you built it up over time, and how will you maintain this values base in a growing and changing firm?*
>
> 2. *To what extent do you attempt to achieve short-term changes in the CSR performance of your firm, and how do you attempt to do so?*
>
> 3. *Are you able to measure, control and direct changes in your firm's approach to CSR through the systems which are currently in place?*

PRACTICE 2: TOP MANAGEMENT SUPPORT AND LEADERSHIP

Strong support and leadership from top management are widely recognized as important drivers of thoughtful CSR policy and its successful implementation. There are many examples of senior managers and corporate leaders who show a genuine personal commitment to shaping the CSR discussion internally in the company as well as in the external CSR community. Top management support is evidenced by participation in external CSR communication and stakeholder dialogue as well as in internal communication, including leading by example, and giving a strong and consistent message that CSR matters.

> Looking deeper into top management teams, it often becomes clear that the CEO's enthusiasm for CSR is not shared equally by all top managers.

Across the firms in this study, we have found that senior managers frequently spend significant amounts of time and efforts engaging in CSR. The key difference, however, is how this practice permeates the entire top management team. The CEO of EUROBANK, for example, likes to present himself as the actual "CSR leader" of the firm. Crucially, his role is also perceived by employees, who have witnessed his support for the inclusion of CSR measures in managers' performance evaluation and incentive systems. Similarly the former CEOs of FINISHER, DRILLER and ENJOY have played key roles in transforming their firms into CSR leaders. A strong CEO figure can be a very powerful driver for gaining support for CSR across the organization and has been known to be one of the best facilitator for a successful CSR implementation process. A strong CSR-dedicated CEO can become the visualization and personification of a company's CSR

efforts achieving support and commitment among employees and external stakeholders alike.

However, looking deeper into top management teams, it often becomes clear that enthusiasm for CSR is not necessarily shared equally by all top managers. Strong CEO leadership may, in effect, suppress open discussion of diverging views in the top management team. A very CEO-dominated CSR agenda also leaves the company at risk once the CEO leaves his position; how can the top management team continue to keep employees motivated about CSR if the face of the company's CSR efforts is no longer present in the organization? In opposition to the argument that a strong CEO can be the key driver of CSR, one can also argue that sometimes CEOs have the responsibility to step back and allow the entire top management team to have a saying in order to ensure continuity in the CSR agenda of the company. This can be achieved through getting a range of top managers involved in and committed to the CSR discussion. Especially in larger or highly decentralized organizations in which the CEO has difficulties reaching the far corners of the organization at all times, a range of committed top managers can be a powerful tool in assisting to make CSR efforts more visible as well as offering more diverse and if necessary critical perspectives to the CSR discussion.

Food and drinks company VIGOR is a rare example of a firm in which successive CEOs have taken a lead in CSR and yet succeeded in binding all top managers into the execution of CSR. In this case, obtaining buy-in from the whole management team required the CEO not only to spend time on spreading the CSR message among employees and stakeholders but also to engage his colleagues in an open debate.

As mentioned, an important aspect of leadership concerns CEO continuity. A CEO's positive legacy must be nourished. VIGOR and natural resource company PACKER provide examples of how successive CEOs have been consistent supporters of the social responsibility agenda. Correspondingly, both organizations are

distinguished by a consistent sense of direction in their CSR evolution. Managers feel reassured that CSR is not merely the latest fad to be terminated when it is no longer fashionable. Such commitment by successive CEOs offers opportunities for long-term initiatives and investments. Making CSR a key part of the search committee for CEOs and other top managerial posts makes continuity more likely to occur.

Finally, a leadership voice in the external CSR community sends a strong signal of commitment to key stakeholders. The CEOs of both VIGOR and PACKER have assumed high leadership positions in key international sustainability forums. Such leadership goes beyond mere external communication efforts. The CEO of THERAPY has also been actively involved in setting industry marketing standards for pharmaceutical companies through his collaboration with industry associations.

Questions to ask:

1. *Does your CEO enact his/her role as first CSR leader in the firm and provide a good example to others?*
2. *How does the CEO manage to ensure genuine buy-in from the whole top management team?*
3. *Is there an open and constructive dialogue taking place on top management level on the direction of your company's CSR efforts?*
4. *Is CSR an explicit part of the search committee criteria for top management*

SECTION II:
CSR ORGANIZATION

PRACTICE 3: CSR ORGANIZATIONAL STRUCTURE

Once a company has strategically committed to CSR, it will need to supplement this with an adapted organizational structure that will allow for the best possible designing and implementation of CSR policies and practices. During our research, we have experienced the relative importance that appropriate structuring of a company's CSR activities can have on the impact of those activities. Two approaches dominate the practice: A centralized organizational structure allows for easier diffusion of homogeneous CSR principles and beliefs supporting social responsible behavior throughout the organization. A more decentralized structure affords greater flexibility and openness in engaging with the interests and priorities of local constituencies. Decentralization also suggests the ability to tailor corporate behavior for these local interests. Often a balance between the two approaches taking into account the key characteristics and needs of the company in question will prove to be the most beneficial solution.

Protein considers its CSR organization as being temporary. In time, the goal of Protein is to not need a specialist CSR unit at all, but to have CSR so integrated into the lines of business that this unit becomes obsolete.

Chemical company PROTEIN is a good example of a company that has been successful in implementing a powerful CSR structure which captures an efficient balance between centralization and decentralization. PROTEIN has been a market leader in the area of sustainability for many years. A cross-functional strategy group devises corporate strategy and monitors its implementation, receiving support from a corporate unit and various lines of business. The strategy group is comprised of vice presidents from across lines of business and geographical entities. PROTEIN's corporate CSR unit supports the strategy group as

well as individual business units. Probably the most innovative aspect of the CSR vision of this company is that it considers its CSR organization as being temporary. When CSR activities have been implemented, work groups are disbanded. In time, the goal of PROTEIN is to not need a specialist CSR unit at all, but to have CSR so integrated into the lines of business that this unit becomes obsolete.

Another interesting approach is the mixed organization of EASY: a very strong central unit supported by similarly strong divisional councils:

- Sustainability Councils in business units, regions and R&D. Support managers at a divisional level, reporting to management in their division and to the head of the corporate sustainability office.

- The Corporate Sustainability Office (trend analysis and benchmarking, providing guidance to the process of stakeholder engagement, preparing policy and action programs, monitoring and reporting, and providing functional leadership to the divisional and regional Sustainability Directors.) Placed under procurement.

- The sustainability network also includes employees in nearly all functional areas, including communications, global brand management, control, purchasing, forwarding, human resource management, M&A, R&D, strategy, and quality.

It is also interesting to mention banking company FINANCER that has located the CSR Department directly with the CEO's office so that the CSR group responds directly to the CEO, thereby underlining the CEO's role as the CSR leader of the firm. In addition to the people working inside the CSR group, there is a person responsible for CSR issues in every business unit. This CSR structure has allowed FINANCER to address emerging issues right at the beginning. Recent examples include the protection of family savings, or divestment policies affecting the arms industry.

While the location of a CSR department gives a good indication of the level of importance attributed to CSR within a given firm, another dimension is what structures the organization puts in place to ensure an independent and cross-organizational CSR debate. An

organizational mechanism that firms can choose to adopt is formalized, independent committees on CSR-related issues. These can range from CSR committees with a rather broad scope and members from across the internal organization, for example regional and business units as well as headquarters. Other examples are audit committees, remuneration and appraisal committees or stakeholder committees, which may include internal as well as external stakeholders. The aim of such organizational functions is to allow a forum in which the input to the firm's CSR policy can be created, discussed and continuously developed. It gives various employee groups, shareholders or other stakeholders, which on a daily basis may not necessarily be involved in the firm's CSR activities, a chance to have a saying. It also minimizes the risk of the CSR department or a strong CEO monopolizing the CSR discussion within the firm. Such committees have found to have the most effect when they report directly to the Board of the firm and when members are replaced on regular basis, for example every three to four years, thereby avoiding too static a group composition. It is interesting to note that even though such organizational measures have been found effective in creating healthy CSR debates in companies, only few of the 19 RESPONSE multinationals have currently implemented them.

Questions to ask:

1. *When it comes to conflict between corporate and business units about the CSR strategy, how are such conflicts resolved?*

2. *How organized is the communication flow between headquarters and regional offices when it comes to CSR?*

3. *How do you manage the transition of CSR function from the centre into the business units over time?*

PRACTICE 4: CSR PERFORMANCE TARGETS AND CSR MEASUREMENTS

This next practice deals with the subsequent managerial step of CSR implementation; that is how to best define concrete performance targets for a company's CSR initiatives, and how to monitor whether these targets are being met. One of the key challenges is to transform the general CSR ambitions into measurable targets and objectives and to make employees accountable for meeting those targets. For the measuring of CSR efforts, a firm often defines a number of CSR key performance indicators (KPIs) that reflect these targets well.

One of the RESPONSE participants, natural resource company DRILLER, is a good example of a company that has proven successful in formulating measurable CSR performance targets, both in terms of environmental and social aspects of the company's CSR initiatives. The company works extensively with KPIs in order to measure progress for its CSR work but also to identify gaps and room for further improvement.

When it comes to monitoring compliance with the targets, this is done through an annual assurance letter process. This requires the relevant senior manager to report back to the chief executive on the performance of their business in following the company's business principles and standards. Results are reported to the audit committee of the board. External panels and observers are used increasingly to monitor performance, and the results are reported externally in the company's annual sustainability report. All together, the successful combination of defining measurable, concrete CSR performance targets and monitoring whether these are being met helps to keep the CSR agenda of DRILLER on track.

The development of CSR KPIs which encapsulate inputs from across an organization and successfully reflect company targets is a major challenge when working with CSR KPIs. Many firms find its difficult to

formulate CSR KPIs and receive organizational acceptance for them, especially within a more decentralized company structure. Involvement of internal company stakeholders, such as various regional units, business divisions and cross-sectional employee groups, in the KPI development process can be key to formulating useful KPIs and ensuring understanding of and commitment to those KPIs across the organization. Setting up working groups to keep CSR KPIs up to date and in sync with the company's targets can prove useful as well.

Still, striking a balance between organization-wide involvement and central monitoring can be difficult. An excelling practice in this area of performance target development and monitoring comes from energy company POWER. This firm has set up a unit within the Control Department, devoted to the monitoring and measurement of CSR performance. The process of checking the company's performance with respect to its objectives takes place through the collection and processing of sustainability KPIs, which requires the involvement of both the parent company (on cross-company data) and the divisions and companies (on the specific data concerning their fields). Within each unit and professional group a person is appointed for collecting, checking, and processing the KPIs relevant for that particular unit or group. Consolidation of the data takes place under the responsibility of the Business Analysis and Risk Control unit, which is entrusted with coordinating the entire collection process and shares the qualitative parts and comments accompanying the results with the Corporate Social Responsibility Unit.

The process itself has been continuously developed by POWER since 2004 and fine-tuned along the way to include sophisticated balanced scorecards and more than 450 indicators, which are tracked and analyzed using a specific weighting system designed according to a triple bottom line agenda. All together, this system of in-depth monitoring and accountability in the respective units and broad

monitoring across the organization is intended to ensure that the CSR agenda of POWER remains knowledgeable and up-to-date while maintaining the "big picture" CSR strategy.

Making CSR KPI development an organization-wide task can be a challenging, however, also rewarding process. Taking the task one step further, some firms may gain from including not only internal but also external stakeholders in the formulation and continuous updating of their CSR KPIs. Engaging with for example suppliers, customers, NGOs or business partners when developing CSR KPIs, the firm has the opportunity to hear which CSR benchmarks that these stakeholders consider relevant for the company to live up to, thus keeping itself in sync with external stakeholder expectations. Among the 19 multinationals in RESPONSE, there are so far no examples of firms engaging stakeholders in the CSR KPI development process.

A very different approach to measuring the impact of CSR activities is that of food and drinks company ENJOY. In corporation with the National Community Development Organization and executed by two consultancy firms, ENJOY has developed a model that enables firms to analyse their economic and societal impact for use in emerging markets especially. The model is constructed to measure the results of ENJOY's activities on four different dimensions, which are current economic impact, effect on inequality, increase of local raw materials and scenario planning. Model outputs include examples of direct as well as indirect economic impact, for example number of jobs created, tax and income paid locally by company and potential spill-over effects to other industries resulting from the company's operation in host country. It is constructed in a generic way which should enable all of ENJOY's operating companies to use it and adapt it to their specific needs. The tool is promoted across the organization at conferences, and training and information sessions are offered on a regular basis.

The usefulness of the economic assessment model has been tested in real-life situations in a partly owned subsidiary of ENJOY in Africa in

2007. Two other case studies were launched in that same year, and targets for two additional case studies have been set for 2008. The goal is to continue to test the usability of the model in various parts of the organization, make improvements along the way and train employees in the implementation of the model.

The model has enabled the management of ENJOY to analyse different scenarios in view of their local economic impact but the purpose of the economic impact assessment tool has also been to add value for ENJOY's various stakeholders. For local governments, the model can enhance the understanding of the impact that a company has on a country's development and help government in adapting policies and legislation towards enhancing economic impact. Furthermore, the impact assessment results can provide non-governmental organizations with a greater knowledge of how they can maximize their development impact in cooperation with private companies.

Additionally, a dilemma that often comes up in the discussion of developing and using KPIs is the balance between few KPIs with a strong focus and many KPIs which encompass a broader CSR scope. The question is basically; how many KPIs are enough? Are 200 necessarily better than 20? And how should companies prioritize between those KPIs when resources are limited? Often the argument of "more is less" also applies to the use of KPIs with few and clearly stated KPIs resulting in a greater impact than many more vague ones. One of the RESPONSE participants, natural resource company DRILLER, has deliberately chosen to use only one CSR-related KPI, employee safety, in their overall Balanced Scorecard system. This has effectively proven to highlight the importance that the management of DRILLER attributes to this specific KPI and has created attention across the organization and among stakeholders.

Questions to ask:

1. *Do you provide business units with individual CSR key performance indicators?*

2. *Do you integrate CSR KPIs into existing core management systems? How does the core management system interact with any separate CSR management systems?*

3. *Are CSR KPIs developed and revised in close relationship with the business units top management?*

4. *Could your firm benefit from including external stakeholders in the CSR KPI development process?*

PRACTICE 5: CSR IN HUMAN RESOURCE PRACTICES

A firm which is highly committed to behaving responsibly will incorporate CSR into its human resource (HR) practices, firstly assuring that its employees are treated according to those standards of corporate responsibility, and secondly that the firm's CSR efforts are understood and supported by those employees. The fact is that internal and external messages advocating social responsibility from a company will end up sounding hollow if they are not carried out in practice through integration into the foundations of HR.

Continuously educating employees in why CSR matters and what it means to the company in question has been found to raise awareness, acceptance and commitment by employees to CSR. Therefore, it was surprising that the level to which the RESPONSE firms engage in CSR-related training and HR efforts is rather low. Many firms seem to grapple with a convincing solution that is both all encompassing and still provides for the individual needs of different units and functions. However, if CSR is to become an integrated part of an organization, it needs to be imbedded in the way every employee thinks and works. Therefore, training on what CSR means in general and what it means to the specific company and employee in question must be carefully attended to. Key tools discussed by RESPONSRE firms concern also the inclusion of CSR in individual performance targets, appraisal meetings, and bonus decisions.

A noteworthy practice is that of energy company POWER, which has organised 4,500 CSR training programs for managers and 200 initiatives of web-training. In addition, selected employees have participated in CSR meetings with internationally renowned rating agencies (e.g. SAM, EIRIS). There is also the case of natural resource company DIGGER, where CSR training is mandatory for all employees

from all levels of the organization. In this same company, all those working with indigenous people are, furthermore, required to participate in cross-cultural and communication courses.

Pharmaceutical company THERAPY has recently initiated a corporate citizenship ambassador program. This program covers several aspects beyond "business ethics": it schools staff in how to interact with stakeholders interested in access to medicine, drug pricing and public availability of clinical trial data. The program also illustrates the commitment of THERAPY to the UN Global Compact and teaches on the business case for corporate citizenship.

> Following a painful wake-up call FINISHER decided to enforce its set of business principles uniformly across the whole company. All of its employees have gone through a one-day training program. The company's 700 top managers have undergone even further training.

CSR training has also been used in firms that want to achieve a company-wide turn-around in CSR culture in a short period of time. Chemical company FINISHER, for example, faced the challenge of an extremely decentralized structure in which CSR trainings were traditionally carried out by individual business units. Following a painful wake-up call, FINISHER decided to enforce its set of business principles uniformly across the whole company. Through a centralized training program all of the company's 60,000 employees went through a one-day training program. This was supplemented with more thorough training of the company's 700 top managers.

Besides increasing employees' knowledge of CSR and work to ensure their support through CSR training, managers can influence the behavior of employees through including compliance with CSR targets into the HR appraisal and bonus systems. Here, it is crucial that employees have been given the appropriate information in order to understand the factors on which they are evaluated. However, if the

CSR targets are set and managed correctly, such practices can provide a personal incentive for employees due to the potential financial benefits of bonus schemes. Other firms choose to use employees' compliance with CSR targets not so much as a basis for determining bonuses but rather in evaluating employees when making promotion decisions. Such an approach encourages managers to approach CSR as a strategic long-term concern rather than trying to maximize certain targets in the short-term. Furthermore, it sends a strong message throughout an organization of the importance attributed to responsible behavior and sets a good example for new employees.

The largest impact of CSR targets on bonuses among RESPONSE firms has been found in IT company CODER, where country managers can have up to 50% of their evaluations and bonuses tied to the social performance of CODER in their particular country. Even though such a high figure can prove very effective in driving compliance with CSR targets, it also requires that the targets that managers are being measured against are constructed in a fair and transparent way.

In terms of appraisal systems, one innovative practice to be highlighted is that of banking company EUROBANK. It has implemented an appraisal system that evaluates the consistency of each employee's actual behavior regarding the values included in the Group's Integrity Chart. This complex evaluation process involves both the division or unit responsible of the focal employee and the human relations unit. Moreover, in order to evaluate the bonus assignment, the system takes into account customer and employee satisfaction. Since 2004, 15% to 25% of the bonus is tied to the results of a customer satisfaction survey. The declared goal of this system is to encourage employees' commitment to a long-term, sustainable profitability. Alignment to and consistency with the Integrity Chart are considered fundamental and are continuously monitored. Some

employees have already been sanctioned and a few fired for not complying with the integrity chart.

To ensure that values expressed in the Integrity Chart retain power in action as well as in concept, EUROBANK has instituted the Restorative Justice System – a comprehensive internal system by which it ensures it is able to align its behavior to its values. The Restorative Justice System is designed to resolve company conflicts according to the principles of the Integrity Chart. It prescribes mediation or meetings to resolve inter-personal problems in the workplace and provides appropriate reporting channels to address business decisions and other behavior that may conflict with the values of the Integrity Chart.

Questions to ask:

1. *How often do you undertake firm-wide CSR trainings and how are employees kept up-to-date between trainings?*
2. *Do CSR elements form part of your employees' individual performance targets?*
3. *To which degree are CSR performance targets leveled with more traditional financial performance targets?*
4. *What role does CSR play in the annual appraisal meetings and individual bonuses?*

PRACTICE 6: INTEGRATION OF CSR INTO INVESTMENT DECISIONS

One of the biggest challenges that we have come across during our study of the RESPONSE firms concerns the integration of CSR into business unit processes. Too often CSR strategies remain a corporate effort which is seen by business units as nothing more than an annoying compliance requirement. In order to achieve business unit buy-in, CSR teams have not only to demonstrate the business case for CSR at the corporate level but will have to customize their CSR strategies to the individual needs of the business units.

One business process in which CSR integration is considered crucial to many firms is in the question of investment decisions. Companies regularly make decisions to invest in certain business ventures and not to invest in others. These decisions have a significant impact on the lives of many stakeholders including business partners and local communities. The choice to invest in the construction of a new manufacturing facility can have enormous environmental and social consequences for the stakeholders involved. Integrating CSR into investment decisions means carefully analysing and taking into account various potential social, environmental and economic consequences for the firm and a range of stakeholders before making the final decisions.
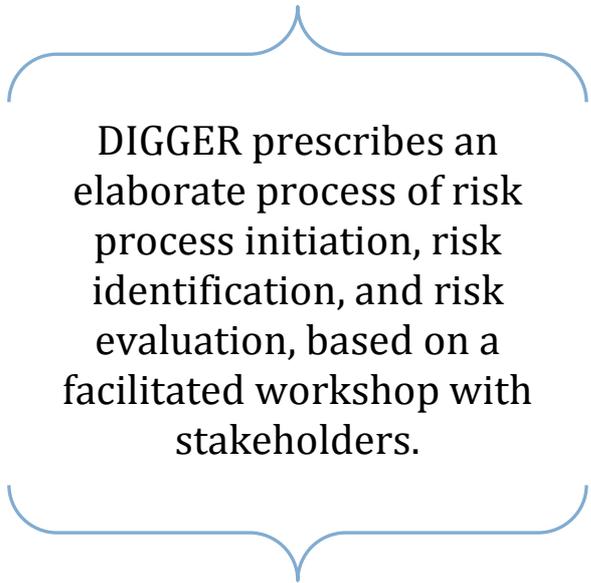
> DIGGER prescribes an elaborate process of risk process initiation, risk identification, and risk evaluation, based on a facilitated workshop with stakeholders.

Natural resource company DIGGER is a good example to illustrate how sustainable development decision-making criteria can be integrated into investment decisions. Before making an investment, DIGGER requires businesses to conduct a detailed risk analysis. In addition to five types of economic risk, businesses also need to consider six types of non-economic risk (such as safety, health, environment, community impact, compliance penalties, and corporate reputation). Whereas in other firms non-economic risk assessment is a rather informal approach, DIGGER prescribes an elaborate process of risk process initiation, risk identification, and risk evaluation. The tools employed include workshops, interviews, Delphi panels and questionnaires. In all potential investment cases there is a facilitated risk identification workshop with stakeholders. Following this, an evaluation phase takes place again involving internal and external stakeholders to assess the magnitude of the risk in the operational setting. Based on this analysis, risk response strategies are developed. The results of the analysis process are documented and made available to key stakeholders. These are frequently updated. Initially business units did not perceive any value in such an extensive process. As a result they treated it merely as a necessary compliance exercise to be conducted once more `important´ decisions had been made. However, over time risk assessment has been accepted and is now used much earlier in the investment decision process. Eventually this has led to the identification of new investment options and the avoidance of mistakes which would have to be remedied later at high cost.

PROPELLER is another example of how CSR can be successfully embedded into business unit processes. Most notably PROPELLER has formally integrated CSR and ethical conduct into its marketing policy. It is PROPELLER's explicit branding strategy to position itself towards its customers, potential employees and other stakeholders as the most responsible, most future-oriented and most innovative firm within its industry. As a consequence, CSR concerns are integrated into the production policy (requiring business units to adopt environmentally friendly and energy conserving processes) as well as into PROPELLER's supplier management.

> ### *Questions to ask:*
>
> 1. *To what degree is the CSR strategy included in the core business unit strategies and executed by all employees and not merely by dedicated CSR staff?*
> 2. *How formalized/ad-hoc is your CSR integration? Is it based mostly on case-by-case judgment by trained staff or are fixed guidelines made to help direct behaviour?*
> 3. *Has a forum been established in which your firm and its external stakeholders can exchange views and information on your firm's investment decisions?*

SECTION III:
CORPORATE SOCIAL IMPACT

PRACTICE 7: STAKEHOLDER ENGAGEMENT

One of the key aspects of the RESPONSE project has been the strong focus on stakeholders. A company's ability to understand the needs and demands of its stakeholders is a key prerequisite for achieving high social performance. Successful stakeholder engagement requires the company to be able to identify and monitor stakeholders (for example through the support of databases, and systematic search) and to engage intensely with them. Stakeholder engagement thus acts as a sensing mechanism to capture information about the interests and expectations of the society in which the firm exists.

> Stakeholder engagement processes act as a sensing mechanism to capture information about the interests and expectations of society.

Among nearly all the RESPONSE participants, we have found some sophisticated approaches for identifying and monitoring stakeholders. For example, energy company GENERATOR makes a conscious effort to engage with its interest groups and has developed a set of channels for dialogue and two-way communication. Similarly, POWER, the other REPONSE energy company, has introduced a process to identify and monitor stakeholders. For eight groups of stakeholders POWER analyzes 38 areas of interest monitoring its performance against specific indicators. POWER has also created a specific unit, the Interest Group Relations Unit, responsible for managing stakeholder demands and for maintaining good relations.

The high attention paid towards stakeholder outreach notwithstanding, it is interesting to note that the firms studied differ considerably on how wide they interact with stakeholders. Some stakeholders are

perceived as an immediate risk to its firm's operations. The attitude of firms towards such stakeholders was best represented by the reaction of managers in ENJOY. Upon mentioning a particularly critical stakeholder all interviewed managers leaned back crossing their arms. Stakeholder relations as a means of defence makes sense for ENJOY since it is confronted by a host of NGOs bent on that firm ceasing business. Similarly, FINISHER faced a stakeholder who admitted that he would only be satisfied once FINISHER stopped all animal testing and all its employees converted towards vegetarianism. Hardly a goal the NGO is likely to reach any time soon. In this type of situation stakeholder dialogue naturally tends towards damage control.

On the other hand, firms have also adopted much more inclusive and less antagonistic approaches towards other groups of stakeholders. In these cases, stakeholder interaction is primarily seen as a means to garner opportunities using stakeholders as early warning system.

A good example of such an approach comes from food and drinks company ENJOY, which has taken close engagement with a key stakeholder group - their employees - to a higher level. Impact on developing markets and access to health have been an important focus area for ENJOY for a number of years. This has resulted in the company being actively, hands-on engaged in a comprehensive HIV prevention and care program for the employees of their breweries in Central Africa. The execution of the program takes place in collaboration with local partners but ENJOY operate a network of clinics with their own medical staff to provide care to ENJOY employees struggling with HIV/AIDS. The clinics also work to prevent the disease through measures such as giving employees and their families information on sexually transmitted diseases and making available preventive items, such as condoms.

However, in the case of DRILLER, systematic stakeholder dialogue has been institutionalized up to a point where managers have begun to doubt the value of the exercise. Some felt they spent too much time

communicating with their stakeholders and not enough time actually formulating an appropriate response strategy. The problem with too encompassing a stakeholder dialogue is that its boundaries can prove difficult to draw and that the good intentions drown in discussion instead of prospering through real-life actions.

Questions to ask:

1. *What criteria do you use to identify and group stakeholders?*
2. *In identifying relevant stakeholders, how do you differ between essentially antagonistic and potentially cooperative stakeholders?*
3. *Do you have systematically different interaction channels for the two groups?*
4. *In reaching out to both groups, how do you assure that dialogue is effectively turned into actionable follow-up decisions rather than talk for talk's sake?*

PRACTICE 8: PHILANTHROPIC INVESTMENT

It is about a decade ago that Michael Porter and Mark Kramer have called for a reorientation of philanthropic giving. Their plea was to focus corporate philanthropy on areas that are close to the firm's core competency so to achieve maximum impact as well as create competitive advantage. However, among the RESPONSE firms, we have noted that traditional approaches towards philanthropy are still predominant. Projects range from community development, via educational scholarships, and awards for environmental excellence, to sponsoring of international sports productions. Furthermore, many firms allow voluntary employee work days on CSR projects in the local community. Company VIGOR, for example, stresses the value of these initiatives in terms of employee motivation.

> A manager at THERAPY warned against conflicts of interests when pharmaceutical companies mix charity with business, preferring an arms-length approach.

However, among the firms, we find very little evidence in terms of a concerted effort in which the firms' overall philanthropy effort is channeled into only a small number of `strategically´ relevant projects. Perhaps this is because not all firms agree wholeheartedly with the Porter/Kramer hypothesis. The manager of THERAPY's corporate philanthropic foundation actually warned against the risk of conflicts of interests when pharmaceutical companies mix charity with business. He prefers an arms-length approach whereby THERAPY does indeed make its basic scientific capabilities available for charitable purposes. However, the projects supported should not be close to THERAPY's current or intended future markets to avoid the impression that recipients of medicine are instrumentalized as part of THERAPY's marketing department. He saw this risk particularly in third world countries. Accordingly THERAPY supports initiatives in product areas outside the firm's product portfolio, such as malaria, tuberculosis, and HIV.

Another of the participating companies using an arms-length approach comes from the natural resources sector. PACKER re-oriented its community investment program to focus on sustainability. It established a major prize – an annual award of $1 million - to recognize outstanding contributions to the cause of global sustainability by not-for-profit, non-governmental or civil society organizations. The application process is managed by a third-party organization and adjudicated by a panel of internationally distinguished sustainability experts.

A notable exception to the arms-length advocates is EUROBANK, which has launched a series of community outreach panels (21 at the end of 2007) through which it aims to foster regional development. These 21 panels, called "territorial committees", are made up of 315 leading local figures from business, NGOs, and authorities. While aiming to promote regional development, these panels also work to strengthen EUROBANK's position in the regions. EUROBANK stresses that panel results offer important insight for the bank as how to best cater to their clients. In addition, the fostering of local investments and development projects helps make the communities richer and ultimately create more potential business for the bank in future years. Their task is to objectively assess and interpret the socio-economic conditions specific to their local communities and to develop concrete project proposals by identifying solutions that promote balanced and sustainable regional economic development.

Questions to ask:

1. *Does your firm have a strategic approach towards corporate philanthropy?*

2. *Do you leverage the financial resources your firm donates by also making available your core competencies and rare resources to the recipients?*

3. *Do you have a policy on how to deal with conflicts of interest in charitable giving?*

PRACTICE 9: PRODUCT INNOVATION AND NEW MARKET OPPORTUNITIES

The final practice highlighted in this report concerns product innovation and the creation of new market opportunities. Only a minority of the firms studied in RESPONSE have employed an active and systematic policy for promoting social and environmental innovation in their R&D activities. As a consequence, most social and environmental innovations found in this study resulted from accidental inventions rather than as the result of a systematic approach.

> Easy currently has more than 200 Green Leader products accounting for close to a tenth of its sales. To keep up growth Easy has set sales targets for green leader products individually at each business unit.

A notable exception was EASY, an electronic consumer goods company. Identifying an unmet market demand for "green" products EASY has introduced a range of green leadership products. To be identified as a green leader, new EASY products have to outperform its competitors, its predecessors or a different product type in the same application in at least one of six green focal areas and be at least equal in the other areas. The areas are energy efficiency, hazardous substances, packaging, lifetime reliability, recycling and disposal and weight. The company currently has more than 200 Green Leader products on the market accounting for close to a tenth of its sales. While green innovations come easy to some business units, it is more difficult in others. In order to keep up the growth of green leader products, EASY has set individual sales targets for each business unit. Buoyed by the success of its green leader innovation policy, EASY has also launched a Bottom of the Pyramid (BOP) innovation initiative. Here R&D teams

are challenged to develop innovations aimed at the poorest of the poor in developing countries. BOP innovations have to improve the quality of life of these people through the company's technology while at the same time opening up future revenue potential. BOP innovations have occurred in areas such as cooking, water purification, and power supply. However, to date they account only for tiny amount of EASY's sales. Moreover, EASY is struggling with finding viable distribution channels. As a consequence, EASY considers licensing BOP innovations rather than producing them in house.

A very different approach has been adopted by another RESPONSE company. VIGOR has invested considerably in developing its own distribution networks in BOP markets by financing microenterprises that would help it distribute its products in rural areas. Taking a leaf from the Grameen Bank handbook, VIGOR employs local women in Indian rural villages as freelance direct sales operators to improve consumer access to products and create jobs at the same time. It has also launched a large education campaign promoting rural health. This has boosted sales of its hygiene products which also have been redesigned for BOP markets. Many BOP products have been developed for the Indian market, and the experiences are now being transferred to other developing countries. VIGOR has also pioneered the assessment of the environmental impact of several of its major product brands. Having made environmental impact studies and life cycle assessments an essential part of its R&D process, VIGOR routinely encourages product developers to aim for eco-innovations. Consumers are also informed about the environmental performance of their products.

The approaches towards CSR innovation differ considerably in EASY and VIGOR. At the latter company innovation takes place primarily outside-in. Innovations are usually triggered as part of VIGOR's outreach process by interventions from stakeholders. To identify these opportunities VIGOR interacts closely with a multitude of NGOs, development organizations, and governments continually seeking for ways to offer meaningful products to the bottom of the pyramid.

EASY's approach is quite different. Its more scientific approach begins from the inside-out. Innovations emerge from EASY's capabilities in engineering and design. The green leader approach continually challenges developers and designers to improve on their past performance. Thus it is often superior technical knowledge that drives green innovation rather than a clearly defined market need. Accordingly EASY's marketing personnel is struggling at times to integrate the green message into its product offer.

Product innovation can play an important role also in the service industry. FINANCER has developed a broad set of new financial services in order to respond to specific customer needs related to social and environmental issues. On the one hand, this firm supports the introduction of new environmental management tools and solutions in small and medium-sized companies. On the other hand, FINANCER funds non-profit organizations and social entrepreneurship initiatives which could not find appropriate resources in the mainstream market.

In conclusion, a firm's approach to product innovation, that is outside-in or inside-out, each represents its advantages and disadvantages. The best balance can only be found by understanding and weighing the potential benefits and pitfalls of these two divergent approaches and by taking into consideration the individual firm's sector and industry, product/service mix and the level of complexity of the innovations. Secondly, the level of knowledge of the firm's stakeholders and the firm's actual possibility to interact with these stakeholders in the innovation process must be considered.

Questions to ask:

1. *How much do the dynamics in the technological, social and environmental setting of your firm generate market opportunities for innovations?*

2. *What role should social and environmental innovation play in your R&D activities?*

3. *Do you adopt specific tools to assess the social and environmental impact of innovation (new processes and products)?*

4. *Should specific targets for CSR innovation be set for each business unit?*

APPENDICES:
BACKGROUND OF THE
RESPONSE PROJECT

This chapter is an introduction to the RESPONSE Project, its objectives, model, methodology and participants.

INTRODUCTION TO THE RESPONSE PROJECT

The RESPONSE project is a three-year study into the alignment of society's expectations with managers' understandings of their companies' responsibilities to society. It therefore examines the practices of Corporate Social Responsibility as defined by the European Commission in its March 2006 Communication to the European Parliament:

> *"Corporate Social Responsibility is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. It is about enterprises deciding to go beyond minimum legal requirements… in order to address societal needs."[1]*

Two are the overarching questions that RESPONSE has aimed at addressing. First, what do companies understand as their responsibilities towards society, and to what degree do these perceptions reflect the expectations from social actors? Two, how do

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[1] Communication from the Commission to the European Parliament, the Council, and the European Economic and Social Committee, March 22, 2006. COM(2006) 136.

companies adapt to the changing societal demands and can these RESPONSEs be improved?
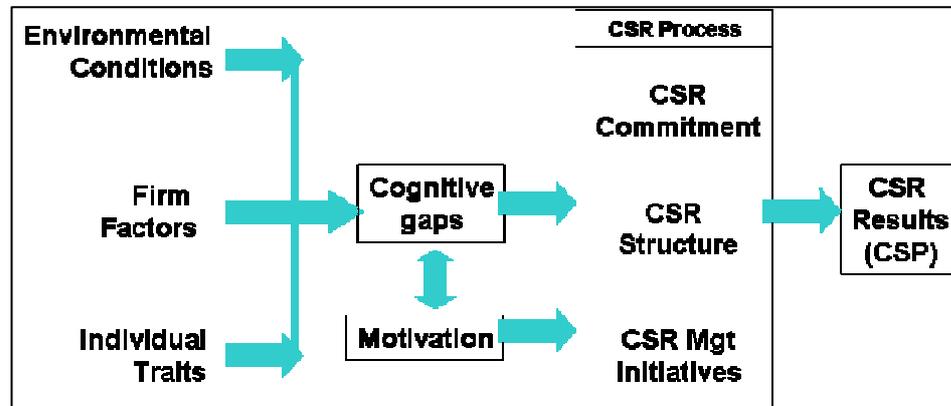
GRAPH 1: THE RESPONSE MODEL

Trust is essential if business and stakeholders are to form a strong and lasting alliance. Trust, in turn, depends on cultivation of common understandings between the parties and a commitment to work towards similar goals. The critical goal to mitigate climate change, for example, demands that all parties in the business and society alliance can rapidly reach agreement on priorities and consequent action plans. Differing cognitive perspectives on the part of managers and stakeholders delay coherent action and therefore threaten the success of the alliance between business and society at its foundation.

Whereas previous empirical research has focused on the role of firm motivation - for example the implications of the 'business case' and 'values case' in driving CSR strategy - RESPONSE sees *cognitive alignment* between managers and stakeholders as an important determinant of outcomes. Only when all parties frame their thinking about society's problems in similar ways can a mechanism for cooperation develop. A model that encompasses both factors – cognition *and* motivation - is therefore necessary.

Taking a multi-disciplinary, multi-level approach, RESPONSE has examined in detail the environmental and internal factors that impact on the cognitions of managers and stakeholders. Internal factors

include: firms' CSR-specific initiatives, firms' motivations to engage in those initiatives and firms' characteristics (their origin, strategy, structure, leadership, etc.) and the values and traits of individual managers. External factors include the influences of industry and regional contexts, the pressure of external constituencies, and the presence of generally accepted social norms. In addition, a range of stakeholders were interviewed, including global NGOs, local and industry-specific organisations such as the media and customer associations, and Social Ratings Agencies.

PROJECT METHODOLOGY

The research design calls for an in-depth, matched-pair study of large multinational companies involved in selected industries and headquartered in Europe and the Anglo-Saxon countries. The selected industries are: food, pharmaceutical, natural resources, energy, banking, chemical, information technology and industrial products. In three of these eight industries, a triad of companies has been studied, bringing the total number of case studies to 19. These sectors were selected for their association with a wide range of corporate responsibility issues: process-based industries with heavy environmental responsibilities (natural resources, energy, chemical); consumer goods companies with significant product liability issues (food and pharmaceuticals); financial services with community development and customer transparency responsibilities; high-tech companies (including, again, pharma) with significant product access issues. Moreover, some sectors have longer histories in CSR (natural resources, chemical, pharmaceutical) than others (banking, industrial products).

Initial desk research, supported by the data received from four social rating agencies (Innovest, Oekom, E-Capital and Vigeo), was conducted in order to select the matched pairs of companies in the identified industries. Multiple criteria were used to bracket companies by size, product/service portfolio and industry in order to allocate pairs for comparison. Within each sector, most firms are fairly comparable in terms of degree of multinationality and financial performance.

Firm	Sector	HQ Region	Similarity of size	Business similarity
1 Vigor	Food+Drinks	N.Europe	High	Low
2 Enjoy	Food+Drinks	N.Europe		
3 Remedy	Pharma	Anglo Saxon	High	Very high
4 Therapy	Pharma	N.Europe		
5 Cure	Pharma	S.Europe		
6 Digger	Natural Resources	Anglo Saxon	High	High
7 Packer	Natural Resources	Anglo Saxon		
8 Driller	Natural Resources	N.Europe		
9 Power	Energy	S.Europe	High	High
10 Generator	Energy	S.Europe		
11 Eurobank	Banking	S.Europe	Very high	Very high
12 Financer	Banking	S.Europe		
13 Finisher	Chemical	N.Europe	High	High
14 Protein	Chemical	N.Europe		
15 Cultivator	Chemical	N.Europe		
16 Coder	High tech	Anglo Saxon	High	Medium
17 Advisor	High tech	Anglo Saxon		
18 Propeller	Industrial products	N.Europe	Low	Low
19 Easy	Industrial products	N.Europe		

TABLE 1: SAMPLE OF THE 19 MULTINATIONALS IN MATCHED PAIRS AND TRIADS

THE RESPONSE CONSORTIUM

The RESPONSE Project is organized as a consortium of business schools covering with their activities all the parts of Europe (INSEAD in West Europe, Copenhagen Business School in the North, Bocconi University in the South, Leon Kozminski Academy in the East), the US (through the INSEAD/Wharton alliance) and Asia (with INSEAD's campus in Singapore).

For more information about the RESPONSE Project, please use the following link to visit our website:
http://www.insead.edu/ibis/RESPONSE_project/index.htm

A full report with detailed information on the project, model, methodology, findings and recommendations is available at the project website. For a full report, please follow the link:

http://www.insead.edu/v1/ibis/RESPONSE_project/documents/Response_FinalReport.pdf

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