

Hitting the Bottom Line

By Charles W. Thurston

Major corporations in the US and abroad have pursued corporate social responsibility (CSR) and sustainability programs long enough now that the practice has become a holistic mindset, pervading all levels of the company. “It’s a positive snowballing impact,” says Bob Langert, vice president of CSR at McDonald’s in Oak Brook, IL. In the next few years, marrying new opportunities for green energy technology and carbon reduction plans with tax benefits may help “drive CSR straight to the bottom line,” says Kathy Nieland, the U.S. leader for the sustainability and climate change practice at PricewaterhouseCoopers.



Much of the focus of CSR/Sustainability has been on what the company does for communities or other beneficiaries outside the gate. But internal returns are becoming more apparent. “One way we see direct investment in sustainability coming back is through renewable energy, on which we spend a significant amount for solar and biomass,” says Patrick McCrummen, senior director of corporate citizenship at Johnson & Johnson in New Brunswick, NJ. “That return, as of our last

calculation, was an 18.8 percent internal rate of return. In September we will install our largest solar array, at just over 4 megawatts, so we will have about 20 solar arrays so far.”

Long Time Coalescing

Back in 1943, Robert Wood Johnson, then chairman of Johnson & Johnson, wrote a company credo for setting out longstanding goals of corporate citizenship, fairness, responsibility and environmental protection. That credo has

been lightly edited twice since then, and now the release of the company's annual sustainability report apparently is important enough to the CSR industry that at least one Wall Street blogger suggests there will be a pop in the stock price when the report reaches the Street.

Since then, and particularly over the past few years, many more corporations have adopted a CSR/Sustainability program, recognizing that the goals of reducing risk and cost, when applied strategically, yield enhanced business opportunities and competitiveness.

"Over the past 10 years, the field has changed dramatically from a function that was siloed. Whether it was the environment, governance or social investment, none of these was under the umbrella of CSR," says Kara Hurst, a vice president of Sustainability at CSR consultancy Business for Social Responsibility, or BSR, in San Francisco. "Now there is a true integration of all these things, along with ethics and partnerships, holistically managed and more fully integrated."

Mexico's Femsa, the largest Latin American beverage company, integrated its CSR/Sustainability programs just last year, injecting "social responsibility into our strategic business processes and management systems and unifying our criteria under the basic premise of sustainability," comments Karla Torres, a CSR officer in Mexico City. Femsa, which has reported CSR practices under the UN format since 2004, adopted the GRI reporting system as well in 2009.

"Companies taking this integrated approach really are managing in a smarter and better way for their business. They also innovate, from better understanding the customer segments. Car companies didn't look, and innovation wasn't there," says Hurst. "Being a systems thinker has created more opportunity now that it is a core element of business. It will ultimately yield a better return to shareholders."

CSR Trends Reflect the Times

Several trends in CSR have emerged from the evolution of the practice, suggests Langert at McDonald's. "First, we live in a much more open society now, so the availability of information will be a powerful tool for stakeholders, including investors and consumers," he says. "Second, for us to continue to integrate CSR into our core operations is really important – 85 percent of our impact is on our suppliers. And the third trend is working with others; we can't solve the big issues of today ourselves, so we need to work with organizations like the WWF, EDF, other NGOs and other retailers."

Langert believes, however, that the primary activity of a corporate CSR/Sustainability program might be individual empowerment.



"Now there is true integration of the environment, governance and social investment, along with ethics and partnerships."

Kara Hurst, Business for Social Responsibility

"Being socially responsible is everybody's job across the 18 countries where we operate. It is not a program or an initiative; it's a mindset about integrating, whether it's in IT, supply, communications or legal. They all have an impact. Integration is about empowering our people and seeing what happens," he says.

Hewlett-Packard, long an industry leader in CSR/Sustainability, is still reinventing its program. "As one of the largest global communities, HP aims to go beyond philanthropy and to do well by doing good, by applying innovative technologies and business practices to social challenges. Over the past year, there has been a paradigm shift from philanthropy to social innovation across all of HP's businesses," says Shelby Watts, a CSR spokesperson for HP in Palo Alto, Calif.

Globally, CSR focus is fairly well set, some officials say. André Fourie, head of sustainable development at South African Breweries in Johannesburg, sees five major trends in CSR/Sustainability: new investment in alternative energy helping to reduce carbon emissions; water becoming an increasingly scarce commodity that must be protected globally; agriculture and biodiversity necessitating increased stewardship; corporations now providing transparent leadership in some areas that government once was expected to act; and innovation and differentiation yielding new and stronger customer relationships.

Regional Differences in Sustainability Concerns

In different regions of the world, the focus of CSR/Sustainability may shift substantially, note various officials. In Venezuela, for example, malnutrition is a growing problem, so Empresas Polar, the food manufacturer that is the country's largest conglomerate, addresses the issue forcefully. The company's success may be crucial in blocking the threat of nationalization, a well-worn tool in President Hugo Chávez's mischief box. In Africa, the key concern may be with water conservation. In Brazil it may be with environmental impact and the protection of the Amazon, and in Japan it may be a question of physical space. Says one CSR official: "Sustainability is defined and acted on in different ways in different places, so strategy and tactics also can be quite different."

Cross-Sectoral Cooperation

While CSR work with employee and consumer social groups reaches the broadest base of individuals, cooperation among corporations across industrial segments may



New opportunities for green energy and carbon reduction may help "drive CSR straight to the bottom line."

Kathy Nieland
PricewaterhouseCoopers

be accelerating the global movement most rapidly. Kellogg Co., for example, works closely with transportation and logistics companies not only to react to emergency situations, such as Katrina, but also to plan reactions for the next incident, comments Tim Knowlton, the vice president of CSR at the packaged food company in Battle Creek, MI.

Such cross-sectoral cooperation also creates more global infrastructure NGO possibilities. Not only does Kellogg support Feeding America; it is also a founding member of the Global FoodBanking Network, which helps 60 separate food banks in Mexico, for example.

Leading consultants in the field, such as PwC and BSR, separate CSR/Sustainability practices into sectoral groups and then foster sectoral cooperation on a national scale. BSR alone hosts more than a dozen sectoral working groups, ranging from software to cargo, that seek to promulgate best CSR/Sustainable practices.

Benchmarking Progress

Measuring CSR/Sustainability progress is no simple task. The Dow Jones Sustainability Indexes, which require massive response files, are among the most widely accepted benchmarks within the financial community, says Dave Stangis, the vice president of CSR at Campbell Soup in Camden, NJ.

“Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM, they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios,” Dow Jones states.

“Currently more than 70 DJSI licenses are held by asset managers in 16 countries to manage a variety of financial products, including active and passive funds, certificates and segregated accounts. In total, these licensees presently manage over \$8 billion based on the DJSI,” the information service reckons. In June, BP was delisted, leaving 315 DJSI World components.

Special Case for Greenhouse Gas Standards

Currently, says Nieland at PwC, there is no single standard for the reporting of GHG emissions. “The most common protocols are The Greenhouse Gas Protocol: a Corporate Accounting & Reporting Standard, developed by the World Business Council for Sustainable Development and the World Resources Institute, and the International Organization for Standardization’s ISO 14064-1,” says Nieland. “These protocols help companies identify a framework for carbon accounting by defining organizational boundaries or scopes for various categories of emissions.”



Kellogg works with transportation and logistics companies not only to react to emergencies, but to plan reactions for the next incident.

Tim Knowlton, Kellogg

Apart from recent guidance from the US Securities & Exchange Commission, a US reporting standard for GHG may emerge later this year, Nieland explains. “The Financial Accounting Standards Board and the International Accounting Standards Board currently have on their agendas a joint project called Emissions Trading Schemes,” she says. “The objective of the project is to provide comprehensive guidance on the accounting issues that arise related to emissions trading schemes, including asset recognition, measurement and impairment, liability recognition and measurement, timing of profit-and-loss recognition, accounting for vintage-year swaps, presentation and disclosure. Companies can expect an Exposure Draft in the third quarter of this year — if the boards adhere to their schedules

— and a final standard in 2011.”

Other independent GHG benchmarkers are vying for public preference. One is Climate Counts, a nonprofit organization in Manchester, NH, that has scored 140 companies in 16 sectors, encompassing 3,000 top product brands. Another is international trade auditor SGS, which monitors European carbon emissions for a variety of corporations.

Reporting Formats Also Evolving

The format for reporting CSR/Sustainability is led globally by the nonprofit Global Reporting Initiative in Amsterdam and by the UN’s Global Compact. While the UN reporting is based on broad analysis, the GRI reporting is very detailed. “If there are 10 questions from the Global Compact on an issue, GRI has 100,” comments one CSR officer. In 2008, more than 1,000 corporations from more than a dozen countries reported through GRI structure. The Global Compact has 8,200 signatories from 135 countries.

In June, GRI and the Global Compact began to discuss ways to integrate their efforts. “We have enough reporting agencies already,” another CSR officer says. To facilitate reader links to the GRI analysis, corporate CSR/Sustainability reports dedicate multiple pages of categorized hot links. Some reports are weighing in at well more than 100 pages. Other reports are so long they were deemed to require summaries, themselves dozens of pages long.

But comprehensive calibration of CSR/Sustainability effort vs. reward may no longer be possible, given the pervasiveness of its impact across all levels of business. “There is not a way to [cumulatively] measure CSR effort internally, but you can measure it by the results you produce,” says Langert of McDonald’s. “Nothing pleases me more than a case like our sustainable supply chain, where our request for criteria for best practices yielded 300 submissions. That tells me our work is resonating.” ■