

# CSR

three little letters  
that just might  
change the world



## CORPORATE SOCIAL RESPONSIBILITY

### CSR: An introduction

—By Aron Cramer, C.E.O.,  
Business for Social Responsibility (BSR)

THE WORLD'S NEWSPAPERS, AIRWAVES AND BILLBOARDS ARE NOW FILLED WITH ADVERTISEMENTS THAT ADDRESS A GREAT VARIETY OF NEEDS, RANGING FROM A SEARCH FOR A SUSTAINABLE MIX OF ENERGY SOURCES TO CALLS FOR AFFORDABLE HEALTH CARE IN THE UNITED STATES AND OTHER PARTS OF THE WORLD.

One would expect such statements from Greenpeace and Amnesty International. In fact, however, they come from some of the world's largest firms — BP, Chevron, GE, and Starbucks.

These public statements are just the most visible signs of fast-growing interest in corporate social responsibility (CSR).

The articles that follow illustrate the many ways that companies are going far beyond public statements, and taking the more important step of integrating social and environmental concerns into their strategies and operations.

What is CSR? At Business for Social Responsibility (BSR), we define it as "achieving commercial success in ways that honor people, communities, the environment and ethical values." CSR is not about philanthropy; it is about how companies earn their money, rather than how they spend it on good works later.

The greatest challenges of our time — climate change, poverty alleviation, ensuring respect for human rights, and the creation of open and inclusive societies — can best be met when business plays its role. Left unaddressed, these challenges will make "business as usual" hard to sustain.

This is why companies large and small in all parts of the world have come to recognize that their commitment to CSR is a defining measure of their success.

For example, numerous companies have begun to find ways to reduce their climate footprint and achieve cost reductions at the same time. Consumer products companies are reducing the material inputs for their products as well as their packaging. And many companies are starting to look at the entire "life cycle" of their products to create ever more recyclable materials.

Hundreds of companies have now established policies to ensure that the people making their products are treated with respect. Companies in the energy sector have banded together with governments and leading non-governmental organizations (NGOs) to establish

principles to combat conflict and corruption.

Responding to the collapse in people's trust of businesses, more than 700 companies from all corners of the world have begun to publish extensive data on the social and environmental impacts of their business activities tied to the Global Reporting Initiative. Mindful of the need to maintain their legitimacy and "license to operate," companies now regularly engage in discussion and collaboration with parties ranging from local community groups in remote locations to the most sophisticated international campaigning organizations.

Business has also begun to realize new ways of combating poverty. Whether it's building commercial relationships with small enterprises or launching new products like water purification tools, solar-powered radios and basic mobile

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phones in emerging economies, business is seeking new ways to build markets and spread the benefits of the global economy.

All of these efforts are very real. It is also true that these efforts are only beginning to achieve critical mass, as they are not yet fully engrained in the mainstream of business thinking.

Business will continue to find the need to respond to new, complex questions that are certain to land on its doorstep: from technological advances that impact privacy, to rapid demographic changes that remake work forces and markets, to ongoing environmental changes affecting the basic energy and food the world needs to sustain itself. Companies that are equipped to manage in such an environment will serve themselves and the rest of us well. Those that aren't will find themselves at a competitive disadvantage.

And more broadly, companies will increasingly find that harnessing commercial activities to balance social, environmental and economic needs is no longer a luxury; it is a necessary means of building sustainable prosperity.

For more information, visit [www.bsr.org](http://www.bsr.org).

### Business with a human touch

CORPORATE SOCIAL RESPONSIBILITY (CSR) ISN'T NEW, BUT WHILE IT WAS ONCE A NICE POSSIBILITY, IT HAS NOW BECOME A CORPORATE PRIORITY. The challenge of implementing CSR had been taken up by businesses across a host of industries, ranging from multinational corporation General Electric to Oregon dairy farm Threemile Canyon. The three letters now emblazon everything from reports detailing the environmental and social impacts of companies to class titles in M.B.A. programs around the world.

In the following pages, the CSR practices and policies of a wide variety of companies will be examined. How are they dealing with contract factories in the developing world? How are issues like climate change offering new business opportunities in addition to potential liabilities? And how is CSR being communicated to the stakeholders for which it is intended?

But a more fundamental question remains: what is CSR? Increasingly, CSR is defined as a corporation's willingness to engage with stakeholders on the social and environmental impacts of its business and to make fundamental improvements as a result of this engagement. CSR has become the sign of good management.

Of course, stakeholders range from a company's shareholders and employees to outside advocacy groups and communities surrounding the company's operations. Pleasing all of these groups is the enormous challenge that lies at the heart of CSR today.

Perhaps that is why there are as many definitions of CSR as there are professors debating it, advocates demanding it, governments institutionalizing it and companies practicing it.

**What is CSR?** "[It] means implementing rig-

orous standards for environmental, social and economic sustainability for a company's own operations and throughout its supply chain."

— Tensie Whelan, executive director, Rainforest Alliance

"Corporate social responsibility is, to me, nothing more than the essence of great leadership. To do what's right for the people you serve." — Mats Lederhausen, managing director, McDonald's Ventures LLC

"We define corporate social responsibility as a steadfast commitment to manage all of our operations in accordance with our Core Values and Code of Conduct; achieve high legal, ethical, environmental and social standards; and fairly balance the interests of our stakeholders, such as consumers, customers, employees, shareholders, business partners, unions, governments and local communities." — Jeffrey Zalla, senior vice president and chief financial officer, Chiquita Brands International

"CSR or, increasingly preferred, CR is the responsibility a company has to manage all its impacts on society. What this means in practice depends on the size of the company, the nature of its business and the location of its operations." — Chris Marsden, chair, Amnesty International (UK) Business Group

"A corporate strategy that is integrated with (1) core business objectives and (2) core competencies to create positive social change and business value, and is embedded in day-to-day business operations." — Kellie McElhaney, adjunct professor of corporate responsibility and executive director Center for Responsible Business, Haas School of Business at the University of California, Berkeley

Photo courtesy of Mattel



## FOUND IN TRANSLATION: CSR in China

ON JUNE 29, 20 SIEMENS EMPLOYEES IN THE COMPANY'S SHANGHAI OFFICE BEGAN A PROTEST AGAINST THEIR FIRING. The Beijing News dubbed it the first worker action against a multinational corporation. Specifically, the workers argued that the German electronics maker did not treat its Chinese employees as well as its German employees. Their main evidence: the Chinese employees had been told to clear their desks the same day they were let go.

Siemens' Corporate Principles established standards of integrity that were supposed to apply to all of their employees worldwide. As the Chinese workers noted, no German employee could be fired and asked to leave within the same day.

"Chinese employees are cottoning on to the fact that there's a CSR [corporate social responsibility] policy at work here and why isn't it working for us?" said Stephen Frost, co-director of consultancy CSR Asia. "They say: 'we're not expecting to be treated differently, but we expect to be treated the same.'"

Corporations like Adidas, Nike and Reebok have spent the last decade working to improve conditions in the factories that produce their shoes. While these efforts may extend only as far as compliance with international and Chinese labor standards, this is still better than conditions at many more local factories.

Factory owners have not been entirely enthusiastic. "The response to a top-down CSR movement has been a lot of pushback," Mr. Frost said, which has led to "falsifying documents and fabricating positive results for audits."

As a result, companies have moved from simply policing their supply chains to actively engaging with factories to help them improve

standards. An indigenous CSR has also begun to take root.

In May of this year, former government department China National Textile and Apparel Council (CNTAC) launched its own social management standard: the China Social Compliance 9000 code. "On the average, a Chinese garment maker would face 20 to 50 factory audits per year. They spend a lot of resources dealing with

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audits rather than concentrating on solving the problems," said Lucy Lu, deputy director of the office for social responsibility at CNTAC. "We realized that the factory needs more guidance, more tools and more training support to help them really identify what are the key areas for improvement and how to get there."

It did not hurt that the Chinese government also came out in favor of CSR, calling it in line with its goal of "harmonious" development. "Last year, if you talked to a government official about social responsibility, they may tell you it is a trade barrier imposed by the outside world," Ms. Lu said. "Now the government has clearly indicated that it is a movement that is in accordance with the government objective of building a harmonious society."



## AT A CROSSROADS, capitalism seeks THE RIGHT DIRECTION

SINCE 1997, PROFESSOR STUART HART HAS WORKED TO HARNESS THE POWER OF THE WORLD'S LARGEST COMPANIES TO THE SERVICE OF THE WORLD'S POOREST PEOPLE. In his book "Capitalism at the Crossroads," Hart demonstrates how corporations can get on the necessary path to sustainability while delivering new products that address social and environmental problems.

### Why do you think capitalism is at a crossroads?

There are two levels to that answer. We begin with human society at a crossroads; that's driven largely by population. The world population of the world is 6.5 billion and, when I was born in the 1950's, it was 2 billion. It took all of human history up to the American Revolution to get to 1 billion. And if I live to a ripe old age it could reach 8 or 9 billion. This is a unique time in history. The policies that we craft, the decisions that we take over the next 10 to 20 years, will be critically important to determining our future as a species. Clearly, we cannot sustain 6 billion people in the same way that the richest are living today.

There's a corporate crossroads, too. Most companies today, especially large corporations,

If we're going to get to a different world, we're going to need to lift up the base of the pyramid but in a different way. You can't have 8 billion people the way Americans do. How do you incubate the sustainable, renewable of the future in the base of the pyramid? That's where it's going to happen first. It's where the needs are, and where the real opportunities are because people are not being served. There are probably 2.5 billion people without electricity, paying for candles, lanterns, batteries, technologies that don't really give them what they need. And the grid system is not going to make it out to them anytime soon.

What it takes is for us as capitalists to have a little imagination. Nongovernmental organizations have already shown that rural people will



Professor Stuart Hart, author of "Capitalism at the Crossroads"

Most companies today, especially large corporations, are very good at serving the needs of the wealthiest 800 million. The problem is there's not a lot of growth left in that space.

are very good at serving the needs of the wealthiest 800 million. The problem is there's not a lot of growth left in that space. For many companies, sustaining growth is one of the biggest challenges they face. They are having difficulty figuring out how to sustain the growth that shareholders expect for the next 10 years. That's the [bracket] behind the [bracket] of the [wealth] pyramid become a core growth market. Companies must figure out how to deal with that if they want to grow and survive.

### How do businesses get on the right road?

As far as large companies go, typically what they do as a first step, they take the products and services and business models that they already have and slim them down a little. Take cost out of the system and try to see if you can't reach a little further down the income pyramid.

That's not going to address the issue I've described. To do that, it requires that large incumbent firms get out of the box. They have to become disruptive innovators to themselves. It's about wholesale innovation of business models; it's not just about incremental line extensions.

### How do companies identify and bring to market these sustainable products that can drive new growth and solve today's most pressing problems?

clamor for solar photovoltaic systems if you design and package them right. So if you're BP, you have to think about small, modularized panels that can be combined with LED lighting.

If you put some microcredit on top of that, you've got a business model that can reach 2.5 billion people. Already, companies like Philips are beginning to experiment with these types of ideas, looking to create a rural electric system for \$50 to \$70 retail.

### How is your work being received by companies?

I've got more companies coming to me than I can possibly handle. The list is growing on a continuous basis. But there are some large corporations that have not embraced this idea. That presumably is what free enterprise is all about. I hope that those that have figured out how to do this end up in a preferred competitive position.

I do know if companies put their heads in the sand and think they can cost-cut their way out of this, they are in deep trouble. There are companies springing up in China, India, Latin America who get this from the start. We may well see the emergence in those parts of the world of tomorrow's multinationals, so today's multinationals better watch out.



## SHOW ME THE COMPANY: CSR reporting

IN 2003, MICROSOFT PRODUCED ITS FIRST GLOBAL CORPORATE CITIZENSHIP REPORT. IT TOTALED 30 PAGES AND COVERED TOPICS RANGING FROM WORKPLACE DIVERSITY TO INTELLECTUAL PROPERTY. THE 2004 REPORT TOPPED OUT AT 75 PAGES AND PROVIDED A MUCH MORE DETAILED LOOK AT MICROSOFT'S "RESPONSIBLE BUSINESS PRACTICES."

"We had comments that [the 2003 report] was too thin," said Dan Bross, Microsoft's director of corporate citizenship. "We got comments that [the 2004 report] was too big. I don't know what the appropriate size is."

So for its 2005 report, Microsoft decided to split the difference. The printed version of the report will be "theme-based and more digestible to a broader range of stakeholders," Mr. Bross said, akin to the 2003 report. The online version, however, will provide even more detail about corporate practices than the 2004 report.

Splitting print and online versions of a company's report amounts to a trend in corporate responsibility reporting, even among those that have been reporting longer than Microsoft. "You provide a printed summary that is available to most people, and those with a very detailed interest can explore more deeply on the Web site," explained Andrew Vickerman, head of communications and sustainable development at multinational mining company Rio Tinto.

Rio Tinto has been reporting on its environmental and health and safety practices for a decade now, gradually adding information on its social impacts over the years. By 2004, it was time to change the name of the attendant report to reflect all of this new content. It became the Sustainable Development Review.

The mining company uses the report for a very important business purpose: staying in business. "When you have very long term assets, and we have mines that last for 30 to 50 years or more, if you're going to retain the

license to operate, you need to behave in a way that is as environmentally and socially responsible as possible," Mr. Vickerman said. "If we don't do that — and report it — we won't retain the license to operate in those areas and we won't get new areas to develop."

That's true for companies outside mining as well. Novo Nordisk, the Denmark-based health care company, views its sustainability reporting as a critical part of its business plan. "I think it gives us a competitive advantage," said Lise

"Being trusted and respected by society is a prerequisite for your license to operate."

Kingo, executive vice president of people and retention relations at the company. "Being trusted and respected by society is a prerequisite for your license to operate."

That certainly seems to be the case in the stock market. Financial companies from asset management to investment firm Trillium Asset Management to mainstream investment houses like Goldman Sachs are becoming more and more interested in social and environmental management. As a result, Novo Nordisk, among others, has decided to combine its financial and corporate social responsibility reporting in one document, so-called triple bottom-line reporting.

But the most important stakeholders may be a firm's own employees — and prospective employees. Companies like Microsoft have found that reporting on their global citizenship work helps them keep skilled employees and attract new ones. "We do this in part because it helps us recruit skilled IT workers," Mr. Bross said.

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## Down on the farm, MAKING WASTE PAY

BIG ANIMAL FARMS ARE NOT EASY ON THE ENVIRONMENT. That's why Threemile Canyon Farms in Boardman, Ore. — a 93,000-acre farm with 16,000 Jersey and Holstein milking cows — has decided to install a "biogester." It's a large, sealed concrete tank where bacteria eat cow manure and turn it into methane gas, nitrogen-rich water, and a fiber that can be used as either bedding for the animals or part of a soil mix.

It will also have another benefit. "The gas will go through a cleansing process and then be burned in gas-fired engines to create electricity," said Marty Myers, general manager of the farm and the man who has overseen its efforts to become sustainable for the last seven years. "It will be sold back into the grid as green power and marketed to consumers that are purchasing green, renewable energy."

The biogester is just one of a slew of measures the farm has undertaken to make itself more profitable and sustainable, including designing a statement of the farm's environmental and social commitments and systems to monitor that commitment. This makes

Threemile Canyon one of the few farms in the country implementing corporate social responsibility standards.

That means the farm's operators irrigate its 200,000-ton annual potato crop with water conservation in mind. That means the farm has set aside nearly 25 percent of its land as a grass-land reserve. And that means treating all workers equally, a real challenge for an agricultural company that has grown from 75 year-round employees to 300.

In fact, Mr. Myers's main regret surrounding his environmental and social programs is that he didn't start sooner. "I would have addressed the CSR earlier so that we had our systems in place prior to all the growth that we've had over the last four years," he said. "We could have avoided some of the business and workplace issues that we've had to address in a crisis mode."

These sustainable practices have had an economic impact — for ill and for good. After all, water costs are directly and correlated to the cost of producing a crop. "We are as profitable as we would be if we hadn't taken this road," he said. "But the real rewards will be reaped in future years."

Already, Threemile Canyon is reaping the rewards of a long-term milk supply contract with Tillamook Cheese, a farmer-owned cooperative in Oregon, and sales to organic produce juggernaut Whole Foods Market. But it may also be getting ahead of the competition.

Consumers have begun to demand more and more information about their food: how was it grown? Is the farm treating its employees well? Is it sustainable? "If 50 percent of the people demand it, then it's going to be 100 percent of the product that is going that way," Mr. Myers said. "I'm just trying to anticipate. That's going to be standard business practice 10 years from now."

**Sick day: Francisco Linares and Jose Luis Rico treat a cow for dehydration from giving birth at Threemile Canyon Farms.**

Photo courtesy of Threemile Canyon Farms



Photo courtesy of Mattel

**Toys and more: The vibrant playroom at Nan Hoi Hospital in China is just one of more than**

**150 children's hospitals throughout the world that Mattel supports with toy donations.**

## Working to GET IT RIGHT ON LABOR

BETWEEN 1999 AND 2002, BARBIE AND HOT WHEELS WERE AUDITED 12 TIMES. California-based toy giant Mattel, which owns both brands, did not perform the audits and neither did the United States Internal Revenue Service. Instead, the International Council for Corporate Accountability (ICCA) — an independent monitoring organization made up of academic experts — visited Mattel's nine owned and operated factories around the world with the company's blessing.

In 2003 alone, ICCA visited 12 independent factories that made Mattel toys ("approximately 50 percent of the total contracted production," according to the company's most recent Corporate Social Responsibility Report). The independent auditors found 366 instances where these factories failed to comply with Mattel's General Manufacturing Principles — a set of standards covering labor and environmental health and safety issues developed in 1997 — compared with just 45 at directly owned factories over the previous three years.

"There are some issues that can be corrected during the audit. Bulbs are burnt out in the emergency lighting, debris is found in an exit door," explained Jim Walter, Mattel's senior vice president of worldwide quality assurance. "It runs the gamut from that to something that is much more significant: we're not satisfied with the system in place for ensuring that the workers are being paid appropriately."

While the increase in violations at independent factories might be viewed as evidence of a

Switzerland itself. In outsourcing its cleaning, Novartis had contracted with a company that paid its staff less than the Swiss basic needs standard.

"It's one of those areas that management is not familiar with; they think in terms of competitive wages," said Klaus Leisinger, president and CEO of the Novartis Foundation for Sustainable Development. "The moment you think about [a living wage], you develop a social competence that leads you further, and you apply that to third parties, business partners."

No company can hope to implement and monitor such standards on its own, so collaborative efforts are under way in a wide variety of industries. The Walt Disney Company and McDonald's Corporation have teamed up in China with a consortium of so-called faith-based and socially responsible investors on Project Kaleidoscope, a joint monitoring and compliance effort at 10 factories making toys, shoes and clothes. Over the course of the next year, the two companies and their partners will try to promote better conditions on the factory floor for the long term.

"It largely resulted from the collective experience that both Disney and McDonald's had in a number of years of monitoring and the challenges we saw in encouraging sustainable compliance," said Mr. Spears. "A factory can be in compliance one day and, six months later, easily revert. The goal here was to create something that could be applied regardless of geography and regardless of industry. The core of it is this

"We don't own factories, we don't do our own sourcing," said Mark Spears, Disney's director of international standards. "Much of the sourcing occurs because of a license agreement [Disney] and a global set of licensees

rising number of problems, Mattel views it as tremendous progress in its pursuit of a safe and fair workplace at all factories that produce its products. With audit information in hand, the company can quickly identify and remedy any violations of its principles.

Such independent audits are a part of a growing movement to reform the way in which companies assess the factories where their products are produced and to make sure that management follows international, internal and even local labor standards. The efforts cover everything from the apparel industry — first target of global efforts to monitor factory conditions — to "creative content" organizations like The Walt Disney Company and others.

"We don't own factories, we don't do our own sourcing," said Mark Spears, Disney's director of international standards. "Much of the sourcing occurs because of a license agreement between [Disney] and a global set of licensees that includes approximately 7,000 at this point, from a small, individual, local licensee with a single product in Brazil to a sizable global retailer like Wal-Mart and everyone in between."

Keeping track of such widespread operations which can range from a direct relationship to one mediated by six or more subsidiary contracts presents a global challenge. But after a company undertakes such efforts, the results can be surprising.

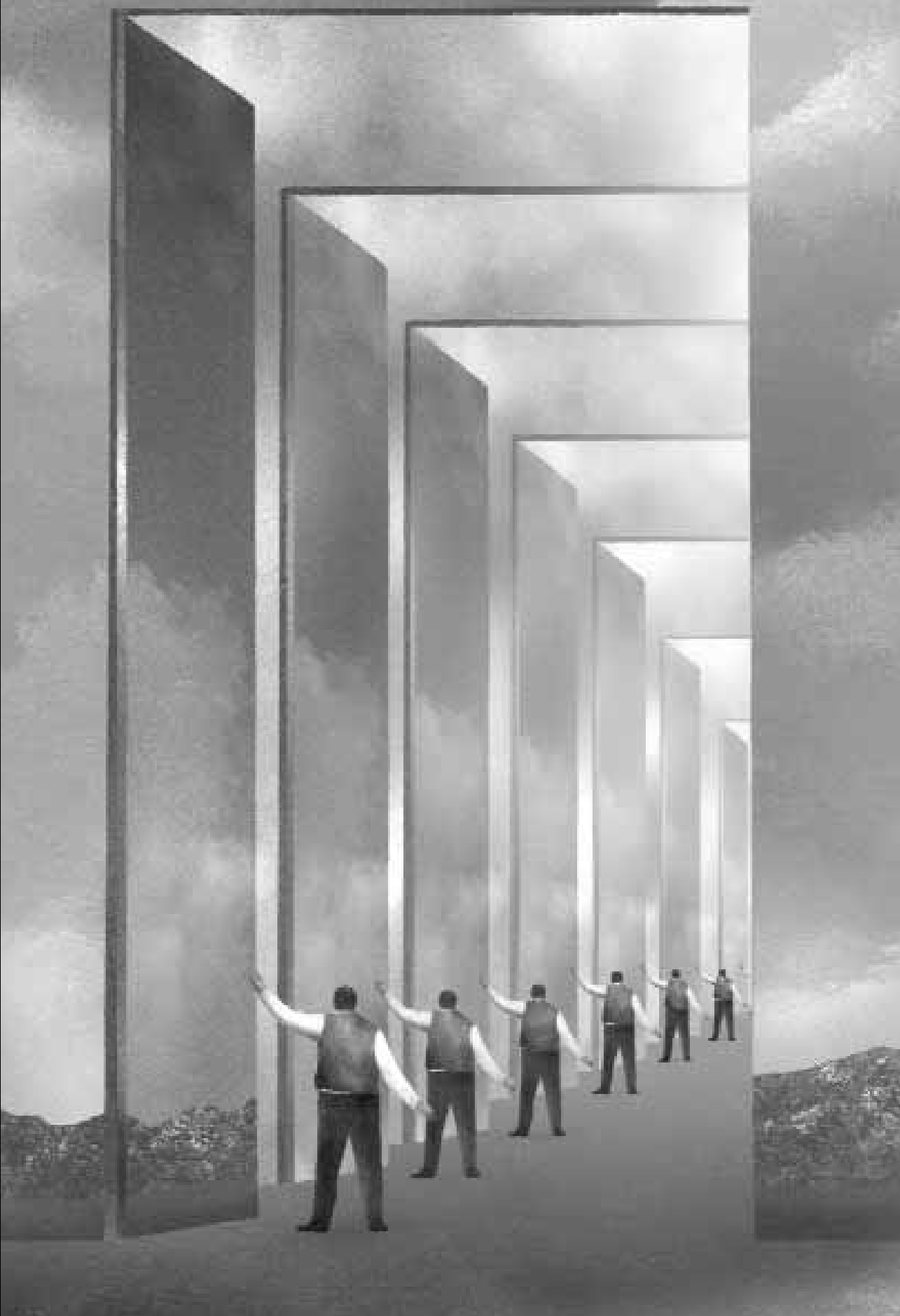
For example, Swiss pharmaceutical maker Novartis found that it was not paying a living wage to some of its workers. The problem was not in Brazil or other developing countries where the company operates, but rather in

systems-based approach. This allows [factory management] a regular, systematic way of self-monitoring with clearly identified roles for managers and workers."

Such systems-based approaches have been present in the clothing industry for some time and are part of the evolution of monitoring factory working conditions. Such efforts most often start with the immediately observable like blocked aisles, and progress to uncovering the true extent of working hours and wages, before reaching things that might be the hardest to see initially, like discrimination or the ability to associate freely.

But the real key to ensuring compliance in the long run is communication. Gap Inc. developed a rating system for its contracted factories and a scorecard that incorporates social, environmental and quality standards, among other measures. "We've got a mechanism to track and measure a reward and that's a pretty strong combination," said Dan Henkle, Gap's vice president of social responsibility. "If you connect buying habits with how you're doing as a vendor, and if vendors see that, then they will be committed to sticking with it."

Communication between companies is critical as well. "If you can combine efforts, you can make a much bigger impact and difference," Mr. Henkle said. "If you've got one company out there that is really implementing something like a living wage and no one else is, that makes it really tough. The more we can do things on a level playing field within the industry, the more sustainable and the more realistic that is going to be."



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## THE NAKED SUPPLY CHAIN

THIS YEAR, NIKE REVEALED THE NAMES AND LOCATIONS OF THE MORE THAN 700 FACTORIES AROUND THE WORLD WHERE ITS SHOES AND CLOTHES ARE MADE. This unveiling first time a company had voluntarily revealed such intimate details of its supply chain. It also marked the first time Nike had produced a corporate responsibility report since 2002.

Back then, California antiglobalization activist and shareholder Marc Kasky sued Nike after the release of its inaugural responsibility report, alleging that it had made misleading claims about labor practices at its overseas factories. Nike warned that such lawsuits might have a chilling effect on future corporate disclosure.

It certainly did for Nike — the lawsuit is the primary reason the company has not reported in the past few years. However, it also led Nike to deeply examine its reporting practices and what outside observers might expect from it.

"We have learned the hard way the importance of stakeholder dialogue, helping us develop strategy and helping us implement," said Hannah Jones, Nike's vice president of corporate responsibility. "We sought feedback from stakeholders on what they would want to see in the report and what would be material to them."

As a result of working with a wide range of stakeholders — trade unions, advocacy groups, investors and even other business leaders — Nike upgraded its reporting, adopting the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines and revealing its entire supply chain. "I think one of the great things that happened for us out of Kasky was the incredibly close relationship we now have with legal affairs and the rigor of our reporting," Ms. Jones said. "It's simply about the professionalization of corporate responsibility reporting, away from brochures to very rigorous documents."

Stu Dalheim, manager of advocacy and policy at Calvert, an investment manager for more than \$10 billion in funds. "We believe that social and environmental performance is material because there's mounting evidence that these factors can have an effect on a company's value and financial performance."

It's not just socially responsible investment firms that are increasingly demanding this information. Some of the largest institutional investors in the world — such as the California Public Employees Retirement System and the United Kingdom's Universities Superannuation Scheme — are now demanding that companies disclose strategies around climate change and other environmental and social issues. Even bond rating agencies are starting to examine this, realizing that bondholders have a lot of the downside risk of these issues.

Where bonds go, regulators follow. In the future, the United Kingdom will require all public companies to produce environmental and social impact information as part of their Operating and Financial Review documents. Some legal experts — including the United States Environmental Protection Agency — argue that current Securities Exchange Commission (SEC) guidelines require disclosure of environmental liabilities.

"Management is supposed to discuss known trends or uncertainties that have had or may have a material impact," said Cynthia Williams, a law professor at the University of Illinois. "There's a broad array of information such as political risk or long-term risk to the company from the resources it uses or its labor issues that could fit into that."

The trend toward transparency and a broad interpretation of what is material may be driven by the companies themselves, however, as a risk management strategy, especially around

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Making corporate responsibility reports as professional as financial reports has been the long-term goal of efforts by investors — socially responsible and otherwise — advocacy groups and others. Their efforts are beginning to pay off. A recent study by KPMG found that 64 percent of the top half of the Fortune 500 included corporate responsibility information in either a stand-alone report or an annual report.

"It's about providing information to legitimate stakeholders, including investors," said Mindy Lubber, president of Ceres, a network of investors and advocacy groups that has pushed for such reporting. "Investors can't do their job well unless they have this information."

That is why Ceres helped launch the GRI in 1997 — an effort to create a framework for reporting such social and environmental information in a comparable and rigorous way. The standard has already been through two iterations — with a third due in October 2006 — and requires companies to assess the importance of 97 indicators to their business. The indicators range from energy use to labor practices and provide a way for companies to report progress — or the difficulties they face.

"What is material depends on how the company operates," said Ernst Ligteringen, GRI chief executive. "What the GRI does is map out some of the sustainability issues a company might be facing."

The effort is catching on among corporations. The same KPMG found that 40 percent of the companies with corporate responsibility reports used the GRI guidelines. The GRI itself is aware of at least 714 companies in 51 countries using its standards, and regulators like the Johannesburg stock exchange and industry groups like the International Council for Mining and Metals now require their members to meet the standards.

"A GRI report tells a part of the story of a company's risk that the classical way of financial reporting doesn't touch," Mr. Ligteringen said. "We live in an information age. Stakeholders expect this kind of transparency."

Increasingly, those stakeholders are shareholders themselves. "We see transparency and disclosure as a critical way to inform shareholders and other stakeholders that management is aware of the risks that companies face and that they are managing those risks," said

stock price. "If companies come out at their own pace with this information, they can control how it is released," said Mr. Dalheim. "If it's a surprise, the market is more likely to react in a negative way."

By working with a broad array of interested parties, a company can control even the negative impacts of its business. It can also help a company move toward new opportunities.

Nike certainly knows so. As part of its reborn corporate responsibility efforts, the company is trying to help its workers and itself create new products. Nike is using as much cotton grown without the heavy use of pesticides and other chemicals as possible, as well as exploring hemp and recycled polyester as materials. "That is what we do; we create new products, we design new products and we are working with designers to create sustainable products," Ms. Jones said. "We're moving away from just risk management to an understanding that corporate responsibility can contribute to the bottom line of innovation and operational efficiencies."

Ultimately, the consumer may demand such corporate accountability. "We're seeing people increasingly interested in understanding what it takes to bring a product to market and the impact it has, whether it be environmental or social," Ms. Jones continued. "Corporate responsibility is gaining momentum in terms of what the consumer is looking for."



**Hannah Jones, vice president of corporate responsibility, Nike**

## BEYOND PROFIT: the human goals of business

TANZANIA IS ON THE FRONT LINE OF THE GLOBAL FIGHT AGAINST HIV/AIDS. Since doctors reported the first cases in 1983, more than 118,000 patients have been diagnosed in the east African country. Because doctors diagnose only one in five patients, the real number is at least quadruple that, according to government estimates.

This is an overwhelming problem, but there just might be a corporate solution. Since 2002, Abbott, a Chicago-based health care company, has partnered with the Tanzanian government to strengthen the health care system. Beginning with a complete retrofit of Muhimbili National Hospital in Dar es Salaam, Abbott has funded physician, nurse, lab technician and pharmacist training, as well as hospital and health care centers from village dispensaries to regional facilities.

"Across all of these areas, our focus has been on helping increase capacity around voluntary counseling and testing, which is really the entry-way for patients to come into care if they are HIV-positive," said Reeta Roy, Abbott's divisional vice president for global citizenship and policy.

The improved facility at Muhimbili allows doctors to see 1,000 patients a day and go from 75 tests in a day to the potential for 8,000 every day. As a result of improvements at all levels of the health care system, more than 65,000 HIV/AIDS patients have come through the 77 facilities Abbott supports in the past three years.

This work will help address Millennium Development Goal Six: to halt and begin to reverse the spread of HIV/AIDS. The United Nations' eight Millennium Development Goals — aimed at easing global suffering in a measurable way by 2015 — were adopted by nations in 2000. But only systemic approaches like Abbott's efforts to strengthen the entire health care system of Tanzania offer hope that the goals can be met. "We're trying to see how we can harness these value-creating assets that these big outfits like Shell have and put them at the behest of the development process," said Kurt Hoffman, direc-

tor of the independent Shell Foundation. "Risk assessment, market analysis, supply chain development — all those things that businesses do as a matter of course can have a tremendous value in helping the development community achieve its goals."

The problems of AIDS, poverty and even environmental protection are not fundamentally caused by a lack of ability to pay for services; it's more that the services just don't exist in the world's poorest countries. After all, the world's poorest often pay more for tiny increments of fuel or water than the richest do for their larger shares.

CAFE is a system designed to help coffee farmers make profits, gain access to credit, and deliver social and environmental benefits.

Mr. Hoffman's approach to this problem is to help small businesses fill these roles. The Shell Foundation has helped many people in very different situations all over the world, like a Ugandan woman who set up an organic honey cooperative. "She needed a truck to get the honey to market, and the truck needed petrol," Mr. Hoffman said. "We take as liberal a view as possible on the energy side to make it work."

Ultimately, it comes down to creating wealth through jobs — Millennium Development Goal One — something that companies have been organized to do since their inception. It's often as simple as making sure that those who work in their supply chain receive fair compensation for their labor or commodities.

Starbucks Coffee Company does that through its new Coffee and Farmer Equity (CAFE) Practices, a system designed to help coffee

farmers make profits, gain access to credit, and deliver social and environmental benefits.

"For us to be successful, we need a successful and sustainable coffee industry," said Dennis Macray, Starbucks's manager of business practices and corporate social responsibility. "If we are dependent on coffee communities, then we are intrinsically linked to their economic development and the welfare of that environment."

Some companies even provide products that can improve the lives of the poorest. Consumer products giant Procter & Gamble has developed an array of goods — from a packet of powder that can clean 10 liters of water to World Health Organization standards to a washing detergent that cuts in half the amount of water needed — to improve the lives of women and children (Millennium Development Goals Three and Four). "We've coined the term corporate social opportunity," explained George Carpenter, P&G's director of corporate sustainable development. "Through our business and products, we can begin to bring solutions to some of the drivers of poverty, disease and malnutrition in the world."

Abbott feels the same way, having developed and shipped to Tanzania (and elsewhere) an AIDS test that can deliver credible results in just 15 minutes and get patients into counseling and treatment. "We've shipped 37 million tests since the program started," Mr. Roy said. "Companies like ourselves can make a difference when we bring to bear our expertise and the tools we have to address a specific problem, in our case HIV/AIDS."

If Abbott's success in fighting AIDS in Tanzania can be replicated throughout Africa and the world, then the world might just meet Millennium Development Goal Six. And if companies can develop products and provide jobs in systemic ways that promote environmental and social benefits across communities, then perhaps all of the Millennium Development Goals can be met.



**CSR** three little letters  
that just might  
change the world

## In today's changing business environment, **GREEN IS GOOD**

BURNING OIL IS ONE OF THE LEADING CAUSES OF GLOBAL WARMING. In 2002, the International Energy Agency stated that 41 percent of the more than 24 billion metric tons of carbon dioxide (CO<sub>2</sub>) — the most common emission linked to global warming — came from burning oil. That percentage has only risen as demand for cars, trucks and other vehicles continues to grow.

Oil companies appear to have a lot to lose from any efforts to constrain CO<sub>2</sub> or other greenhouse gas (GHG) emissions, yet the world's second largest oil company continues to try to cut its global warming pollution. BP has reduced its GHG emissions by 10 percent below 1990 levels, introduced a system for internal business units to trade emissions allowances in order to meet a companywide target and launched a solar subsidiary that has been profitable for the last two years. It even changed the connotation of its initials from British Petroleum to "Beyond Petroleum."

All of these efforts make good business sense. For an investment of just \$20 million in its emissions reducing efforts, the company estimates it has saved \$650 million. "People have demonstrated that emissions can be reduced, at a very low cost, simply by reducing waste and

For an investment of just \$20 million in its emissions reducing efforts, the company [BP] estimates it has saved \$650 million.

inefficiencies," said Lord John Browne, BP's chief executive, in a speech in England this past March. "We did that in BP, and we found that we actually made money in the process."

More and more companies have come to the realization that climate change is not just a business risk, it is also a business opportunity. Even those companies that seem to have the most to lose have begun to address global warming pollution.

"In my judgement, the world is warming and human activity is having an impact. I am convinced that we will live in a carbon-constrained world," said James Rogers, chief executive of Ohio-based utility Cinergy and CEO-elect of power producer Duke, in a speech in New York in September. "Nothing is more important for our industry than to have a laser focus on climate change."

Cinergy and Duke combined burn 50 million tons of coal every year, and Cinergy alone is

responsible for approximately 74 million tons of CO<sub>2</sub> pollution a year. In order to meet future demand, the company estimates it may need to build as much as 10,000 megawatts of new power generation, enough to power roughly 10 million homes in the United States.

To deal with this carbon-constrained future, the combined utility is looking to diversify its sources of electricity. "What's really needed in both companies is a renewable portfolio," said John Stowell, Cinergy's vice president for federal affairs, environmental strategy and sustainability. "It sounds to some people a little altruistic, but there's a good, solid business reason for it."

Cinergy's business reason for investing in renewables has created a business opportunity for one of its suppliers: General Electric. GE, one of the world's largest corporations, has seen business opportunities proliferate among its products, from wind turbines to energy efficient diesel train engines. As a result, the company launched a massive rebranding effort, dubbed "ecoimagination," in April of this year.

"Ecoimagination is GE's commitment to address challenges such as the need for cleaner, more efficient sources of energy, reduced emissions and abundant sources of clean water," said Jeff Immelt, GE's CEO, in a statement announcing the initiative. "And we plan to make money doing it. Increasingly for business, 'green' is green."

GE estimates it already makes \$10 billion a year from such products and hopes to double that revenue in the next five years. It has identified 17 products — ranging from technology to clean pollution from burning coal to energy-saving light bulbs — that meet its ecoimagination criteria. The company has also pledged to double its research and development budget for such products to \$1.5 billion a year.

Utilities in the United States could save 320 million tons of CO<sub>2</sub> emissions every year if all existing coal-fired power plants installed GE units that turn coal to gas and clean it before burning it. Plus, GE promised to reduce its own GHG emissions by 1 percent below 2004 levels by 2012.

"GE is the only remaining member of the original Dow Jones index from 100 years ago," said Margaret Beckett, the British Secretary of State for Environment, Food and Rural Affairs. "It is this forward thinking that has kept them there."

But GE wasn't the first company to come up with these kinds of ideas. DuPont, the Maryland-based chemical manufacturer, has been cutting its GHG emissions and developing GHG-friendly products since 1994. By 2003, the company had



cut its GHG emissions by 65 percent compared with 1994 levels and saved more than \$2 billion through energy conservation and other measures. "And that was before the significant energy price increases of the last few years," noted Chad Holliday, DuPont's chairman and CEO, in a speech in September.

DuPont has also developed a range of products — from better-insulating Tyvek HomeWrap to less-polluting refrigerator chemical Suva — that reduce energy costs and avoid global warming emissions. Ultimately, the company hopes to reduce its reliance on fossil fuels by creating alternatives and has partnered with the United States Department of Energy to build a refinery for chemicals, plastics and even fuels made from corn.

"The cornfields of today could indeed be the oilfields of tomorrow, and the U.S. agricultural community could greatly benefit from the success of an integrated bio-refinery," Mr. Holliday continued. "We believe that societies around the world expect this kind of comprehensive approach to doing business as the 21st century progresses."

Of course, that means oil companies need to consider their options for the future and is a primary reason why BP is trying to move beyond petroleum. Its solar business accounted for \$400 million in revenue in 2004, and while that's a small proportion of BP's overall profits, the num-

ber is predicted to grow in coming years.

Already, BP has partnered with Home Depot stores in California and New Jersey to sell home solar arrays to consumers and, through its partner, SunEdison, has installed complete solar arrays for Staples facilities in those two states.

BP has also partnered with Shell and power company Scottish and Southern Energy to build the world's first hydrogen-fueled power plant. The project, a 350-megawatt plant in northeast Scotland, would reduce natural gas to hydrogen and CO<sub>2</sub>. It would then use the hydrogen to produce electricity while piping the CO<sub>2</sub> to the North Sea, where the green house gas will be pumped into emptying oil reservoirs to enhance oil recovery and, ultimately, safely stored underground.

If it works, the power plant would reduce the amount of CO<sub>2</sub> from a typical 350-megawatt power plant by more than 90 percent and provide carbon-free electricity to roughly 250,000 British homes. "If applied to just 5 percent of the new electricity generating capacity that the world is projected to require by 2050, such schemes would have the potential to reduce global [CO<sub>2</sub>] emissions by 1 billion [metric tons] a year," BP's Lord Brown said in a statement announcing the project. "This is an important and unique project configured at a scale that can offer significant progress in the provision of cleaner energy and the reduction of emissions."

## CODIFYING the right conduct

IN OCTOBER OF LAST YEAR, THE COMPUTER INDUSTRY SUCCEEDED WHERE OTHER MANUFACTURING SECTORS HAD FAILED: THEY RELEASED A COMMON SET OF ENVIRONMENTAL AND SOCIAL STANDARDS. The Electronic Industry Code of Conduct (EICC) resulted from a year of development by some of the largest companies in the information technology (IT) area: Celestica, Dell, Flextronics, HP, IBM, Jabil, Sanmina-SCI and Solectron.

By March of this year, several more industry heavyweights such as Intel, Microsoft and Sony had signed on, and the coalition formed a working group to develop implementation plans. Realizing a common interest, the EICC companies also joined forces with the telecommunica-

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tions industry's Global e-Sustainability Initiative (GeSI) to develop common standards that would be even more broadly applicable.

"If you add up the revenue of these companies, it's in excess of \$500 billion," said Brad Bennett, Intel's sustainable development manager. "If we're unified around this, we have a much better chance of making a positive impact than if we do it individually."

It also cuts down on the amount of codes that any given factory has to follow. Covering every-

thing from the health and safety of workers to the environmental impacts of production, the code aims to incorporate the best aspects of various standards developed by other industries, governments and even advocacy groups.

Each EICC member company sends the code-based self-assessment questionnaires to its suppliers. After answering more than 250 questions, the supplier sends the form back, and each company determines whether a factory inspection is warranted.

Some antitrust regulations stand in the way of the free flow of information between these companies, however, necessitating some complicated audit scenarios. "The goal would be that we might select a neutral party to go in, audit and make that information available confidentially," said Bonnie Nixon Gardiner, HP's global program manager of supply chain social and environmental responsibility.

The EICC Implementation Group, facilitated by the nonprofit advisers Business for Social Responsibility (BSR), is currently working on developing such procedures, along with a tool to assess the relative risk of a factory violating the EICC and a common method of auditing. The group is also trying to come up with a Web-based data system, working with the GeSI, for sharing information confidentially.

According to participants, the code is already having an impact, even if individual companies are implementing it on their own at this point. For example, Dell recently used the code to prevent one of its suppliers in China from collecting and retaining the identification cards of its employees to track when a worker quit, given the high turnover in the booming province of Guangdong.



"They were using it as a mechanism to figure out when an employee had left, because they would have to physically approach management," explained Tod Arbogast, Dell's sustainability senior manager. "Albeit, it's a process issue, it's one that we don't find acceptable."

Instead, Dell helped the supplier implement less invasive ways of managing workers flowing in and out of the company's employ.

The code has also led to the termination of companies in their own right; they look at themselves as responsible entities," said John Gabriel, IBM's global procurement manager of supply chain social responsibility. "We are not seeing significant levels of pushback, whereas other industry groups have had those issues."

Ultimately, participants hope the EICC will cascade down the supply chain until the entire

industry lives up to the code. The broad range of EICC and GeSI participants only helps that effort. "What might be a second-tier supplier to Dell might be a first-tier supplier of another EICC company," Mr. Arbogast said. "That will drive further awareness of a single common code."

Of course, not everyone in the supply chain is aware of its obligations, particularly in areas outside direct manufacturing. "Some of these suppliers, when we approached them, said: 'Maybe there's a mistake. We don't have a factory,'" recalled Mr. Gabriel. "Supply chain social responsibility applies universally. We went out and audited companies that write code in India, China and Mexico."

But these companies can have similar problems, from excessive overtime to workers receiving the proper compensation.

The true test of the code, however, will come down to how it improves working conditions and the environmental effects of the various electronic products. "A code is just words on a page," said Mr. Bennett. "Leadership is about going and making that code real, getting companies to understand it and manage their business to its expectations."