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Strategic CSR Roadmap

Demystifying the Triple Bottom Line

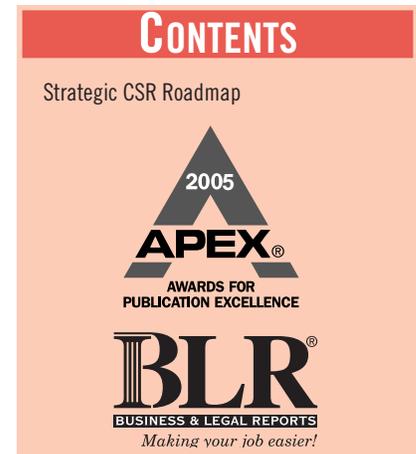
by Jane E. Obbagy
and Ian P. Kline

Business leaders, banks and other lenders, industry associations, academics, and the public take corporate social responsibility (CSR) seriously. Consequently, CSR is a thriving part of many organizations' corporate governance apparatus. This article explores the reasons behind CSR's continued presence in business despite some predictions that it would become a fading memory, and outlines our five-step approach to operationalizing CSR as a fundamental change initiative.

The Value Factor

Companies increasingly find themselves accountable to a wide range of stakeholders—customers, government, employees, local communities, interest groups, shareholders, and institutional investors—on issues related to their role in society and their impact on the environment. In response, companies have gone beyond compliance with environmental regulations to implement a number of voluntary initiatives such as environmental management systems (e.g., ISO 14000) and codes of practice (e.g., Responsible Care®). Building on the trend of implementing voluntary responsible management programs, a growing number of corporations are developing and implementing CSR programs. The reasons are compelling since CSR helps drive corporate performance in three critical areas: access to talent, access to capital, and reputation risk management.

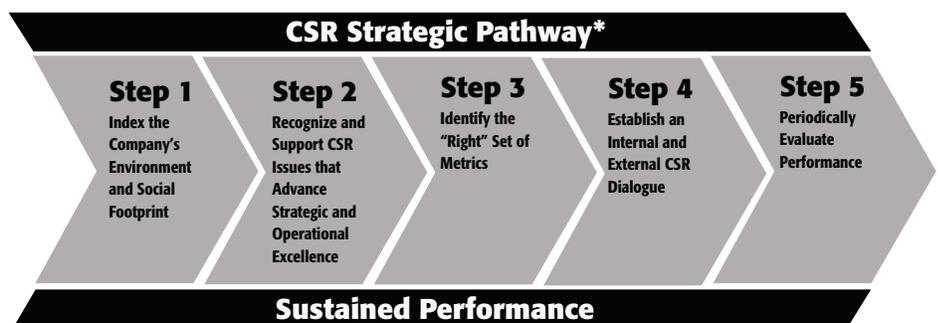
- Acquiring, managing, and retaining talented personnel is a challenge every organization faces. This challenge is compounded by the fact that recent college graduates are looking for more than just a first job; they want to work for organizations that have a positive impact on the world. Without a CSR program, acquiring and retaining staff members can be even more difficult.
- Lending and brokerage firms have adopted the Equator Principles (http://www.equatorprinciples.com/documents/Equator_Principles.pdf) as a means of standardizing the review of social and environmental factors in lending. Adoption of these principles is a clear signal that CSR is a factor in any corporation's ability to acquire capital.
- As many companies in the natural resource and energy sectors know, a good corporate reputation provides clear dividends in terms of access to resources, community goodwill, and fairness in interactions with governmental and nongovernmental organizations. In the absence of a well-established corporate reputation, expansion plans can stretch



out considerably because it is difficult to obtain approval from local constituencies. Likewise, when a firm's reputation lacks a defined CSR stance, it is not uncommon for interest groups to scrutinize corporate activities with a laser focus when an incident occurs that receives national or international attention.

Strategic Roadmap

Our approach to advising organizations on CSR involves a five-step methodology (CSR Strategic Pathway*) to create a concise action plan comprising activities implemented over 1 to 2 years, as illustrated below.



Our methodology breaks the concept of “the triple bottom line” (i.e., taking into account not just financial outcomes but also environmental and social performance) into manageable pieces to establish a simple and transparent change initiative that is consistent with a company’s objectives and aligned with its internal resources. In our experience, only after systematically executing a program and gathering data and insights to refine program activities can a company develop a robust CSR strategy that results in technology and product innovations, help create new markets, and provide access to greater market share.

■ **Step 1: Index the Company’s Environment and Social Footprint**

There is no single definition of CSR. In general, CSR is a concept that enables organizations to consider the interests of society by taking responsibility for the impact of all their activities on customers, employees, shareholders, communities, and the environment. Establishing a strategic plan best suited to an organization begins by understanding the risks inherent in the organization’s operations as a function of its environmental and social footprint.

As this graphic shows, an organization’s footprint may include not only its impact on the environment and its employees, but also an understanding of the range of stakeholders that may influence the achievement of business goals at the global and local community levels.

By developing its “risk matrix,” an organization establishes the basis for identifying the right measurements to focus on and specifying how it will use its resources to achieve environmental quality, social accountability, and economic growth.

■ **Step 2: Recognize and Support CSR Issues that Advance Strategic And Operational Excellence**

As we all know, the power of branding is enormous. Branding defines a product and a company in ways that go beyond product attributes.

CSR initiatives do the same thing—they define an organization, what it cares about, and how it is going to make a difference in the world today and for generations to come.

Organizations demonstrate CSR by taking positions on a *select* number of issues that are aligned with their mission and work with stakeholder groups to achieve common goals.

For example, several large multinational coal companies are working with research institutions to develop clean-coal technologies to reduce greenhouse gas emissions and provide a fuel source to meet the growing demand for energy.

Recognizing the pressing need to reduce energy consumption, computer manufacturers have invested in

Environmental	Product/services: service intensity, biodegradability, recyclability, toxic, persistent, or bioaccumulative components Impact: air, water, waste emissions Resource use: fuel, water, minerals and metals
Social	Employees: injury and illness rate, diversity, labor rights, wage equity Community: impact on property values, investment in economic wellbeing Stakeholders: range of stakeholders and quality of engagement

research to reduce their products’ use of electricity to maintain demand but also to satisfy the customer’s interest in purchasing products with “green” attributes.

Declaring such positions helps companies hit their business targets, advance stakeholder engagements, and achieve CSR goals.

■ **Step 3: Identify the ‘Right’ Set of Metrics**

For more than a decade, organizations have relied on quantitative environmental and social metrics to motivate key staff members and drive performance improvements. These metrics typically focus on waste reduction, lost-time injuries rates, and air and water emissions.

Today corporate executives are held accountable for ensuring that CSR issues are effectively managed. As a result, there has been considerable rethinking about the need for meaningful performance information.

Based on our client work, we have concluded that it is best to establish a limited number of metrics that reflect an organization’s environmental and social impact and that have operational and competitive implications.

For example, an appropriate CSR metric for a company operating in a cost-competitive environment and generating large quantities of waste might be to minimize its environmental impact through recycling and simultaneously reduce waste disposal costs.

Similarly, for a company that uses significant quantities of water in manufacturing, an appropriate CSR metric might be decreasing the environmental burden associated with wastewater discharges by reusing or conserving water. Once the metrics are established, a company better understands

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how to align internal resources to focus on activities that have positive CSR and operational impacts.

■ Step 4: Establish an Internal And External CSR Dialogue

A critical part of any effective CSR program is a communication strategy to ensure the CSR program is embraced and implemented throughout the organization.

Our experience shows that many programs fail because goals are set and articulated by management, but specific activities are never accepted and implemented by the staff.

We strongly believe that, as part of a company's overall stakeholder communication process, the communications strategy should be bold to build broad internal loyalty, should include techniques for demonstrating the real value of CSR for the organization, and should engage frontline employees.

Employees interact daily with potential stakeholders in ways that go well beyond corporate activities. They participate in corporate-sponsored community programs, are seconded to special projects involving suppliers, and join local governance committees, boards of health, or local or national advocacy groups. Through these engagements, employees become sources of company information.

When they perform well, employees enrolled in a CSR communication

strategy can support and strengthen the business and reinforce the company's CSR strategy (*Corporate Responsibility Management*, October/November 2005).

On the external side, the CSR dialogue focuses on transparency by communicating performance data to stakeholders. The environmental and social information that is most commonly requested includes worker health, community investment and support, efforts to reduce the company's environmental footprint, toxicity of environmental releases, energy conservation, and business ethics (*Environmental Manager's Compliance Advisor*, January 16, 2006).

■ Step 5: Periodically Evaluate Performance

The art of managing CSR is to maintain its focus without creating unnecessary distractions or unrealistic expectations. Doing so requires continuous review of actions and outcomes as part of an overall quality assurance function.

These evaluation activities include such things as checking and reaffirming that actions are consistent with stated commitments, assessing whether the organization consistently meets its environmental, health, and safety regulatory obligations, and evaluating the extent to which the company's philanthropic activities are consistent with its CSR goals.

The Journey Forward

Internal and external stakeholders want more information about a company's underlying motivation and philosophy toward environmental and social management. That desire and the corporation's need to acquire capital and top talent and manage its reputation are driving companies to acknowledge that environmental and social responsibility and economic growth are not mutually exclusive.

By implementing a handful of actions, a company can establish a CSR program that is operationally focused, aligns resources to achieve strategic goals, and builds stronger internal and external relationships to help drive increased performance.

The key is to establish a strategy that is flexible and not overly complicated and that reflects broad internal support to ensure successful implementation and long-term value.

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