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Why Every Company Needs a CSR Strategy and How to Build It

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Working Paper

12-088

April 5, 2012

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The topic of corporate responsibility has been captioned under many names, including strategic philanthropy, corporate citizenship, social responsibility and other monikers. As the names imply, each carries with it a certain perspective on the role of business in society. Regardless of the label, for now the dominant paradigm underlying corporate social responsibility or CSR is centered on the idea of creating "shared value." The role of business, according to this model, is to create value for its shareholders but in such a way that it also creates value for society, manifesting itself as a win-win proposition. In one fell swoop the idea aims to unite the critics of CSR from the left and the right, for the notion of CSR has had the dubious distinction of being criticized by both sides of the ideological spectrum.

Civil society advocates question corporations' fundamental motivations for CSR, asserting that corporate programs to fund social and environmental programs are nothing more than public relations campaigns to boost their brand reputations, often disproportionately to the effort itself. This dismissal of CSR resides in a fundamental distrust of a corporation's legitimate intentions to do anything more than increase its profits. On the ideological right, critics reject the role of CSR in a capitalist society where the primary responsibility of business is seen as creating financial returns for its shareholders and the larger economy. A company's value, according to these critics, resides entirely in its ability to generate financial wealth for its shareholders, and any social or environmental initiative that does not simultaneously create profit for a company is deemed to be a waste of corporate resources.[1] This viewpoint is founded on stark delineations between the spheres of responsibility and influence of government, civil society and the business sector. According to this argument, if each sector did what it is supposed to do, a prosperous and just society would flourish with optimal allocation of resources.[2] Further exacerbating attacks from the left and the right is the utter lack of metrics to evaluate the efficacy of CSR programs. For a sector driven and evaluated by its measurement of financial returns and investments, the lack of any agreed-upon measures to quantify the social or environmental return of money spent on CSR seems to run counter to corporate ethos.[3]

Against this contentious background the idea of creating shared value has found appeal. The heart of the concept rests on the ability of a company to create private value for itself, which in turn creates public value for society. And indeed there are examples of companies that have accomplished this goal. Cisco's establishment of Cisco Academies to train networking personnel is often held up as an example of "shared value." Nestle and its development of Milk Districts in China, India and Pakistan is another oft-cited example, and there are many more.[4]

In spite of its appeal, however, there is a fundamental problem with the shared value idea. The tension between business goals and social/environmental goals cannot be wished away with the hope of co-creating private and public value. By its very nature substantive public value creation requires investing corporate resources for a payoff that is both distant and uncertain. This makes shared value very much a top-down concept. Only the CEO or the executive committee will have the authority to conceive and sanction such initiatives. Yet the reality is that most CSR functions in companies are staffed by managers who are a rank below the executive committee level. We have talked to hundreds of these managers, and they feel disconnected from the shared value concept because they perceive it as sitting above their "pay grade." As for the

CEOs, given the pressures of business and meeting their "numbers," shared value is naturally not at the top of their agenda, except for a handful of committed CEOs. The examples of Cisco and Nestle reveal yet another limitation. Interestingly, both companies are leaders in their respective businesses and as a result improvements they make to the societal infrastructure are also likely to benefit them disproportionately. It would not be economically worthwhile, however, for a smaller player to do what the market leaders have done for fear of competitors taking a free-ride on their public investments. The kind of shared value a smaller player would seek would have to be narrower and more self-directed, and effective only if the company is in a position to capture a major proportion of the value it creates. Thus there will hardly be any public value creation except for what the company does for its proprietary networks, such as supply chain and distribution partners. These third party players will not be able to benefit from the company's actions as stand-alone public players, but only as part of the company's mutually beneficial ecosystem. This is not the lofty vision of "shared value" that its proponents likely had in mind.

In this paper we offer a pragmatic alternative vision for CSR with a view towards developing its practice in an evolutionary way. The authors' extensive experience working with CSR practitioners convinces us that attempting to unify diverse CSR initiatives under a shared value framework does not reflect the reality of CSR practice for a majority of businesses. CSR executives oversee a variety of social initiatives that may or may not directly contribute to a company's business goals. His/her role then is to achieve the difficult task of reconciling the various programs, quantifying their benefits, or at least sketching a logical connection to the business, and securing the support of his or her business line counterparts. This role when performed well, would lead to the development of a CSR strategy for the company.

CSR is Here to Stay

The fact remains that, despite its critics, a rapidly growing number of companies in the world practice some form of CSR. At last count, more than 3,500 companies were part of the Global Reporting Initiative, and had issued more than eight thousand environmental and social sustainability reports.[5] This number was less than 1400 just two years ago. In a 2008 Economist online survey of 1,192 global executives, an estimated 55 percent reported that their companies gave high priority to corporate responsibility. The number was projected to increase to 70 percent by 2010, [6] demonstrating that a rapidly increasing number of companies across the globe are committed to CSR practice, and many more are increasingly entering the fray. Yet many of them do not have either a strategic approach or a lofty "shared value" conception of CSR. Rather they practice an ad-hoc version of corporate social responsibility that has usually evolved through a variety of paths for a myriad of reasons.

For example, one cannot underestimate the philanthropic motivations of employees as a CSR driver. Individual employees who already are engaged with their local communities often will carry their pet causes to work, where a small donation here, and a little volunteer activity there can soon create a momentum of its own that may take the shape of formalized support from the organization. Annual matching gifts are an easy way for an employer to support its employees' motivations, while in other cases corporate support for employee causes may develop into something more focused and significant. To ensure that its operations have support and a social license to operate from the local communities where they reside, the company's managers may accede to charitable requests for community organizations within a set budget limit. Often when there is enough lee-way in the budget, the same local managers at their discretion may direct funds to causes they care about, and which could have a positive influence on their business operations. Many times, however, these initiatives don't have any direct benefits to the business, but simply serve to enhance the company's image and social standing in the community.

Another critical driver of CSR practice comes from corporate leaders. Corporations are not monolithic entities, but organizations governed and lead by individuals and anchored in the societies in which they conduct their businesses. Corporate social responsibility schemes reflect the human side of corporations, and their leaders' personal commitments to contribute to the community and society of which they are a part.[7] Some corporate leaders feel a compulsion to serve their community or society in the course of their business practice, while others sponsor CSR programs to express and support their employees' community values. Additionally, business leaders are well aware of the need to gain goodwill and society's permission to operate within the communities where they conduct their business. Civil society organizations (CSOs) and nongovernmental institutions can often be a compelling force pushing corporations to attend to the social and environmental impacts of their business operations.[8] No doubt some of the motivators for CSR are reactive, in response to community concerns. Nonetheless, once they are launched, often there is a constituency of supporters within a company that will demand its continuation.

Compared to public companies, privately owned companies, both large and small, often have much greater freedom in allocating their charitable dollars in line with the philanthropic inclinations of their controlling owners, regardless of how well or poorly the donations align with the companies' business purpose. As a company grows larger it may seek a more disciplined approach to its philanthropic activities, either through the creation of a formal foundation to oversee the company's charitable contributions or the creation of a "community affairs" liaison within the company to direct its activities. The owners and protagonists may attempt to move philanthropy to a more strategic platform, creating a closer alignment with business goals.

As a result of such diverse motivations, corporate initiatives falling under the CSR umbrella encompass a broad scope, including corporate funding of community activities, grants for nonprofits/NGOs, environmental sustainability programs to reduce energy and resource use, and comprehensive efforts to remake a business's entire value chain. CSR is inherently organic, as companies both respond to societal expectations and define CSR in terms of their own organizational and social motives for philanthropic giving and civic engagement. Many initiatives originate in the field or from the staff in a bottom up approach, while some are top-down initiatives from executive management.[9] Some programs may have compelling business logic, but they may have little or no connection to the corporation's business strategy or core competencies.[10]

In order to mold this disparate range of practices into effective CSR, chief executives need to be more concerned with how to bring coherence to their CSR programs, and how to measure and report on the social and environmental value of their initiatives in an authentic fashion. After all, much of Milton Friedman's oft-cited critique of "socially responsible corporations" is founded on the daunting challenge for corporate executives of deciding where and how to spend corporate profits in a way that can contribute to social or environmental value.[11] This seems not a dismissal of CSR, but a clarion call for more robust and strategically designed CSR initiatives which have real meat. Incongruities in CSR practice and the absence of standards for measuring and reporting on CSR should neither be a reason for corporations' benign tolerance of CSR programs, nor a reason to abandon them. They represent an opportunity for companies to dramatically improve strategic CSR practice.

Every Company Needs a CSR Strategy

Given the enormous tug towards CSR, without the accompanying discipline, the question for corporations is not whether to engage in CSR, but what the best way forward is for crafting CSR programs that reflect a company's business values, while addressing social, humanitarian and environmental challenges. Considering the many disparate drivers of CSR within a company, and the many different motivations underlying the various initiatives, we find it naïve to expect a company to somehow weave all this together and incorporate it as part of business strategy. Some CSR programs will lend themselves to such an exercise, but many other elements will not. Instead of attempting that futile exercise, our call is to bring discipline and structure to the many fragmented components. Its components will in some cases support the core strategy and in some others may appear adjacent and discretionary. The fundamental problem with CSR practice is that companies usually don't have a CSR strategy, but rather numerous disparate CSR programs and initiatives.[12] This paper attempts to bring these disparate pieces together in the form of a coherent strategy. We argue that every corporation should have a CSR strategy that unifies the diverse range of a company's philanthropic giving, supply chain, "cause" marketing, and system level initiatives all under one umbrella. Note, however, that our notion of CSR Strategy does not equate to a complete absorption into the company's core business strategy.

In this spirit we advance the platform of three theatres of CSR, which is a descriptive framework from which strategic implications will be drawn. Evaluating and classifying CSR practice within these three theatres accommodates the wide range of activities business leaders describe as CSR and provides a framework to devise a comprehensive CSR strategy that integrate all of these efforts. The three compartments are not water-tight; we do not offer a universal address for each CSR activity. Rather it depends on the origins of a particular CSR initiative, and its social or environmental purpose as defined by an individual organization. The distinguishing feature of each theatre is the unique logic of how programs in the respective domains are intended to address a firm's CSR priorities.

The Primary Theatres of CSR Practice

In Theatre 1 we group activities that are primarily motivated by charitable instincts, even though they may have potential business benefits. Theatre 2 represents CSR activities that are symbiotic and intended to benefit the company's bottom line, as well as the environmental or social impacts of one or more of their value chain partners, including the supply chain, distribution channels, or production operations. In Theatre 3 we classify programs that are aimed at fundamentally changing the business's ecosystem. This transformation is intended to enhance the company's long term business position, but frequently entails short-terms risks in order to create societal value. Our analysis suggests that most companies rarely coordinate among the three theatres, let alone recognize the contributions of each to societal well-being.

While this paper develops a framework for the three theatres in which corporations practice CSR, we do not assert that a company needs to be involved in initiatives within all three. Neither do we imply that a company must sequentially evolve from one theatre to the other. Rather we argue that every corporation should maximize its CSR effectiveness within the theatre or theatres it participates in and devise a coherent strategy for its CSR programs, whether in one or all three domains of practice. After all, it's neither practical nor logical for every company to engage in the same "brand" of CSR. While a manufacturing company may have rich opportunities to reduce the environmental impact of its supply chain and production operations, a financial services company would be hard pressed to devise aggressive social or environmental supply chain programs. A global financial services institution may, however, have vast resources and societal influence to launch significant initiatives aimed at financial inclusion and literacy. Likewise, a corporation's social or environmental impact will vary widely depending on its industry and its geographic reach. The types of CSR programs a company focuses on should be determined by its core competencies and institutional capacity, and its ability to excel in either philanthropic, value chain or transformative ecosystem CSR efforts. Every CSR theatre is important to addressing social and environmental problems, either at a local or global level, and not all CSR programs should or will have an immediate business bottom-line goal.

Theatre 1: Philanthropic Giving

The first CSR theatre focuses on philanthropy, either in the form of direct funding to nonprofit and community service organizations, employee community service projects, or in-kind donations of products and services to nonprofits and underserved populations. Corporate philanthropy may be characterized as the "soul" of a company, expressing the social and environmental priorities of its founders, executive management and employees, exclusive of any profit or direct benefit to the company. Within privately held companies, the values of the controlling owners often determine the company's philanthropic priorities, while charitable endeavors for publicly held companies may be influenced by boards of directors and executive management. Within this theatre a business engages in CSR because it is a good thing to do, motivated by the logic that since the corporation is an integral part of society it has an obligation to contribute to community needs.[13] While it may be challenging for corporate leaders to make a coherent argument for how philanthropic activities contribute to a company's business strategy, in general these activities enhance a firm's reputation in the local community and provide a degree of insulation from unanticipated risks.[14]

Philanthropic funding is frequently provided directly or through corporate foundations that exist separately from the corporate entity. The Coca-Cola Company (Coca-Cola), for example, contributes $88.1 million annually to a variety of environmental, educational and humanitarian organizations through The Coca-Cola Company and The Coca-Cola Foundation.[15] Other examples of in-kind giving include IBM's computer donations through its global KidSmart Early Learning program[16] and Microsoft's donation of almost $300 million in software products to nongovernmental organizations (NGOs) across the globe.[17] Similar to corporate cash funding, in-kind donations provide important, and often critical, goods and services to nonprofit organizations and needy populations. Both types of philanthropic giving tend to reflect a corporation's core competencies and business priorities, as illustrated by IBM's and Microsoft's technology donations.

The larger a corporation's size and revenues, the greater the diversity of decision makers and the more fragmented its philanthropic activity may become. Whether privately or publicly held, as a business grows and expands into national and global markets, its organizational structure tends to become more complex. This may result from the company's integration into new cultural and socioeconomic environments, as well as the geographic dispersion of executives in various product areas and management functions. The addition of executive committee members and boards of directors creates multiple corporate decision makers who may be personally committed to a wide range of charitable social and environmental priorities. These executive leaders in turn are responsible for balancing shareholder interests with the corporation's social responsibility to the community upon which it depends. In this context, it is typical for corporations to operate a broad array of philanthropic activities in Theatre 1 reflecting the individual giving priorities of multiple corporate decision makers.

As corporate philanthropy evolves, it may become more strategic and integrate more closely with a company's business priorities. In strategic corporate philanthropy initiatives, funding for social or environmental programs reflects a corporation's philanthropic priorities as an extension of its business interests.[18] Examples include PNC's "Grow Up Great" early childhood education program and Goldman Sachs' "10,000 Women" initiative to train and support women entrepreneurs in developing countries. Both CSR efforts are a direct expression of the companies' respective business strategies. With $100 million in funding over a five-year period, "Grow Up Great" provides critical school readiness resources to underserved populations where PNC operates, in turn creating stronger communities, potential future employees and PNC brand loyalty. Furthermore, by integrating "Grow Up Great" into its management training and employee volunteer programs, PNC has created a broad corporate commitment to the initiative. "Grow Up Great" also represents the company's CSR strategy of focusing a multitude of philanthropic and community service projects throughout numerous business units behind one cause in order to have a more significant social impact.[19] Interestingly, the process of unifying behind the Grow Up Great initiative stemmed from a combination of its CEO, Jim Rohr's long standing commitment to early childhood education as well as the eagerness of its many staff to have a hands-on engagement with a local cause. Similarly, the "10,000 Women" initiative was a culmination of Goldman Sachs' senior management's effort to consolidate its diverse "philanthropic efforts behind a big idea" that would motivate its many staff, not just its senior partners, who anyway engaged in private philanthropy. In keeping with the organization's global view of economic growth, an internal team honed in on the idea of expanding the benefits of globalization to developing countries. The company devotes significant CSR resources to its "10,000 Women" program to provide business and management skills to underserved women entrepreneurs throughout the world.[20] All of these cases illustrate how strategic corporate philanthropy can serve a social or environmental purpose that a corporation's employees and management care about, while also supporting and expressing the company's core business priorities.

PNC's, Goldman Sachs' and Coca-Cola's corporate giving examples demonstrate that in the first CSR theatre the priority is generating social or environmental value, not necessarily creating an economic return for the corporation. Strategic philanthropy efforts may return intangible benefits in the form of brand awareness and improved social capital, which in turn may translate to business profits, but this is not the goal of the initiatives. In fact, philanthropic CSR ventures are typically considered a necessary cost of doing business to fulfill the corporation's charitable giving priorities. Additionally, philanthropic CSR initiatives in the first theatre typically reside under the purview of corporate and community affairs managers who are not tied to business operations, illustrating philanthropic giving's role as a business expenditure that is not expected to generate a tangible financial value. It may, in a sense, be considered the "purest" form of corporate social responsibility.

These philanthropic CSR illustrations tell us one side of the story, in which corporations came to CSR voluntarily with good intentions. In other cases, however, a business may engage in charitable giving not by choice, but because of societal pressures. An activist, journalist or civil society organization may cast aspersions on a corporation's environmental or social consequences of business practices. Whether the company is culpable or not, it may launch a corporate philanthropy campaign to fend off potential reputational damage. Sometimes a corporation may launch philanthropic campaigns to repair its corporate image after being sanctioned or penalized for ethical or regulatory infractions. Regardless of whether it is pro-active or reactive, in Theatre 1 the company is motivated to undertake its CSR initiatives for reasons only very loosely connected to its business strategy. In the proactive instances the reasons will tie more directly to the values and purpose of the people in the organization, while in the reactive cases the primary motivation is to annul the protesting voices.

Theatre 2: Reengineering the Value Chain

The priority in this realm of CSR is increasing business opportunities and profitability, while also creating social and environmental benefits, by improving operational effectiveness throughout the value chain be it upstream in the supply chain or downstream in the distribution chain. This CSR approach, which has become increasingly popular among both academics and corporate leaders,[21] may be considered roughly analogous to the "shared value" framework, in which the corporation seeks to co-create economic and social value.[22] Corporations, particularly in the U.S., recognize the business value of innovating new manufacturing and technology solutions that reduce operating costs while mitigating environmental impacts.[23] Initiatives in this CSR domain are typically managed or co-managed by an operational manager on the supply side or a marketing manager on the demand side of the value chain, reflecting the focus on enhancing operational efficiency and/or building revenue. In some cases, a community affairs or CSR manager may be involved in devising and overseeing supply chain initiatives, and may assist the marketing department in cause branding initiatives. Unlike philanthropic giving, which is evaluated by its social and environmental return, initiatives in the second CSR domain are predicated on their ability to improve the corporate bottom line while simultaneously returning social value. The most comprehensive CSR strategies in this domain seek to reengineer a corporation's entire value chain, including natural resource extraction and sourcing, manufacturing, shipping and product delivery. Nike has established a Code of Conduct governing its entire production supply chain, including the factories with which it contracts to manufacture its products. The company's code includes requirements that employees are compensated fairly, are not exposed to a dangerous or environmentally unhealthy working environment, and are treated ethically in the workplace.[24] Nike has simultaneously launched an initiative to reduce the negative environmental impact of its entire supply chain, from materials sourcing to manufacturing, assembly and shipping. In similar fashion, Gap, Inc. launched a comprehensive "stakeholder engagement" campaign in 1999 to address highly publicized exploitive labor practices in its manufacturing facilities, some of which also produced goods for Nike. Like the Nike program, Gap's aggressive supply chain initiative was a response to negative publicity and protests.[25] Both the Nike and Gap initiatives will ultimately benefit each company's bottom line by improving employee retention and productivity, reducing production waste, materials and energy use.[26] [27]

Other examples include Bimbo Bakery's comprehensive CSR programs to meet social welfare needs of its nearly 100,000 workforce and a similar number of small retailers. This family-owned Mexican bakery, the largest in the Americas and a leader in the global market, provides free education services for its employees to complete their high school curriculum, and supplementary medical care to cover the gaps in what is offered through their government health plan. It also provides financial assistance for their dependent's health care. It has pioneered a unique microfinance program to help its small retailers tide over working capital shortages and has even added programs to finance their small capital additions. It has committed to using biodegradable packaging, reducing carbon emissions, water and energy use, and solid waste throughout its productions systems. The provision of health and micro financing services have improved employee performance and retention and strengthened Bimbo's distribution chain, which relies on small-scale retail store owners consistently operating well-stocked, attractive storefronts. Bimbo's broad social and environmental CSR initiatives are contributing to a loyal and committed workforce and a robust supply chain that can support company expansion, increase brand loyalty and ensure a well-educated and healthy workforce for its production facilities and distribution channels.[28]

In contrast to philanthropic CSR programs, CSR enterprises in the second domain have the potential for much more pervasive social and environmental benefits than programs in the first domain, since they are implemented throughout the company's value chain. The logic of the CSR programs' impact on the corporation's bottom line is much clearer with supply chain initiatives.[29] For example, when a business improves working conditions in its factories and provides healthcare for its workers, productivity will likely increase. Likewise, when a corporation reduces energy use, waste and pollution in its business operations, operating and material costs will decline. On the demand side, if a company can promote the enhanced social or environmental value of its products through its CSR initiatives, it can increase its profits. Examples include ethically or socially responsibly sourced products such as fair-trade coffee, conflict-free precious stones, sustainable farming and fishing. Consumers have demonstrated their willingness to reward such companies by paying 5 to 8 percent more for their products, illustrating that businesses with a strong ethical relationship to their customer base can successfully capitalize on mutually beneficial CSR initiatives.[30] In addition to the subjective value for consumers of a company's CSR programs, which may be demonstrated by their perceptions of the company and brand loyalty, corporations can realize a measurable financial reward as well.[31] [32]

In similar fashion to Theatre 1 initiatives, businesses can also be pushed to undertake Theatre 2 programs in a reactive and reluctant fashion. Nonetheless, once they are there, corporations are required to dramatically alter their business strategy to survive and prosper in the new operating environment. This was the case with Nike's supply chain transformation, launched in response to widespread protests in Europe and the U.S. against low wages and dangerous working conditions in the factories where Nike manufactured its products. Beginning in 1997, activists organized letter writing campaigns and large-scale protests at Nike's stores that were immortalized in a scathing Michael Moore documentary, numerous print and television media outlets, and a Doonesbury comic strip.[33] Leaders of the movement made Nike's labor infractions relevant to inner-city urban youths by exposing the inflated pricing of Nike's sports shoes. These customers were the foundation of Nike's corporate image and the inspiration for their product designs and branding around sports stars including Michael Jordan and Tiger Woods, so alienating them posed a serious threat to the company's business strategy and its profitability.[34] Once Nike realized the business imperative of addressing its labor and supply chain issues, it spearheaded a supply chain initiative that, although initially motivated by self-interest rather than a social conscience, has had a significant and industry-leading impact.[35]

Similarly, Walmart has undertaken corporate-wide supply chain initiatives both in response to pressure from environmental activists and as a profit-driven effort to reduce operating costs. The company has partnered with environmental conservation organizations, including the World Wildlife Fund, on initiatives to source environmentally sustainable fish and forest products,[36] [37] and has joined the Sustainability Consortium, an independent organization committed to enforcing environmental sustainability throughout all stages of a product's life cycle. Additionally, Walmart has pledged to help create a sustainable products index through the Sustainability Consortium to measure products' environmental impact and sustainability, and to eliminate twenty million metric tons of carbon emissions from its supply chain by 2015.[38] Walmart's supply chain initiatives have pressured its retail competitors to adopt the same standards for product sourcing and supply chain efficiency.

Theatre 3: Transforming the Ecosystem

The third CSR domain is emblematic of wide scale and disruptive change to a corporation's business model that puts the priority first on crafting a solution to a societal problem, which would then lead to financial returns in the longer run. This is a fundamental departure from the incremental and self-interested change of Theatre 2 initiatives that are focused primarily on increasing profits. In this third theatre, the company attempts to create societal value by significantly addressing a critical social or environmental need that is within its business reach, but that may not return immediate business profits. Unlike the first and second CSR domains, corporate endeavors within the third domain may not emerge from the company's core competencies, but may require the corporation to fundamentally change its business model and develop new skills and strategies.

Within this third domain the corporation creates a radically new ecosystem solution that may be outside its core business interests, and that is fundamentally disruptive to the existing value chain. CSR efforts in this domain are not incremental or cautious, but require strategic risk-taking and a focus on long-range rather than short-term economic gains. For this reason, third domain CSR is most effectively undertaken by companies who have scale, diversified product lines, and significant financial resources to absorb the uncertainties of a delayed financial payoff. But there are exceptions to this rule. Smaller companies with innovative technologies or business processes may find it advantageous to mount an effort that disrupts the ecosystem away from the incumbents to something that is more conducive to its unique business offering. Initiatives in the Theatre 3 CSR domain are typically led by a company's CEO or senior management, who can spearhead long-range business strategies that require broad change throughout the organization.

Successful Theatre 3 initiatives that both create solutions to environmental or social challenges and foster long-term business opportunities in the new ecosystem require aggressive and compelling CEO or executive management leadership. It is not sufficient for a CEO to passively champion an initiative, particularly since Theatre 3 programs may run counter to a company's entrenched business strategy. For example, Interface's groundbreaking strategy to remake the company's entire supply chain, manufacturing, sales and distributions models required founder Ray Anderson's hands-on involvement to be successful. Without the assurance of the company's highest ranking executive, Interface's employees would likely not have been committed to and engaged in executing Anderson's vision.[39]

Theatre 3 initiatives recognize that traditional divisions between the government, corporate and nonprofit sectors are ineffective in solving global environmental and social challenges. Devising global solutions to environmental and social threats, including climate change, freshwater degradation and biodiversity loss, global hunger and poverty, requires collaboration between corporate, governmental and NGO interests. It requires strong leadership from a stakeholder who can potentially influence a diverse range of interests. Large corporations, particularly those operating and selling products globally, have a unique ability to craft comprehensive solutions by harnessing their multiple spheres of influence and extensive market reach, both on the supply chain side and customer demand side. Large scale operations enable multinational corporations (MNCs) to influence numerous actors in a complex ecosystem that make, source and sell products throughout the world. They also can potentially influence, and be influenced by, NGOs that complement their business. Partnering with an NGO that has significant expertise in an issues area where the corporation is attempting to create change can also signify the company's institutional commitment to Theatre 3 initiatives. Such a broad reach positions large companies, regional and global, with an opportunity to play a more prominent role in addressing its eco-system's most complex and critical challenges.

General Electric is leading a comprehensive initiative to address global warming and climate change by transforming the United States' automobile transportation system to reduce CO_2 emissions and petroleum-based fuel consumption from passenger automobiles. The GE transportation solution includes electric vehicle (EV) charging stations, electrical grid improvements, investments in component technologies, and a robust EV production system. GE's endeavor, if successful, has the potential to reduce CO_2 emissions and petroleum-based fuel consumption by fundamentally changing the U.S. automobile transportation ecosystem. It will potentially also increase GE's long-term profitability, given its engagement in many aspects of renewable energy production, energy delivery, EV production and EV charging supply chain.[40,41] As yet the company has not profited from its EV solution, demonstrating that in this third CSR domain, corporations need to be willing to defer short-term profits to produce environmental and social benefits. It's unclear whether the company remains committed to its investment in the transformational EV solution, even as Jeffrey Immelt, GE's CEO, has championed the program as imperative for the company's leadership in solving global climate change.[42] The company's WattStation™ EV pedestal charging unit, the core of its EV product line, was scheduled to ship late in 2011, but the product hadn't shipped as of this paper's writing, nor had the company announced any updates to the WattStation's production or shipping schedule.[43] [44] Time will tell whether GE's foray into Theater 3 CSR has been successful.

In a corporation like GE where line managers and executives have budgetary responsibility for GE's EV charging station program, it's imperative that they have the reassurance of GE's executive management that the company's EV products won't be expected to meet the same short-term sales forecasts as more traditional consumer products. Without this type of effective top-down leadership, employees at all levels of a company will likely not be fully committed to achieving large scale ecosystem change. If GE's EV charging program, for example, fails to produce revenues within a narrow time frame, managers may be tempted to cut spending and resources for EV product development.

Interface's aggressive business transformation initiative under its founder, the late Ray Anderson, exemplifies a fully developed illustration of CSR in the third domain. In 1994, after more than twenty years of economic growth and expansion through acquisition, and no formal CSR program, this global carpet company radically changed it entire business ecosystem. After what he describes as an "epiphany" about the environmental damage inherent in Interface's material sourcing, production and shipping systems, Anderson set out to remake every facet of Interface's business ecosystem. Anderson's vision sought to put into practice the "cradle to grave" closed loop manufacturing and operating models advocated by both environmental advocates and business thought-leaders.[45] [46] This initiative involved drastically altering how Interface's carpet was manufactured, distributed, sold and reclaimed from customers, including the establishment of a carpet leasing model to eliminate landfill disposal of used carpets. Under this scheme, Interface began producing and distributing carpet not as entire floor units, but as modular tiles that could be replaced or repaired when worn, rather than disposing of an entire floor covering. Additionally, Interface leased, rather than sold, its component carpet to institutional customers, contracting to clean, maintain and repair the product over its lifetime. Once the carpet reaches the end of its wearability, under the lease program Interface removes and recycles the carpet into new products.[47] Although the FLOR leasing program encountered initial difficulty with customer acceptance, the company remained committed to the initiative as part of its mandate to achieve zero-waste closed loop environmental sustainability, where production, recycling and materials sourcing produce no negative environmental impacts. The company's sales have increased by 65 percent and profits by 200 percent since the transformation, and even more importantly water usage is down by 75 percent and greenhouse gas emissions by 92 percent, and roughly $400 million per year saved through recycling.[48]

The significance of Interface's radical business transformation, and its value for informing other corporations' CSR initiatives, lies in its element of risk and its foundation in Anderson's moral imperative to combat climate change, freshwater degradation and other global environmental threats. While GE's EV ecosystem solution constitutes a calculated business risk for the company, it is changing a transportation ecosystem in which it is not invested, and on which it does not depend for its profitability. Interface, however, has disrupted the ecosystem it survives on and on which its viability lies. There was no compelling reason for Anderson to dramatically alter course in 1994; on the contrary, the corporation's business strategy had been entirely successful. Yet Anderson decided that measuring a corporation's success by its economic value creation was fundamentally flawed, and that businesses should also be evaluated by their social and environmental impacts. This is the foundation of a global CSR ethos, in which corporations are driven to repay their social, humanitarian and environmental debts incurred through generating economic returns. Furthermore, the foundation of Interface's transformative business model has been Anderson's successful leadership from the top. Anderson so effectively imparted his vision through the organization that, despite his death in August 2011,[49] the company remains fully committed to his corporate strategy.[50] Interface's Theatre 3 initiative exemplifies the factors of long-range commitment to a strategic business vision and visionary leadership that are critical to achieving disruptive ecosystem change.

Business models based on increasing production and economic return are inherently consumptive of natural resources and energy, no matter how efficiently they are executed. GE's and Interface's endeavors, however, exemplify attempts at achieving a higher standard of conduct than society demands of them, and a model for transformational CSR that can help inform standards for companies operating across the world. While Interface and GE have launched their respective Theatre 3 programs on their own, without assistance from NGO partners or industry coalitions, voluntary corporate standards organizations and councils provide an alternate venue for corporations to develop groundbreaking and disruptive solutions to global environmental and social problems. While voluntary consortiums don't typically have the power to sanction or punish members that fail to comply with agreed-upon standards, the compulsion to maintain social capital and good standing within their business community can be a powerful force for influencing corporate practice. Another alternative is through cross sector collaboration which provides a critical platform for business leaders to share business challenges and best practices for dramatically changing their business models.[51]

Numerous collaborative venues have been established to address the environmental and social impacts of agricultural development, with a goal of achieving sustainable agriculture production.[52] As the world's largest industry, agriculture has a significant and pervasive global environmental impact, accounting for approximately 70 percent of human freshwater use, and resulting in severe biodiversity loss through land-clearing, habitat conversion, and water and soil contamination.[53] Sustainability advocates describe initiatives to address these global impacts as "sustainability networks," which are often spearheaded by CSO activists working to effect change in agricultural production through corporate collaboration.[54] For example, the Better Sugarcane Initiative (BSI), along with agricultural roundtables on coffee and fruit, is working to establish internationally accepted standards for environmentally sustainable sugarcane production, as well as to improve the economic and social impacts of sugar growing and refining. The BSI standards dictate, for example, that after 2008 sugarcane cannot be grown in high value conservation areas that environmental conservation organizations have targeted as critical global ecosystems. Additionally, the BSI has set thresholds for water use that effectively eliminate sugar production in geographic areas with limited freshwater resources.[55] The IFC, which provides loans to sugar and coffee producers in developing countries, has established the Biodiversity and Agricultural Commodities Program (BACP) to advise agricultural commodity producers the IFC funds on adopting sustainable farming practices. The BACP is part of the IFC's efforts to curb habitat destruction and biodiversity loss, while maximizing producers' operational efficiency. Through partnerships between private and public agricultural industry stakeholders, the BACP promotes efficient and environmentally sustainable farming practices in the palm oil, soy, cocoa, and sugarcane sectors. By simultaneously influencing agricultural financing criteria, producer practices and government policy around environmental protection and agricultural regulations, the BACP consortium can lead agricultural companies toward disruptive change in their industry.[56]

The Challenges of Crafting a CSR Strategy

The differing motivations for corporations to undertake initiatives in the three respective CSR theatres, and the wide variations in how the programs are managed in each theatre, underscore the challenge for corporations in crafting a unified CSR strategy.

Different Measures of Success

While this may not be representative of a universal sample, we surveyed 50 CSR managers, who attended an executive education program in 2011. They reported 168 significant CSR initiatives at their respective companies roughly divided 40 percent in Theatre 1, 40 percent in Theatre 2, and 20 percent in Theatre 3. As might be expected, the motivation for the program and the expected benefits that their companies hoped to derive were very different in the three CSR theatres. See **Table 1**.

Table 1: Different Motivations and Benefits

Theatre 1 Motivation/Benefit to the Company					
Generates new business opportunities	Improves company's social standing	Improves company's brand reputation	Increases employee motivation	Supports company's philanthropic priorities/ Initiatives	Reflects preferences of operating managers
23%	**60%**	**60%**	**49%**	**56%**	**34%**

Theatre 2 Motivation/Benefit to the Company					
Creates new business opportunities	Reduces operating costs	Improves supply chain performance	Improves company's environmental impact	Protects resources on which the company depends	Markets to socially responsible consumers
36%	**21%**	**19%**	**40%**	**33%**	**36%**

Theatre 3 Motivation/Benefit to the Company				
Promises significant and new business/ market opportunities	Promises significant new operations or supply chain or manufacturing efficiency	Promises long-term gains by significantly changing its business environment	Creates an important solution to a social or environmental problem	Fulfills senior management or chief executive's social mission
59%	**48%**	**96%**	**78%**	**67%**

Of the programs classified in Theatre 1, a small number were identified as potentially addressing a new business opportunity for the company, while a majority of the highlighted benefits were softer, such as improving the company's reputation. Significantly, a large number were associated with improving the motivation of employees. Theatre 2 programs were more readily linked to revenue opportunities or cost efficiencies, demonstrating that double or triple bottom line measurements may be appropriate in this theatre, since many environmental and brand-enhancing efforts have a short- to medium-term pay off. Moreover, increased costs in one activity (e.g., fair trade sourcing) could be more than offset by increased brand reputation and subsequent gains in revenues, and perhaps even longer term gains from a more efficient and sustainable supply chain. In Theatre 3, success is indicated if the company effectively transforms its business strategy and prospers in the new ecosystem it creates. But societal value must simultaneously be created, and one should be able to measure this value in the new ecosystem. As can be seen from Table 1, respondents indicated high hopes of long term return on both counts.

Theatre 1, success is difficult to evaluate, since most initiatives are not connected to a company's profit-driven goals. The various decision makers initiating CSR programs may have an aversion to making that connection, because attempting to measure the commercial advantage of charitable endeavors would diminish their authenticity. In some cases, the support of corporate decision makers for CSR initiatives may be more important than quantitative measurements of their effectiveness. Ultimately it may be altogether impractical to devise a standard and consistent method for quantifying the "value" of CSR and its correlation to a corporation's bottom line, given the broad range of programs across the three theatres and the varying motivations for undertaking them.

From our case development, field visits, and interviews at dozens of companies, what stands out most sharply is that there is not a "one-size fits all" CSR model. There are different catalysts for the various CSR programs that a company might undertake, and depending on the motivations, the expected outcomes of the programs are also quite varied. For some initiatives, it is entirely logical to look for measurable business connections and results, but for others, simply crafting a broad theme around community contribution is sufficient, because the outcomes may have very important intrinsic value, even if they are not quantifiable. The idea of creating shared value begins to take shape in Theatre 2, where value is co-created for internal as well as external stakeholders. In Theatre 3, however, even though the ultimate goal is business driven, enlightened businesses often view it as a long term opportunity by first focusing on and working through the social and environmental investments. The CSR debate often becomes muddled by conflicting ideologies arguing from one camp or another for the inherent value of CSR, when in fact what we observe is that individual companies typically engage in a variety of programs motivated by a wide range of perspectives and corporate protagonists.

Insert Figure 1 Here

Range and Role of Protagonists

In the 2011 survey of CSR managers, who attended our executive training program, individuals reported being involved in CSR planning, but having varying degrees of influence over a broad range of programs. According to our survey, a range of protagonists served as key actors in each of the three CSR theatres, with CSR executives typically maintaining involvement in all three domains. Decision makers charged with managing a corporation's community affairs efforts played an active role in Theatre 1 philanthropic programs, as did a few line managers dispersed throughout a company's business units. The center of gravity in Theatre 2 moved to the line managers in production, quality control, marketing and other disciplines, although community affairs managers often remained involved in many initiatives, in some cases having a significant presence. For example, energy-saving or carbon emissions reduction programs were handled at the level of the operational managers, while supply chain stewardship effectively handled by the procurement or logistics team. Yet our survey showed that the CSR manager was significantly involved in the social and economic programs for the communities affected by the company's supply chain. For example, a company in the coffee business, had its procurement staff monitor and steward its "fair-trade" purchases, while the community affairs department was responsible for participating in its vendors' (in this case a coffee co-operative) health and education programs. In Theatre 3, the strategic nature of the program moved the decision making to higher levels of management, yet the course attendees reported a small cadre of people throughout the organization who also had some involvement in ecosystem-changing initiatives. These included CEOs and Senior Operating Division managers, and CSR Officers. The key distinction between the three theatres was the decision making process. Most Theatre 1 initiatives were of a bottom-up nature, with CSR efforts initiated and executed from the field, after being vetted by the community affairs department. Theatre 2 initiatives were usually a mixed bag, alternately driven by the CSR officers, operational management and/or by executive management in a top-down fashion. Theatre 3 initiatives were almost always top-down directives formulated and articulated by executive decision-makers[57].

Insert Figure 2 Here

Because Theatre 1 campaigns tend to be driven by the personal, social, and environmental priorities of a key officer of the company or of the community affairs department, it is difficult to build company-wide support for philanthropic giving programs whose values aren't shared by the majority of the company's management or employees. Without broad investment across the corporation in these campaigns, they may be short-lived if their sole proponent leaves the company or assumes a new position. Additionally, in some companies managers in different business units may champion their own philanthropic giving or community service programs, with little relationship to each other or to the corporation's core values. This compounds the challenge of progressing to strategic philanthropy that integrates into a company's larger business strategy and priorities. While Theatre 1 CSR need not demonstrate an economic return for the corporation, it should have a logical connection to its business priorities. For example, PNC is closely tied to the community where it operates, and relies on continued goodwill with that community to generate new customers. The company's "Grow up Great" campaign increases PNC's social capital and potential customer base. Businesses cannot successfully build these types of strategic philanthropy initiatives without strategically choosing campaigns that are managed in line with their business priorities.

Similar challenges face initiatives in Theatre 2 that are often managed by an operations manager, far outside the jurisdiction of a community affairs or corporate social responsibility office. In many cases, operations managers overseeing initiatives to improve the environmental or social impact of a company's entire supply chain, while also improving financial returns, are loathe to characterize their efforts as CSR. Compared to a company's funding for a social program or environmental conservation, for many managers "shared value" type programs do not seem to constitute CSR. Because the supply chain campaigns are not managed under the company's CSR office, there's no apparent connection between the corporation's overall CSR priorities and the operations managers' initiatives. Furthermore, since Theatre 2 programs are expected to return financial value to the company, without a connection to the company's core CSR values, they may be abandoned if their economic return diminishes. Without being embraced under the corporation's broader CSR mandate, it may also be difficult to build employee support for and participation in these supply chain programs. Initiatives like Bimbo's are making meaningful progress on critical social challenges, and illustrate for other companies that to be successful in Theatre 2 endeavors requires connecting them to the corporation's defining values.

In the third CSR theatre, societal value strategies like GE's or Interface's have a unique challenge in comparison to philanthropic or supply chain programs. Unlike Theatre 1 campaigns, these initiatives are intricately connected to the company's long-term transformative business strategy. Creating public value is the company's first priority in Theatre 3, while economic return is expected to flow from the creation of public value. Since Theatre 3 programs are typically championed by a corporation's CEO, they have a powerful leader and are assured executive management support. The challenge for Theatre 3 initiatives is in mobilizing the support of key operational managers. Because profits are deferred in order to realize social or environmental benefits, it may be difficult for operations managers throughout the company to understand and fulfill the CEO's mandate. Creating a new business ecosystem may also require that employees fundamentally change the way they design, produce and market products. These large-scale changes to the business ecosystem are inherently risky and potentially threatening to employees' livelihood, compounding the CEO's challenge of building and perpetuating a radically new business model. Shareholders may also be skeptical of a business strategy that doesn't show a financial return in the short or medium term. Because initiatives in this transformative theatre of CSR require broad buy-in across the company, the primary challenge for the CEO who is leading the charge is to "sell" the strategy to management, boards of directors, employees and shareholders.

The Way Forward for Strategic CSR: Auditing, Editing and Developing

Auditing

The first step for a company to begin devising a CSR strategy is to classify and categorize its plethora of CSR programs into one of three theatres we have described. The CSR report published by many companies is only a partial view of the range and breadth of programs undertaken by the various parts of the company. What is reported usually turns out to be those activities that are likely to impress external stakeholders, but the report is typically not useful as an auditing tool. A company must assiduously collect every program from each discipline within the company that attempts to make a deliberate social and /or environmental contribution. Having cataloged the program, the company must next record how much was or will be spent and its likely benefits, even if they are minimal. We have found that the process of collecting this information and classifying the various programs is a big task, but the rewards are almost immediate.

Insert Figure 3 Here

Editing

Having classified the company's CSR initiatives in the auditing process, the purpose of the editing effort is to move the programs in each theatre from the top of to the bottom of **Figure 3**. For example, in Theatre 1, unconnected philanthropic efforts should be molded to yield a more strategic thrust. This is exactly what PNC Bank seems to have done by channeling its primary business expertise and greatest institutional knowledge into a focused, well-funded and strategic philanthropy initiative. While the broad array of CSR programs the company supported prior to launching "Grow Up Great" likely yielded some social benefits, crafting a large-scale and significant effort around a highly visible and critical social issue will have far greater benefits to the community PNC inhabits and relies upon. It will also benefit the company's overall business strategy through improved social capital and brand reputation.

In Theatre 2 a company is compelled to bring a quantitative discipline to its various programs, either individually or collectively, and to quantify their impacts. For example, how does the company's commitment to reduce energy use and utilize renewable energy sources contribute to the company's bottom line? What contribution does it make to the society's well-being? Typically these measurements are reflected in a corporation's annual sustainability report as a method of assuring both shareholders and the public that its initiatives are yielding credible results. For example, United Parcel Service (UPS) enlists an independent auditing firm to evaluate its progress on energy use and carbon emission reduction goals, reporting the results annually for both cost and resource savings. In UPS' most recent sustainability report, the company disclosed its total CO_2 emissions, carbon emissions per mile, the gallons of fuel it uses for each ground package, and the number of delivery miles in alternative fuel vehicles. By reporting a detailed breakdown of how fuel and energy is consumed throughout the delivery system, and having its environmental impact measured and audited by third-party firms, UPS adds credibility to its sustainability accounting. The report demonstrates both the environmental benefits of the company's 6 % CO_2 emissions reduction, and the benefit to UPS's bottom line from lower spending on fuel and energy.[58]

A corporation's assessment and accounting of its social and environmental impacts, and the resulting effectiveness of Theatre 2 initiatives, will have infinitely more credibility if it takes into account the total impact of its operations, rather than laying claim to a purely beneficial outcome. This requires honestly evaluating both the positive and the negative effects or "externalities" of a company's manufacturing and operating activities, and what the net cost is to the natural environmental and the people on which the business depends.[59] Without this straightforward assessment, corporations can invite criticism that they're "green washing" or glossing over the negative consequences of their business activities.

CSR frameworks like the Net Positive model, which holistically evaluates a company's social and environmental impacts, represent a forward-thinking approach to crafting strategic CSR practice that is particularly relevant for Theatre 2 initiatives. The cornerstone of the Net Positive approach is its premise that, given the negative social and environmental costs of any business, it is disingenuous for any company to claim it is truly operating "sustainably" without any societal cost. Using a detailed evaluation tool, the Net Positive model leads CSR practitioners through a process of determining what their primary business impacts are, what steps they can take to mitigate the company's negative effects and maximize the social and environmental benefits, and how to focus their core business competencies for maximum CSR impact throughout the supply chain. The foundation of the Net Positive framework is that, while no company is likely to operate at a "net positive" to society or the environment, it should always be striving to offset and mitigate its negative externalities in pursuit of that ideal.[60]

The Net Positive model, and other methods for assessing a corporation's comprehensive social and environmental impacts,[61] can be powerful tools for performing the editing phase of the CSR process and advancing programs to the next level. Taking a holistic view of both the corporation's unique positive contributions to society and its negative impacts challenges a company to evolve beyond the "status quo" of a modest societal impact to making a significant contribution.

In the third CSR domain, Interface represents one of the most significant examples of CSR evolution through the editing process. Because Ray Anderson subscribed to the goal of operating in a closed-loop system with no waste production or pollution, and no net loss of resources, Interface's leader constantly re-evaluated and edited the company's sustainability initiatives throughout its manufacturing, operations and business processes.[62] The result was a complete transformation of Interface's business model and operating philosophy, manifested in the company's ground-breaking and disruptive FLOR initiative. The question to be asked in Theatre 3 is whether the planned initiatives have a logical path to changing the eco-system and if so what is the projected path to profitability. Changing the eco-system is usually a collaborative task, often guarding against free-riders. But even as the new eco-system starts to take shape, it is critical to create an accompanying business model that is capable of delivering a return on the societal investments that have preceded it.

Ambuja Cements Limited, an Indian mining company with majority holding by Holcim, illustrates an extractive industry that is aggressively using the editing process to evolve from Theatre 2 to Theatre 3 CSR. By setting an organizational goal to be "net positive" throughout its production operations, Ambuja is blazing a truly innovative path that internalizes societal and community needs and expectations in its business planning. To become net positive in its water use, the company launched a water resource management initiative for its surrounding community far beyond what was legally required. For example at its Ambujanagar mine site, the scarcity of water in the local community was a significant challenge for local residents, particularly in agricultural production, the economic mainstay of most rural families. The area's villages situated 15 to 20 kilometers from the coastline suffered from salinity ingress, in which fresh water in aquifers mixes with saline water, making it unfit for drinking water or irrigation. Local rivers were typically dry by winter, as well as the ponds they supplied. Ambuja constructed a series of check dams on the rivers and percolation wells in ponds and riverbeds to increase their water capacity. Water bodies, including the rivers, huge tidal regulators and village ponds were interlinked to divert surface runoff from upstream water bodies. As a result, water recharge has increased and reduced the salinity of the water, while ground water has increased significantly to a level not present for three decades. The company has also established goals to become net negative in plastic consumption, which is used primarily for cement packaging. By burning discarded waste plastic for energy production in its kilns, the company is achieving increased levels of alternate (to fossil) fuel consumption as well as offsetting its plastic consumption. The company's sustainability strategy aims to give back more than it takes from the environment and to clean more than it pollutes as part of its manufacturing operations, exemplifying the progression from aggressive Theatre 2 initiatives to transformative ecosystem change.

Connecting the Dots

As these examples demonstrate, a credible and rigorous audit almost automatically provides insight about how a company should edit and improve its CSR practice. Once a company has completed this essential first step, it needs to progress to coordinating its CSR initiatives within and between the three theatres. This task will have very different implications depending on the company's business and CSR priorities, since firms may have programs in all three theatres simultaneously, or only in a few, depending on the nature of a firm's business and the industry it participates in. We do not believe that every firm should start with strategic philanthropy in Theatre 1, before proceeding to value chain CSR in Theatre 2, and then on to changing its business environment in Theatre 3. Smaller, private companies tend to focus on philanthropic giving initiatives that reflect their founders' personal commitments to social or environmental causes, with little engagement in integrated CSR programs. Public companies of a small scale are inclined to undertake CSR initiatives that integrate with their business and manufacturing operations, while potentially also making philanthropic contributions to social or environmental conservation institutions. Larger corporations and global companies typically engage in CSR in more than one theatre, simultaneously contributing funds to humanitarian, social service and environmental conservation, while undertaking CSR programs that are integrated into business planning and operations. Most companies that develop transformational CSR evolve to this third theatre from significant efforts in re-engineering the value chain in Theatre 2 CSR, as was the case at Interface, although this is not exclusively the case. For corporations engaged in CSR in all three theatres, there are inherent challenges in managing these diverse initiatives cohesively, given that each theatre's efforts are typically managed by different business units and management levels.

Crafting a comprehensive and cohesive CSR strategy requires a company to "connect the dots" between its various initiatives in all three theatres. Without coordination of a company's various CSR programs under one cohesive strategy, a company will not have a direction, but rather disparate and possibly ineffective campaigns. Companies engaged in only one CSR theatre need to plan for the eventual expansion of their CSR initiatives into the other theatres and establish an overarching CSR vision that can encompass programs in philanthropic, supply-chain and transformative ecosystem efforts. Additionally, corporations engaged in one theatre need to ensure CSR programs within that realm are coordinated and expressive of the corporate CSR vision. For example, if a small privately held company focuses its CSR campaigns on philanthropic giving, it's imperative that the executive management devise a set of strategic philanthropy priorities that fit into the business' operational strategy, that are cooperatively managed under one CSR office, and that have broad corporate support, rather than being spearheaded solely by a division manager or company founder. Similarly, companies undertaking value chain initiatives to simultaneously reduce social and environmental impacts and improve profitability need to coordinate their Theatre 1 and Theatre 2 efforts to express core corporate values. For example, Nike concurrently addresses workers' rights and supply chain environmental impacts in its Theatre 2 initiatives, while focusing its Nike Foundation philanthropic giving on addressing poverty and improving girls' education and empowerment in developing countries.[63] Both programs are connected to the communities and natural environments where Nike operates its manufacturing facilities. Corporations can also craft more robust and comprehensive supply chain initiatives by applying the company's core values to evaluating its entire value chain. If a company has established environmental protection in the areas where it operates as a CSR priority, the corporation should evaluate every component of its supply chain through this lens. Where and how are the materials for its products sourced, what environmental protection guidelines do its suppliers follow, and what is the environmental impact of the system that ships parts to factories and products to retail outlets? Is public transportation available for workers to commute to work, and if not, how can the company increase employee access to public transportation?

Gaining a unified vision is a central challenge of coordinating CSR efforts in all three theatres. In current practice, the typical management of philanthropic, supply chain and transformative ecosystem initiatives by different levels of management and business units has resulted in a messy state of affairs. CSR priorities may be unclear to managers, executive leadership and employees, and disparate CSR campaigns may not effectively address social or environmental problems. The most common challenge in Theatre 1 is that too many decision makers in various business units are engaged in disparate versions of CSR with little overall cohesion or impact. The result may be that the company's charitable contributions are sizable in the aggregate, but the significance of the impact on any single issue area is limited. In Theatre 2, since CSR initiatives are typically overseen by business and operations managers, there may be conflicts of interest and a clash of CSR priorities with corporate affairs managers who manage other areas of the company's CSR initiatives. Since Theatre 3 programs are initiated by top-level management, these conflicts of interests are less likely, but corporate executives may be reluctant to include community affairs or corporate foundation managers in the planning process for fear of diluting the power of their business strategy.

Organizing for CSR Strategy Development

Ideally, well-managed CSR creates social and environmental value, while supporting a company's business objectives and reducing operating costs, and enhancing relationships with key stakeholders and customers. It is therefore imperative that corporations establish a CSR unit whose primary responsibility is coordinating and integrating initiatives in all three theatres in which a company is engaged in, even if responsibility for the various initiatives remains dispersed throughout the company. This CSR unit, however, needs to be headed by a person who has senior management rank and holds the position as his/her primary responsibility. It is not uncommon for CSR offices to be headed by managers who split their time between CSR and other corporate responsibilities, such as head of Human Resources or Operations. For example, the 2011 survey of CSR managers and executives revealed that in all three CSR domains, dedicated CSR executives spent an average of only about 35 percent of their time on managing and administering CSR programs, with some professionals devoting less than that percentage of their time to CSR responsibilities. The remainder of CSR professionals' time was devoted primarily to Human Resource functions, or for managers leading supply-chain initiatives, their remaining hours were spent supervising and managing production lines and "sourcing" functions. This underscores the widespread lack of commitment to the strategic aspects of CSR. In order to craft and implement a company-wide CSR vision, the senior manager, and his/her staff, needs to be committed to and focused on this priority. For companies that are engaged in a wide range of CSR initiatives in all three theatres, and which are managed by separate business units, this is undoubtedly challenging. While the CSR officer cannot conceivably be present at every CSR program everywhere in the company, his/her surrogate should be a knowledgeable presence at the program including having decision rights in its design and execution. Having the knowledge and overview of the range and depth of the various initiatives, it should be the responsibility of the CSR office to elevate strategic CSR topics and priorities for discussion at the company's highest levels, and to ensure CSR is incorporated into the appropriate operating committee discussions at the business unit level. Devising a cohesive direction governed by a vision that expresses the company's overarching priorities is imperative for crafting a coordinated and effective CSR strategy.

Insert Figure 4 Here

In addition to empowering CSR executives to practice strategic initiatives, strong leadership and support for CSR initiatives at the top levels of executive management is critical. CSR professionals consistently cite this as the crucial factor for enabling CSR initiatives, and it holds true across industries and geographic locales and regions, and throughout programs in all three domains. While executive management doesn't necessarily need to be directly involved in CSR initiatives, it's paramount, particularly since CSR is not typically integrated into a corporation's strategic thinking, that at least one C-level executive within a company champions the key CSR efforts. This support is particularly critical during the budget approval process for CSR initiatives, since some of these programs will not result in any increased company revenue. Top-level corporate leadership is imperative to communicate throughout the organization the literal or intrinsic value of CSR programs for the corporation and to reinforce the importance of the entire corporation remaining committed to programs that involve both short-term and long-term rewards and risks.[64] In addition to its budgetary role, executive leadership's critical role is to create an enabling environment for a continuous process of CSR auditing, editing and development, in which true business transformation can occur.[65]

Finally, the systems and processes we have suggested in this paper come close to describing the role of a Corporate Responsibility Officer (CRO). This needs to be established as an independent full-time position having access to the CEO and having input to the development of the company's business strategy. Even if CSR is not integrated into the core business planning, it still is critical enough to merit a strategic role, because through its implementation a company reveals how it interacts with its stakeholders. Theatre 3 strategies can be visionary and shape the company's long term future; Theatre 2 strategies will ideally directly save costs and/or increase revenues in the short to medium term, while making a significant contribution to the company's value chain constituents, and Theatre 1 strategies connect with important community needs, present the employees' sense of values, and improve the company's reputation.

How a company practices CSR ultimately reflects its values and its relationship to the society it inhabits and upon which it depends. CSR is here to stay, and every company needs a cohesive, integrated CSR strategy that plays on its core strengths and institutional capacity. By strategically managing its CSR initiatives, every corporation can maximize its benefits to society and the environment, create societal value and fulfill the motivations of its many stakeholders.

Figure 1: Different Motivations and Measures

Theatre 1

- Social value at times (will seem to be) created at the cost of economic value creation
- But much (some) of it is likely to be the necessary cost of doing business
- Hard to measure much more than social inputs. But you need to construct and constantly evaluate a logic model connecting inputs to outputs
- Without some activities and experimenting in this domain, it is hard to jump to the other domains

Theatre 2

- Economic/soc./env. value designed to be co-created
- If the economic engine is calibrated to provide proportional soc./env. value, then measuring economic success is equivalent to measuring social success
- Businesses have to be careful not to over-claim The soc./env. value they have created

Theatre 3

- Economic, environmental and social value converge, but only in the long run
- There has to be a compelling logic of how creating the environmental/social value will lead to economic value (with a well-architected strategy)
- It is often handled as Risk Management, but at times is better handled as seizing an opportunity

Figure 2: Differing Roles and Responsibilities

	Theatre 1	Theatre 2	Theatre 3
Business Perspective			Strategy Leaders
Functional Perspective		Operations Leaders	
Community Perspective	CSR Leaders		

Figure 3: Auditing the Activities by Theatres of CSR

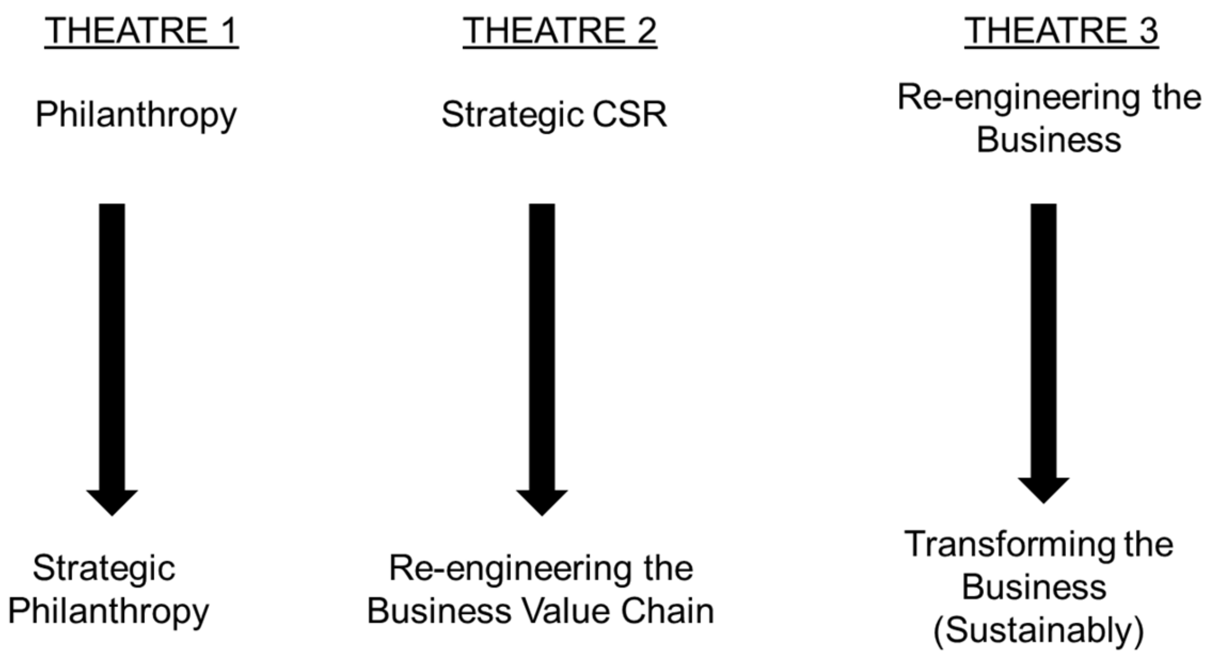
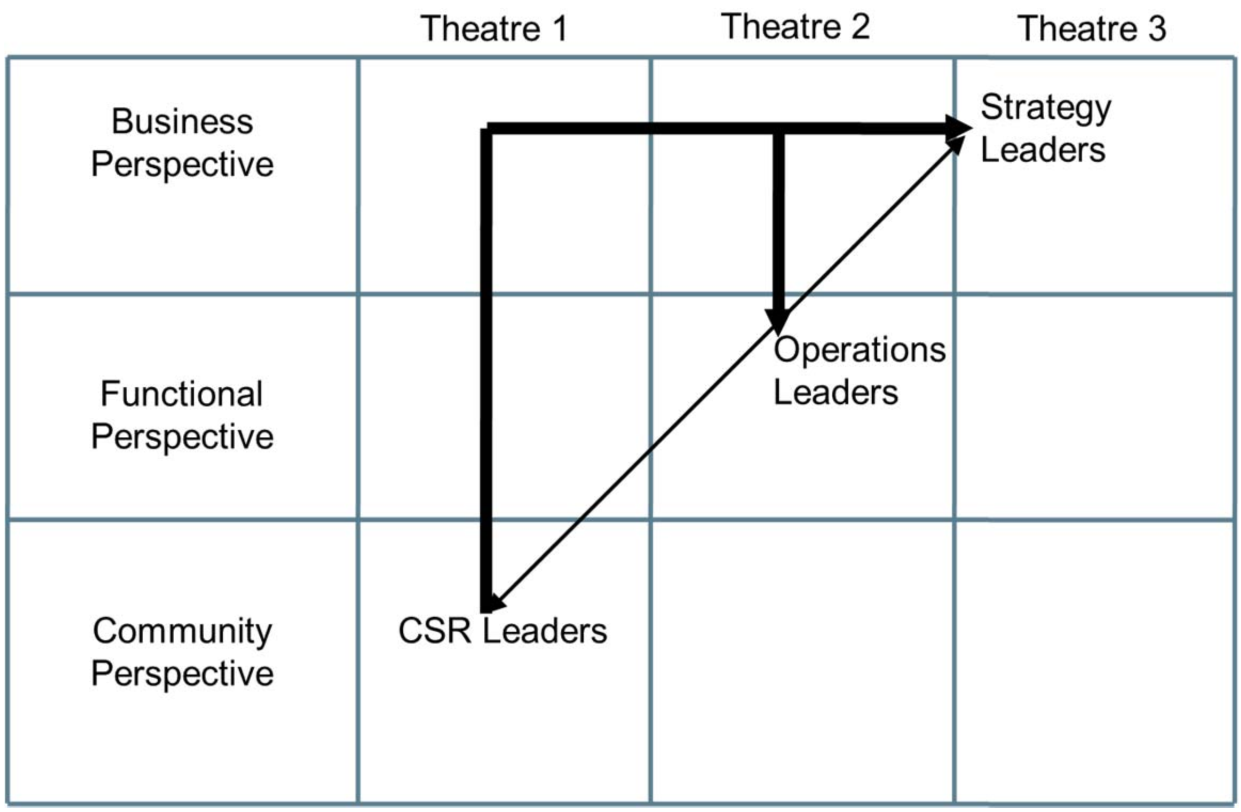


Figure 4: Developing a CSR Strategy



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