Social Responsibility | Series

PART 2 OF A **6**-PART SERIES

Where to begin?
a framework for developing your CSR strategy

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Canadian CEOs facing the myriad demands of stakeholders, customers and employees to tune up their Corporate Social Responsibility (CSR) activities will find real practical advice and sound processes to follow in this second of Microsoft Canada's six-part series on CSR.

Roger Martin, Dean of the Rotman School of Management, contributes a "Virtue Matrix" consisting of four groups of questions for CEOs to apply to their particular corporate situation which will help them identify and prioritize the key

> *Martin's "Matrix" is not an "off the shelf" CSR solution, something that the panelists in our first issue argued strongly would never work.*

components in building a CSR strategy.

Professor Martin posits that answering these questions will help CEOs gauge the current functionality of their CSR programs, and how they relate to best practices in their wider industry. The "Matrix" can also provide them with the tools to best communicate their CSR program to shareholders and stakeholders alike.

Martin's "Matrix" is not an "off the shelf"

CSR solution, something that the panelists in our first issue argued strongly would never work. Instead, as Lesya Balych-Cooper notes in the panel discussion that follows Martin's article, "The "Matrix" is about developing a culture, developing a corporation to a higher level. It is about bringing together what you have and understanding that you cannot be and will not be the leader in everything."

Through our first two installments in the series, a strong consensus is emerging that CSR has to be addressed more vigorously by

Canadian CEOs. However, there is an equally strong belief that in order to be effective its implementation must be firmly grounded in the unique strengths and characteristics of each company.

We hope you enjoy this series and look forward to continuing our exploration of CSR in coming issues.

David Hemler

Where to begin?

a framework for developing your CSR strategy

by Prof. Roger Martin, Dean, Rotman School of Management and Director, AIC Institute for Corporate Citizenship @ Rotman

In 2002 I released a strategic tool designed to help CEOs think through the task of being exemplary corporate citizens. Motivated by the dearth of actionable models available to CEOs, the Virtue Matrix offers a framework for evaluating the competing claims of shareholders, society and government, encouraging business leaders to be as innovative in enriching society as they are in enriching their shareholders.

The Virtue Matrix consists of four quadrants, the bottom pair of which makes up the "Civil Foundation," a depiction of the historical development of CSR. The top pair makes up the "Frontier," which is the area of potential future development of CSR. The model distinguishes between activities in the Civil Foundation that are required to stay in business, versus those in the Strategic Frontier that provide opportunities for both economic gains and moral purpose and those in the Structural Frontier that are at odds with economic gains.

The lower right quadrant, Civil Foundation - Compliance, is the accumulation of laws and regulations to which firms must comply or risk being fined or prevented from continuing in operation. To determine its approach to this quadrant the corporation must ask:

- To what extent do we seek to be in full compliance with the key laws and regulations to which we are subject?

- And if so, how do we ensure, demonstrate and communicate that we meet all laws and regulations?

- What are the two or three priorities, if any, for overcoming compliance issues?

In the lower left quadrant of the Virtue Matrix, Civil Foundation - Choice, are the customs and norms to which firms tend to adhere. Lack of adherence to the customs and norms in an industry or economy can result in a firm being ostracized by other firms in the industry, lowered customer loyalty, or greater difficulty in attracting and retaining employees. To determine its approach to this quadrant the corporation must ask:

- What are the key norms and customs in the industry?

- To what extent are we currently a leader or a laggard in adopting norms?

- What are our aspirations with respect to leading in adherence to customs and norms?

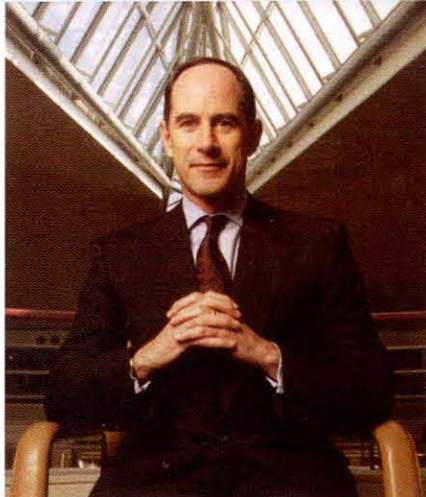- What two or three initiatives would be most important to improve adherence to customs and norms?

The top left quadrant of the Virtue Matrix, the Strategic Frontier, encompasses activities whose motivation is largely intrinsic—i.e. it feels like the right thing to do—and whose impact on shareholder value at time of launch is ambiguous. However, when launched, the activity produces sufficiently positive reactions from customers, employees or other stakeholders that the activity turns out to be a positive contributor to shareholder value creation. When an initiative in this quadrant succeeds, as was the case with The Body Shop, it spawns copy-cat behaviour, which drives the activity to the Civil Foundation to the benefit of society broadly.

The key question for this quadrant is what are the greatest opportunities across the core CSR areas in which the corporation could create great value for customers or employees by taking bold action of the sort that has never been taken before? To determine its approach to this quadrant the corporation must ask:

- What activities that your corporation's customers, employers, shareholders, or suppliers want that you could provide if you chose?

- How could we develop a business case to overcome the impediments to undertaking such new-to-the-world practices?

- What two or three new-to-the-world initiatives would be highest priority for initiative?

The upper right quadrant of the Virtue Matrix, the Structural Frontier, houses activities that are both intrinsically motivated and contrary to the interests of shareholders. The benefits of corporate conduct in this quadrant accrue principally to society—i.e. there are substantial externalities—rather than to corporations, creating a fundamental barrier to corporate action. For example, building a textile mill in North America to protect worker jobs but then going out of business because customers are not willing to pay more for locally-produced textiles than those from developing country factories. The most effective weapon against inertia in the Structural Frontier is collective action among corporations, governments, and non-governmental organizations. To determine its approach to this quadrant the corporation must ask:

- What practices that are desired by customers/employees/shareholders/stakeholders would require collective action among firms in the industry to make happen?

- How could a coalition of interested firms be pulled together for each potential practice?

- What governmental/non-governmental organizations might your corporation include in a coalition?

- What two or three new-to-the-world initiatives would be the highest priority in this quadrant?

With the four quadrant assessments in hand, the corporation can articulate an overall Virtue Matrix Strategy as follows:

- What is your corporation's goal with respect to the overall Virtue Matrix?

- Is it to be known for being 100% compliant, leading in the adherence to norms and conventions, an innovator in the Strategic Frontier and an instigator of coalitions in the Structural Frontier?

- Or is it to be as compliant as necessary without getting into trouble, a fast follower on new norms and conventions, and an avoider of the risks associated with the Frontiers?

- Which are the top five initiatives across the four quadrants that warrant the most urgent action?

- What is the plan for communicating your corporation's overall Virtue Matrix Strategy and the individual initiatives?

With such a Virtue Matrix Strategy in place and well-communicated, the corporation will be well-positioned to fend off attacks from single issue CSR critics who charge: "If you were a responsible corporation you would do x and y for society!" Rather than answering defensively as many corporations must today, it would be able to answer thoroughly and confidently as to why what it is doing makes the most sense for both the corporation and society. And it would be more likely not to get asked the question in the first place because its commitment to CSR, as well as shareholders, would be evident from the execution and communication of its Virtue Matrix Strategy. ∎

Roger Martin (martin@rotman.utoronto.ca) is Dean of the Rotman School of Management, University of Toronto and is Director of the School's AIC Institute for Corporate Citizenship. He is Chairman of Workbrain Corporation, a Director of Thomson Corporation and Chairs the Institute for Competitiveness and Prosperity. Prof. Martin serves as a Trustee of the Hospital for Sick Children and the Skoll Foundation and is a co-founder of the Emagine Program.

Social Responsibility

Each of the articles in this series is accompanied by a discussion featuring an expert panel with special interest in Corporate Social Responsibility.

Discussing some of the issues raised by Professor Roger Martin's, "Where to begin? a framework for developing your CSR strategy"

Lesya Balych-Cooper
Vice-President, Equity and Employee Engagement, BMO Financial Group

Rosemarie Boyle
Vice-President, Corporate Communications and External Relations, Export Development Canada

Glen Grunwald
President and CEO, Toronto Board of Trade

1. Does the "Virtue Matrix" strike you as a valuable framework for organizations to evaluate where they are in the CSR process?

BALYCH-COOPER Absolutely. It gives CEOs and organizations a tool to look at what they currently have, assess it and determine if their CSR processes are engaging to move them forward. They can then put together a concrete and thoughtful plan of action. It is very thoughtful, it's flexible and it has endurance.

GRUNWALD Having a strategy, such as the "Matrix," would clearly help businesses get their arms around a broad and all-encompassing concept. When put in this context, businesses understand and can analyse how they operate—so that they can focus, strategize around it. Then they can communicate it.

BALYCH-COOPER I think that what Roger has developed is an extremely elegant tool.

It is not something that packages what you do to help you win the top ranking. It is about developing a culture, developing a corporation to a higher level. It is about bringing together what you have and understanding that you cannot be, and will not be the leader in everything.

2. So each organization will use such a framework somewhat differently?

GRUNWALD I've seen in my time at the Board of Trade that there is a need for companies to have a CSR strategy and communications plan in play, but we can't be all things to all people.

We see organizations and members move to include CSR in their business, specifically dealing with "non-business" issues such as quality of life.

Where we, the Board, can become involved is by helping corporations affect broader community-wide issues, as well as work with small and medium-sized businesses who don't have the same resources, and marshal the business community resources in our organization.

BALYCH-COOPER Engagement in CSR distinguishes companies from one another. We are finding that employees are interviewing the interviewer—in terms of flexible work, types of work available, development and training.

GRUNWALD And it's important to be engaging your employees in the CSR process. Employees are a great resource and they do great things. Engage your employees, find out what they are involved in and find out if there is a way for the company to help them. Turn it into a groundswell or a grassroots approach to your own corporate activities.

BALYCH-COOPER And beyond the employees, we also look to our board of directors in developing something that is beyond corporate governance and legislative governance. We have peer reviews so that our board can measure themselves and how they are doing because the expectations are higher than the governance legislative standards set.

3. But would you say the CEO must lead in developing CSR?

BALYCH-COOPER A leader is someone who listens and empowers people to implement. It is one thing to say you are a good corporate citizen. It is another thing to actually put programs into place that have results. Within our organization leadership is very strong and it does come from the top down.

Corporate Social Responsibility is a marathon. It is not just signing up to a bunch of protocol. It is actually having a culture that embraces and engages in the actions of CSR.

BOYLE It is a hard question and there is a distinction made in the "Virtue Matrix" between the leaders and the laggards. A lot of people probably want to be in the middle of the pack as long as the pack continues to move. This is an area where anyone who does step out of the pack, risks getting their head chopped off. So this is the unfortunate reality—that those who want to lead are well aware of the downsides. And everyone is a critic.

The whole leadership question is interesting and extremely complicated too.

4. What do you say to the shareholder who looks at the balance sheet and questions how much is invested in this area?

BOYLE You make the case that this kind of behaviour is going to lead to the kind of business that your company wants and it is more sustainable. Look at it from reputation alone. Bad CSR practices will hurt a company's reputation and impact immediately on the bottom line. You are going to have a high turnover of staff, you may have customers who don't stay with you or you hit regulatory problems and lose your license to operate.

Most advanced CEOs understand that they have a responsibility. They have to bring their shareholders along with them and in many cases the shareholders, like the employees, can help instill that expectation in the CEO.

GRUNWALD I think that the CEO has to build and communicate the vision to see how their company and employee will work in this venue. Also, to listen to what their communities need and their employees want and pull it all together in a coherent strategy that will work for the company and community.

BALYCH-COOPER Employees, shareholders and others do look to the CEO to see if there is a gap between what is being said and what is being done. To close that gap we need to have great communication and vision.

It is very important to implement the framework for that dialogue and then really hold people accountable for performance, because that is what your shareholder is looking for. Accountability is often the idea that gets left on the table—and the CEO sends that message.

5 If there is no clear benefit to the bottom line from a CSR initiative—especially short term—some companies will go further and other companies will hedge their bets. How do you decide which company you are going to be?

BALYCH-COOPER If you go back to Professor Martin's "Virtue Matrix," you see that no two companies are likely to be in the same place, because all of our companies are so diverse in terms of make-up, products and services.

We may be at different places within different parts of our business within the Structural or Strategic Frontier.

If we use the "Matrix" to make some of these decisions, then it becomes a thoughtful, elegant process, where we can decide to be on the strategic frontier in this area and then decide in another that we are just still learning.

It is appropriate that we become compliant until we become more robust in our knowledge and experience—then push the envelope.

That is the flexible elegance of the model.

6 Professor Martin's 'fourth quadrant' refers to collective action—merging your initiatives with organizations such as NGO's in the community. That is very exciting and also full of trepidation—what are your thoughts on that? This is almost stepping into the role of government isn't it?

GRUNWALD As a Board of Trade/Chamber of Commerce that is where we can lend support to businesses who want to be involved, but don't have all of the resources or focus to do it. And they may have senior executives who have a particular interest and who may want to pursue it.

In a more broad way, in Canada in particular, as citizens we sometimes turn to government for all of our solutions.

However, as businesses, we often think that we can provide solutions or deliver services in a more efficient manner. This whole process may move it along, where governments, citizens and the community in general will trust businesses more to provide what they often look for governments to deliver and to provide some contribution to our whole community.

We have a situation in Toronto where we have a budget crisis, and we have been trying to talk to our mayor about alternative service delivery, where businesses may be able to deliver the same quality or better services currently being provided by public employees. Now that is obviously a hot political topic. We are not saying that there will be less jobs, we are saying that there will be more money in the budget to provide other services.

7 Do other examples of "collective action" come to mind?

BOYLE I can think of an example. At EDC for the last few years we have issued an annual report from our Chief Environmental Officer on the projects that EDC has supported and the reviews they have received and where they sit with Canada's obligations etc. This is a very sensitive area and it receives a considerable amount of attention as we support development projects in Third World countries—and there are lots of complicated CSR issues in those countries.

Last year we went to the NGOs we work with most frequently and asked them for a frank assessment of our report, which they made and published on their websites. We could not meet all of their expectations, but we went further than we maybe would have gone on our own.

That engagement led to a better product that we are more proud of and I think that the NGO feels that they had a stake in improving, so it was a bit of a win-win for everyone. They have their job to do and we have ours.

8 That is a really positive way to look at it, whereas many look at the NGOs as a thorn in their side.

BOYLE It really depends on how long they have been at it. If an organization really believes in stakeholder involvement then they will figure out a way to keep that dialogue open.

And there has to be dialogue, some compromise or collaboration. You can't talk to someone if you are each firm in your own positions. Then it is an empty exercise.

9 Some changes are happening quickly.

BALYCH-COOPER After decades of dialogue around diversity we understand it more and have the business cases that support diversity. Perhaps crisp measurements of relationships to CSR may take some time, but I don't think anyone is going to wait for that business case. We are working in this environment now.

We are competing for that kind of "better corporate citizenship" with our competitors. The question is how do you go about it? This is why I think that Roger Martin's article is brilliant. It gives CEOs a tool, a lens to look at all of the activities that they do and analyze them and make investment decisions based on where it is best to compete and to engage our employees.

10 And globalization is driving CSR development as much as anything, isn't it?

BOYLE I think so, it has made people more aware of what is happening around the world and their role and responsibilities there. We are seeing such a different world with multinationals operating, trade flows, global supply chains etc., all bringing the world so much closer.

What is happening in Africa or with the tsunami—the responses from Canada and around the world—would that have happened years ago? I'm not sure. We are so much more aware of human rights issues—like what is happening in Darfur. You cannot operate in isolation any more, no corporation can. They have to take these bigger issues on board and figure out how they are going to be dealing with them. The public expects it.

11 Final thoughts?

GRUNWALD Companies with good CSR perform better from a financial perspective and generally as well. Is that because they have better management or is it because they have better resources? I don't know the answer to that question, but I think it is something that everyone is realizing and it is part of the whole planning process. It is also being formalized in business education.

BOYLE Companies embrace CSR because they have to fundamentally believe that goodness is good for business. And you can't just focus on the "easy areas," such as donating more money to the community. Of course this is important, but at some point CSR standards are going to impact the way companies are doing business and sometimes hard decisions will have to be made and transactions may not go ahead.

If we actually have to turn down business because the project does not meet standards that we are upholding, I think those actions add credibility to us. Making those decisions is not always easy. But look at the cost of not having sound corporate values or good CSR practices. Companies that have CSR as an operating principle have armed themselves to a certain extent—it is going to condition their business responses in a whole variety of areas—economic problems in their industry, their response to a crisis like tainted product, water contamination, etc.

BALYCH-COOPER I think the current focus on CSR is very strong. It is a tradition that good companies have long had. The packaging may be different today but CSR is still a measure for good companies to do even better and compete more effectively and become high performance companies in an environment that has more focus on a global aspect.

Being proactive has less of a cost to the bottom line than being re-active. And great employees want to be part of a great company. ∎