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Changing the Game

Leading corporations switch from defense to offense in solving global problems

By Mark Kramer & John Kania

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*Leading corporations switch from **defense to offense** in solving global problems*

by MARK KRAMER & JOHN KANIA

Companies today understand that corporate social responsibility (CSR) forms an inextricable part of their reputations and brand identities. They spend ever-increasing amounts of corporate resources on improving the social, human, and environmental conditions under which companies operate. CSR activities contribute to social progress and, as an unending torrent of sustainability reports and press releases attest, are intended to enhance corporate images. Yet the world's problems seem as intractable as ever, and very few global companies have managed to rise above the public relations din to truly distinguish themselves through their CSR activities.

One of the primary reasons CSR has not yet significantly improved society is that the nonprofit and business sectors are for the most part still stuck in their old stereotypical roles. By ceding responsibility for solving social problems to nonprofits, companies have forsaken their ability to intervene directly in healing the world's woes. As a result, some of the most sophisticated and powerful organizations in the world remain on the sidelines of social progress.

We do not suggest that merely because businesses *could* solve social problems, they must do so at the expense of their primary calling. Yet many billions of dollars are spent every year on philanthropy and CSR initiatives. Billions more are spent on the defensive advertising, lobbying, and PR with which companies attempt to sidestep the social concerns for which they are blamed. These resources, already committed, could be spent far more effectively without detracting from the company's overall purpose. Companies that choose the new path we describe will reap disproportionate rewards by building sustainable reputations that far outdistance their competitors, whether the goal is social progress or reputational benefit, playing to win will deliver more powerful results at a lower cost.

The Old Stereotypes

The stereotypical roles of businesses and nonprofits suggest that, whatever game they may be playing, they are on opposing teams. Businesses are viewed as purely self-serving, pursuing profit in ways that are inherently destructive to human culture, well-being, and the environment. Nonprofits are viewed as

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altruistic, charged with identifying and solving the world's problems, and acting as public watchdogs to raise the alarm about the evils of business. Businesses have vast resources, an ability to get things done, and readily measurable results. Nonprofits are struggling for daily survival, work slowly on more complex problems, and do good works in ways that often cannot be measured. In short, nonprofits are the noble but ill-equipped David compared to the powerful but evil Goliath of business.

One need not look far to see the inaccuracies of this picture. Business may not be intentionally altruistic, but it provides the economic base that enables a self-sufficient livelihood, the creation of wealth, and the practice of philanthropy. Through taxes on income, wages, and capital gains, it is the ultimate source of all public funding. At the other end of the field, nonprofits may be dedicated to social goals, but they pursue contributions with the same intensity that businesses pursue profits. Most nonprofits have far fewer resources, but they are often able to focus media attention on issues that mobilize a powerful response from consumers and governments. Many nonprofits struggle to survive, but the nonprofit sector as a whole is a $1 trillion enterprise in the United States alone. Growing steadily, the sector already employs roughly 7 percent of the workforce and includes global enterprises, foundations, universities, and hospitals that rival many corporations in power and wealth.

Inaccurate or not, it is the old stereotypes rather than the reality that lead many businesses and nonprofits to work in opposition to each other. Businesses, given their harmful ways, cannot be trusted to address social problems, while nonprofits, lacking adequate resources, cannot be expected to solve them. The result is a stalemate: Businesses leave social problems to nonprofits, while nonprofits blame business for creating the problems and exact charitable contributions as expiation. Neither side is in a position to devise full solutions. Nonprofits may have the will but lack the capacity, while businesses have the resources without the mandate.

The old stereotype of noble nonprofits and malevolent businesses inevitably casts corporations in a defensive role. Companies, therefore, view CSR as a vulnerability – an external risk to be managed with the least possible investment – rather than an opportunity for valuable social impact or

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competitive differentiation. When the nonprofit community raises an issue, from child labor to global warming, the usual response of the affected industries is to find the fastest and least costly way to defuse media attention and public pressure. Companies often turn to lobbying, public relations, advertising, and other cosmetic measures, rather than squarely addressing the underlying problem. The specter of potential legal liability further encourages companies to deny any culpability. In the end, many companies do address the issue by modifying their operations, but only after the denials and cosmetic measures that are their first lines of defense have failed.

Given this defensive approach, businesses tend to focus their CSR activities primarily on the social risks inherent in their own operations or supply chains and for which they might become activist targets. For all other social issues, businesses frequently delegate responsibility to nonprofits and limit their involvement to cash or product donations and employee volunteering. In the aggregate, such corporate philanthropy is substantial – exceeding $12 billion in the United States alone last year – but it is often so fragmented and diffuse that it creates little discernable impact. Nor is social impact often expected. Companies may be trying to build goodwill or preserve their license to operate, but they don't honestly expect that their contributions will solve major social problems like hunger or illiteracy. They are content if the recipient organization seems to be making a good effort – and so the organizations themselves are rarely held accountable for implementing solutions. The end result is a Faustian bargain in which companies donate money without demanding that social problems be solved, and nonprofits honor corporations for their generosity, without interfering in their business.

A New Way Is Needed

The world's problems do not neatly apportion themselves between the private, nonprofit, and public sectors. Many of our most pressing challenges – economic development, job training, housing, medical research, and the logistics of disaster or famine relief – are rooted in circumstances where businesses have deep expertise that nonprofits and governments lack. Yet those capabilities are lost when businesses choose to act only through cash contributions.

Consider some of the problems that have hampered the Asian tsunami relief efforts. A 2005 study sponsored by the Fritz Institute of the 18 largest humanitarian organizations that led international relief efforts after the tsunami found that the delivery of aid was severely hampered by a lack of logistics expertise. (See p. xx for more about this report.) According to the study, only five organizations had access to software that enabled them to track and trace the flow of materials. And *The New York Times* reported on Jan. 3, 2006 that 11 months after the tsunami, the Red Cross had yet to spend $400 million of the $576 million it received in earmarked donations. Many of the companies that donated cash so generously to these well-meaning nonprofits might actually have been able to deliver assistance more efficiently themselves.

Our research suggests that corporations could indeed do far more for society at less cost – and in so doing enhance their corporate reputation and brand names in ways that have a lasting effect. Companies that have adopted this approach, such as BP and Nike, have been able to create social impact on a substantial scale, rapidly developing and implementing sustainable or systemic solutions that do not depend on ongoing charitable contributions.

The shift in thinking that is required to achieve these benefits is profound but simple: Businesses and nonprofits must reject their old stereotypical roles. Business must abandon its defensive and cosmetic approach to social issues. After all, it is hard to win a game when the team is playing only defense. Companies must also be willing to exploit their full capabilities to find and implement solutions to social problems, even if the company had nothing to do with creating the problem. And nonprofits must be willing to share their halo by accepting business as an ally rather than as an opponent, and by welcoming its enormous capacity to solve social problems.

However interdependent the nonprofit and business sectors may become, the economic motivations of business will never align perfectly with the altruistic mission of nonprofits. Companies may find many advantages in meeting the needs of the underserved or abating environmental harms, but there will always be social and environmental problems that run contrary to business interests. That is why the the nonprofit sector can never be replaced by the business sector.

On those social issues where companies have reason to be involved, whether they are motivated by reputation or profit, substantially greater progress can be made if nonprofits can find effective ways of engaging them in cross-sector partnerships. By embracing a new and positive perspective on business' involvement, nonprofits can tap into a wealth of resources that have long been beyond their reach.

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Taking the Offensive

Every major company would like to be viewed as a world leader in CSR, but BP is one of the few that has succeeded – primarily because the company rejected a defensive CSR game plan and chose to play offense instead. BP first distinguished its approach to CSR on May 19, 1997, when Lord John Browne, group chief executive, gave a speech at Stanford University. Lord Browne raised the issue of global warming – an issue that BP had no need to mention at the time. Today, climate change is seen as a major problem, but nine years ago its significance was far less apparent. Lord Browne announced, however, that BP would not wait for definitive scientific proof, but would take action merely because "the possibility cannot be discounted and is [being] taken seriously."

The oil and gas industry was shocked by Browne's unnecessary and risky admission, entrenched as it was in defensive and cosmetic responses. The American Petroleum Institute and other energy companies, such as ExxonMobil, denied any responsibility for the problem, used industry-sponsored studies to challenge the scientific evidence, and mounted aggressive media campaigns to sway public sentiment, fighting – as they still are today – against recognition of the issue and mandatory regulation of carbon emissions.

Instead of playing defense, BP had decided to play offense. Browne publicly pledged that, within a decade, BP would reduce carbon emissions from its operations by at least 10 percent below the 1990 baseline, a more aggressive goal than the Kyoto Protocols. He promised that BP would provide annual reports on its progress, verified by independent experts. In fact, BP reached its goal within five years, not 10, reducing emissions by 80 million tons. The company then announced even more aggressive targets: to expand production by 5 percent per year without increasing CO_2 emissions.

Creating Game-Changing CSR

When developing a CSR program a company should:

1.

Pick the right issue. To succeed in solving a significant social problem and enhancing its corporate image, a company needs to find the right problem to solve. It should find a single issue that is important, timely, and leverages the company's core competencies. An issue such as this is more likely to attract media attention, which will help bolster the company's reputation. Equally important, an issue that captures media attention will make it easier for the company to engage nonprofits and government agencies and create the sort of cross-sector partnerships that are essential to solving the problem.

2.

Establish concrete goals and report progress. Business stakeholders long ago became jaded with companies' vague pledges to address social issues. To stand out from the crowd, a company needs to publicly commit to an ambitious and quantifiable goal that goes beyond what is expected, and to provide regular reports on its progress using independent external audits or reviews. A company should set ambitious goals, but it must also deliver the results it promised within a reasonable period of time.

3.

Deploy the company's key assets. The truly valuable assets that a company has – its products and services, skilled employees, industry expertise, global infrastructure, and its network of connections, credibility, and influence – are rarely tapped for social progress. Yet these company assets are every bit as powerful in solving social problems as they are in creating economic value for the company. Once a company learns to break down internal barriers and integrate its CSR initiatives with its entire value chain, new and more powerful opportunities for solving social problems will arise.

4.

Work in cross-sector partnerships. The term "partnership" in CSR or corporate philanthropy is often used loosely to apply to any relationship between a company and a nonprofit organization or government agency. Often these partnerships are no more than large cash contributions accompanied by joint press releases. The most effective solutions to social problems are those that engage nonprofit, business, and government agencies in cross-sector partnerships where each sector concentrates on what it does best.

BP chose a single issue to address, confronted it squarely before anyone else in its industry, publicly announced quantitative targets with aggressive deadlines, and provided objectively verified annual reports on its progress. Most important, the company delivered on its commitment, surpassing even its own projections. By doing this, BP made a game-changing move, achieved a level of performance above societal expectations, and along the way assumed the mantle of industry leadership in CSR.

The benefits to BP's reputation have been substantial. In GlobeScan's annual survey of sustainability experts, BP has increasingly distinguished itself from other companies over the past five years. (See Fig. 1, p. 26.) Even though the oil industry is often viewed with disfavor, BP leads the list of *Fortune* magazine's Global 100 companies on corporate responsibility. Undoubtedly, BP's generous advertising budget has helped raise awareness of its corporate responsibility, but GlobeScan and *Fortune* both based their ratings on the views of sustainability experts, a tough audience that is much less likely to be influenced by advertising than is the general public.

A hydrogen fuel-cell bus refuels at BP's Connect station in Hornchurch, England.

PHOTOGRAPH COURTESY OF BP

Starting on the Defensive

Five years before Lord Browne's speech, in 1992, Nike learned a similar lesson the hard way. The company had become the target of significant media attention after *Harper's Magazine* and the *New York Times* reported labor abuses by its Indonesian suppliers. Over the next several years, further allegations and calls for a major consumer boycott ensued. Unlike BP, Nike responded to these allegations by playing defense.

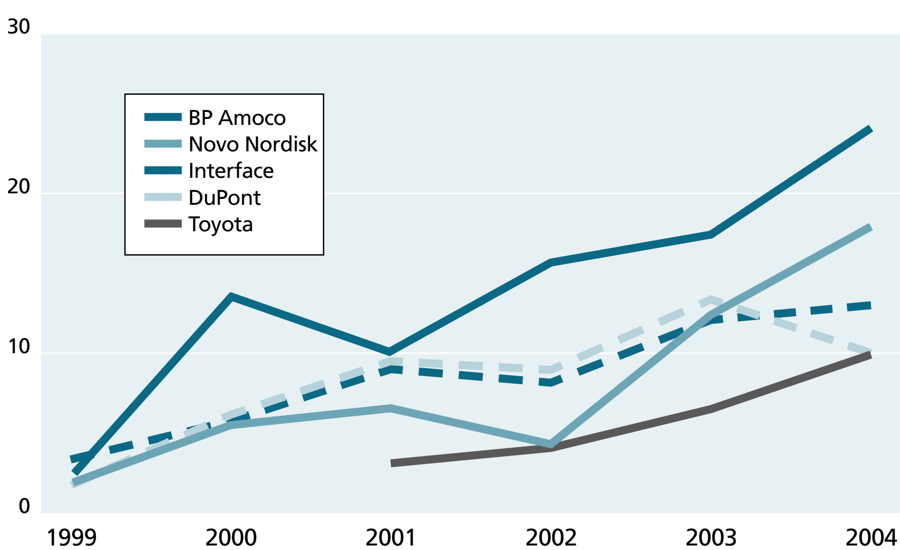
After all, Nike had a strong case. Its suppliers were independent companies, not under Nike's ownership or control, and their labor practices were not unusual for the developing regions where they operated. Furthermore, the reality was far more nuanced than critics allowed. However oppressive the working conditions seemed to U.S. consumers, they offered badly needed jobs in areas of severe poverty. If Nike stopped doing business with the offending suppliers, either competitors would take over the excess capacity and gain an economic advantage without changing labor conditions, or the factories would close and the workers would be unemployed.

What Nike discovered is that a defensive approach didn't make the issue go away. Rightly or wrongly, U.S. consumers held U.S. companies and the products they sold to a higher standard, and the working conditions that existed within Nike's supply chain became an inescapable attribute of its brand.

By 1998, Nike began to change its approach. The company began by publicly acknowledging the problem and engaging with its suppliers to

UNPROMPTED MENTIONS OF LARGE COMPANIES FULFILLING RESPONSIBILITIES TO SOCIETY

Sustainability Experts Across OECD Countries, 2004



SOURCE: GlobeScan's 2004 Survey of Sustainability Experts, a twice-yearly survey of sustainable development experts from across OECD countries.

The old stereotype of noble nonprofits and malevolent businesses inevitably casts corporations in a defensive role.

address the treatment of the nearly 650,000 workers employed in their factories. By shifting from denial to cooperation, it began to overcome some of the negative reputational pressures. But as the company poured more and more resources into meeting social expectations, the incremental benefit to its reputation began to taper off. Appeasing the critics was not the same as building a solid reputation for corporate responsibility. To do that, Nike had to shift from a defensive to an offensive game plan.

In recent years, Nike has fully embraced the need to improve its supply chain labor practices and, like BP, took a position ahead of other companies in its industry. Nike established a comprehensive set of environmental, health, safety, and labor standards. Every new factory was required to be in substantial compliance with these standards before it was accepted as a supplier – standards so tough that 43 percent of the factories reviewed in Nike's 2004 report failed the test.

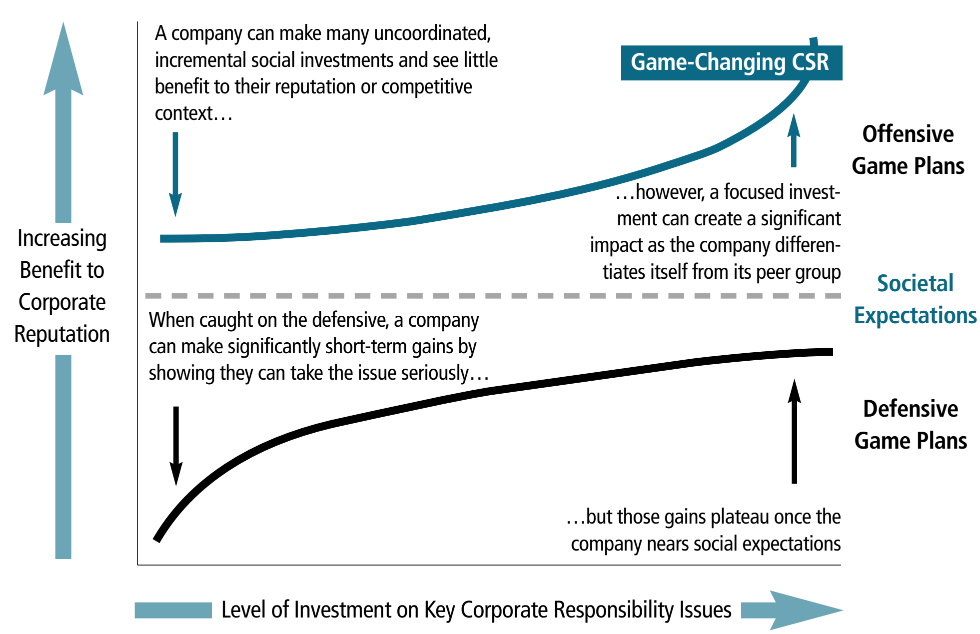
Nike also realized that it had to do more than set standards – it had to help suppliers reach them. When violations are found among existing suppliers, Nike works with factory managers to develop a remediation plan and monitor its implementation. Nike only abandons a supplier if it is unwilling or unable to change its practices. Even then, if the factory closes, Nike works to assist the former employees in receiving the full severance pay to which they are legally entitled.

Today, Nike has more than 75 full-time employees dedicated to inspecting factories and working with suppliers. Nike also cooperates with the independent monitoring organization, Fair Labor Association (FLA), to conduct unannounced audits. Altogether, several hundred factories are audited or inspected by Nike personnel or the FLA every year and the aggregate results are made public. Reversing its defensive posture, Nike has committed to full transparency by posting on its Web site the names and locations of all the factories producing for the Nike brand, with a few exceptions bound by confidentiality clauses. Beyond modifying its own practices, Nike has taken a global leadership role on the issues of supply chain labor practices, providing support to industrywide initiatives aimed at sharing information and best practices.

The chart below illustrates how Nike's approach to CSR evolved. As long as the company was operating below the level of societal expectations, its prompt, visible, and substantial corrections of deficiencies improved its reputation and reduced public criticism. But as long as the company's goal was merely to reach the minimum acceptable threshold of responsible business conduct, its investments in CSR produced ever-decreasing gains in reputation. To establish a reputation for leadership in CSR and to gain a longer-lasting good reputation, the company had to set – and meet – goals that dramatically exceeded industry norms and societal expectations.

The approach that Nike and BP have taken provides many benefits, but it does not insulate a company from the consequences of violating public expectations in other areas of its operations. All of the goodwill that BP generated through its climate change efforts could not excuse the safety problems that led to a fatal Texas factory explosion in 2005, and Shell's well-deserved reputation for corporate responsibility dropped precipitously when the company disclosed that it had substantially overstated its oil reserves. Offensive CSR can distinguish a company's reputation but cannot protect it; defensive CSR can protect a reputation but cannot distinguish it. Both are necessary to succeed in today's business climate.

GAME-CHANGING CSR REQUIRES A FOCUSED COMMITMENT TO REACHING A SOCIAL GOAL THAT EXCEEDS SOCIETAL EXPECTATIONS



SOURCE: Mike McBreen, director of Global Apparel Operations and Corporate Responsibility for Nike. Speaking at Nov. 9, 2004, roundtable with FSG.

A New Role for Nonprofits

When creating a cross-sector partnership with a company a nonprofit should:

1.

Seek business partners, not villains. Nonprofits often have a lot of experience developing lists of companies that may have caused a particular social problem, in order to apply public pressure on those companies to change. By focusing instead on those companies that have the resources to help solve the problem, a nonprofit can come up with a different and greatly expanded list of potential corporate partners.

2.

Help companies set affirmative goals. Many companies are looking for ways to demonstrate their corporate responsibility by developing affirmative approaches to solving social problems. But they often lack the ability to understand fully the issues and to frame ambitious but realistic goals. Nonprofits often have a deeper understanding of the social problem, which enables them to help companies devise more comprehensive strategies and set more ambitious and attainable goals.

3.

Ask companies for more than money. It is relatively easy for a nonprofit to target a company for a grant or a donation. It is much more difficult for a nonprofit to understand the full complement of resources that a company can bring to bear on solving a social problem. To understand those capabilities and know how to ask for them requires that nonprofit managers learn a new set of skills. Mastering this new approach will not be easy, but the potential power that can be deployed when business and nonprofits work together dwarfs what money alone can buy.

4.

Share the halo with business. Many nonprofits are afraid to align themselves too closely with business partners because it may put their reputation at risk. Nonprofits need to overcome that fear, because the benefits that can be accrued from doing so far outweigh the risks. Nonprofits can look smart, creative, and efficient by tapping business capabilities, and companies can enhance their reputations by taking affirmative steps to solve social problems. It is a win-win solution, but only if nonprofits and businesses are willing to share with one another the halo effect that comes with success.

Using the Entire Team

If shifting from defensive to offensive strategies is the first step of game-changing CSR, then using the full capabilities of the entire corporate team is the second. These resources can be applied wherever they are most relevant, even if it takes the company outside of its usual playing field.

Consider General Electric's healthcare initiative in Africa. Although Africa is not a primary market for the company's products, the devastating poverty and disease that prevail over much of the continent were of deep personal concern to the 4,000 employees in GE's African-American Forum. The company might have responded by sending a large check to any of dozens of international aid organizations, but instead CEO Jeffrey Immelt recognized the relevance of GE's capabilities to the problem. He knew that the local healthcare infrastructure depended not only on medicines and doctors, but on clean water, reliable energy, and state-of-the-art medical technology – all businesses in which GE had substantial expertise.

First, GE applied its highly disciplined six sigma problem-solving approach to develop a plan for effective intervention. To be successful, GE needed to find a situation where the level of need was manageable, the political environment stable, and the existing infrastructure sufficient to use and maintain the equipment that GE would provide. Senior executives began their research by conducting over 100 interviews with experts from UNICEF, Africare, the European Union, the U.S. Agency for International Development, and the U.S. Department of State. Ultimately GE selected Ghana, and a team of senior executives drawn from GE's energy, health, and water businesses traveled there in December 2003.

GE decided to begin work in one of Ghana's 110 districts. The district they chose had a population of 100,000, but no reliable power, clean water, or access to healthcare other than a single midwife. Realizing that any solution required local ownership and participation, GE developed a cross-sector partnership that included the state health ministry, local members of parliament, the mayor, tribal leaders, and nonprofit organizations working in the region. Each partner contributed to the project: The government waived import fees on the equipment that GE donated, the ministry agreed to assign a doctor to the region and to complete a half-finished, abandoned hospital building, and the nonprofits worked with tribal leaders and local residents to dig trenches for water pipes and to construct a building to house the generator. By October 2004, nine months after GE first selected the district, the hospital was complete, fully staffed, and functioning – a pace that few nonprofits could have matched.

GE now has eight other similar projects planned or under way in Ghana, and is committed to opening hospitals in all of the 22 districts that currently lack them. In addition, GE is con-

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(Above) General Electric and Ghanaian officials gather around a donated GE ultrasound machine at the Korle-Bu Hospital in Accra, Ghana. (Right) A factory worker in a privately owned textile plant in Vientiane, Laos, embroiders logos on Nike apparel.

(TOP) PHOTOGRAPH COURTESY OF GENERAL ELECTRIC; (RIGHT) PHOTOGRAPH BY FREDERICK BALFOUR/AFP/GETTY IMAGES

sidering extending its work to South Africa, Malawi, Tanzania, and Uganda. The experience has profoundly changed thinking about corporate philanthropy at GE. The company now realizes that in addition to making cash contributions, it can play a central role in solving global problems through the direct use of its own capabilities.

GE's accomplishments depended in part on its willingness to engage local government and nonprofits as partners in its work. Each brought different and complementary assets to the project that were essential for success. Cross-sector partnerships such as these enable business, government, and nonprofits to play on the same team, rather than against each other. In many cases, these partnerships permit rapid and systemic solutions that no single player could bring about on its own.

Adopting New Roles

Companies are not in business to save the world. Their resources exist to generate profits and reward shareholders. Even so, companies have far greater ability to lead social progress than they currently exercise from the narrow and defensive role into which they have retreated. Exploiting their full potential to develop and implement solutions not only offers more powerful benefits to society, but enables companies to distinguish themselves and earn a reputation for corporate responsibility that can enhance their brands, motivate their employees, and strengthen their licenses to operate.

It is not the job of business to supplant the nonprofit and public sectors, but neither should business hesitate to engage the company's resources in solving social problems. Each sector brings different capabilities, and it is the joining together of those capabilities that gives cross-sector partnerships their extraordinary power.

Playing on the same team requires a change in attitude on the part of both business and nonprofits. Business must be willing to acknowledge genuine problems and to find real rather than cosmetic or protectionist solutions. Nonprofits must be willing to trust business and work in partnership rather than opposition. It won't be easy for nonprofits or businesses to adopt these new roles, but the benefits that will accrue to society if they can do this will be immense. This single shift could stimulate greater progress than has ever before been seen in overcoming the world's most intractable problems. □

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