

The Truth About CSR

By [V. Kasturi Rangan](#), [Lisa Chase](#) & [Sohel Karim](#)

Most companies have long practiced some form of corporate social and environmental responsibility with the broad goal, simply, of contributing to the well-being of the communities and society they affect and on which they depend. But there is increasing pressure to dress up CSR as a business discipline and demand that every initiative deliver business results. That is asking too much of CSR and distracts from what must be its main goal: to align a company's social and environmental activities with its business purpose and values. If in doing so CSR activities mitigate risks, enhance reputation, and contribute to business results, that is all to the good. But for many CSR programs, those outcomes should be a spillover, not their reason for being. This article explains why firms must refocus their CSR activities on this fundamental goal and provides a systematic process for bringing coherence and discipline to CSR strategies.

To understand how companies devise and execute CSR, over the past decade we conducted in-depth interviews with scores of managers, directors, and CEOs who are directly or indirectly responsible for their firms' CSR strategies, and we have developed more than a dozen case studies on the topic. Most recently we surveyed 142 managers who attended Harvard Business School's CSR executive education program during the past four years. Our findings were remarkably consistent.

About the Research

We surveyed managers who attended Harvard Business School's CSR executive education program during the past four years, asking them about the range, structure, and oversight of their firms' CSR activities. The fact of their attendance reflects their companies' interest in CSR, so our sample is probably biased in favor of companies with relatively advanced CSR practices. Still, 60% of respondents said they were dissatisfied with their firms' CSR activities and direction and wanted to improve them. Other key findings are below.

NUMBER OF RESPONDENTS 142

INDUSTRIES REPRESENTED Manufacturing, consumer packaged goods, extractive minerals, financial services, media, telecommunications, and others

NUMBER OF CSR PROGRAMS UNDER WAY IN THE RESPONDENTS' FIRMS 1,072



BENEFITS

Percent of respondents who identified the following as top benefits of their firms' CSR initiatives:

**THEATER 1
PHILANTHROPY**

- Improves company's social standing: **84%**
- Supports company's philanthropic priorities: **77%**
- Increases employee motivation: **67%**

**THEATER 2
OPERATIONAL IMPROVEMENTS**

- Improves company's social standing: **94%**
- Improves company's environmental impact: **62%**
- Protects resources on which the company depends: **58%**

**THEATER 3
BUSINESS-MODEL TRANSFORMATION**

- Creates an important solution to a social/environmental problem: **89%**
- Promises long-term gains: **82%**
- Addresses senior management's social/environmental mission: **82%**

BUSINESS IMPACTS

Percent of respondents who identified the following as impacts (THEATER 1 and THEATER 2) or anticipated impacts (THEATER 3) of their firms' CSR initiatives:

- Increased revenue: **13%**
- Increased costs: **41%**

- Increased revenue: **32%**
- Reduced costs: **32%**
- Increased costs: **35%**

- Increased revenue: **31%**
- Reduced costs: **35%**
- Increased costs: **36%**

Despite the widely accepted ideal of pursuing “shared value”—creating economic value in ways that also create value for society—our research suggests that this is not the norm. Rather, most companies practice a multifaceted version of CSR that runs the gamut from pure philanthropy to environmental sustainability to the active pursuit of shared value. Moreover, well-managed companies seem less interested in totally integrating CSR with their business strategies and goals than in devising a cogent CSR program aligned with the company’s purpose and values.

But although many companies embrace this broad vision of CSR, they are hampered by poor coordination and a lack of logic connecting their various programs. Although numerous surveys have touted the increased involvement of CEOs in CSR, we have found that CSR programs are often initiated and run in an uncoordinated way by a variety of internal managers, frequently without the active engagement of the CEO.

To maximize their positive impact on the social and environmental systems in which they operate, companies must develop coherent CSR strategies. This should be an essential part of the job of every CEO and board. Aligning CSR programs must begin with an inventory and audit of existing initiatives. Our research and work with corporations across the geographic and business spectrum show that companies’ CSR activities are typically divided among three theaters of practice. Assigning CSR activities accordingly is a crucial first step.

Theater one: focusing on philanthropy.

Programs in this theater are not designed to produce profits or directly improve business performance. Examples include donations of money or equipment to civic organizations, engagement with community initiatives, and support for employee volunteering.

Theater two: improving operational effectiveness.

Programs in this theater function within existing business models to deliver social or environmental benefits in ways that support a company’s operations across the value chain, often improving efficiency and effectiveness. Thus they may—but don’t always—increase revenue, decrease costs, or both. Examples include sustainability initiatives that reduce resource use, waste, or emissions, which may in turn reduce costs; and investments in employee working conditions, health care, or education, which may enhance productivity, retention, and company reputation.

Theater three: transforming the business model.

Programs in this theater create new forms of business specifically to address social or environmental challenges. Improved business performance—a requirement of initiatives in this theater—is predicated on achieving social or environmental results. Hindustan Unilever’s Project Shakti (“empowerment”) in India provides a good example. Instead of using its customary wholesaler-to-retailer distribution model to reach remote villages, the company recruits village women, provides them with access to microfinance loans, and trains them in selling soaps, detergents, and other products door-to-door. More than 65,000 women entrepreneurs now participate, nearly doubling their household incomes, on average, while increasing rural access to hygiene products and thus contributing to public health. These social gains have been met by business gains for the company: As of 2012 Project Shakti had achieved more than \$100 million in sales. Its success has led Unilever to roll out similar programs in other parts of the world.

As Project Shakti demonstrates, theater three programs need not be comprehensive. Most are narrow initiatives undertaken with a focused market segment or product line in mind, but with significant potential to alter the company’s social or environmental impact and financial performance. Theater three initiatives almost always call for a new business model rather than incremental extensions.

Although each CSR activity can be assigned principally to a single theater, the boundaries are porous: Programs in one theater can influence and complement those in another or even migrate. For example, a theater one initiative might improve the company's reputation and consequently increase sales. Thus, while it was not designed to drive business results, it may end up doing so and as a result migrate to theater two. The valuable brand reputations of Tata in India, Grupo Bimbo in Mexico, and Target in the United States, to name just a few, are built in part on those companies' philanthropic and community engagement.

Similarly, activities in theater two may give rise to new business models and thereby migrate to theater three. Consider IKEA: Its People & Planet initiative calls for its entire supply chain to be 100% sustainable by 2020, even as the company aims to double sales by the same year. This aggressive goal is driving the development of new business models to close the post-consumer recycling loop. IKEA will have to radically alter how it designs furniture and, even more important, devise new models for collecting and recycling used furniture.

Developing a Unified Practice Platform

Once managers have inventoried their firm's CSR activities, they can begin the rigorous undertaking of bringing discipline and coherence to the portfolio as a whole. Drawing on the experience of participants in HBS's CSR executive education program and our research and consultancy with companies, we have developed a four-step process for doing so. The steps are often interactive and iterative and needn't be followed in sequence, though all four must be executed. Companies seeking to coordinate established portfolios should begin with step one, which emphasizes rationalizing the programs within each theater. Companies building their first portfolios should start with step four, which focuses on developing an interdisciplinary strategy.

1. Pruning and Aligning Programs Within Theaters

While it may be unsurprising that CSR programs are often poorly coordinated *across* theaters, our research reveals that poor coordination is common even *within* theaters. Thus the initial step for many firms is to bring coherence to the existing programs in each theater. To do so, they must reduce or eliminate initiatives that do not address an important social or environmental problem in keeping with the company's purpose, identity, and values. For example, a fast-food operator will be better served by a program that collects excess food from supply chain partners and delivers it to local food pantries than by an employee blood-donation program.

Let's look at how the large midwestern bank PNC unified a multitude of theater one philanthropic and community service projects, spread across numerous business units, behind a single cause. With \$100 million in funding for the period 2010 to 2015, its Grow Up Great initiative provides school-readiness resources to underserved populations where the bank operates. Until the advent of the program, each PNC market had a CSR budget that regional managers allocated as they thought best, resulting in a well-intentioned but incoherent array of initiatives. Roughly 30% of aggregate funds were going to the arts, 25% to sports, 20% to civic activities, 5% to education, and 3% to health. Then-CEO Jim Rohr unified PNC behind Grow Up Great because of his long-standing commitment to early childhood education, the eagerness of many employees to engage with a local cause, and the program's alignment with the bank's community-development-oriented identity. By pruning its disparate CSR programs, gradually easing out those without an early education focus, and encouraging regional managers to redirect their discretionary budgets to early education, PNC has built a well-funded initiative that correlates better with its employees' motivations and is likely to yield significant benefits to the communities the bank serves and relies on.

The family-owned Mexican baking company Grupo Bimbo demonstrates alignment in theater two. Bimbo is the largest bakery in Mexico, with a workforce of nearly 100,000 and a similar number of small retailers in its

network. Its comprehensive CSR programs focus on social welfare: It provides free educational services to help employees complete high school and offers supplementary medical care and financial assistance for dependents' care to close the gaps in government health coverage. It also has a strong microfinance program to help its mom-and-pop retailers manage working-capital shortages and pay for small capital additions. As theater two initiatives, these are all explicitly intended to increase efficiency and effectiveness, and indeed they have improved employee performance and retention and strengthened Bimbo's distribution chain.

Aligning, then, is not about putting all your eggs in one basket, though that sometimes helps. It is about collecting activities that are consistent with the company's business purpose and have a valuable social goal that the company cares about. Sooner or later activities that don't fit these criteria have to go.

2. Developing Metrics to Gauge Performance

Just as the goals of programs vary widely from theater to theater, so do the definitions of what constitutes success. For example, theater one programs, as we've noted, are not designed to generate revenue or reduce costs, whereas theater three initiatives are. Therefore, measuring top- or bottom-line impacts would be irrelevant for the former but is essential for the latter.

Gauging the success of a theater one program requires measuring its nonfinancial outputs. For Grow Up Great, PNC tracks the volunteer hours its employees spend reading to children and the increases in those children's comprehension, along with the grant funding it provides to develop educational materials, the number of children receiving those materials, and the resulting improvement in school performance. It also measures additional funding that flows into early childhood education programs from other entities as a result of its advocacy efforts. Partnering with nonprofits or other third-party evaluators can help companies credibly gauge the social impact of their theater one activities.

Coordinating initiatives does not mean they all address the same social or environmental challenge. It means they form a coherent portfolio in keeping with the firm's purpose and values.

Because theater two programs may generate revenue or reduce costs, measuring their performance calls on more-familiar, tangible approaches. These might include quantifying how energy- and waste-reduction initiatives impact the top or bottom line and improve air or water quality. Such measurements are commonly captured in corporations' annual sustainability reports. UPS, for example, enlists an independent auditing firm to evaluate its progress on energy use and carbon emissions reductions and reports both the cost savings and the resource savings. Its most recent sustainability report includes its total CO₂ emissions, the carbon emissions per mile driven by its fleet, the ground packages delivered per gallon of fuel used, and the number of miles driven by its alternative-fuel delivery vehicles. The report demonstrates both the environmental benefits of the company's emissions reductions and the bottom-line benefits of its reduced fuel use.

Not all theater two financial benefits are realized soon after investments are made, however, so companies looking for business gains from activities in this sphere need an ongoing system to track net present value. If benefits do not match expectations, corrective measures may be called for. And regardless of exactly how these factors affect business performance, a company must measure and report initiatives' social and environmental benefits. This enables it to judge whether its investment has produced the desired societal gains—although sometimes theater two investments are made in anticipation of regulatory changes or market requirements and are best viewed as simply the cost of doing business.

Because they generally involve new business models, theater three initiatives have particular measurement challenges. Consider Jain Irrigation, a global drip-irrigation-equipment supplier headquartered in India. Jain's

shared-value business model was explicitly designed to benefit India's small, chiefly low-income farming landholders. Drip irrigation technology not only conserves water in a water-stressed environment but also supplies it in a controlled fashion, which helps increase agricultural yields. The company offers farmers microfinance loans to help them purchase its equipment, provides technical advice to help them increase productivity, and buys their output at guaranteed prices.

Since creating societal value is essential to business success in this theater, firms must develop measures both of the social or environmental value produced by a new business model and of the financial results, and must demonstrate how the two are connected. In Jain's case, the improvement in crop yields was dramatic. For a typical investment of \$500 per hectare, farmers increased their gross income per hectare by anywhere from \$500 to \$6,000, depending on their crops. The added value created for its customers enabled Jain to boost its top line while retaining its operating profit percentage.

Crucially for theater three initiatives, companies must demonstrate superior social or environmental value for their external stakeholders while maintaining or improving internal bottom-line targets—a goal sometimes attainable only in the long run. That's why these initiatives, unlike those in theater two, may involve risky business decisions. However, if successful, they can transform companies into net positive contributors to societal well-being. These are questions every business should ask: Does our fundamental business enhance society? Do any of our products and activities diminish that goal, and if so, how can we mitigate or reverse them?

3. Coordinating Programs Across Theaters

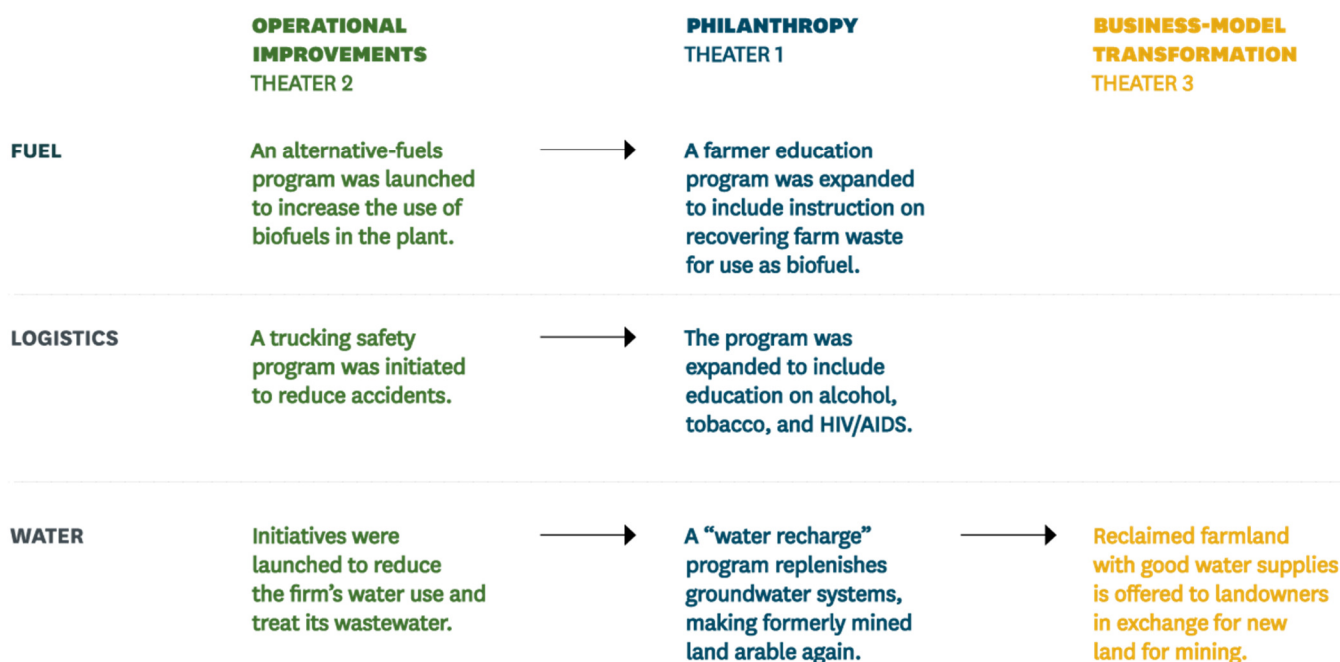
Coordination across theaters does not mean that all initiatives should necessarily address the same social or environmental challenge. It means that taken together, they form a coherent portfolio, one whose initiatives are mutually reinforcing and consistent with the firm's business purpose and values.

Ambuja Cements, an Indian subsidiary of the Swiss conglomerate Holcim, illustrates such coordination. The founders of the company expressed a deep commitment to the communities where it sourced limestone and operated cement-production kilns. Ambuja's CSR initiatives, encompassing both broad social welfare efforts and environmental conservation and protection programs, reflect that commitment. For many years after their inception they were largely theater one initiatives, managed by the Ambuja Foundation. But when Holcim acquired a controlling stake in the company, in 2008, it brought with it a more comprehensive focus on environmental and social sustainability. By 2010 Ambuja had initiated several plant-level environmental sustainability programs, mainly in theater two, to complement its corporate foundation programs. These included improved water management in the company's plants, especially in drought-prone areas, and a concerted effort to increase the use of alternative fuels.

Using our four-step methodology, Ambuja began in 2010 to proactively coordinate its portfolio of CSR activities across theaters. For example, its alternative fuels program, in theater two, led to the expansion of a theater one program for educating farmers about productivity practices, which now also includes instruction on recovering corn stalks, rice husks, and other farm waste—materials the company buys for use as biofuel.

Harmonizing CSR at Ambuja

Ambuja Cements, an Indian subsidiary of Holcim, has built a coherent portfolio that coordinates activities across theaters. In the examples below, initiatives originating in theater two have led to activities in one or both of the other theaters.



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In another instance of cross-theater coordination, Ambuja’s logistics managers identified the trucking fleet as an operational risk. The trucks were almost all owned by subcontractors, who often drove dangerously through villages as they transported limestone and cement. The managers realized that an accident could incur the villagers’ wrath and potentially halt trucking operations. So they asked the Ambuja Foundation to launch a driving safety program, which was later expanded to include health education on alcohol, tobacco, and HIV/AIDS. Here, too, a supply chain requirement in theater two sparked an education program in theater one.

In a third example, a “water neutral” program in theater two, involving Ambuja’s mining operations, led to a highly successful program for “water recharge” (the replenishment of aquifers and other groundwater systems) in theater one, which gained significant financial support from the local government. As a result, the adjoining farmland has become much more productive and the company’s tracts of mined land, which would otherwise be fallow, have become arable. All this has enabled the company to push for an ambitious business-model transformation in theater three, where it can offer reclaimed land with good water (plus cash compensation) in exchange for new land to mine. Ambuja is now aiming to offset its plastic consumption by burning more waste plastic as fuel in its kilns than it uses to package its cement, and it is also attempting to significantly decrease its carbon emissions.

4. Developing an Interdisciplinary CSR Strategy

Coordinated support for CSR initiatives at the top levels of executive management is critical to success; we heard this consistently from CSR professionals during our research. Ideally companies should establish a position to be filled by someone whose primary responsibility is to integrate initiatives across all three theaters—regularly convening the key players in each theater to ensure ongoing communication and alignment—even if responsibility for individual initiatives remains dispersed.

Yet such coordination is all too rare, and the range of purposes underlying initiatives from theater to theater and the wide variation in those initiatives' management constitute major barriers for many companies. Purely philanthropic programs often reside with managers who have titles such as VP of corporate (or community) affairs; these CSR leaders commonly report to the HR chief and thus are two levels removed from the CEO. Alternatively, at large companies the head of the corporate foundation may handle philanthropy and community giving. Theater two initiatives are typically run by operations managers (and sometimes by environmental specialists), who may have a dotted-line reporting relationship to the VP of sustainability or the chief sustainability officer. CEOs, sometimes in concert with one or two senior managers, are more likely to become directly involved with shared-value initiatives, but our research indicates that this occurs at only about 30% of companies; in some cases CSOs have oversight, and often no single executive is in charge of these programs. With responsibilities spread among three sets of individuals at three different levels, it's no surprise that companies often struggle to mold a coherent CSR vision.

In one instance of cross-theater coordination, logistics managers identified the trucking fleet as an operational risk and asked for a driving safety program, which was later extended to health education.

In our research and consultancy we've seen two effective approaches to CSR strategy development, one top down and the other largely bottom up. The latter approach first:

In 2010 Ambuja established sustainability committees, which have oversight of all social and environmental activities, at both the plant and the corporate levels. The plant-level committee meets every month and funnels issues of companywide importance, such as driver safety training and alternative fuels, up to the corporate-level committee. Both groups include representatives from the Ambuja Foundation. The corporate committee also includes regional heads, who oversee the company's plants; the foundation's head; and the heads of corporate functions such as marketing and sales, HR, procurement, and land acquisition. At each corporate-level meeting, members discuss issues flagged by the plant-level committee along with concerns of their own. This process has enabled the coordination of theater one and theater two activities and the stretch toward a theater three transformation of Ambuja's business model that we've described. The aspirational CSR goals of the company are to give back more than it takes from the community and to clean more than it pollutes in its manufacturing operations—a vision made possible only by this active input from across Ambuja and the effective coordination across the three theaters.

IKEA has developed its blueprints in a top-down manner. When the company hired Steve Howard as its CSO, in 2011, it appointed him to its seven-person executive management group. This group, which includes the heads of all the operating divisions, sets the company's vision and develops its strategy. Its work has facilitated the simultaneous pursuit of aggressive growth and bold sustainability plans we mentioned earlier, along with a social welfare initiative known as the IKEA Way—an array of programs related to preventing child labor and maintaining other labor standards throughout the supply chain. The sustainability agenda thus crafted at the top is being executed throughout the company.

It's neither practical nor logical for all companies to engage in the same types of CSR, since CSR programs are driven by diverse factors including the industry and the societal environments in which businesses operate and the motivations of the people who staff, run, and govern each company. For example, although a manufacturing company may have rich opportunities to reduce its environmental impact, a financial services company may be hard-pressed to do so—but it may be vastly more successful in the social sphere, with significant initiatives supporting financial inclusion and literacy. In a country lacking sufficient government funding for public health, a company's philanthropic funding for clean water and sanitation may be far more valuable to the community than carbon mitigation initiatives to reduce climate impact, while a society that enjoys robust government provision for social welfare services may place greater importance on environmental conservation programs.

Best-practices companies operate coordinated and interdependent programs across the CSR portfolio. Some of their initiatives indeed create shared value; some, though intended to do so, create more value for society than for the firm; and some are intended to create value primarily for society. Yet all have one thing in common: They are aligned with the companies' business purpose, the values of the companies' important stakeholders, and the needs of the communities in which the companies operate. These companies, of course, stand in stark contrast to those that are focused solely on creating value for their shareholders.

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