

CSR 2.0: The Responsibility Revolution Takes Off

by: Jeffrey Hollender, Co-founder, Executive Chairman, and Chief Inspired Protagonist, and Bill Breen, Editorial Director, Seventh Generation, Inc.



The New Era of Responsibility

By almost any measure, corporate responsibility is now front and center on the vast majority of CEOs' radar screens as well as on Board Meeting agendas, investor's analysis, employee concerns and activists focus.

To cite just one prominent piece of evidence: Even back in a 2007 report by McKinsey, the global consultancy, more than 90 percent of the chief executives surveyed said they had done more to push environmental and social strategies into their operations than in the previous five years.

Today, given the number of senior managers who are scrambling to keynote CR conferences and expound on their companies' beneficent deeds, it's safe to conclude that CEO buy-in is still on the rise.

And yet, while CR is on the lips of almost every CEO, it's lost a good deal of its power and potency. There remains a yawning chasm between what companies say they value and what they actually do. Or don't do.

A 2007 report by Boston College Center for Corporate Citizenship, aptly titled "Time to Get Real," found that 60 percent of executives surveyed claimed that corporate citizenship played into their business strategy to a "very great extent." However, just 25% of those execs bothered to form a team that was accountable for citizenship issues. Additionally, despite the flood of corporations that have issued glossy CR reports lauding their stellar citizenship, the events that triggered the Great Recession demonstrate that far too few companies are moving in a truly "responsible" direction.

At the same time, an insurgent band of companies are building market share by authentically committing to a more expansive vision for business. They are heeding the call to a "new era of responsibility" and are thinking well beyond the horizons defined by the U.S. Chamber of Commerce. For them, values are sources of innovation—opportunities to create leading edge products and services that deliver a return on purpose as well as a return on investment.

This moment of punctuated, accelerated change affects us all. It will determine how tomorrow's companies organize, strategize, and compete. It will debunk long-held myths, surface new leaders, and reveal the phonies and purveyors of greenwash. It will re-define business' obligations to society and re-configure the sources of growth and competitive advantage. And it will require us to not only anticipate the end of corporate responsibility 1.0 (or corporate responsibility "lite"), but to imagine the whole new models that will replace it as corporate responsibility 2.0 is born.



Corporate Responsibility Defined

To understand what comes after this first phase of corporate responsibility, it helps to review what came before it. What exactly is corporate responsibility, and why does it matter?

Dip into the literature, and it quickly becomes apparent that there's no universally agreed-upon standard for what constitutes "responsible" corporate behavior. You can almost feel the strains of groupthink as various organizations struggled to wrangle priorities, values, and demands and bind them into a single, often ungainly phrase.

Business for Social Responsibility, a global non-profit funded by corporations, speaks of "achieving commercial success" while "honor[ing] ethical values."

The World Business Council for Sustainable Development, a "CEO-led" association of global companies, holds that CR is "...the continuing commitment by business to...contribute to economic development while improving quality of life."

The European Commission, the executive branch of the European Union, mashes two definitions into one. Corporate responsibility is, "A concept whereby companies...contribute to a better society and a cleaner environment." What emerges from these and other attempts at defining the term is that corporate responsibility aims for a win-win for business and society; that it's voluntary and non-binding; that it's often a philanthropic or do-good activity that's peripheral to the main business; that it's vague enough for almost any company to stand under its umbrella; and that with a few notable exceptions (such as the second part of the EC's definition), it is rarely an integral part of a company's revenue-generating process.

The Focus is Shifting: The Emergence of CR 2.0

For too long, our definition of what constitutes responsible corporate behavior has been dangerously timid. We've too often glorified our efforts to be a little less bad, hailing them as examples of important change.



CR's fixation on reputation has even had the perverse effect of fueling greenwashing, as a surge of green pretenders has rushed to cloak their irresponsible behavior with cause-related marketing campaigns.

A 2009 study by Terra Choice, a Canadian research firm, concluded that an astonishing 98 percent of environmental advertising claims in North America were "false or misleading." These false and misleading claims are part of what underlies the failure of many corporate responsibility efforts to date.

The evidence is all around us:

- BP leaving "beyond petroleum" behind and returning to it's roots as "big petroleum"
- Toyota advertising the Prius while it lobbied against higher fuel efficiency standards in California and decided that sustainability doesn't include safety.
- HSBC, the fifth largest bank on Earth, selling itself as "the world's local bank."
- Unilever PROMOTING its Hellmann's brand mayonnaise with the theme "eat real, eat local."
- And Heintz creating a "Farmers Market" brand made from vegetables that don't come from farmers markets.

Fortunately, the leading-edge models that are replacing our conventional notion of corporate responsibility are much less about burnishing the brand and much more about inciting innovation. These new models are imbedded in and driven by corporate strategy, they are systemic and holistic, based on a commitment to do "good" rather than be less bad, their less about "green" products than "green" companies and take on big

challenges than just the low hanging fruit.

IBM is doing this through its Global Innovation Outlook effort, where it collaborates with outside thought leaders to crack some of the world's thorniest challenges, such as the problems befalling the world's finite water supply.

The initiative is both altruistic and strategic. It's no coincidence that a few months after its GIO effort, Big Blue rolled out a new line of smart technologies to help utilities and companies more effectively monitor their water supplies.

IBM demonstrates that corporate responsibility needs to work at the beginning of the innovation pipeline, where strategy is set and creativity occurs, rather than at the end, where outcomes are audited, after-action CR reports are filed, and the marketing department takes over. CR 2.0 is about reimagining companies from within: innovating new ways of working; instilling a new logic of competing; identifying new possibilities of leading; and redefining the very purpose of business.

Linden Lab, the San Francisco-based maker of the wildly successful virtual environment called Second Life, is an unlikely model for any company that seeks to confront the world's social and environmental challenges.

There's no SVP of corporate responsibility on its org chart; it doesn't bother putting out an annual CR report; and Second Life even includes a tiered section ("X-Rated Continent") for cybersex of every variety.

Dig a little deeper, and you find that Linden has dared to imagine a new kind of "good company" workplace. It's developed software that allows the company to work more like a democracy than a conventional corporate hierarchy—a democracy with a magnanimous sense of purpose: to create a virtual world that "advances the human condition."

Philip Rosedale, Linden Lab's charismatic founder and chairman, took one long night to build a simple but powerful tool for stifling workplace fear. He calls it the "Love Machine." The Love Machine, takes the negativity that flows through most corporations' internal messaging, and converts it into something positive and far more effective. Praising people for a job-well-done boosts their self-esteem, makes their work visible.

Each quarter, every associate is given an equal share of a



portion of Linden's net profit—you cannot keep it for yourself. You must click on the Rewarder, and use it to redistribute your share to those whom you believe did the most to help the company over the past three months. You can send the total to one over-achiever, or divide it among several.

The Rewarder puts the spotlight on unsung heroes—those innovative, driven souls who deliver the goods, but aren't particularly adept at advertising their accomplishments. Because they are publicly acclaimed and fairly compensated, Linden has a better chance of holding onto them, and a better shot at keeping the community healthy.

An Agenda for Revolutionizing Responsibility

There is, of course, no "one way" to transform a conventional company into a good company. Experimentation and adaptation go with the territory; each company must seek out the formula that works best for its particular culture and industry. Nor is there any company that has fully succeeded in building a good-company ethos into all of its operations, or any business whose every impact is positive. All good companies, including the first wave of "green companies," are works in progress. But most of the good companies subscribe to a set of principles—around mission, transparency, people, authenticity, and innovation—that amount to an agenda for building purpose-driven companies that are fit for the 21st century's challenges.

- 1. The mission matters.** Good companies believe that what you stand for—company's very essence—is far more important than the product or service you sell. For them, advocacy is synonymous with strategy—their industry is ripe for reform and they aim to fix it. That's why Organic Valley, the aggressively unconventional farmers' co-op that happens to be the

nation's second largest maker of organic dairy products with half a billion dollars in sales, is challenging the common (and misguided) practices of Big Agriculture itself. When organizations stand for something big — something that truly matters to people — they sharply differentiate themselves from their competitors. You can't make a difference if you're playing the same game.

2. Dare to wear the see-through. To be a good company, you can't be opaque. Thanks to the Internet, customers and NGOs can now watch a company's every move. Good companies invite them to do so. By publicly baring its less than admirable impacts on society and the environment, the transparent company preempts its critics — and takes the first step towards collaboratively fixing its problems. So the Danish pharmaceutical Novo Nordisk, the world's largest maker of insulin, dares to reveal its forays into such hot topics as animal testing, stem-cell research, and gene technology. In the long run, more eyes ultimately mean more advocates — and fewer difficulties and enemies.

3. The company is a community. Work used to be organized around a hierarchy; the C-suite delivered the strategy, and employees executed on it. Today, good companies work like a community. Talented people, animated by the community's sense of purpose, provide the brainpower for generating breakthrough ideas and the firepower for getting them out into the world. Linden Lab, the maker of the wildly successful virtual world called Second Life, understands that by letting associates set their own strategic direction, they act less like employees and more like entrepreneurs. Modeling the company on a community multiplies peoples' capacity to create.

4. Bring customers inside. Good companies aren't monoliths. They know that "no one is as smart as everyone." The more heads they get into the game, the better the chance that they'll make a real difference in the market and in the world. IBM is filled with Mensa-level thinkers, but it doesn't rely solely on them. Big Blue also entices some of the world's brightest minds to help it confront some of the planet's brawniest challenges. Good companies genuinely listen to customers and outside stakeholders. They interact. And a few dare to put consumers at the very heart of their innovation processes. They harness people power by giving up control.

5. Make it real. Do-good marketing campaigns don't cut it any more. A company that declares itself to be "sustainable" or "responsible" puts those goals at the very center of all its activities. The British retailer Marks & Spencer's giant electronic ticker, in addition to flashing quick-hit progress reports on the company's social and environmental initiatives, delivers an implicit message: M&S is genuinely committed to "doing good" and is holding itself accountable for the results. An authentically good company is what it says it is; its actions align with its words.

6. Beyond sustainability. Good companies want to do more than simply "sustain" a planet in serious disrepair. They want to surpass—to upgrade last year's achievements by attaining more challenging performance thresholds and continually raising the bar. So a breakthrough partnership between the food multinational Groupe Danone and the pioneering micro-finance enterprise Grameen Bank, which is improving the nutrition of poor children in Bangladesh while yielding a product that competes in the marketplace, demonstrates that enriching society is both a public good and a vital new path to business success.



To Find the Right Path, Ask the Right Question

To confront the daunting challenges facing society and the economy, companies must do more than monitor factories, donate to charities, and trumpet efforts to be a little less bad. For any company that aspires to weave responsibility into all that it does, the journey starts with learning to ask better questions. No matter what your field of endeavor, the question you ask shapes the answer you get. There's one other imperative for building an authentically good company, which is this: learn to ask better questions. No matter what your field of endeavor, the question you ask shapes the answer you get. If you ask, "What can we do to build market share?" you will get a very different answer—and you will create a very different future—than if you ask, "What can we do to build a more sustainable economy?"

For too long, those of us in business have proved adept at posing the first kind of question, but all too inept at considering the second. Here's a question that every business leader should ask, but too few do: "What does the world need most that we are uniquely able to provide?" Perhaps that question will compel us to explore how we can best respond to the enormous challenges, and the boundless opportunities, that confront the planet. And even if it isn't the "right" question, it just might lead to the right kind of conversations—deliberations that can help us move beyond responsibility and begin to glean the possibilities that wait.

About the Authors:

Jeffrey Hollender is Co-Founder and Executive Chair of Seventh Generation, the leader in green household products. He is also the author of the Inspired Protagonist, the leading blog on corporate responsibility and a co-founder of the American Sustainable Business Council and the Sustainability Institute.

Bill Breen (bbreen@billbreen.net) is Seventh Generation's editorial director and a former senior projects editor at Fast Company magazine.

They are the coauthors of the recently published book, **The Responsibility Revolution: How the Next Generation of Companies Will Win** (Jossey-Bass, 2010). Portions of this paper have been adapted from the book.



Seventh Generation is a leader in corporate responsibility and sustainable business practices and is committed to being the most trusted brand of household and personal-care products for your living home. It derives its name from the Iroquois belief that "In our every deliberation, we must consider the impact of our decisions on the next seven generations."

For information on Seventh Generation cleaning, paper, baby and feminine personal care products, to find store locations, and explore the company's website visit www.seventhgeneration.com. To read more about Seventh Generation's corporate responsibility, visit the Corporate Consciousness Report at:

www.seventhgeneration.com/corporate-responsibility/2008.

About Kaplan EduNeering

Kaplan EduNeering (www.kaplaneduneering.com) is part of Kaplan, Inc., a worldwide education services leader and a subsidiary of The Washington Post Company (NYSE: WPO). Kaplan EduNeering develops technology-enabled knowledge solutions for improving business performance and assuring regulatory compliance.

For more than 27 years, the company has served corporate and government clients in the life sciences, healthcare, energy and industrial sectors using proprietary platforms that integrate business, learning and technology. Additionally, Kaplan EduNeering maintains several unique partnerships with its clients, including a Cooperative Research and Development Agreement with US Food and Drug Administration.

Headquartered in Princeton, NJ, Kaplan EduNeering has offices in Houston, TX; Bloomsburg, PA; and the UK.

Kaplan EduNeering's Headquarters:

202 Carnegie Center
Suite 301
Princeton, NJ 08540
Tel: 609-627-5300
Fax: 609-627-5330

Kaplan EduNeering's Houston, TX Office:

3700 Bay Area Blvd.
Suite 550
Houston, TX 77058
Tel: 281-709-0900
Fax: 281-709-0907

Kaplan EduNeering's Bloomsburg, PA Office:

30 East 6th Street
Bloomsburg, PA 17815
Tel: 570-387-9121
Fax: 570-387-9122

Kaplan EduNeering's UK Office:

250 South Oak Way
Green Park
Reading RG2 6UG
United Kingdom

Copyright 2010 EduNeering Holdings, Inc.



202 Carnegie Center Suite 301 Princeton, NJ 08540 609-627-5300

www.kaplaneduneering.com