Integrating Corporate Social Responsibility with Competitive Strategy

2001 Winner

"Best MBA Paper in Corporate Citizenship"

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This paper is the winner of the 2001 "Best MBA Paper in Corporate Citizenship" competition, sponsored by The Center for Corporate Citizenship at Boston College. The Center annually sponsors this competition as part of an initiative to support and encourage research in the area of corporate social responsibility among MBA students and faculty in North America.

The award is offered for the best paper on corporate citizenship by an MBA student. The contest is open to full or part-time MBA students enrolled in an accredited institution of higher learning in North America.

For his winning paper, the author received a $5,000 award and the opportunity to present it at the 2001 Academy of Management conference, the major convention of leading business management faculty. His faculty sponsor, Shaker Zahra, a professor in Georgia State University's Department of Management, received a $1,000 honorarium.

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Much has been written on corporate social responsibility (CSR), stakeholder analysis, business strategy and competitive advantage (Maignan, Ferrell, and Hult, 1999; Kulick, 1998; Freeman 1984, Porter, 1990). Researchers have given special attention to the link between CSR and a company’s financial performance (Garone, 1999; Roman, 1999; Stanwick, 1998; Waddock, 1997). What is missing, however, is a discussion on how companies might use their core competencies to drive CSR initiatives and, as a result, achieve a significant competitive advantage.

This paper presents a conceptual framework for assessing the impact of a company’s business operations on its stakeholders and, through the analysis, create socially anchored competencies (SACs) that can be used to benefit society as well as increase profitability. By integrating SACs into their operations, companies are able to develop new or improved products and services, more efficient production processes, a strong reputation, and brand identity. The paper also examines how some companies are using SACs to increase profitability, while others are missing this important opportunity.

The paper begins with an overview of the current status of CSR giving special attention to the misalignment between business and CSR strategies in some companies. This is followed by an in-depth review of the SAC model. The next section compares and contrasts traditional CSR strategies with those envisioned using the SAC model. The last section identifies several key factors that can contribute to the successful implementation of the SAC model.

Misalignment Between CSR and Competitive Strategy

The World Business Council for Sustainable Development defines CSR as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (www.wbcsd.com, 2000). CSR centers on the relationship between business and society and how businesses behave towards their key stakeholders such as employees, customers, investors, suppliers, communities, and special interest groups (Hick, 2000).

CSR represents an interesting evolution and culmination of philanthropy and ethics. Specifically, corporate philanthropy has evolved from the donation of cash and products to charitable organizations because “it’s the right thing to do” to more strategic philanthropy where donations are focused on a theme that has some relationship to the company’s core business (Weeden, 1998). Similarly, ethics has evolved from the company’s obligations to society to abide by the law, pay taxes, and provide employment to a more proactive approach where the firm is expected to adhere to high international codes of conduct that exceed these traditional obligations (Nelson, 1996).

Presently, stakeholders are requiring companies to go beyond the notion of strategic philanthropy and international codes of conduct. Investors want to see financial gains from their firms’ investments in CSR initiatives. Some governments have required large companies to conduct business in ways that make
significant contributions to national and regional social and economic development. Non-governmental organizations (NGOs) and other civil society groups have demanded that companies adhere to very high standards that protect the environment and human rights as well as provide resources to local communities (Reich, 1998).

While a few corporations are responding successfully to these diverse stakeholder expectations, the majority of global companies continue to struggle with these issues. The problems is, in most companies, there is a serious misalignment between the business and CSR strategies and functions. This misalignment often results in the allocation of scarce company resources to CSR programs that provide minimal benefit to the beneficiaries and the business or, even worse, to decisions that can damage the company’s reputation.

There are two primary reasons why traditional CSR programs have yielded only minimal benefits. First, CSR managers are usually given a fixed budget and encouraged to allocate the funds to a wide range of community-based charities, which allows the corporate contributions pie to be cut into more pieces and the goodwill spread among many beneficiaries. Unfortunately, any real impact is diluted. Second, corporate cash resources are allocated to social projects without taking advantage of the company’s non-financial assets or thinking about how the social projects could directly support business objectives. When corporate resources are allocated in this fashion, strengths that make a company competitive in its businesses are not leveraged in ways to benefit society or the company. Companies that follow this approach do not reap the full benefits of their CSR initiatives.

ExxonMobil, in its effort to be a good corporate citizen, contributes over $35 million each year through its foundation to a wide variety of CSR causes in the areas of education, health, environment, museums and the arts, community services, and women and minority interests. More than 80% of the company’s contributions are made in the area of education within the United States even though its economic lifeline is oil exploration, refinement, and processing overseas (www.exxonmobil.com, 2000). The $35 million contribution is primarily cash grants to charitable organizations whose programs are not linked in a tangible way to ExxonMobil’s business objectives and strategy or its core competencies. It would be inaccurate and unfair to say that ExxonMobil’s contributions do not benefit society. Still, if the company would have strategically invested the $35 million in community-based programs that directly supported its business strategy and tied-in non-financial assets to these programs, the benefit to the company’s competitiveness, bottom-line, and society would have been significantly greater.

A favorable corporate reputation can enhance a company’s competitive standing and financial performance. However, the misalignment between business and CSR strategies can result in decisions that harm its hard-earned reputation. While CSR managers are usually concerned about their company’s relations with its stakeholders and how its public perceives it, business managers concentrate more on financial performance and make decisions with economics in mind. Problems occur when business managers make decisions that conflict with or do not take into consideration CSR issues.
Shell’s decision to sink the Bret Spar oil storage facility in the North Atlantic is an example of how the misalignment between Shell’s CSR efforts and business decisions hurt the company’s reputation and bottom-line in Europe. Shell consulted numerous environmental experts to get advice on how to best dispose of the Bret Spar facility, which had reached the end of its useful life. The majority of these environmental experts recommended that the safest way to dispose of the facility would be to sink it on site. In making the decision to sink Bret Spar, Shell managers failed to listen to some of its own CSR staff who suggested that the company should first gauge public reactions in Europe and consult with key environmental groups. The actual sinking of Bret Spar unleashed a series of demonstrations across Europe resulting in the destruction of Shell gas stations and a boycott of its products. Some subsidiaries lost as much as 40 percent of their sales overnight because of these events (Kulick, 1999).

The Monsanto Company provides another example of how the misalignment between business and CSR strategies can damage a company’s reputation. While Monsanto’s CSR unit was engaging in a consultative process with international NGOs to both explain and understand issues around marketing genetically modified seeds in developing countries, the company’s business units were aggressively seeking approval to market the seeds in Europe, Brazil, and India despite strong negative public reaction. Despite concern expressed by its CSR staff, Monsanto decided to introduce the controversial seed technologies in these markets. Once this decision became public, activist groups organized protests, burned Monsanto cotton fields, and boycotted its products (Kluger, 1999). In addition, prominent development organizations like Grameen and CARE cancelled their plans to collaborate with Monsanto on community projects in Bangladesh, Tanzania, and India.

The principal causes of the misalignment between business and CSR strategies can be traced to how companies’ structure, fund, and staff their CSR departments. Most large corporations implement their social projects through a corporate contributions office, community relations office, or a corporate foundation, which tend to be isolated from line-management and business decisions. They are frequently staffed by managers who wield minimal influence inside the company such as junior managers, former executives who are close to retirement, or fundraisers recruited from non-profit organizations (Himmelstein, 1997). Furthermore, these managers are given relatively restricted budgets and guidelines regarding how these resources are to be allocated to charitable organizations (Tillman, 1997).

The company’s marketing, manufacturing, operations, and other line-management functions are rarely involved in CSR programs. In fact, the lack of integration of CSR into mainstream business strategy seems to be where the field of human resources (HRM) management was several years ago. In recent years, many companies have been pushing towards strategic HRM that emphasizes a more integrated and proactive role where HR managers collaborate with line management to help formulate strategic business plans and develop an array of programs to ensure the success of the business strategy (Fischer, 1999). This is the same direction that the CSR function needs to take. Figure 1 summarizes the causes and potential consequences of the misalignment between business and CSR strategies.
While some companies are making progress at aligning their business and CSR functions in ways that maximize benefits to society and their financial performance, often missing is a practical framework that can help them achieve better strategic alignment. To address this gap in the literature, the following section presents a model that shows how a company’s core competencies can be leveraged to achieve greater alignment between CSR and business functions. This alignment can maximize both the social and business impact of CSR programs and avoid reputation-damaging decisions.

The Socially Anchored Competencies (SAC) Model

As Figure 2 suggests, the SAC model represents a complex process of taking core business competencies, marrying them with stakeholder analysis, and getting a set of competencies that are socially anchored. This model provides a new lens that companies can use to identify opportunities they would have missed using the traditional corporate philanthropy lens. By integrating SACs into the business environment, companies can increase their profitability by introducing new socially responsible products or services, reducing waste and costs, and adding new “social” value to existing products and services (Porter, 1990).
FIGURE 2
SOCIALLY ANCHORED COMPETENCY MODEL

BUSINESS BENEFIT
- Lower costs/waste
- Increase efficiency
- Reduce risk
- Add value
- New products
- License to operate
- Reputation

SOCIAL BENEFIT
- Vibrant communities
- Strong community relations
- Employee well-being and productivity

IDENTIFICATION OF CORE COMPETENCIES
- Skills
- Experiences
- Abilities
- Other assets
- Collective learning

IDENTIFICATION AND ANALYSIS OF KEY STAKEHOLDERS
- Customers
- Investors
- Employees
- Suppliers
- Governments
- NGOs

INTEGRATION AND LEARNING
- Team formation
- Goal setting
- Experimentation
- Dissemination

SOCIALLY ANCHORED COMPETENCIES
- Competencies appropriate for CSR initiatives
- Building blocks for new mind set to deliver value

STRATEGIC ALLIANCES
- NGOs
- Interest groups
- Government
- Other companies
Competitive strategy is the means by which companies increase profitability. While strategic decisions are long-term in nature, managers tend to focus on short-term profitability to meet the expectations of analysts and institutional shareholders. When pressured to meet short-term goals, managers often ignore patient investments in long-term value creating activities (Zahra, 1996; Zahra, Neubaum, & Huse, 2000) such as CSR. The more important action a company can take is building a strong foundation to guide the business in the future and sustain profitability in the long-term. This is where SACs can play an important role.

**Core Competencies.** Figure 2 shows that the SAC model begins with the company’s core competencies, which are the sets of skills, experiences, and abilities that represent the company’s collective learning. Core competencies are unique and cannot be easily imitated by competitors and, therefore, are considered the roots of a company’s competitiveness (Porter, 1990). A company’s core competencies allow it to adapt quickly to new opportunities and coordinate and integrate multiple production and technology processes to develop new products cheaper and quicker than competitors (Prahalad & Hamel, 1990).

Another interesting characteristic of core competencies is that they are not the actual products that make up the company’s business units. For example, Honda’s core competency is not its ability to make cars or motorcycles but its unique ability to produce a variety of efficient engines and drivetrains that power the cars, motorcycles, lawnmowers, snowmobiles, and other product lines that comprise its business units. Honda is able to weave its competencies throughout the individual businesses to create ultimate value for the company (Prahalad & Hamel, 2000).

Clearly, the cornerstone of a company’s CSR strategy should lie in its core competencies, which represent what the company does best and what gives it an enduring competitive advantage. However, there are a surprisingly large number of companies with strong and unique core competencies that have unimaginative and outdated CSR programs. For example, Enron has been acknowledged by *Fortune* magazine as being the most innovative company in the United States for the past five years (O’Reilly, 2000). Enron has transformed its businesses from a gas and pipeline focus to a multi-dimensional approach that now includes gas commodity trading, facility management, and broadband communications infrastructure and solutions. Yet, Enron’s CSR programs remain very traditional. The company contributes approximately one percent of its pretax earnings to charitable organizations that implement social projects in communities where the company operates (www.enron.com, 2000). Although these are solid community relations projects, they do not take full advantage of Enron’s core competencies and are not clearly linked to its business strategies.

**Stakeholder Analysis.** Figure 2 indicates that one of the most important steps in the SAC model is examining the company’s core business competencies to determine their potential impact on stakeholders. In a traditional stakeholder analysis, the practices and actions of business units are assessed in terms of how key stakeholders are affected and what the company plans to do to mitigate any negative impact on them (Freeman, 1984). Although many recent publications on CSR place the identification and
analysis of stakeholders at the center of the social responsibility strategy, the analysis is frequently done outside the context of core competencies and competitive advantage (Harrison, 1999; Ogden, 1999; and Johnson, 1999).

A unique aspect of the SAC model (Figure 2) is that the core competencies serve as the primary input into the stakeholder analysis. This allows managers to determine not only whether stakeholders are negatively affected by the company’s core businesses, but how competencies can be leveraged in innovative ways that maximize social benefits as well as benefits to the company’s businesses. While the model does not provide a prescriptive formula for converting core competencies to SACs, it does require managers to define the core competencies, identify and assess any negative affect on key stakeholders, and determine ways competencies can be used to benefit the company’s stakeholders and businesses.

To illustrate this step in the SAC model, let us revisit the Monsanto example presented earlier. If Monsanto were to use stakeholder analysis to develop SACs, it would define its core competencies, which would include its capability in bio-engineering and plant genetics, and identify its key stakeholders such as shareholders, employees, suppliers, customers, foreign governments, agriculture and food organizations, environmental NGOs, and farmers. To convert its competencies to SACs, managers at Monsanto would need to determine how its capabilities in bio-engineering and plant genetics might negatively affect its stakeholders and how these same capabilities could be used to benefit them.

Had Monsanto consulted with and listened to stakeholders in Europe, Brazil, and India regarding their concerns about genetically modified foods and seeds, the company could have avoided a public relations disaster that has damaged its financial performance in these markets. Furthermore, consultation with agriculture experts, NGOs, and farmers could have unveiled ways that Monsanto’s expertise in bio-engineering and plant genetics might help address agriculture production and food shortage problems in developing countries.

**Socially Anchored Competencies.** The examination of core competencies in light of a stakeholder analysis results in an enhanced set of competencies that have a social conscience. These new SACs become intangible resources that have the potential to increase the company’s competitive advantage, especially in markets that are sensitive to its impact on society and the environment.

As noted earlier, there is no magical formula that can be used to develop SACs. They are essentially the core competencies that have been considered in the context of how they negatively (positively) affect stakeholders and how they can be used to leverage social benefits. These SACs are the building blocks of a business model that the company can employ to drive its CSR programs while creating new value for its businesses, as suggested in Figure 2.

In the case of Monsanto, a socially anchored set of competencies in bio-engineering and plant genetics could have been an important strategic asset in developing country markets. For Enron, SACs could be an innovative set of solutions to energy problems facing poor communities in developing countries who eventually could become important customers for Enron or its subsidiaries.
Strategic Alliances. Strategic alliances are the cooperative relationship between two or more organizations that range from shared information and research to joint ventures where minority partners are subcontracted to provide local market access and distribution channels (Porter, 1980). Broadly, strategic alliances indicate mutually benefiting relationships that help companies develop new competencies and become more competitive (Prahalad & Hamel, 1989).

In many cases, a company’s core competencies will not be sufficient to address the diverse and competing concerns of key stakeholders. Therefore, companies will have to identify credible partners and develop strategic alliances that bring complementary skills and abilities to these relationships. One of the more popular alliance models that companies have used to fulfill their social responsibilities is awarding grants to not-for-profit organizations to implement social projects. Some companies have begun to evolve alliances from subcontracting arrangements to more equitable and strategic relationships that strive to benefit both partners, such as product approval (certification), sharing human resources (employee volunteerism), royalty generation (licensing), and community development projects (Young, 1999).

As Figure 2 indicates, the SAC model builds solidly on the trend towards strategic alliances. It proposes that using alliances is important to acquiring critical new skills or abilities necessary for successful CSR initiatives and enhancing the company’s credibility. These alliances are necessary because many companies do not have the entire range of skills they need to make their CSR programs successful and lack credibility in the eyes of certain stakeholders.

Chiquita and Starbucks have recently developed strategic alliances with credible environmental organizations in an effort to certify their products. These alliances provide the external competencies and credibility necessary to make the certification program successful. Chiquita’s certification program is called the Better Banana Project and involves a partnership with the Rainforest Alliance, a not-for-profit organization dedicated to protecting endangered ecosystems and biodiversity. The program sets rigorous environmental and social standards for banana farms including soil and water conservation, minimal use of agrichemicals, protection of the ecosystem, and fair treatment of workers (www.chiquita.com, 2000). Rainforest Alliance, a respected and trusted environmental organization, brings its skills and experiences in managing integrated conservation projects as well as credibility to the effort. Chiquita is betting that the Rainforest Alliance’s stamp of approval on its bananas will add value and increase demand for the certified product among the growing number of consumers concerned about the environment (Carlton, 2000).

Starbucks is also involved in a certification program designed to make its coffee the product of choice for consumers concerned about how small coffee producers in developing countries are compensated. Starbucks is partnering with TransFair USA, a not-for-profit organization that provides independent certification for Fair Trade products (www.transfairusa.org, 2000). To receive certification, coffee must be sourced from coffee farmers who are enrolled in the fair trade program. The program helps organize the farmers into cooperatives and link them to coffee exporters who provide affordable credit and guarantee a premium over the prevailing international market price of coffee. As a result, the fair trade
program increases the income of small coffee farmers while enabling them to afford basic health care, housing, and education for their children (www.starbucks.com, 2000).

**Integration and Learning.** As noted in Figure 2, integration and learning are important elements of the SAC model. The integration and learning phase involves weaving the SAC model throughout the fabric of the organization in much the same way that successful companies are able to create, acquire, transfer, and integrate core competencies and other knowledge to develop new products and beat competition to market (Garvin, 1991). An important step in the integration and learning process is the ability of a company to view itself as something more than a collection of discrete businesses making products (Prahalad & Hamel, 1990). Weaving the SAC model throughout the company requires the ability of the company to think about its CSR work as an integral part of its business model. Once this is accomplished, CSR is no longer viewed as a discrete activity that falls outside of the “real” business.

The integration and learning phase of the SAC model consists of four steps: team formation, goal setting, experimentation, and dissemination. Forming cross-functional teams that represent key business and CSR functions provides an important opportunity for manufacturing, operations, marketing, finance, research, and social responsibility managers to work together and create new value for the company. As part of the on-going performance management system, these cross-functional teams specify how they intend to create new value for the company by setting concrete goals. This step is based on the observation that *what gets measured gets done*. Using the goals as a blueprint, the teams experiment by generating new ideas and concepts about how to add social and business value to existing businesses and CSR programs. It is important for team members to begin with the unique set of company skills and assets and look for ways to leverage them to better serve stakeholders while creating new business value. The results of the experimentation are quickly shared throughout the company via e-mail, Intranet sites, presentations, workshops, and other dissemination methods.

Timberland is a good example of a company that is making progress in integrating its community relations work with its operations and marketing functions. Although the company has a traditional community relations office (Social Enterprise), it has taken the innovative step of creating two Vice President positions that concentrate on social responsibility issues and report directly to the CEO. One Vice President is integrated into the operations team while the other Vice President is integrated into the marketing team. It is the responsibility of these Vice Presidents to plant and monitor Timberland’s commitment to social issues in operations and marketing so it becomes part of the way these line functions do business.

Integrating SACs throughout the fabric of the company and learning from the experience creates new ways of thinking about products and CSR programs. It also allows the company to leverage existing skills and capabilities, while developing new ones. This process can improve the company’s ability to spot and pursue emerging opportunities in the market or venture into new market arenas, which can enhance the company’s overall competitiveness.
Figure 2 highlights the business and social benefits to be gained from applying the SAC model. Both sets of benefits are discussed in the following paragraphs.

**Business Benefits.** The integration of SACs can directly benefit business by increasing profitability, which stems from reducing costs, adding value to existing products, and developing new product lines and beating competition to the market (Hill, 1999). Clearly, every company is looking for ways to cut costs, improve products and services, or create new products and services that meet consumer needs (Kotler, 2000).

Researchers have discovered that integrated teamwork correlates strongly with new or improved product development (Madique & Zirger, 1984) and is most effective when different functions across the company participate in the process (Kotler, 2000). The addition of CSR managers to product development teams can bring a new “social” perspective to the way the team thinks about new or improved product ideas and concepts. Once SACs become an ingredient in product development thinking, a new mental model emerges that can help managers think about how key stakeholders are affected by the company’s diverse manufacturing and marketing processes. This new mindset can lead to more efficient ways of making and marketing products, fundamental improvements in the products themselves, and new product ideas and concepts.

Some of the most meaningful examples of how a SAC mindset can lead to cost savings as well as new or improved products can be found in industries that produce waste and emissions. Pressure from citizens, environmental organizations, and government regulatory agencies have forced companies to take a holistic approach to production processes that leads to the reduction, recycling, or use of by-products in new ways (Whiting & Whiting, 1988). Examples are beginning to emerge of how companies are reducing costs or developing new products through waste and emission management (BSR Report, 1999). Chiquita’s Better Banana Project, noted previously, provides one example. Chiquita has invested approximately $20 million over the past eight years in a program to introduce weed-choking plants that reduce herbicide use by almost 80%, train staff to reduce expensive and harmful pesticide spills, replace wood warehouses with concrete ones to better contain spills that do occur, and construct bathing facilities for workers. Chiquita is also funding soil and water conservation, waste management, and environmental and social planning and monitoring activities. Company officials report that the certification program has already achieved dramatic cost savings that will pay for itself over the next several years and should improve Chiquita’s overall competitiveness and financial performance (Carlton, 2000).

**Social Benefits.** Figure 2 also suggests that once SACs are successfully integrated throughout the company, its CSR programs should achieve strategic alignment with the business strategy in order to leverage greater social benefits. Thus, instead of isolated corporate contributions units or foundations allocating cash and product donations to charities, the CSR programs are designed in ways that use the skills and assets that help make the company competitive in the first place. These programs are able to show measurable returns to the business and society.
The IBM-sponsored Reinventing Education Program is one of the best examples of how a company is using its core competencies to both maximize the benefits for its community relations programs and create new business opportunities. As part of the broader program, IBM has developed a teaching model in the Philadelphia school system that uses voice recognition technology to instruct non-English speaking children in their native language. Computers act as personal instructors for these children. This advancement in voice recognition technology has enabled IBM to develop new voice recognition products, which in turn is generating strong commercial interest.

Coca-Cola is another large multinational corporation that is beginning to think more strategically about its CSR programs. Traditionally, Coca-Cola has invested heavily in community education with an emphasis on capital items such as schools and libraries. Recently, the company has started to focus its community investments on conserving water, which is a necessary ingredient in all of its products (Chao, 2000). For example, Coke has invested more than $350,000 in China for tree planting and other interventions aimed at stopping desertification and the depletion of ground water. China’s 1.3 billion population, most of whom have not tried Coca-Cola products, represents an important market for the company. Water shortages could drive up the cost of these products or even cause some bottling plants to close. Clearly, Coca-Cola’s investment in environmental and other community development programs that help conserve water will benefit both communities and its businesses as well as strengthen its competitiveness.

Traditional vs. SAC Models of CSR

To appreciate the value the SAC model can deliver to a company and society, it is worth comparing and contrasting how CSR programs are currently implemented with what they would look like if implemented using the SAC model. Major program components such as goals, strategies, beneficiaries, resources, and management structures are used to effectively differentiate the two approaches. These are summarized below in Table 1 and discussed in the following paragraphs.
**TABLE 1**  
TRADITIONAL VS. SAC MODELS OF CSR

<table>
<thead>
<tr>
<th>PROGRAM COMPONENTS</th>
<th>TRADITIONAL CSR PROGRAM MODEL</th>
<th>SAC INFLUENCED CSR PROGRAM MODEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goals</td>
<td>Related to strategic theme and focus on social impact that is often not measured.</td>
<td>Designed to deliver social and business impact that is measured and attributed to project.</td>
</tr>
<tr>
<td>Strategies</td>
<td>Vary greatly from project to project and tend not to take advantage of company skills.</td>
<td>Built on core competencies and includes blend of skills from both company and its partners.</td>
</tr>
<tr>
<td>Beneficiaries</td>
<td>Broadly defined and usually constituents of the partner organization(s).</td>
<td>Targeted to stakeholders strategically linked to the company and its businesses.</td>
</tr>
<tr>
<td>Resource Mix</td>
<td>Mix of cash grants and product donations; sometimes employee volunteerism.</td>
<td>Creative mix of cash, product, people, and other company assets that leverage maximum impact.</td>
</tr>
<tr>
<td>Management</td>
<td>CSR staff approves projects and maintain a reporting relationship with partners.</td>
<td>Cross functional management teams that participate in design, oversight, and evaluation.</td>
</tr>
</tbody>
</table>

**Goals.** Table 1 suggests that under traditional CSR programs, most often strategic philanthropy, project goals are in some way related to the company’s “strategic theme” such as education, health care, or income generation. Although the way the goals are written varies among the different charities submitting proposals for funding, they generally delineate how the proposed project will improve the social or economic condition of the beneficiaries. Charities receiving funds are usually only required to account for project activities and expenditures. Any impact the project may have on beneficiaries is derived from anecdotal information rather than objective measurements.

While a company’s philanthropic theme may have some relationship to its core business, project goals are usually not developed in ways that measure a benefit to the business. This is where CSR programs developed using the SAC model differ. SAC influenced projects have goals that are specifically designed to deliver both social and business impacts, which can be measured and attributed to the project. For example, suppose Procter & Gamble, who owns a unique water purification technology, decides to partner with local community organizations to develop water and sanitation projects in poor peri-urban communities of New Delhi, India where its manufacturing employees live. The goal of the project might be to reduce illness related to diarrhea. The social benefit would be an overall decrease in diarrhea-related disease that contributes to healthier communities while the business benefit would be a more productive workforce with fewer sick days.

**Program Strategies.** Table 2 shows that the traditional CSR approach relies on the charitable organizations receiving the funding to design the program strategies. The only qualifying requirement is that the project activities be aligned with the company’s strategic theme, which may or may not be related
to its core business. Under this approach, strategies vary greatly from project to project and tend not to take advantage of the company’s unique skills and experiences.

Using the SAC model, CSR initiatives are built on the company’s foundation of core competencies. CSR strategies that are designed using the SAC model require representatives from the company who understand its competencies to sit down with its partners and jointly develop strategies. Projects emerging from this process include a unique blend of skills and experiences from both the company and its partners, which helps ensure achievement of the goals.

The mining industry is fertile ground for examining opportunities to develop social and economic projects that can be built on a company’s competencies. Typically, mining companies fund local community groups or other NGOs to implement social projects that have strategies unrelated to their core competencies. Suppose, however, a mining company like Rio Tinto developed its social projects in ways that took advantage of its competencies. A Rio Tinto mining operation in Africa might design and build its access roads, water lines, and storage facilities in ways that provide economic and social benefits to the communities once the mining operations cease. Access roads could become farm to market roads, water lines might be modified into irrigation systems, and storage facilities could be converted into manufacturing sites for local enterprises. These activities would benefit local communities while gaining Rio Tinto the reputation of being a good corporate citizen, which will likely increase its chances of winning future mining concessions in that country.

**Beneficiaries.** Projects following traditional CSR approaches usually target beneficiaries in a very general way. Charitable organizations implementing the company-funded projects target their traditional constituents who may or may not be key stakeholders for the company. Table 1 shows that the SAC model identifies and specifically targets stakeholders who are important to the success of the company’s businesses. These might be employees, suppliers, communities, civil society groups, special interest organizations, or other beneficiaries who are directly and strategically linked to the company’s business goals.

Enron has spent close to one million dollars on community projects near its power plant in Dahabol, India. Yet, many project beneficiaries are not directly linked to Enron’s business strategy for India. Had Enron used the SAC model to develop its community projects, beneficiaries might include employees, key suppliers, environmental organizations concerned about the plant’s impact on local rivers and streams, or small businesses that have potential to be Enron customers.

**Resource Mix.** Most companies use some combination of cash grants and product donations as resources to support their CSR programs. Financial institutions like Citigroup and Chase rely on cash grants while pharmaceutical companies like Pfizer and SmithKline Beecham rely heavily on drug donations. In some cases, companies are beginning to factor employee volunteerism into the resource mix. Still, cash grants are relatively small, product donations may or may not be appropriate to the program, and employee volunteerism focuses on donated labor and does not always build on the expertise and skills that employees have to offer.
As stated in Table 1, CSR programs that are developed using the SAC model rely on a creative mix of resources since many companies do not have an abundance of cash to spend on social projects. The resource mix includes cash, appropriate products and employee skills, and other assets such as equipment and materials. SAC-based programs are designed in ways that use a wide range of the company’s assets to leverage maximum impact on beneficiaries and return ultimate value to a company’s businesses.

Glamis Gold has begun mining operations to extract gold from an ore body located near San Isidrio, Honduras. In an effort to be a good corporate citizen, the company has funded the construction of a community health center and drinking water system for the residents of San Isidrio. In addition, it intends to establish an endowment fund to support community development activities that will be managed by a committee comprised of local residents. While Glamis Gold should be commended for its efforts to be socially responsible, its approach misses an important opportunity to build on the company’s competencies and assets in the area. Using the same cash outlay, Glamis Gold could have maximized the impact of its investment by working with the provincial government and local NGOs to develop a socio-economic project focused on the broader watershed area around the ore body. Such a project could have taken advantage of the company’s non-financial assets such as construction equipment, pipe, engineers, builders, and geologists. Collectively, these efforts could have provided greater social and economic gains to local communities while strengthening the company’s competitiveness by building credibility with local communities and the national government.

**Management.** Managing traditional CSR programs has been the responsibility of the corporate contributions, community relations, or corporate foundation staff. Cash grants or products are donated to implementing organizations that report to the CSR managers. In some companies, selected line managers may participate in funding decisions but not the management of these programs.

Table 1 suggests that the SAC model requires a team approach to the management of the CSR programs. It is important that managers representing the business functions participate in order to explain the company’s core competencies, explore ways that these competencies and other assets can be used in CSR initiatives, and provide input regarding the specific goals that help achieve business and social benefits.

Weyerhaeuser is an example of an international company that has started to broaden the management of its CSR efforts. The company recently signed a Memorandum of Understanding with a large international and relief organization to implement environmental and social projects in Nepal. The Weyerhaeuser management team consists of the President of the Weyerhaeuser Company Foundation, Vice President of Timberlands Forestry Research, Director of Marketing, Director of International Environmental Affairs, and Manager of Strategic Issues. The intention of Weyerhaeuser’s cross-functional management team is to ensure that the Nepal supported projects are consistent with its values, competencies, and brand image and are communicated to stakeholders as such. Another key reason is to ensure that the lessons learned from operating projects in Nepal are widely disseminated to important audiences in the company.
Laying the Groundwork

The successful implementation of the SAC model depends on several key factors that include: commitment from top leadership, an understanding of the company’s core competencies, knowing the key stakeholders and their concerns, the ability to think beyond traditional philanthropy, the development of a learning organization, a culture of teamwork and performance management, and the desire and ability to measure business benefits stemming from CSR initiatives.

The success of new initiatives such as the application of the SACs requires the support of the CEO and other senior executives. Fortunately, CEOs such as Jeffery Swartz of Timberland and Howard Schultz, formerly of Starbucks, have been actively promoting CSR. At Timberland, Swartz is providing the vision and leadership to integrate the company’s values, which includes its social commitment, with its products and brand image. Swartz’s goal is to create a mindset within Timberland that its brand, products, and responsibility to society are mutually dependent and inseparable.

Similarly, former Starbucks’ CEO, Howard Schultz, was the chief architect of its policies to give back to communities in countries where Starbucks sources its coffee beans through organizations like CARE (Schilling & Kotha, 1997). Under the leadership of Schultz, Starbucks has launched the shade grown coffee initiative with the environmental organization Conservation International, which brings business and social objectives even closer. This multiyear program aims to promote environmentally sound practices for growing coffee. Starbucks is working with Conservation International to develop five model projects in Latin America, Asia, and Africa that promote conservation while providing Starbucks with certified shade-grown coffee products. Presently, Starbucks is selling a special Limited Edition of Shade Grown Mexico coffee from the program area in Chiapas.

The above examples show that successful organizational integration of SACs will depend largely on the support from CEOs like Swartz and Schultz. Without this attention and support, SACs will be another fad that fails to enhance the company’s competitiveness.

A company must also understand its core competencies and how they give it a competitive edge before the company can begin to think about how to use them in a socially enhanced manner. Technology companies such as i2 are making some of the most significant progress in using core competencies to benefit society and address the “digital divide” between those individuals and countries that have access to technology and those who do not. i2 is known for its B2B supply chain support and management services for Internet businesses. Recently, the company used its sophisticated software program and supply chain network to form the first non-profit electronic marketplace called aidmatrix. Aidmatrix provides the technology platform and network of commercial and not-for profit organizations that will deliver clothes, food, medicines, and other humanitarian supplies during disasters. Using its technology, network, and extensive database, aidmatrix wants to increase the effectiveness and efficiency of traditional disaster response efforts by matching relief organizations that need critical materials quickly with suppliers who can deliver those materials (www.adimatrix.org, 2000).
Another key element that helps determine whether companies will be successful in incorporating SACs is its knowledge of its diverse stakeholders and their specific concerns. Companies have traditionally thought of stakeholders as shareholders, employees, customers, and, to some extent, communities where they operate. More recently, some companies have come to appreciate the power that special interest groups (environment, labor, and human rights) wield and have started consulting them on social issues.

In the SAC model, core competencies become socially enhanced through a process of understanding how they can help or harm stakeholders. A thorough understanding and appreciation of all key stakeholders and their concerns is necessary. The World Business Council for Sustainable Development (WBCSD) provides a good example of a business organization that has developed a comprehensive methodology for identifying stakeholders and engaging them in a dialogue. WBCSD defines stakeholder dialogue as a consultative process where it meets with community groups, international relief and development organizations, labor organizations, governments, universities, and business associations to solicit input and feedback on issues concerning corporate citizenship and sustainable development. Through stakeholder dialogue, WBCSD has been able to incorporate feedback from a range of government and non-government organizations to generate a variety of environmental and social guidelines and tools to assist its membership contribute to global sustainable development (www.wbcsd.com, 2000).

Understanding core competencies and how they can be used for social good requires the ability of CSR managers to think beyond traditional philanthropy. Managers must begin to think in terms of how their companies can invest scarce cash and products, and use their competencies to make social investments that can generate significant economic return as well as social impact. To achieve this, CSR managers should have a deep understanding of the business and the social environment in order to effectively participate in and influence cross-functional teams. Some companies may have these kinds of managers in place while other companies will have to train existing managers or hire ones who comprehend the business and social sides. For example, Starbucks has created a Vice President for CSR position and filled it with its former Vice President in charge of sourcing coffee, who has spent the past couple of years becoming familiar with social and economic development issues in developing countries. On the other hand, Unocal created a CSR manager position and recruited an expert in international development and relief from the United States Agency for International Development, who is spending time getting familiar with the company’s business operations. It will be very difficult for companies to integrate SACs if they do not have managers in charge of their CSR programs who are capable of thinking beyond traditional corporate philanthropy.

An important piece of groundwork that can greatly facilitate the development and integration of SACs is an effective learning organization. Companies that encourage risk taking and experimentation and who can tolerate failures have a distinct advantage over those that cannot (Zahra, 1996). Also, companies who are able to document, transfer, and apply new knowledge stemming from experimentation are at an advantage (Garvin, 1991). For example, Cisco Systems has cultivated an effective learning culture that has
given it a sharp competitive edge in the fast evolving Internet-related business. Cisco has used an interesting mix of acquisitions, decentralization, internal networking, and e-learning laboratories to acquire and develop capabilities and disseminate them rapidly throughout the organization. In fact, CISCO has used its e-learning capabilities in its Networking Academy Program, which represents a unique partnership between Cisco, businesses, governments, and community organizations around the world. This program aims to build future generations with skills in computer networking and information technology that is critical to Cisco’s core business. Students are taught to design, build, and maintain computer networks that will help position them for the information driven economy and workplace of the 21st Century. To date, Cisco has invested approximately $20 million in the Networking Academy that is serving more than 140,000 students in 96 countries (www.cisco.com, 2000).

An essential step in the SAC model is working in cross-functional teams, which is how SACs get planted and grow in the company. Companies that have a history of working in cross-functional teams should find it relatively easy to add a team member representing the CSR function. For example, the successful integration of Timberland’s social enterprise vice presidents into the operations and marketing functions is due largely to its tradition of teamwork and collaboration. Technology companies, who rely heavily on teams, should not have difficulty adding CSR managers to existing teams. Some large multinational corporations, however, who rely less on cross-functional teams as a work strategy might find it difficult to weave SACs into their corporate fabrics.

An important part of learning and integration is goal setting, which relies on a performance management system. The performance management system is the company’s mechanism for assessing, rewarding or punishing, and improving employees’ performance. The performance management system consists of an appraisal process combined with broader human resource systems and is typically used to align employees’ performance with the organization’s goals (Fisher, 1999). Once a performance management system is in place, it can be used to determine how well individual or groups perform in relation to integrating SACs within their specific areas of responsibility. This system can also be used to reward new or improved processes or products as well as CSR programs that have measurable impact on the environment, communities, and financial performance of the businesses.

In addition to a performance management system, the desire and ability to measure the business and social impact of CSR programs is important. The vast majority of large multinational corporations have corporate contributions programs that consist of a combination of cash and product donations. However, there is very little hard evidence linking a company’s investment in CSR initiatives with improved financial performance. In fact, many companies donate to enhance their corporate image and increase public trust rather than achieve financial gains (Garone, 1999). As long as companies are satisfied with intangible “public relations” and “image” gains from its CSR efforts, little progress will be made to hold the company’s social programs accountable for both social and financial gains. While progress is being made in developing methodologies to measure the business benefit of CSR programs, whether companies will use them remains unclear.
Towards the Future

Pressures from stakeholders are pulling companies in different and conflicting directions. Customers are demanding high quality products at low prices and investors are requiring competitive returns on their investments. These pressures are forcing companies to seek new consumer, labor, and natural resource markets often located in poor countries without the resources necessary to regulate powerful multinational corporations. In response, activist and special interest organizations have demanded that companies adhere to strict international environmental and labor standards. At the same time, host governments and development NGOs are pushing companies to contribute their resources to local socio-economic development agendas.

To address the social and environmental concerns of specific stakeholders, companies have spent significant resources on CSR programs ranging from traditional philanthropy to more strategically focused social investments linked in some way to their core businesses. Yet, it is not clear to what extent these investments have contributed to companies’ financial performances. A significant part of the problem is that traditional CSR strategies are frequently not aligned with the business strategies.

The SAC model can help companies align business and CSR strategies while responding to the divergent demands of their stakeholders. The model proposes building the CSR strategy on a company’s core competencies to better respond to issues and concerns of its key stakeholders. An emerging model of SACs is then integrated throughout the company, which results in mutually reinforcing business and social benefits able to satisfy the range of stakeholders from investor to community activist.

Companies who can convert their core competencies into SACs and integrate them throughout the organization will achieve a competitive advantage by employing competencies to proactively address their stakeholder interests. Companies will benefit from an enhanced reputation that comes from placing the highest value on people and the environment and carrying out actions that are consistent with these values. These companies will not have separate strategies for business, stakeholders, and corporate social responsibility. Instead, the truly outstanding companies will find ways to fold notions of stakeholder management, corporate citizenship, corporate philanthropy, and the business model into an integrated strategy that gives them unprecedented competitive advantage in global markets.
REFERENCES


