

## HOW CORPORATE SOCIAL RESPONSIBILITY LEADS TO VALUE CREATION IN TIMES OF ECONOMIC DOWNTURN

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***Nolan, Norton & Co.***

## What is a strategic approach towards CSR?

The increase of environmental awareness, increasing scarcity of resources and the demand for transparency of operations has led to an increasing popularity of Corporate Social Responsibility (CSR). In the past, CSR investments have been argued to be inconsistent with the objective of profit maximization. As a result CSR was limited to risk management and damage control, whereby only mandatory measures were taken. Driven by the fundamental trends mentioned above, CSR has become a boardroom priority and is often marked as being an important theme.

‘Sustainability’, ‘eco-efficiency’, ‘triple bottom line’ and ‘going green’ are just a few of the buzzwords used. CSR combines the social and environmental aspects in doing business. CSR is an approach whereby a company considers the interests of all stakeholders both within the organisation and in society and applies those interests while developing its strategy and during execution. CSR offers organisations various opportunities not only to differentiate themselves from competitors but also for reducing costs. If managed adequately, a CSR approach creates value for both business and society simultaneously.

Leading CSR companies move beyond good corporate citizenship and sheer compliance to reporting guidelines; they have top management ‘living’ the CSR approach (not only a corporate staff department), are structured and consistent in their approach and are able to turn CSR into business.

Nolan, Norton & Co. advocates a strategic approach towards CSR in which it relates directly to value creation and profitability. Strategic CSR relates socially responsible behaviour of the firm to its core business.

CSR is strategic when:

- The purpose (of the CSR policy, program or process) is for value creation and to build a unique competitive position
- It is applied from an inside out and outside in perspective
- It yields substantial business-related benefits to the firm, in particular by supporting core business activities and thus contributing to the firm’s effectiveness in accomplishing its mission
- It relates to the maximum extent possible to all primary and secondary processes in the value chain, from R&D to after sales service and including HR, Finance, IT, etc.

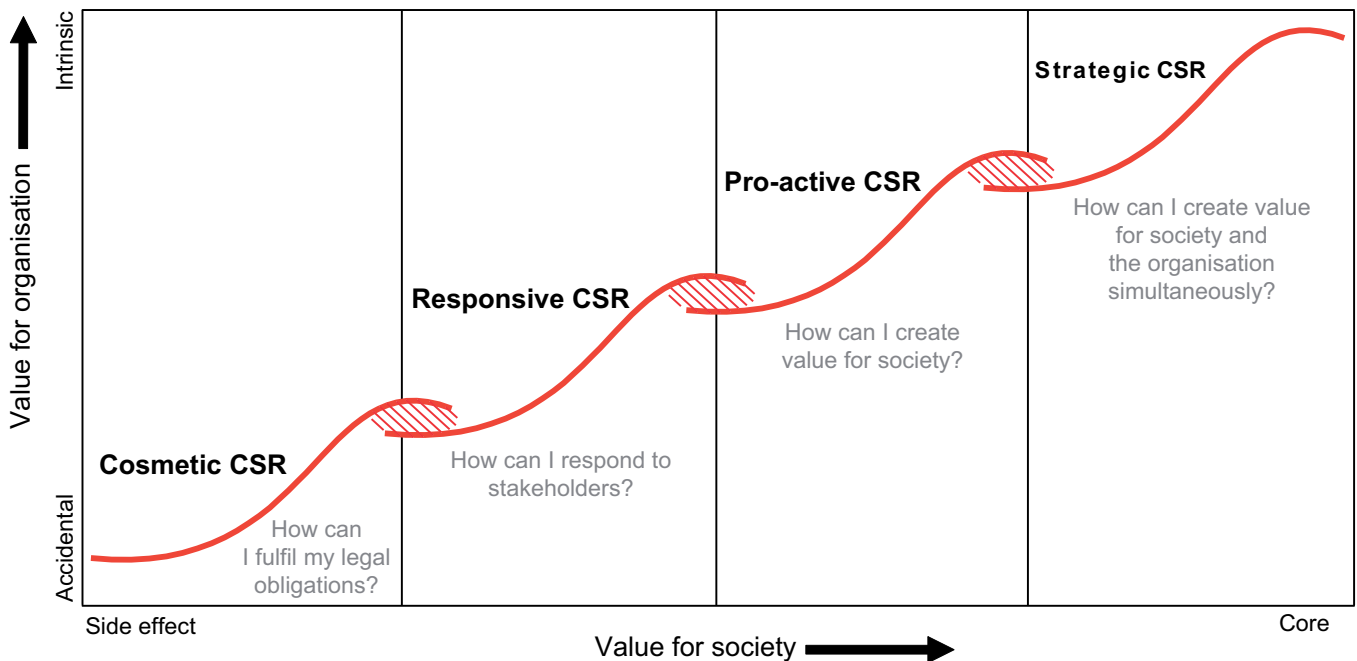


Figure 1: CSR Development Framework

To help our clients to develop a strategic approach towards CSR, Nolan, Norton & Co. has created a development framework. The framework defines four phases of development ranging from a 'cosmetic' to a strategic CSR approach (see figure 1). On one end, organisations applying an approach mainly focused on answering the question of 'how to fulfil their legal obligations' are labelled 'cosmetic'. On the other end, organisations on the track of strategic CSR plan, organize and execute for creating value for society and the organisation simultaneously.

## **D**oes CSR fit in a recession strategy?

Until 2008, companies in various industries were well on their way towards developing a more strategic approach to CSR. However, in just a few months time, the economic downturn has become the dominant theme on boardroom agendas. As a direct result, a number of organisations seem to downgrade the priority of CSR and to treat it once again as a side activity that only leads to an increase in costs. In doing so, these organisations misjudge CSR as some form of philanthropy.

Nolan, Norton & Co. believes that a strategic approach towards CSR offers companies a number of opportunities for value creation regardless the economic cycle. In general, companies actively addressing environmental, social and governance issues will have a lower risk profile which may help them to outperform others in times of recession. Besides guarding the downside potential, a strategic approach towards CSR may actually both long- and short-term opportunities for value creation by:

- Identifying and developing new markets, customer groups and/or products for example visionary and innovative car manufacturers realizing tremendous leaps in market share by introducing energy-efficient vehicles
- Increasing customer, employee and shareholder loyalty for example those financial institutions that have underlined their credibility and reliability by being transparent on their risk exposure and by limiting the senior management bonus schemes during the credit crunch

- Reducing cost and/or increasing productivity for example airlines turning to energy-efficient aircrafts which have cleaner engines and use less kerosene

Firms which completely halt their CSR efforts following the recession will definitely lose credibility. Companies which lower priority of CSR should be aware that their carefully built reputation is at risk. It comes to no surprise that as a result of the recession, most attention will be paid to CSR's short term cost reduction potential. Cost savings for instance realised by applying more sustainable procurement practices could provide a valid argument to keep CSR on the boardroom agenda.

Still, Nolan, Norton & Co. is convinced that neglecting CSR's full strategic potential due to uncertain economic times may cause an organisation to lose its competitive edge in the longer run or to miss the opportunity to gain it. Consequently, companies should continue to ask themselves questions like:

- Are we applying CSR in the right way?
- What do our customers and employees expect of us?  
And how can we get them involved?
- How can we save costs and decrease impact of operations on environment and society by applying CSR?
- What activities are our competitors developing in the field of CSR?
- Is our company ready for a strategic approach towards CSR?
- What changes in the organisation come along with being socially responsible?
- How far should the company go in applying CSR?

## How Nolan, Norton & Co. can help

Nolan, Norton & Co. has over 20 years of experience in strategy and execution consulting. We have studied the elements of a strategic approach to CSR aimed at value creation and profitability. The result is a CSR scan, which will provide a frame of reference against which your current performance can be measured. In a short timeframe of weeks, companies can benefit from this comprehensive methodology to map and analyse the current CSR performance. The CSR scan is a generic tool which can be applied to companies in different industries.

The objectives of a CSR scan are:

- To position the organisation's current CSR initiatives for example in relation to the market in general and towards competitors
- To develop an understanding of the potential impact of CSR on the industry and the organisation
- To identify a number of concrete CSR opportunities for the organisation
- To develop a roadmap for developing the organisation's competences and initiatives in relation to CSR

In the past years many companies have put effort in developing one or more CSR initiatives. These initiatives may vary widely from sponsoring to making sustainable investments and from marketing efforts to making radical changes in product design. For companies with a portfolio of CSR initiatives the question rises whether they have a consistent and well balanced approach. Moreover, in times of economic downturn it is evident that your CSR approach should consist only of those activities that truly add value. The CSR scan will help to assess whether you are currently doing the right things and whether you are doing all things you should do.

Nolan, Norton & Co. believes in a balanced approach towards CSR which should comprise of five aspects which impact both the organisation and society. The scan addresses the aspects Strategy & Organisation, Resources & Processes, Business Propositions, Stakeholder Interaction and Value to assess whether there is a balanced approach towards CSR. Every individual aspect of the scan will address a high level research question, which can be answered by studying more detailed assessment items (see figure 2):

- 1 Is CSR embedded within corporate strategy, the organisation, its culture and management?
- 2 To what level is CSR embedded in our primary and secondary processes?
- 3 To what extent is CSR embedded in the company's propositions and to what extent is CSR a theme in enhancing the competitive advantage of the company's business portfolio?
- 4 With which stakeholders do we discuss our impact and how is this organised?
- 5 To what extent do we create value for both the organisation and society?

Execution of the scan consists of three steps. Goal of the first phase is to create an overview of CSR trends and developments in relation to relevant industries, markets and competitors and to map the organisation's current CSR initiatives. In the next phase CSR trends will be discussed in relation to the organisation's current activities within the five CSR aspects. Final deliverable will be a comprehensive report summarizing the CSR scan's findings including concrete short term opportunities and a high level roadmap appropriate for a balanced development of the organisation's CSR capabilities and initiatives.

**T**he CSR Scan addresses five aspects

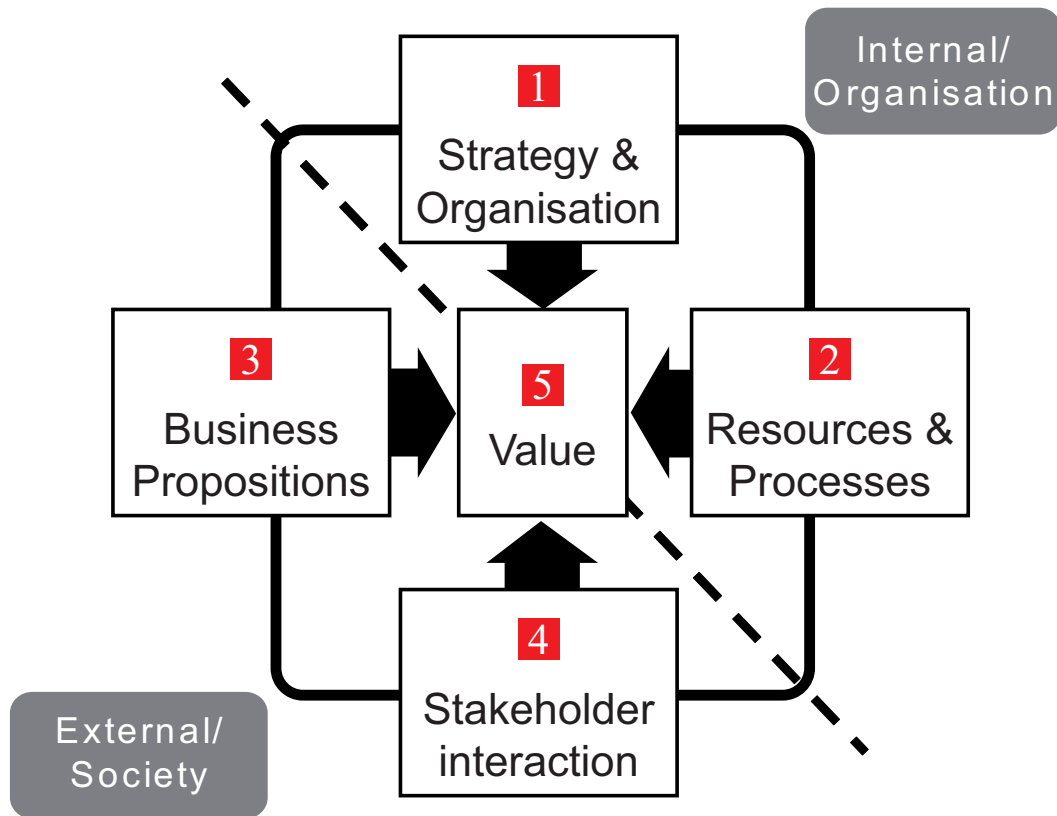


Figure 2: CSR Scan

**1** Strategy & Organisation

- Strategy
- Objectives
- Leadership
- Responsibility
- Targets
- Employer

- Product marketing
- Pilot projects/new markets

**2** Resources & Processes

- Compliance
- Transparency
- Primary processes
- Secondary processes

**4** Stakeholder interaction

- Customer dialogue
- Shareholder/investor dialogue
- Employee dialogue
- Dialogue with other stakeholder groups
- Stands on issues

**3** Business Propositions

- Competitive positioning
- New product development

**5** Value

- Social value (environment/society)
- Business value
- Business savings
- Access to capital

Nolan, Norton & Co. (NNC) consults and guides the senior management of international companies in the development and implementation of their corporate and business strategies. NNC's experience and thought leadership in strategy design, organisation design, governance, information technology and execution are the key factors that distinguish us from other strategy firms in the Benelux consulting market.

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