

Corporate Social Responsibility Innovation

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2012

Innovative CSR

Removing Information Asymmetry Increases Market Valuation

Innovation + Sustainability = Recruitment & Retention

New Focus Develops Strategic Advantage

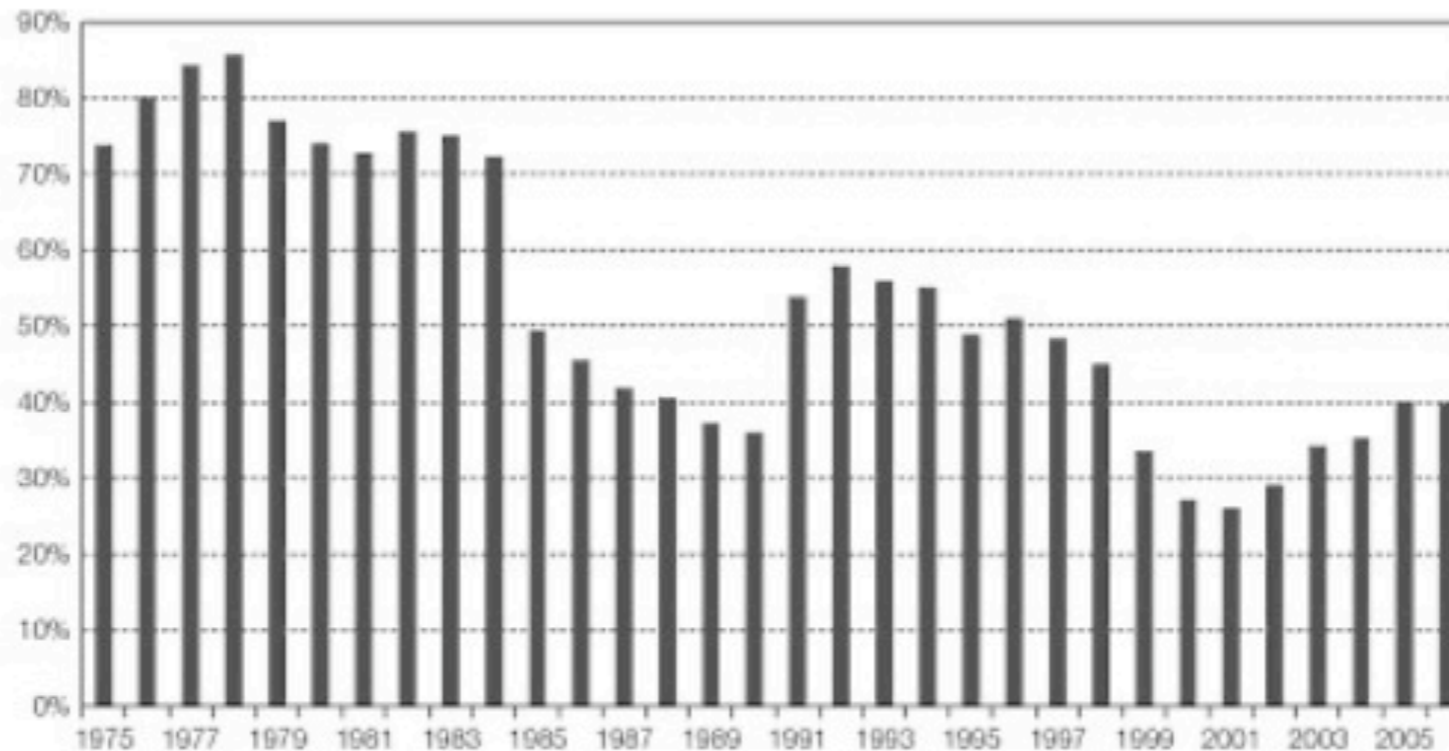
* Baruch Lev, "Winning Investors Over" (2012)

The Shrinking Relevance of Accounting Information*

What drives investor confidence?

FIGURE 7-1

Proportion of stock price differences across companies explained by reported earnings and net asset values, 1975-2006



Source: Compustat.

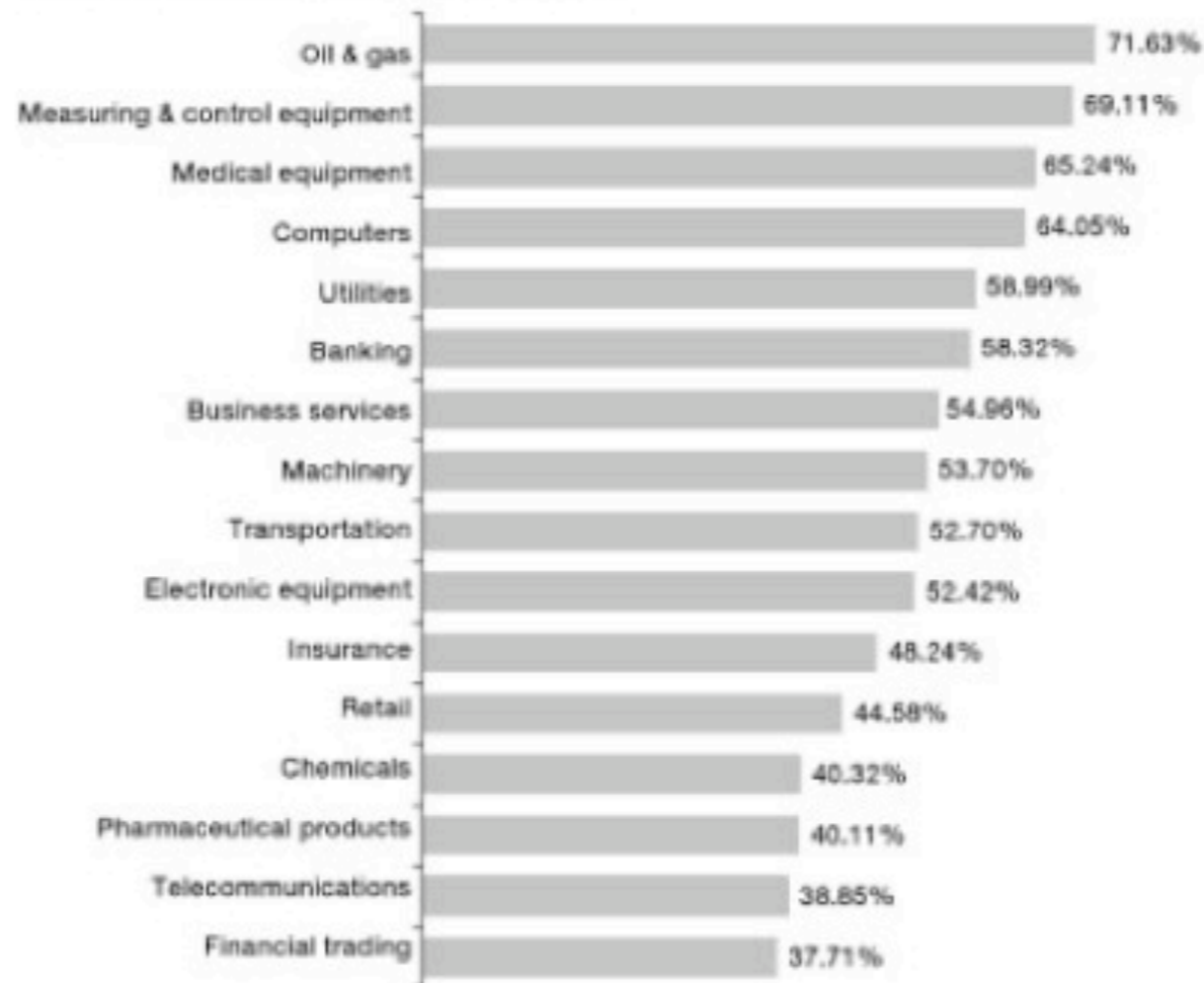
* Baruch Lev "Chapter 7: Life Beyond GAAP" *Winning Investors Over* Harvard Business Review Press (2012)

Percentage of Price from Long-Term Expectations

Investors highly value long-term growth prospects

FIGURE 10-1

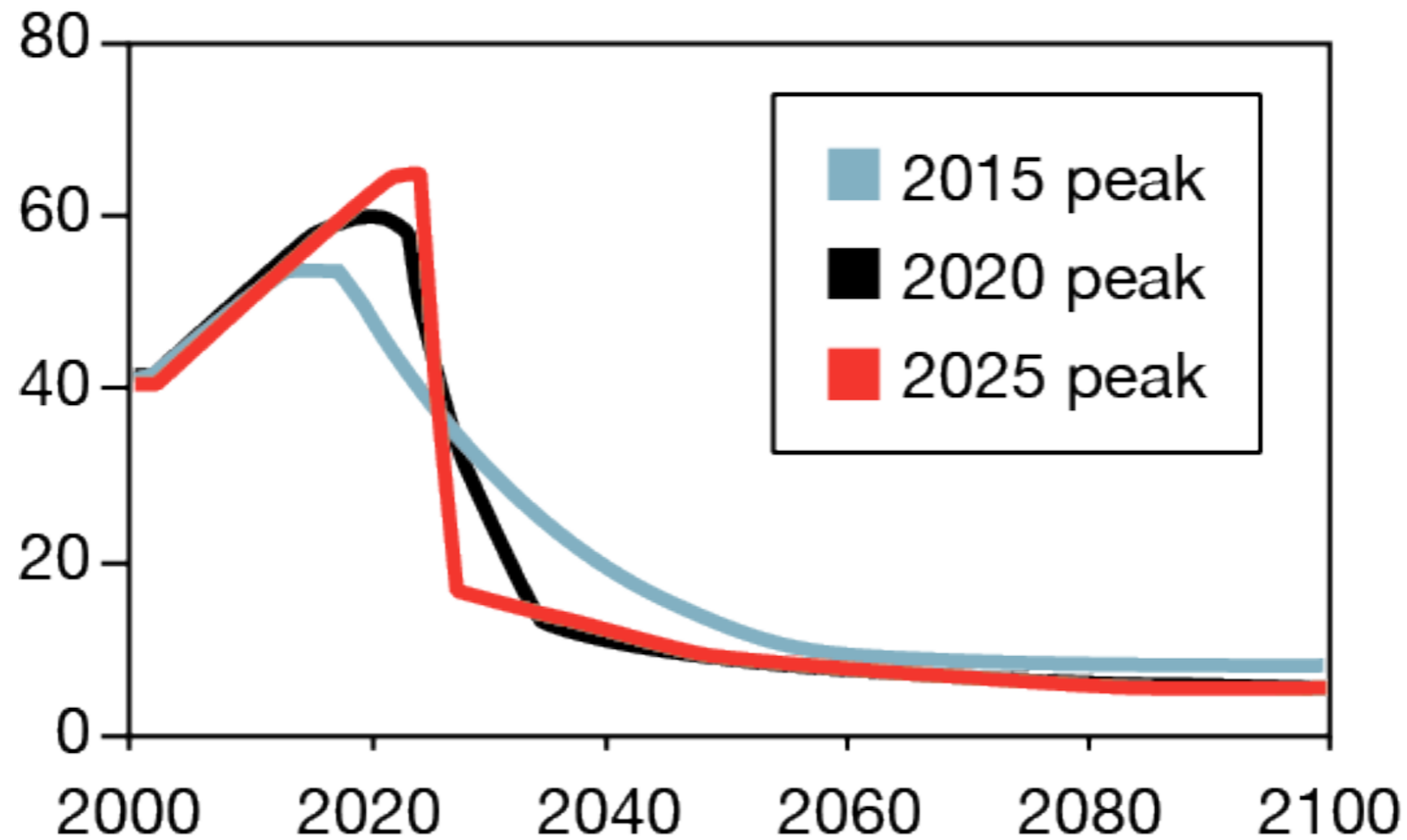
Long-term-driven market value (%)



Source: Compustat and I/B/E/S.

* Baruch Lev "Chapter 10: In the Long Run We're All Dead" *Winning Investors Over* Harvard Business Review Press (2012)

Shapes of the Climate Crisis: Corporate Growth Curves Are Derailed

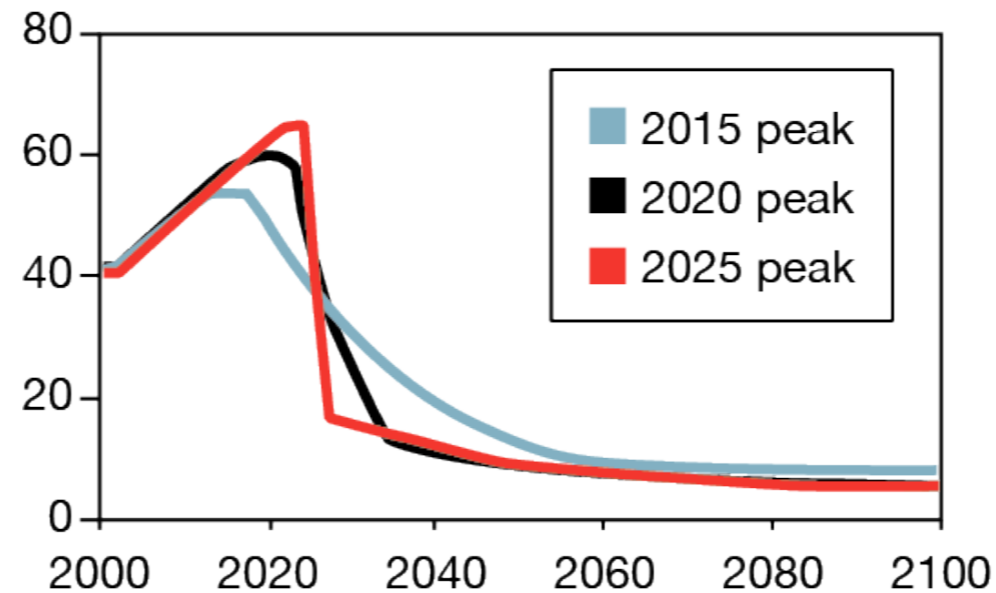


This graph shows the pace required for carbon emission reductions to avoid $>2^{\circ}$ warming, based on peak emission date.

For example, if we can start cutting emissions by the middle of this decade, we'd have until 2050 to cut carbon emissions by 80%; if we wait until 2020, we'd only have until 2035; and if we wait until 2025, we'd have about a year to cut emissions by 80%.

* Source: grist.org

The "Acts of God" Level Risk of 2 Degrees



"What the paleoclimate record tells us is that the dangerous level of global warming is less than what we thought a few years ago. The target that has been talked about in international negotiations for 2 degrees of warming is actually a prescription for long-term disaster. Two degrees of warming will lead to an ice-free Arctic and sea-level rise in the tens of meters."*

The degree to which 2 degrees will alter the earth's habitability will impact individuals' lives so severely through extreme weather, food and water scarcity, loss of land use, and disease, that companies who are seen as active contributors to the catastrophe will be *lucky* to be reviled only as tobacco companies had been in the past.

*James Hansen, director of NASA's Goddard Institute for Space Studies.

Three Faces of CSR

Pro Bono Services

Aligning CSR with market readiness and education using the company's distinctive competencies.¹

Corporate Philanthropy

"Corporate giving is associated with subsequent sales growth after controlling for the major drivers of sales growth."²

Risk Management

Higher levels of CSR activities moderated the stock price impact of news about negative corporate events.³

1 Baruch Lev "Chapter 7: Life Beyond GAAP" *Winning Investors Over* Harvard Business Review Press (2012)

2. Lev, B. et. al. "Is Doing Good, Good for You?"

3. Paul Godfrey, Craig Merrill, and Jared Hansen, "The relationship between corporate social responsibility and shareholder value: An empirical test of the risk management hypothesis," *Strategic Management Journal* 30 (2009); 425-445.

Three Faces of CSR

Mitigating Real Risk & Building Trust



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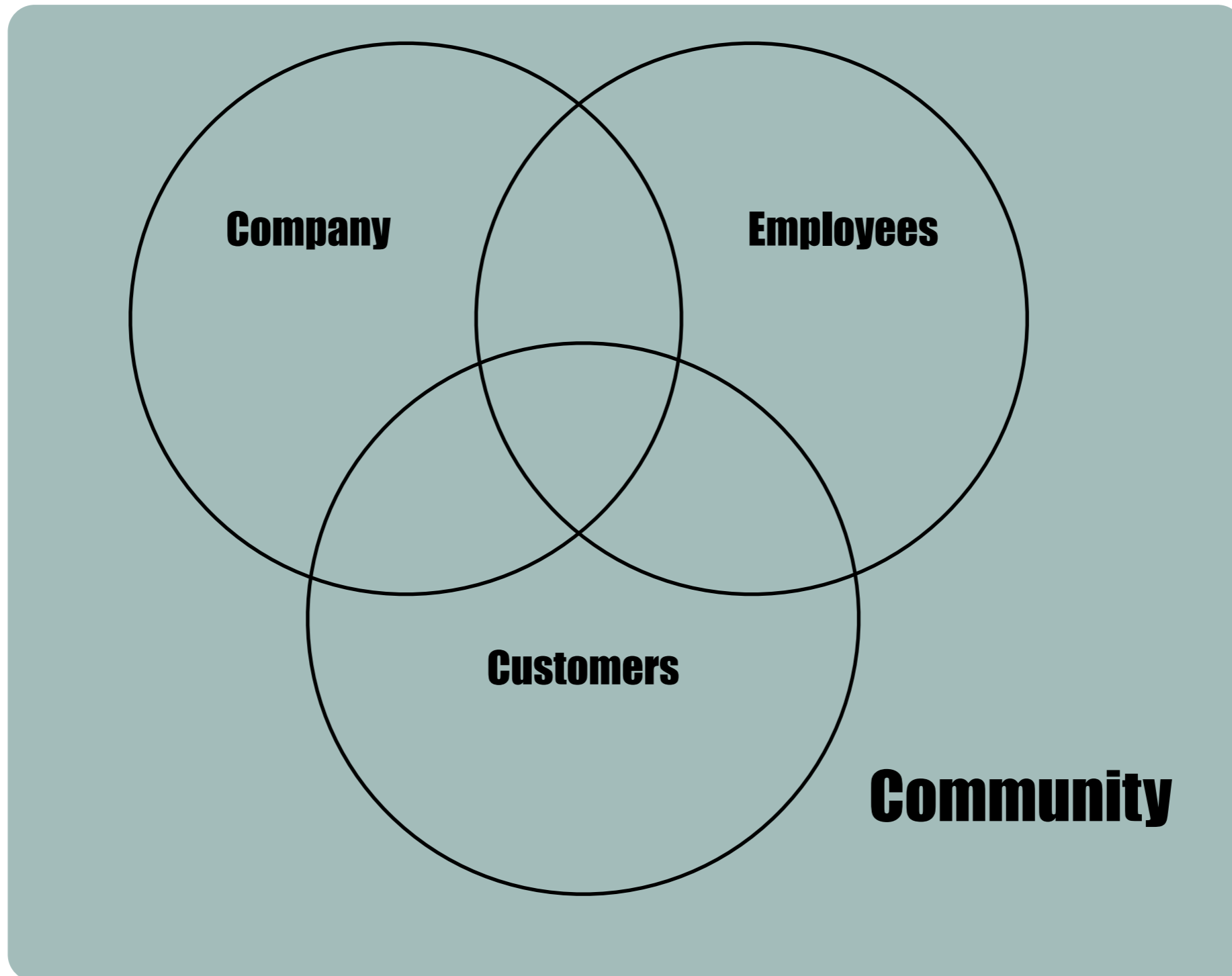
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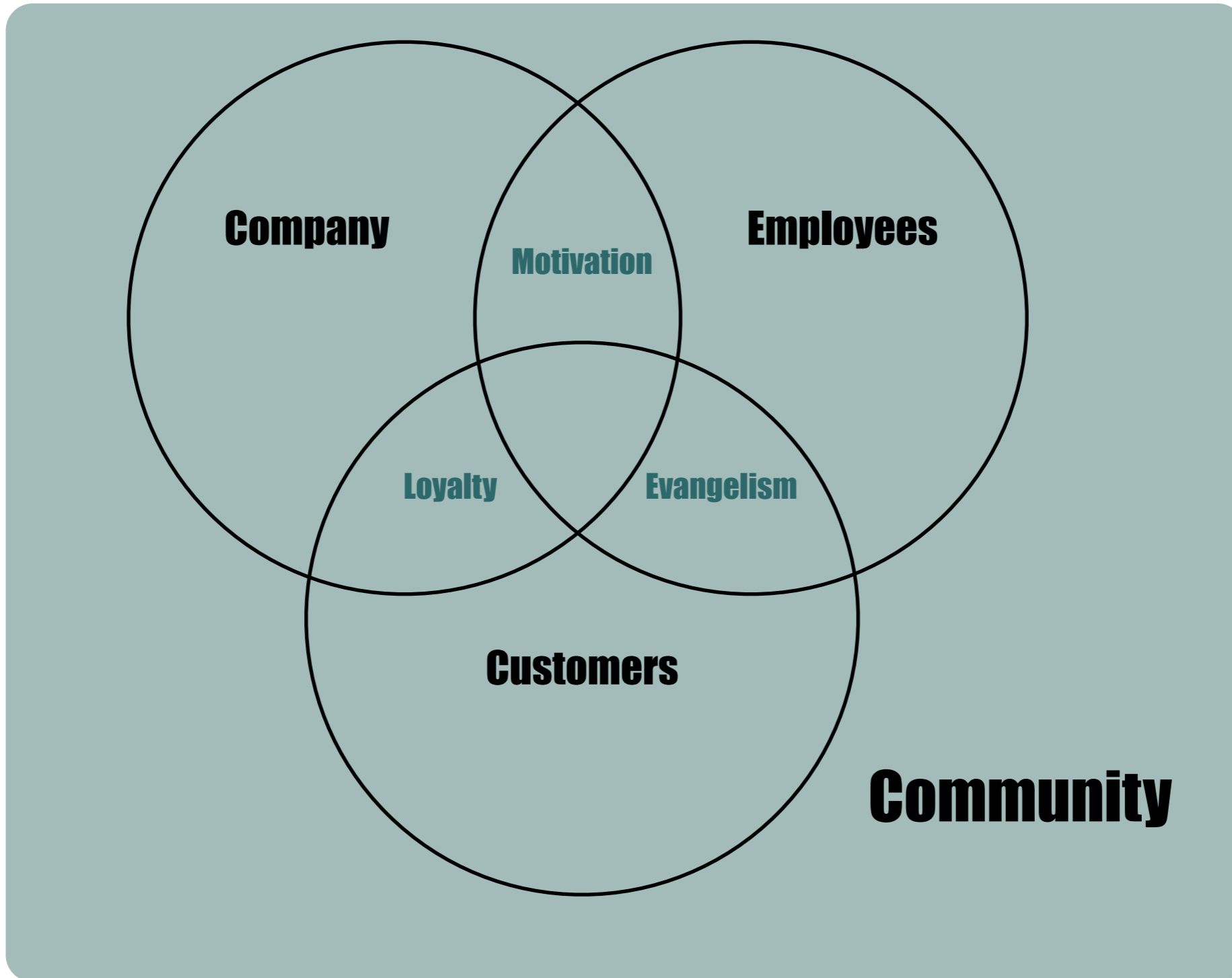
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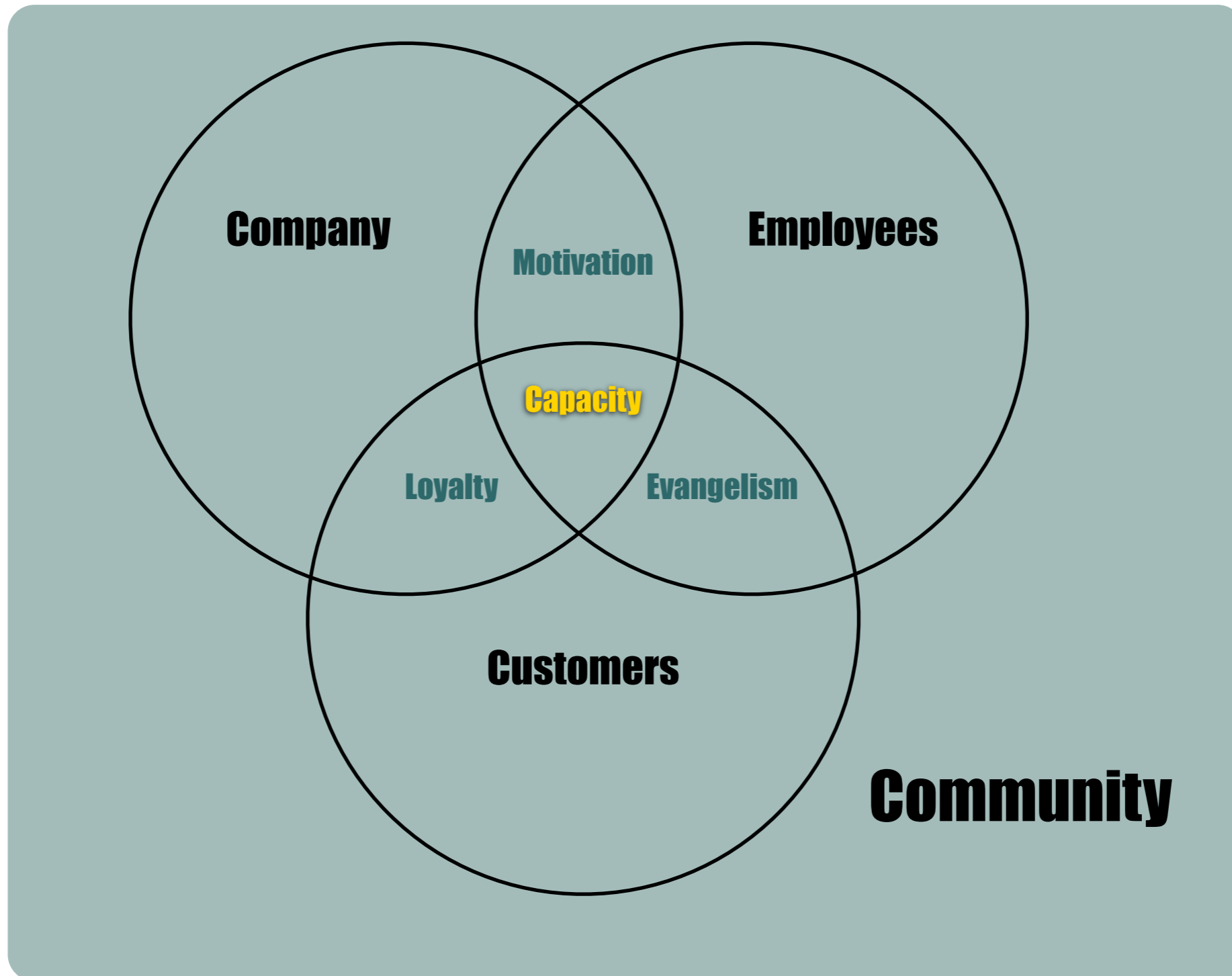
CSR = Building Business Upon Feedback Systems



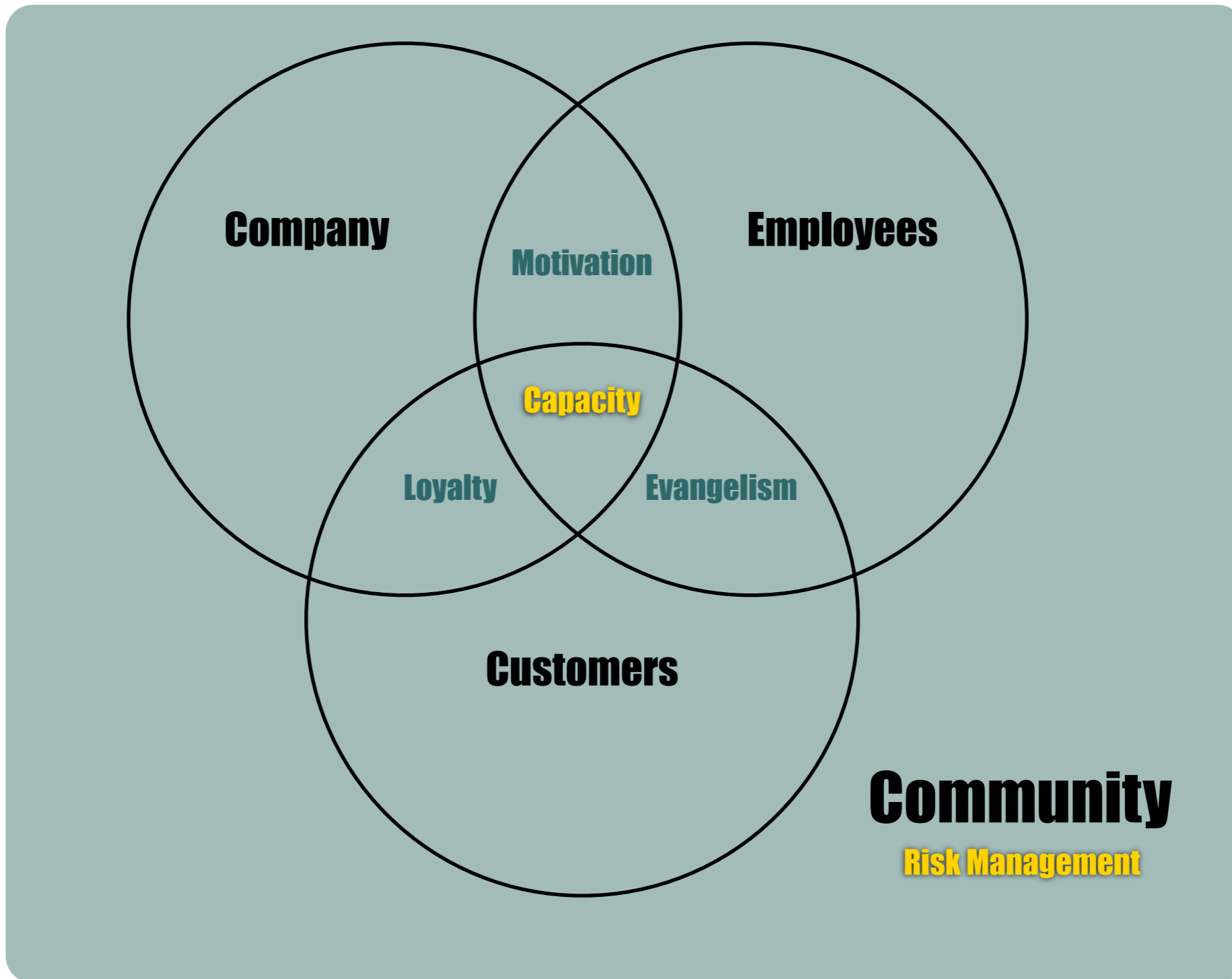
CSR Builds Strategic Assets



At the Core of CSR Is Capacity for Future Growth



CSR Builds Resilience



How to Build an Innovative CSR Program

**Lead
Innovate Solutions
Build the Program**

Leadership Walk the Talk

The first part of the process involves building internal capacity. It has several elements:

- Discovery of the distinctive competencies of the organization and building trust of other organizational leaders
- Determining the issues of concern to the employees, customers, and the community-at-large.
- Evaluating existing processes and the histories that led to their establishment
- Understanding the existing hubs of innovation and the specific innovative ideas that have emerged

By building this landscape - primarily by 1:1 interviews - leadership finds the embedded non-financial resources of the company and begins establishing a benchmark and developing metrics for change.

The process of mostly 1:1 interviews with a few larger group collaboration session builds trust throughout the organization. The mechanism for building trust is about listening and considering others' viewpoints and respecting the boundary between transparency and privacy. The process also enables learning about cultural hooks and triggers, developing an understanding of process, and enabling the beginning of a map of the existing distribution of knowledge and creativity throughout the organization.

By sharing this discovery process as well as its results, an Innovative CSR program behaves responsibly to all stakeholders in the organization. It is crucial for the leadership to walk the talk.

Innovate Solutions

Build Metrics

Reward Employees

The research and discovery process will uncover some innovations of interest.

However part of the innovation process is establishing a culture and a set of mechanisms where innovations can be continually brought forward, evaluated, validated in whole or in part, and implemented.

To create the relevant mechanisms, first an innovative CSR program develops method for establishing the creation of knowledge and relationships and making these transparent. This is helpful not only for those people who would like to see their innovations adopted, but also for managers to be able to fully assess the resourcefulness of their employees, and executives to see nascent possibilities waiting to be developed.

By creating metrics in alignment with the goals of employees, management, and strategic executives, an innovative CSR program can monitor and adapt to changing market conditions.

Furthermore, for many young recruits, the knowledge that innovation in alignment with social responsibility is at the forefront of an organization's strategic direction makes that organization all the more compelling. This helps recruitment goals as well as reinforcing motivation.

Build the Program

Conveniently, moving from CSR as communications function to a business function is relatively easy to support, since it is changing a program from cost-center to profit-center.

The first objective involves taking inventory of mechanisms -- and the thought leaders that built them -- that have already been developed for tracking the development of trust, knowledge and health, within the organization. Typically work of this nature has been instigated within the supply chain, within governance groups, and within some product lines; however, it hasn't been developed in such a way that it can be integrated throughout the company, and it's rarely already being monitored by the financial and investor relations functions. Consequently, the first "build" is often developing a communications framework among the different existing implementations, enabling the sharing of information, and developing and executing a plan to integrate this with the financial rollup.

The second objective involves outreach in the community. Many companies are beginning to develop "excess capacity" programs, where their expertise and product are offered at deeply discounted or pro bono rates to community groups. Organizing this program dovetails with the first objective, and extends an understanding of skills, interests, and social ties into the community outside the organization. Conversely, achieving this second objective involves organizing the understanding and progress made addressing community needs over time, and integrating this information with the sales conversion funnel and marketing strategy groups.

The third objective is longer term, involving the creation of socially beneficial products from the information gleaned above. This objective confers three major benefits:

- Invigorating the product line by building products that are "aspirins," using the parlance of venture capitalists.
- Supporting recruitment and retention of high-achieving, idealistic new graduates
- Reinforcing innovative thinking within the organization, overall.

Over time, the portfolio of products at the company can increasingly reflect those that aggressively improve the capacity of the planet while cementing the firm's place as a leader in innovation and the development of products that are highly resistant to economic fluctuations.

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