

Defending CSR: Justifications and Responsibility

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Introduction:

In this study, we look to better understand how companies that identify themselves as good corporate citizens behave. We do this by looking at how companies perceive themselves, what types of responsible activities they engage in, and how deeply the mandate is felt within the organization. Our interests lie in how well internal corporate perception aligns with broader corporate norms, and whether the level of corporate commitment (perceived and actual) is manifest in the firm's commitment to programs, operating principles, decision-making, and relationships with outside stakeholders. Finally, we look to see what types of risks managers are willing to take and how they defend those actions to both the Board and their shareholders.

Using a model developed specifically for this study, we evaluate and analyze three well-established corporations to gain insights into when and how their CSR began, and how it has matured within the organization. We also investigate whether or not responsible conduct has an observable effect on corporate behavior and/or a measurable bottom-line impact.

The OPI Model:

Most CSR activities fall along a broad spectrum of activity. These range from opportunistic public relations (PR) acts that are unrelated to the core business of the company, to systematic integration of the firm's values into its daily decision-making and operations. To better understand and evaluate companies and their commitment to responsible activities, we have developed the OPI Model. We look to use this paradigm as a category guideline with which to situate firms and their activities along a CSR continuum.

Opportunistic CSR: A firm's CSR is opportunistic when it chooses to support causes or events primarily because they show potential for positive PR. The firm is receptive to supporting causes that may be laudable, but it does not make its decisions based on a strategic corporate plan. Often known as check-writing philanthropy, this kind of CSR can produce philanthropic successes but is often devoid of any thematic coherence or link to the firm's core business and daily practices. In other words, this CSR garners praise from outside recipients but serves no strategic corporate purpose; it is external and non-strategic.

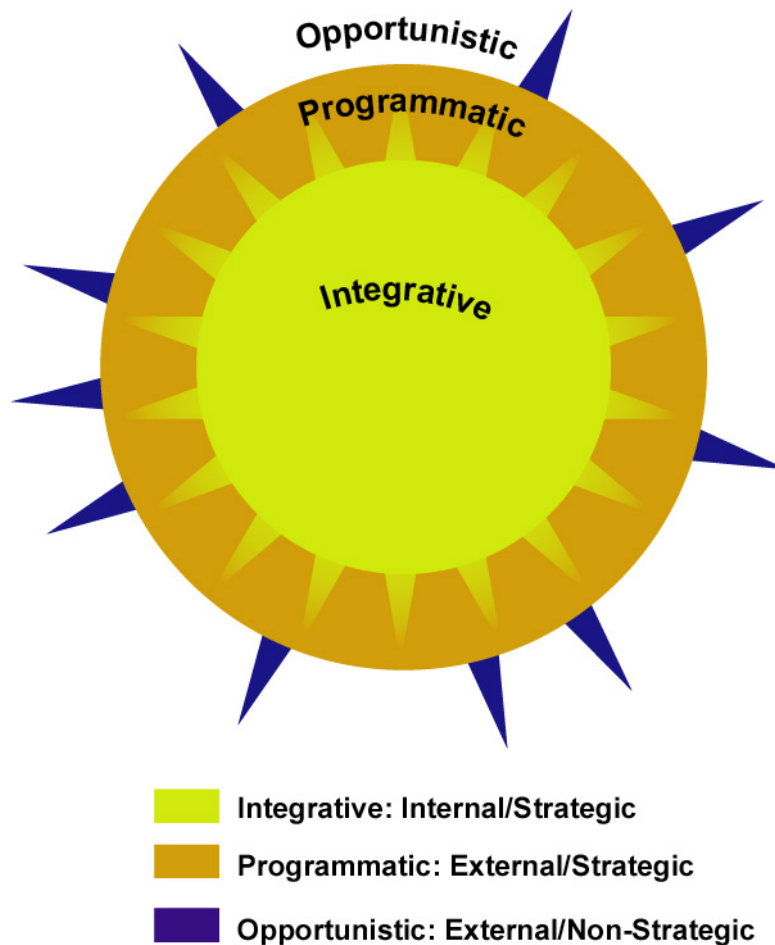
Programmatic CSR – More than check writing, this is when philanthropic activities are made into regular programs that enjoy predictable, long term budgetary support because they benefit the company in some way. The benefits are usually measured in terms of the firm's ability to attract and retain employees, maintain its brand reputation, and increase its license to operate in communities in which it does business. In other words, this CSR is part of a longer-term plan

designed to benefit the company as well as the outside recipients; it is primarily external and always strategic.

Integrative CSR – A firm can be said to have integrative CSR when its values are part of the foundation of corporate decision-making. This occurs when CSR so imbues a firm’s policies and operations that a new employee would be both encouraged by the internal value culture and obliged by its rules to work in ways that respect - and do not contravene – the firm’s definition of CSR. The result is CSR that rules internal operations and is part of a plan to increase corporate value; it is internal and strategic.

Figure 1. The OPI Model

The **OPI Model** of Corporate Commitment to Responsibility



The graphic above is a visual representation of the OPI Model. A company, which has responsible values at its core, integrates CSR into its daily internal operations. The programmatic ring represents externally facing programs (and dollars) that are independently strategic, or an extension of core corporate values – hence the expanding integrative rays. Opportunistic CSR is random in focus and purpose. It is disconnected from the core of the organization and any specific guiding principles.

Study Method:

This paper examines three publicly held firms, which have decided and declared publicly that CSR is in their business interest. Researchers gathered information by examining the firms' public documents and by interviewing selected managers. We asked the firms to assess their commitment to CSR and to explain how their operations and decision-making honor and implement this commitment. To assess how the firms' perceptions of themselves translated into actual corporate workings, the interviews probed the following topics: 1) corporation mission and evolution; 2) types of giving; 3) types of programs; 4) arguments made to support the business case for these responsible activities.

The Companies:

RBC Financial Group

RBC Financial Group (formerly the Royal Bank of Canada) is Canada's largest bank. Headquartered in Toronto with capital assets of \$382 billion and operations in thirty countries, it has 59,549 employees. In 2003, it generated revenues of \$3 billion. It has five main business lines: personal and commercial banking; insurance; wealth management; corporate and investment banking, and transaction processing. Its 19-member Board of Directors is formally tasked with guiding its corporate social responsibility, corporate citizenship, and environmental sustainability. A Public Policy Committee helps it in this function.¹

RBC's vision statement is "Always earning the right to be our client's first choice," which implies active attention to its impacts on and relationships with people other than its shareholders. Its efforts to be perceived as a good corporate citizen have been recognized. In Canada, it has led the "Most Respected Corporation" list for the past seven consecutive years.² Internationally, it is listed on the Dow Jones Sustainable World Index, a list of three hundred companies from 23 countries that represent the top 10% of firms in terms of corporate sustainability.³ It is one of only two Canadian financial institutions listed; its grade is almost twice as high as this competitor.

RBC sees its CSR as both a business imperative and a competitive edge.⁴ It is publicly forthright about this, operating in all three sectors of the OPI Model, and says it is proud of its efforts and accomplishments thus far. We look to find if their efforts are truly company wide, or focused amongst a small group within management.

¹ Online: RBC Financial Corporate Governance page Cited: December 14, 2003 URL: <http://www.rbc.com/investorrelations/pdf/egov.pdf>

² This annual list is compiled by the Globe & Mail of Toronto, Canada's largest newspaper.

³ Online: Sustainability Index Cited November 20, 2003 URL: http://www.sustainability-index.com/djsi_pdf/djsi_world/Components/DJSIWorld_country_Rex2003.pdf

⁴ RBC prefers the term "corporate responsibility." We use "CSR" in this document for ease of reading.

The Timberland Company

Based in Stratham, New Hampshire, The Timberland Company designs, develops, markets, and distributes premium-quality footwear, apparel, and accessories for men, women, and children. The company was founded in Boston in 1918 and has operated under the Timberland name since 1973. Timberland's flagship product, the waterproof leather boot, is still its most popular and the footwear line overall accounts for approximately 75% of the company's revenues (\$1.19 billion in 2002)⁵. Timberland products are sold domestically (67% of revenue in 2002) and internationally through a network of company stores (78 stores in 29 states in the U.S.; stores in 59 other countries⁶) and independent retailers, including department stores and athletic shoes stores. Vendors in about 35 countries manufacture its products.⁷

Timberland is essentially a family-owned and operated business; the Swartz family holds approximately 46% of Timberland Company stock, which is publicly traded, and approximately 82% of voting power.⁸ CEO Jeffrey Swartz is mindful of following in the footsteps of his grandfather, Nathan who, as a Boston-based cobbler, founded the company, and his father, Sidney, now the company's chairman, whom the younger Swartz credits with establishing the Timberland brand. "You come along to the third generation of a family-run business," Swartz has said, "and wonder how you are going to create value."⁹

Swartz has answered this challenge in two ways: first, he has grown the company dramatically, from a market capitalization of approximately \$150 million in the early 1990's to nearly \$2 billion in 2003. Second, he has gradually instilled a culture that espouses the belief that doing well and doing good are inextricably linked. Components of this much-heralded¹⁰ approach include 40 hours' paid time annually for each employee to perform community service, and a pioneering Global Business Alliance program which promotes fair, safe, and non-discriminatory workplaces well beyond industry standards.

Today, Timberland managers, including Swartz, believe the company has reached a high level of integration between business practices and social responsibility. Achieving this integration,

⁵ Online: web Timberland Company Outlet Store page Cited: December 11, 2003 URL: http://www.timberland.com/cgi-bin/timberland/timberland/corporate/tim_store_locator.jsp

⁶ Online: web Timberland Company Annual Reports page Cited: December 11, 2003 URL: http://www.timberland.com/cgi-bin/timberland/timberland/corporate/tim_investors.jsp

⁷ Online: web Timberland Company Global Labor Standards page Cited: December 11, 2003 URL: http://www.timberland.com/cgi-bin/timberland/timberland/candj/tim_content.jsp?strCategory=%2fInform%2fGlobal+Labor+Standards

⁸ Online web Timberland Company Investor Relations page Cited: December 11, 2003 http://www.timberland.com/cgi-bin/timberland/timberland/corporate/tim_investors.jsp

⁹ Harvard Business School videotaped interview with Jeffrey Swartz, produced for Diana Barrett, November 15, 2001.

¹⁰ Timberland, for example, is one of *Fortune* magazine's "100 Best Companies to Work For" for 2003.

however, is more a journey than a destination. Timberland continues to face challenges in finding the optimal balance between the dual imperatives of doing well and doing good.

Cabot Corporation

Cabot Corporation is a Boston-based specialty chemicals company. Although most consumers wouldn't recognize a single product that it produces, most people use Cabot products daily. Cabot's major product lines include carbon black (tires), fumed silica (adhesives), tantalum (cell phones). In 2002, Cabot had revenues of \$1.7 billion. It operates in 65 communities in 21 countries. The 4,400 worldwide employees work at 36 manufacturing facilities, 8 research and development facilities, 12 technical services centers, and 59 sales offices.

According to Cabot Chairman and CEO Kennett F. Burnes, Cabot is "committed to being a responsive and responsible citizen in the 65 communities in which we live and work. As Cabot employees, we operate facilities as if they were located next to our own homes. In addition, we conduct our business in an honest, concerned, and caring manner. The goodwill of our neighbors is our goal...our legacy...and our responsibility."¹¹

Cabot's commitment to the communities in which it works goes beyond "community giving" in the traditional sense. Health, safety, and environmental sustainability can be seen in everything Cabot does – from how it builds facilities, to how it treats employees, to the role it plays in each community in which it operates. Within the OPI Model, Cabot only operates in the programmatic and integrative rings. The question remains: is Cabot as responsible as it purports to be? Or, are there things that it can do to improve the impact of its efforts?

Analysis: Opportunistic CSR

A firm's CSR is opportunistic when it chooses to support causes or events that show potential for positive PR. The firm is receptive to supporting causes that may be laudable, but it does not make its decisions based on a strategic corporate plan. Often known as check-writing philanthropy, this kind of CSR can produce philanthropic successes but is often devoid of any thematic coherence or link to the firm's core business and daily practices. In other words, this CSR garners praise from outside recipients but serves no strategic corporate purpose; it is external and non-strategic.

RBC – The RBC Foundation

RBC managers report that its culture of social responsibility dates back to one of its 1960s Chairmen and CEOs, Rowland Frazee, whom they describe as a classic "banker with a

¹¹ Online: web Cabot Corp. Community Outreach page Cited: December 6, 2003 URL: <http://w1.cabot-corp.com/controller.jsp?N=21+4294966764>

conscience.” They say that this internal values culture has persisted and grown over time such that it is part of the “DNA” of their corporate culture.¹² This DNA has produced a broad effect.

Most of RBC’s direct CSR investments take the form of charitable donations and employee and pensioner volunteer programs. RBC’s commitment to donating at least one percent of its average annual net income before taxes to charitable causes, based on a five-year average, has made the RBC Foundation one of the largest charitable foundations in Canada.¹³ In 2002, it dispensed \$37.1 million (Cdn), a funding level that has remained constant over time. Under the broad rubric of community investment to “help build a knowledge society,” the Foundation invests in: 1) health; 2) education; 3) social services; 4) arts & culture; and 5) civics. In 2003 the employee & pensioner volunteer program invested in 1,400 grants across Canada worth \$740,000 (Cdn)¹⁴. Although this is approximately 2% of the Foundation’s \$37 million, it is the former program that RBC managers usually cite as being instrumental in attracting and retaining good staff, as well as promoting good relations with the communities within which RBC operates.

RBC assigns admittedly broad parameters to its charitable donations. It looks for them to contribute to “... a knowledge society”.¹⁵ As a bank, it is by its nature involved in almost every economic and social sector, and broad philanthropy makes sense. What makes what could appear purely opportunistic more compelling is that RBC has regularized its charitable donations and employee volunteer work by creating processes and programs to support it. So despite the fact that the giving is not particularly selective or strategic, it is, in a way, more than just check writing. By providing an outlet for employees to “give back,” RBC is bridging the gap between opportunistic and programmatic giving.

Timberland – City Year Raises Consciousness

Timberland’s early flirtations with CSR were opportunistic. In 1989, a Boston-based youth services group, City Year, telephoned the company to request a donation of 50 pairs of boots to outfit their volunteer corps. Timberland agreed to the donation without much thought and donated an additional 70 pairs the following year, also in response to a City Year request. These small acts of charity barely registered on the radar screen of company management – an administrative assistant fielded and approved the donations – and were peripheral to the overall business. According to Swartz, the donations were really a feel-good move: the beneficiary did admirable

¹² Telephone interview with Charles Coffey, Executive V-P, Government and Community Relations, November 12, 2003.

¹³ RBC Financial Group Corporate Responsibility Report 2002-2003; pp. 4-5 and p. 29.

¹⁴ Ibid, p. 4.

¹⁵ Ibid, p. 2.

work, and “things were going our way at this particular moment, so we can afford to send some boots and feel good about ourselves.”¹⁶

Although based on charity, these early interactions between Timberland and City Year opened the door to a more significant relationship, one that accelerated Timberland’s transition from opportunistic to programmatic CSR. Swartz’s personal connection with City Year co-founder Alan Khazei was instrumental. Initially introduced in 1991, the two quickly discovered that they had similar beliefs in the power of organizations to effect social change by moving beyond their traditional spheres of influence. In Timberland’s case, this meant that corporate culture could and should “foster involvement in confronting and solving problems within and outside the company.”¹⁷

Fueled by this commonality, the relationship grew deeper, with City Year beginning to organize service days for Timberland employees in 1992, and Timberland making a five-year \$5 million commitment in 1994 to help City Year undertake a national expansion.¹⁸

Cabot Corporation – No “Ego” Giving

Cabot CEO Ken Burnes believes that Cabot Corporation should do no “ego giving.”¹⁹ Burnes’ term, “ego giving,” is when a public corporation donates money to a charitable organization because it (usually led by the CEO) wants to. Perhaps it is a favor for a friend who sits on the board of a museum, or the symphony. Perhaps it is a personal “pet” organization. Either way, to Burnes, this is the worst possible type of corporate giving. Prior to Burnes taking over as CEO in 2001, Cabot gave to many types of non-profit organizations, museums included. But Burnes’ ethics told him that it was not right for him, as CEO of a chemical company, to justify giving away shareholder money to organizations that held no strategic tie to Cabot’s goals and future. One of the first significant changes Burnes made upon taking office was to stop all ego giving. To do this, he and foundation head Peter Gregory developed criteria by which all charitable donations would be judged. Cabot would not give to: individuals; religious organizations; fraternal, political, athletic or veterans organizations; capital and endowment campaigns; sponsorships of local groups/individuals to participate in regional, national, or international competitions; conferences or events; tickets or tables at fundraising events; or advertising sponsorships.²⁰

Not everyone was happy with Burnes’ approach. Many Board members had long enjoyed some of the perks that came with Cabot’s non-strategic giving. But Burnes was determined to

¹⁶ Austin, James, *The Collaboration Challenge*: 21, Jossey-Bass Publishers, New York (2002).

¹⁷ *Ibid.*, p. 24.

¹⁸ *Ibid.*

¹⁹ Telephone interview with Kennett F. Burnes Chairman and CEO Cabot Corp. November 10, 2003

²⁰ Cabot Corporation Foundation Annual Report 2003, Page 3

restrict all charitable contributions to organizations that either benefited Cabot employees and communities, or adhered to Cabot's vision of strategic giving. To that end, Cabot stopped all opportunistic giving. Former donation recipients, such as the Museum of Fine Arts, Boston, were not happy with the decision. But Burnes was able to feel confident that he was doing his best to make every dollar count for shareholders.

Analysis: Programmatic CSR

More than check-writing, this is when philanthropic activities are made into regular programs that enjoy predictable, long term budgetary support because they benefit the company in some way. The benefits are usually measured in terms of the firm's ability to attract and retain employees, maintain its brand reputation and increase its license to operate in communities in which it does business. In other words, this CSR is part of a longer-term plan designed to benefit the company as well as the outside recipients; it is primarily external and always strategic.

RBC -- Employee Volunteerism & Diversity Marketing

In interviews, managers at RBC Financial most often cite two kinds of "operationalized" CSR as being beneficial for the company. The first is the employee volunteer program. The second is its diversity marketing.

The employee volunteer program helps RBC attract and retain as employees people who value community volunteer work. This program supports the opportunistic giving discussed in the prior section. Through the program, RBC annually verifies the merits of its giving via a third-party survey using the "balanced scorecard," one element of which is employee commitment. These surveys are for internal use only, but managers report that the case for the employee program remains solid.²¹

The second is RBC's application of its diversity policy to the public; it targets particular groups of Canadians, groups perceived as disadvantaged, and works to secure them as clients by designing and implementing services tailored to their needs. In the 1970s, RBC made special efforts to secure women entrepreneurs as clients. More recently it has done much work to attract Aboriginal Canadians. This latter initiative has entailed investments in bank infrastructure on reserves, which are often extremely isolated and devoid of modern amenities, and creating special work training programs for Aboriginal Canadians so that RBC could then hire them to increase the percentage of its workforce that is Aboriginal. RBC managers are proud of the fact that Aboriginal Canadians now favor their bank, and report that Aboriginal clients say they "trust" RBC and

²¹Telephone interview with Gay Mitchell, Executive Vice President, Ontario Region, RBC Bank, November 18, 2003.

appreciate its “understanding” of their community.²² RBC has recently chosen a new group for special research and consideration: Muslim Canadians, which preliminary research suggests are under- or poorly served by mainstream banks.²³ Aligning business goals with social imperatives, RBC has developed a successful part of their business around serving the underserved. This was not just doing good and not just smart marketing. This was an intentional, beneficial combining of the two. In this example, RBC shows how strong internal, integrated values can affect its reach into external communities. Employees report that they value this ‘operationalized’ diversity; they see it as an extension to clients of an attractively tolerant and diversity-sensitive workplace. The benefits are internal as well as external, and both benefit RBC.

Timberland -- Inspiring Employees, Engaging Community

One of the key tenets of Jeffrey Swartz’s leadership at Timberland is the belief that employees yearn to feel part of something larger than their corporate role. “What our community (of employees) demands of us is to be recognized as human beings and not factors of production. They want to interact with the world around them.”²⁴ To support those aspirations, Timberland offers its employees the flexibility to receive pay for volunteer service projects. The number of paid volunteer hours per employee per year has increased from 16 in 1992 to 40 today.²⁵ Although employees can use these hours to volunteer for any non-profit organization they choose, Timberland provides organized service opportunities, many of them administered by City Year, through its Path of Service™ initiative. One of these is Serv-a-palooza, an annual, one-day public service marathon. In October 2003, 4500 Timberland employees participated, dedicating 31,000 hours at more than 150 sites – schools, hospitals, parks – in 21 countries.²⁶

By creating such opportunities for its employees, Timberland benefits in several ways that more than outweigh the opportunity cost of employees taking time from work. First, by creating a culture, which emphasizes service to one’s community, Timberland has found an effective way to attract, inspire, and retain employees. According to Bill Adler, Manager of the Social Enterprise Group, Timberland has faster sign-up rates (the time it takes prospective employees to sign a contract once Timberland has offered them a job) and higher employee retention rates than those

²² Telephone interview with Charles Coffey, Executive Vice President, Government and Community Relations, RBC Financial, November 12, 2003.

²³ Ibid.

²⁴ Harvard Business School videotaped interview with Jeffrey Swartz, produced for Diana Barrett, November 15, 2001.

²⁵ Online: web Timberland Company Employee Leadership page Cited: December 11, 2003 URL:

[http://www.timberland.com/cgi-](http://www.timberland.com/cgi-bin/timberland/timberland/candj/tim_content.jsp?strCategory=/Inform/Community%20Involvement/Employee%20Leadership#PathofService)

[bin/timberland/timberland/candj/tim_content.jsp?strCategory=/Inform/Community%20Involvement/Employee%20Leadership#PathofService](http://www.timberland.com/cgi-bin/timberland/timberland/candj/tim_content.jsp?strCategory=/Engage/Serv-a-palooza%202003)

²⁶ Online: web Timberland Company Serv-a-Palooza page Cited: December 11, 2003 URL:

http://www.timberland.com/cgi-bin/timberland/timberland/candj/tim_content.jsp?strCategory=/Engage/Serv-a-palooza%202003

of the competition. Among other financial benefits, this translates into lower training costs.²⁷ Further, CEO Jeffrey Swartz believes that higher morale translates into higher productivity. “I firmly believe that the minds we turn on here at Timberland explode our productivity and effectiveness.”²⁸ Although this correlation is difficult to measure, Timberland managers, including Swartz and Adler, note that Timberland’s financial growth tracks with a new corporate strategy introduced in 1995, which included social responsibility as a central tenet.²⁹

Timberland’s commitment to service is somewhat like throwing a pebble into a pond. They created an initial ripple by engaging their employees in service, but they have not ignored the ripple effects. More and more, service events include not just employees but also customers and community partners. A recent initiative, the Community Builders Tour, takes this to a new level. Piloted in six cities in the fall of 2003, the tour travels to inner-city locations and creates one-day service events intended to engage community members in volunteering on behalf of their own communities. After a long day’s work, volunteers return to a central location to enjoy a block party, with refreshments and entertainment. Timberland sponsors the events, including promotional and entertainment costs, out of its marketing budget. According to Bill Adler, the success of these events, planned for an additional 20 sites in 2004, will be measured using marketing measures, including increases in traffic at Timberland retail stores. “We are hoping to create transformative experiences around the brand.”³⁰

Timberland’s investments its employees have clear and widely shared benefits. But as the company experiments with ways to market boots and beliefs together, they are running up against some internal concerns. Some senior managers believe that using marketing money to promote social causes, although admirable, comes at the expense of direct promotions of Timberland product and actually dilutes the Timberland brand.³¹ This serves as a reminder of the constant tension the company faces in serving its business and social imperatives simultaneously.

Cabot Corporation -- Community and Foundation Giving

Cabot is very directed in its Programmatic CSR. Their “Corporate Giving strategy is designed to support Cabot’s community outreach activities, with priority given to science and technology education, and community and civic improvement efforts in the communities where [we] operate. A key element of this strategy is to have Cabot’s four regions — North America, Europe,

²⁷ Telephone interview with Bill Adler, Manager, Social Enterprise Group, November 19, 2003.

²⁸ Austin, *The Collaboration Challenge*: 25.

²⁹ Telephone interview with Bill Adler, November 19, 2003.

³⁰ *Ibid.*

³¹ Telephone interview with Dave Powers, Senior Director, Global Merchandise Strategy, November 27, 2003.

Asia Pacific and South America — be participants in Cabot's Corporate Giving program."³² To achieve this, Cabot has developed a two-pronged approach of philanthropy that enables them to ensure that their giving is as meaningful and successful as possible.

Community Level Engagement and Giving: Cabot operates in 65 communities across the globe. Committed to the communities in which they live and work, Cabot has authorized facility managers to allocate a certain percentage of operating budget to help support community development needs. Each facility manager is responsible for devising, developing and managing a community giving strategy. By diffusing the control of corporate giving to the local level, each community is able to define the best way that Cabot can contribute. In Lac du Bonnet, a community in Manitoba, Canada, Bill Ferguson is the plant manager for Tanco, a wholly owned subsidiary of Cabot Corp. Ferguson is one of Cabot's most philanthropically active facility managers, and works hard to ensure that the Lac du Bonnet community and Cabot are in sync about community concerns, issues and programs. Ferguson gives away around US\$30,000 per year for community development. His plant has donated money for a new community center, a local school, and an ice rink. In cases where he feels the community needs additional support, he will help write a grant to the Cabot Foundation for additional funds.³³ By having a local strategy supported by a larger corporate foundation, Bill Ferguson has been able to support his community's specific needs.

The Cabot Foundation: In addition to the local level giving, Cabot also has a separate line item in their operating budget that funds the Cabot Foundation (they do this out of operating earnings so that they can control the timing of taxes). The Foundation gives about \$1.5million per year. The money is distributed on a pro-rata basis to the communities in which Cabot operates (if 5% of employees work in Town X, then 5% of Foundation dollars will be directed to that town). Cabot does not solicit grants. Instead, their strategy has been to support locally relevant programs. In company headquarters in Boston, Cabot has focused all of its giving to improve science education and teaching – topics that CEO Burnes feels are defensible to both the Board and shareholders. Unlike many funders, Cabot will often fund operating and program support grants – giving that cannot be easily identified as “we did this,” but are the bread and butter of many non-profit organizations.

Combined, Cabot's Programmatic CSR activities ensure that the communities in which Cabot operates are supported, affording Cabot “permission to operate”³⁴ not often seen by large

³² Cabot Corporation Foundation Annual Report 2003, Page 1

³³ Telephone Interview with William Ferguson, Facility Manager Tanco Mining Company November 14, 2003

³⁴ Telephone Interview with Ken Burnes November 10, 2003

extractive companies. Its belief in doing the right thing has translated into successful operations around the world.

Analysis: Integrative CSR

A firm can be said to have integrative CSR when its values are part of the foundation of corporate decision-making. This occurs when CSR so imbues a firm's policies and operations that a new employee would be both encouraged by the internal value culture and obliged by its rules to work in ways that respect - and do not contravene - the firm's definition of CSR. The result is CSR that rules internal operations and is part of a plan to increase corporate value; CSR that is internal and strategic.

RBC – The Equator Principles

In July 2003, RBC publicly announced its intention to broaden its application of environmental and social standards by adopting the Equator Principles. The Equator Principles are standards intended to keep loans for development projects such as dams and pipelines from hurting people and the environment in poor countries. Banks agree to give credit only to projects that follow the World Bank's "Equator Principles" intended to deter forced human resettlement, threats to endangered species, the use of dangerous substances and other potentially harmful practices.

RBC was the first Canadian bank to adopt the Principles. Said Suzanne Labarge, Vice Chairman and Chief Risk Officer of RBC Financial Group, "as a leading North American financial services provider, we recognize our role in supporting and advocating sustainable business practices. The adoption of the Equator Principles enhances our existing environmental risk management policies."³⁵

RBC brought the number of banks to adopt the Principles to twelve, and the number of countries they represent to eight. While the reaction of environmentalists to the Principles has been lukewarm, the scope of the Principles' possible impacts is impressive: the banks which have now adopted them arranged \$43 billion of project loans in 2002, and arranged 74% of project loan market volume. This year to date (through Oct 28, 2003), they have accounted for 78% of the project loan market.³⁶

The strength of RBC's respect for the values of environmental and social protection appears to have enabled RBC senior management to decide to adopt the Principles with ease and speed.³⁷ It will be crucial for RBC to have systems and processes in place to trace and monitor

³⁵ Online: Equator Principles Home Page Cited December 12, 2003, URL: <http://www.equator-principles.com>

³⁶ Dealogic ProjectWare, based in London, produces statistics and analyses of the project finance market. URL: <http://www.dealogic.com>.

³⁷ V-P Coffey reports that the decision was made following conversations with the President and the Chief Financial and Risk Officers.

decision-making that will be affected by this new policy, thereby minimizing the danger of RBC transgressing its own policy and creating a competitive advantage for financial sector peers who have either not adopted the Principles or have and not transgressed.³⁸

Indeed, ensuring compliance will be the highest stakes test yet of RBC's capacity to operationally integrate its CSR policy. For example, if a manager far from headquarters ponders a project of questionable environmental or social integrity, will he or she be encouraged to comply and prevented from eschewing the Principles? RBC environmental managers report that it has yet to decline involvement in any project and predict the Principles will become the de facto industry norm.³⁹ That said, it has been but six months since the policy was adopted. The policy goal is integrative. If implementation is not, RBC will have a CSR credibility problem.

Timberland – The Global Compact and Manufacturing

Timberland's dedication to CSR can perhaps best be seen in how it honors its commitments to treat stakeholders with dignity and respect. Through its Global Business Alliance (GBA) Timberland sets and monitors global labor standards to ensure that products manufactured on its behalf in over 35 countries are produced in fair, safe, and non-discriminatory workplaces. According to Bill Adler, Timberland's commitment to quality workplaces is more longstanding and more aggressive than the industry standard: Timberland voluntarily created its Code of Conduct ten years ago and central provisions create higher standards than the industry norm.⁴⁰ For example, in response to a 2001 review of its code by a group of non-profit organizations, Timberland raised the minimum age for factory workers to sixteen and mandated that overtime pay must be at a premium rate, even if local law states that overtime and regular pay can be at the same rate.⁴¹ Its auditing and monitoring process extends into training. In the Dominican Republic, for example, Timberland offers training for factory workers on issues of human rights and labor law.

Timberland regularly talks with factory managers and community leaders to learn about their needs and aspirations. Often, these conversations lead to new projects and initiatives that would not be considered a part of Timberland's narrowly defined corporate responsibilities. In the Dominican Republic, company leaders discovered that the village in which a factory was located had plenty of eager students and willing teachers, but no physical space for them to work together; so they helped build a school. In China, Timberland discovered that many factory employees were

³⁸ On December 3, 2003, RBC's main competitor, the Canadian Imperial Bank of Commerce, also publicly adopted the Equator Principles.

³⁹ Email from Sandra Odendahl, Senior Manager, Environmental Risk Management, RBC Financial Group, December 13, 2003.

⁴⁰ Telephone interview with Bill Adler, November 19, 2003.

⁴¹ Online: web Timberland Company Global Labor Standards page Cited: December 11, 2003 URL: http://www.timberland.com/cgi-bin/timberland/timberland/candj/tim_content.jsp?strCategory=%2fInform%2fGlobal+Labor+Standards

paying usurious rates to have their paychecks cashed by loan sharks; so they helped establish a credit union. In some locations, Timberland provides evening training in disciplines such as computer skills so that workers can graduate from sewing boots and move to higher-skilled and better paying jobs.⁴²

Despite the wealth of examples that show Timberland's commitment to CSR, one may still be tempted to believe that it is window dressing. When faced with the question as to whether Timberland really is different from the perspective of its values, a recently hired senior manager put it this way: "One way that I know Timberland is different is in how people talk to one another. At my previous employer, you could never be good enough - supervisors were quick to tell you how badly you had messed up. Here at Timberland, meetings always seem to come back to the value of what people have done. People constantly say, "we really appreciate the work that you are doing – even if you really have messed up. The difference comes down to this: the company values everyone."⁴³

Cabot Corporation – From the Ground Up

Cabot's commitment to being a responsible citizen can be seen most clearly in the way it builds, manages and operates its facilities worldwide. From plant design, to run-off and emissions treatment, from employee training to community readiness training, Cabot managers work hard to ensure that they minimize their footprint on the planet. The question is, does Cabot truly practice what it preaches?

Cabot does routine safety and environmental audits at every plant every three years. The World Wildlife Federation, has visited and approved of Cabot's mining operations over the years and has asked company representatives to speak to peers about their environmental protocols.⁴⁴

In the late 1990s, Tanco Tantalum Mining facility in Lac du Bonnet was building a new chemical processing facility. Concerned about the environment effects of a residue called cesium formate, Tanco (i.e. Cabot) invested \$2.7 million (Cdn) to build containment tanks for the residue while research was conducted to understand its environmental impact. Since then, Tanco has spent over \$1.5 million (Cdn) on residue storage and environmental impact studies (water analysis, sampling etc). After four years, the evaluation process is almost complete, and regulatory approval for disposal into their tailings management system is imminent. It is this type of commitment to being responsible that CEO Burnes feels makes Cabot different from other chemical companies. "We are different from our competitors in that we have never had significant problems in the

⁴² Telephone interview with Bill Adler, November 17, 2003.

⁴³ Telephone interview with Dave Powers, November 27, 2003.

⁴⁴ Interview and email William Ferguson

communities in which we work. We believe that we don't have those problems because first and foremost, we believe in being decent humans beings. We worry about things that on behalf of our neighbors – environmental issues, emissions, noise, ground water contamination – we take these things into account from the ground up. And we do it because it's the right thing to do.”⁴⁵

Plant manager Ferguson claims that the polishing pond at the Tanco plant (where the water is treated before finally being discharged back into the lake) is “home to fish, pelicans and beavers, while bald eagles (the top of the food chain) live in the surrounding area.”⁴⁶

Cabot employees are proud of the standards of their company. But as Karen Morrissey, Cabot Head of Safety, Health, Environment and Corporate Affairs states, “...we would be sorely put upon to do things otherwise. Our shareholders and Board expect this [behavior] of us. In fact, we will sacrifice rate of return for safety if we feel we need to.”⁴⁷

“You have to understand that as a chemical company, we start with one strike already against us,” continues Morrissey. “But we work here because of what Cabot is, and the long legacy of commitment built over the years. We are the current caretakers of that legacy. People expect us to take care of it. We do, and I am proud of it.”⁴⁸

It seems that Cabot is a sound example of how a large corporation can imbue values throughout the inner workings of an organization. By hiring and training employees who share the same vision and principles, and educating those who may not, Cabot has benefited many times over⁴⁹ from its investments in doing things right the first time⁵⁰.

Findings

RBC

RBC appears determined to and fairly successful in casting itself as a responsible corporate citizen. That it would do so in the absence of outside pressure is somewhat remarkable; non-governmental activists and the media generally pay far less attention to banks (the World Bank excepted) than they do to other business sectors such as mining, chemical or manufacturing companies, for example. From the relative safety of this less-scrutinized zone, RBC chose to make the longstanding values of many influential members of its management team and staff part of a plan to enhance corporate value. This insight and decision carried risk and implied a willingness to

⁴⁵Telephone Interview with Ken Burnes, November 10, 2003

⁴⁶Email from William Ferguson November 14, 2003

⁴⁷Telephone interview with Karen Morrissey, Cabot Head of Safety, Health, Environment and Corporate Affairs, November 20, 2003

⁴⁸Telephone interview with Karen Morrissey

⁴⁹Telephone interview with William Ferguson

⁵⁰Telephone interview with Karen Morrissey

allow staffers to undertake new programs (diversity marketing, for example) in the absence of shareholder pressure to do so.

RBC's CSR program appears to be a product of influential management and employee concurrence, not shareholder desire. This is relevant when one considers the high standards against which RBC has asked that it be publicly judged, such as the Equator Principles.

Timberland

Timberland has established itself as one of the leaders in CSR. Conversations with company employees reveal the extent to which this is a function of CEO Jeff Swartz's leadership. He is passionate in his belief that there is a correlation between doing well and doing good and his successful tenure as CEO, during which time the company has grown financially and instituted a series of pioneering CSR initiatives, convinces him that he is right. He is also in a unique position, as the CEO of a family-controlled business, to continue to refine, and experiment with, Timberland's approach to CSR. One risk the company faces is the flip side of this good news. Is it possible to spread oneself too thin? If Timberland sees itself as having so many stakeholders, to what degree can the company honor all of its commitments? Conversations with company employees reveal that efforts to balance doing good and doing well do, in fact, create tensions: some employees don't have time to volunteer extra hours; some managers aspire to build in Timberland a world-class brand. Timberland's challenge is to continue refining its balance between doing good and doing well. The integration of these two is a journey that perhaps has no final destination.

Cabot

It seems that Cabot has been able to create and maintain a firm that is equally committed to profitability and responsible citizenship. Posters declaring company values hang on nearly every wall. And employees at all levels within the company are committed to doing the right thing.⁵¹

Admirably, Cabot does not advertise or promote its responsibility, although representatives have been invited to speak to the World Wildlife Federation and other industry groups about company practices. To Cabot, this is just part of doing business in the chemical and mining industries. In some ways, the company is ahead of its time.

⁵¹ Telephone interview with Ken Burnes

To that end, it seems that Cabot's actions support its claims of being a fully integrative, responsible firm. But because Cabot does not measure its actions, it is hard to say what kind of impact the company is truly having. Attempts are being made to get follow-up reports, but as of today, all measurement is perceived or intuitive.⁵² Plant manager Ferguson claims that "the dollars we put into our safety budget are recouped two-fold with people not being injured"⁵³ Approval of the WWF is certainly a good sign. Cabot would benefit from measurement to understand not only what kind of impact the company is having, but also how it could be doing more.

Recommendations

RBC

- RBC should begin to allow greater public scrutiny of its CSR measurements. Even if incremental, this greater transparency would enhance the credibility of RBC's claim of being a responsible corporation.
- RBC should consult its employees about the parameters of its charitable donation and employee volunteering programs. It should seek their views on the appropriateness of the parameters in terms of RBC's corporate goals, and ask for suggestions about how to increase its focus should RBC conclude that it is in its interest to do so.
- RBC management should work to ensure that its shareholders are informed of the strategic value of its CSR program.

Timberland

- Timberland is in a position to contribute to the field of CSR by advancing efforts to measure impact. To date, the company has invested little effort in looking at non-financial measures. Although the absence of data will not undercut Timberland's own ability to implement CSR, difficult financial times may mean that, for companies not afforded the flexibility provided by family control, the ability to deepen CSR will need to be more than a matter of faith.

Cabot

- According to CEO Ken Burnes, Cabot could easily give away an additional \$1million without concerning shareholders. The challenge, he says, is to give it away intelligently. Because of cultural differences, Cabot corporate finds it difficult to get many facility managers in foreign

⁵² Telephone interview with Ken Burnes

⁵³ Telephone interview with William Ferguson

countries to engage in philanthropic programs. In fact, many plants don't give away their yearly allotment (un-used funds are redistributed to interested communities). Cabot should develop a training program for international facility managers whose communities could benefit from Cabot's financial contributions.

- Currently, Cabot measures its success "intuitively."⁵⁴ Methods of measurement and data analysis of dollars spent, types of initiatives, and overall impact would provide employees and shareholders alike with an understanding of their good deeds. It could also serve as the backbone for an Annual CSR Report.

Conclusion

We have found in all three companies examined that the importance of internal CSR "champions" was absolutely critical. In fact, it appears that having a CEO or high-ranking executive in charge of responsible activities is the best way to ensure integration and adherence.

We have also seen that pressure for integrative CSR varies by sector. Managers of companies in the extractive and manufacturing industries face greater backlash from irresponsible practices than do service sector companies, which operate at a degree of remove in terms of public scrutiny and expectation. Despite this, companies do not always need pressure from the public to act. Timberland and RBC act responsibly out of choice, whereas Cabot acts responsibly out of both choice and public insistence.

Employee involvement in and commitment to CSR activities can provide a powerful platform for perpetuating responsible behavior. However, this involvement is no guarantee of coherence or thematic link to core business activities.

All three companies attribute strategic benefits to their adoption of CSR. Measured in a variety of ways, these include higher employee commitment and retention, improved health and safety, enhanced brand image, increased license to operate, and reduced exposure to public criticism or legal challenge. However, in none of the companies studied were there any claims to readily quantifiable, immediately discernable impacts on the bottom line. We feel that this may result from a lack of adequate measurement tools, long program life cycles, and the intangible nature of elements such as brand and reputation.

⁵⁴ Telephone interview with Ken Burnes