

## Corporate Social Responsibility: How Savvy Companies Create a Win/Win Scenario

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### ABSTRACT:

What is a brand but the sum of all the actions a company takes on behalf of its stakeholders? To understand what Corporate Social Responsibility (CSR) can do for a brand, consider Starbucks. Or Target. Or Grainger. Never heard of Grainger? This B-to-B company has developed a sophisticated CSR program that integrates its communication efforts to tell a compelling story about how it is helping society as well as its shareholders. How an industrial distributor took this journey, with all its complexity and rewards, is innovative. Here is Grainger's CSR story, told by the person who helped lead the process.

### The Journey

There is a quote from poet William Wordsworth on my desk that reads, "The charities that soothe and heal and bless are scattered at the feet of man like flowers." My grandmother gave me that quote decades ago on an index card. Over the years the index card has traveled with me from job to job, from non-profit to for-profit. I keep it at my desk because it has sentimental value, but also because of the one word that constantly reminds me of how the industry of corporate social responsibility has evolved. That word is *charity*.

The United States has a rich history of charity. Andrew Carnegie and John D. Rockefeller were instrumental in pursuing philanthropy to aid social causes as was Jane Addams with her inspiration of service. Corporate leaders like Henry Ford and Alexander Graham Bell used their companies as platforms to engage in causes of personal importance. Globally, charity was led by great leaders like Mother Teresa, Mahatma Gandhi, and Martin Luther King, Jr. Acts of charity were viewed as heroic. Influential leaders impacted and inspired generations. Nowhere in the history of great individual charitable acts did the expectation of company philanthropy arise, until recently.

Companies did not enter the "social market" until the 1970s. That was a time when charity evolved into corporate philanthropy. Corporate philanthropy began

to interest large companies that had intentions to share profits as a way to "give back." Nonprofits were growing in size and significance. CEOs began writing checks to charities, and communities celebrated these efforts. Corporate foundations emerged as vehicles for philanthropy as they began hiring corporate contribution and public affairs professionals. Companies went on the road to help local communities with big checks—literally.

Corporate philanthropy became well established in the 1980s and eventually evolved into a concept of "strategic" philanthropy. Companies started to realize two things: 1) philanthropy was building important relationships, and 2) positive relationships yielded more than just goodwill. Could companies really do *well* by doing good? Companies started to realize that *giving gave back*. The 1990s became a time when philanthropy began to add tangible value to businesses and helped build positive brand images. Companies donated time, talent, and skills and cash. Philanthropic focus areas aligned with business capabilities to reflect the identity of corporate brands. Business-to-consumer companies caught on fast as they realized that philanthropy was not just a way to impact society, but also a way to connect with consumers.

The beginning of the 21st century was a time of change. Publications started featuring stories about a new concept called Corporate Social Responsibility

(CSR). Many business leaders took notice of *Harvard Business Review* articles, such as “Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility” and “The Competitive Advantage of Corporate Philanthropy” by Michael E. Porter and Mark R. Kramer. Industry leaders were talking about “sustainability” and “market advantage” in the same context, while “volunteerism” and “talent retention” were mentioned in the same sentences as well. Companies like Target and Wal-Mart used strategic philanthropy as an opportunity to build an emotional connection with customers and create a license to operate in local communities. Brands such as Newman and Patagonia emerged as new models for consumer engagement.

In the early 1900s, President Theodore Roosevelt introduced antitrust legislation on health, safety and working hours. Some of the laws imposed at that time represent what is now known as CSR. In 1987, Adrian Cadbury, head of the famous chocolate firm, wrote in *Harvard Business Review*, “The possibility that ethical and commercial considerations will conflict has always faced those who run companies. It is not a new problem. The difference now is that a more widespread and critical interest is being taken in our decisions and in the ethical judgments which lie behind them.” Since this time, companies have not changed what they are doing, but instead, changed how they talk about what they are doing.

When the U.S. economy began a downward spiral in 2008, interest in CSR began to rise. Trends like environmental sustainability caught on quickly in Europe, while strategic philanthropy became a best practice in the West. Fast-forward and enter the maze of the Global Reporting Initiative (GRI), the Global UN Compact, and ISO 26000. These global entities are not only asking to whom companies are donating, they are also serving as watchdogs for human rights, anti-corruption, supply chain sustainability, and the environment. Investors are not just asking for information on a company’s financial stability, they are rating their ethical and social commitments through the Dow Jones Sustainability Index, the Carbon Disclosure Project, and FTSE4 Good. Sustainable and Responsible

Investing (SRI) became a broad-based investment approach that now encompasses an estimated \$3 trillion out of \$25 trillion in the U.S. investment marketplace today. Companies all over the world were being challenged on their ethics and evaluated for their impact on society. They all faced the same question: Where do we begin tackling the complexities of CSR, and what is expected from our efforts?

## The Complexity: Grainger’s Case Study

While global economies attempted to rebuild between the years 2009 and 2012, corporate responsibility expanded, and with stakeholder expectations on the rise, Grainger began its CSR journey. Grainger works with more than 3,500 suppliers to provide customers with access to more than 1 million products. We are North America’s leading broad line supplier of maintenance, repair, and operating products, with expanding global operations. More than 21,000 team members represent the Grainger brand. Grainger is a perennial member of Fortune magazine’s Most Admired Companies. The business is celebrating its 85th anniversary and while the business model has changed, the traditions and value system have not. The company was founded on the concept of service and has become successful through that unwavering commitment.

Until recently, Grainger has not had a strong, collective CSR story. The company’s commitment to ethics, employees, and surrounding communities was strong, but employees were not equipped to talk about programs holistically. With stakeholder interest growing and an international presence on the rise, we had to work hard to create value in our work and better support the global brand. So, where did we start? The first step was to evaluate the people who work on CSR initiatives, as well as those who were most heavily impacted by program activities.

## Step One: Who?

CSR is not typically owned by a particular person or stakeholder group within a corporation. Companies may have CSR professionals on staff, but they often represent various support functions. In order to be truly

successful, CSR must be embedded in the company culture and owned by all its stakeholders. Ownership and authenticity are just as important as the ratings and outputs of CSR.

When using an external rating like the GRI, there are many CSR components to evaluate: economic, environmental, labor practices, decent work, human rights, society, and product responsibility. Grainger identified four major internal categories that were both reflective of the external benchmark and relevant to the company: community, governance, workplace commitment, and environmental sustainability. The first step in developing the CSR platform was to build an internal cross-functional working group to represent Grainger's CSR focus areas and to begin pulling the story together. (See exhibit 1)

Once the working group was established, the next goal was to look at CSR from a stakeholder perspective. Who would we aim to impact through CSR efforts? Realizing we couldn't be all things to all people, we needed to determine who had the biggest expectations and who would ultimately hold the company accountable. Who could we collaborate with to derive the greatest benefit? Grainger identified five major stakeholder audiences to engage in the CSR initiative:

1. Employees
2. Investors
3. Customers
4. Suppliers
5. Society

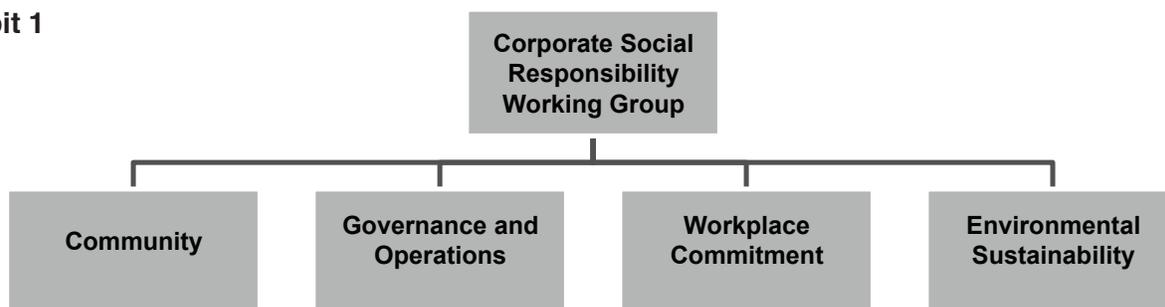
Each stakeholder has a unique perspective on CSR. Current and future employees expect the company to support the local community and include them in engagement initiatives. Investors are moving more money into SRI funds and looking at CSR indices as a signal of growth and stability. Customers are beginning to look at company supply chains and holding them accountable for product responsibility. Suppliers are adhering to new responsibility standards and taking on more accountability for the development and disposal of their products. Society is becoming more engaged as consumers, government, and the media expand their interest in celebrating and exposing CSR stories.

### Step Two: What?

Initially, Grainger defined CSR through the community lens. Since 2001, Grainger has supported two philanthropic focus areas: emergency preparedness and response and technical education. Both areas are relevant to the core business, complementary of the capabilities and reflective in the local communities where employees and customers live and work. With service and reliability at the core of Grainger's business, it was only natural for Grainger to initiate a partnership with the American Red Cross. Grainger is the National Founding Sponsor of the American Red Cross Ready When the Time Comes™ employee volunteer program. Together, we have inspired more than 450 companies and organizations in 55 markets across the United States, Canada, and Puerto Rico to train more than 14,000 employees as Red Cross volunteers.

Grainger's support of technical education is another community focus area to tackle the growing shortage of skilled workers by supporting technical

Exhibit 1



education and promoting workforce development in local communities. The company offers 200 technical educational scholarships at 100 community colleges annually and has seen the graduation of more than 500 alumni of the Grainger Tools for Tomorrow® scholarship program. Recognizing there is also a misperception of the opportunities associated with many trades such as welding, manufacturing, and plumbing, Grainger also partnered with the American Association of Community Colleges to sponsor *Trades in Focus*. This toolkit was developed to grow awareness of the innovation and opportunities in the skill trades, the foundation of our country's infrastructure and a source for more than 500,000 open jobs and future Grainger customers.

Grainger has a strong background in other areas, too. It is the first industrial distributor to have Leadership in Energy and Environmental Design (LEED) certified facilities. Grainger currently operates more than 3.5 million square feet of LEED certified space and has recently added two new distribution centers with close to 1 million square feet each that are LEED certified. Grainger's focus on renewable energy is paving the way for other industrial giants to recognize the impact of their products and facilities on local communities.

Finally, at the core of Grainger's business are the people. No matter where they are around the globe, Grainger's 21,000 team members exceed the expectations of customers and communities, which is why safety, inclusion, and diversity are also priorities for the company's CSR initiatives. Many employees work in distribution centers and branches, which consequently makes safety a top priority. Grainger recently initiated an "industrial athletes" program to focus on the prevention, assessment, treatment, and rehabilitation of injuries and illnesses. Grainger is focused on the whole person and is dedicated to employees going home the same way they came to work, if not better, every day.

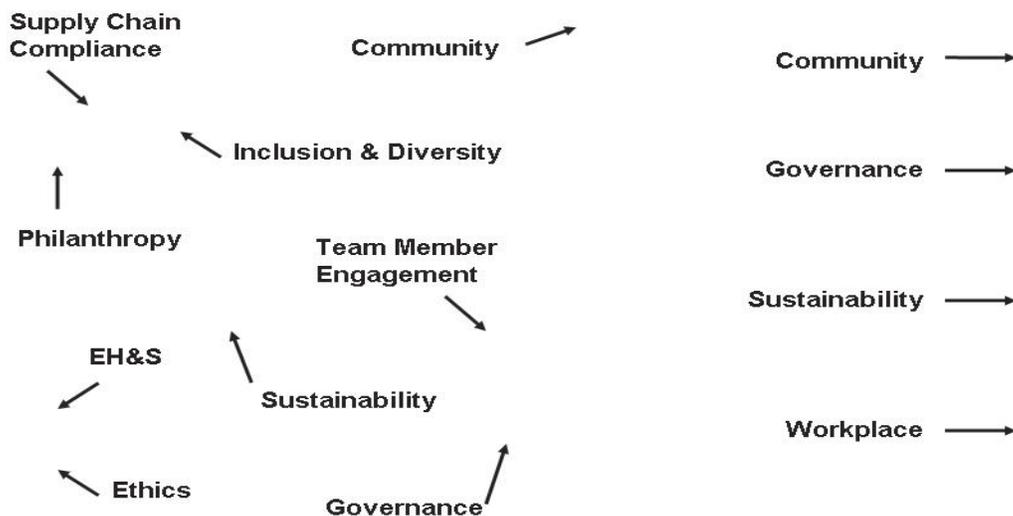
Grainger's integrated working group was created to represent these independent priorities and to bring them together to tell the company's holistic CSR story. From February through June 2012, the CSR working group focused exclusively on bringing the independent pieces together into a collective CSR focus. (See exhibit 2)

### Step Three: Why?

The question seems simple when you consider the growing stakeholder expectations, but in fact, the case for support of CSR is quite complicated. Grainger

**Exhibit 2**

From Independent to Integrated CSR Framework



asked the question “Why?” to validate the charter. In order for leadership to support the project, the working group knew we had to articulate the expectations of the company’s major stakeholders and understand the implications and opportunities of embracing CSR from a multitude of perspectives. We were faced with these questions: What position do we take on CSR, and where do we want to be in relation to the competition? How do you communicate that the risk of not doing CSR could potentially impact the company’s bottom line?

At the end of the day, Grainger is going to have a solid CSR program because we are a good company. Where we land on the continuum from good to great or from compliance to value creation is yet to be determined, but we know that there is risk in not doing CSR and reward in getting it right. Ultimately the goal is to create business and social value through an integrated CSR platform. Through communication, we want to make stakeholders aware of the work we are doing and articulate the company’s commitments:

- CONFIDENCE – Provide the investment community confidence in our ability to responsibly manage resources and impact long-term performance.
- ADVANTAGE – Differentiate as the customer’s first choice in delivering on our commitments.
- RESPONSIBILITY – Forge supplier relationships that embody a clear chain of social responsibility.
- ENGAGEMENT – Establish Grainger as an employer of choice offering work culture and workplace environment that attracts and retains superior talent.
- STEWARDSHIP – Cultivate and steward a resilient society that reflects the values of the global communities served.

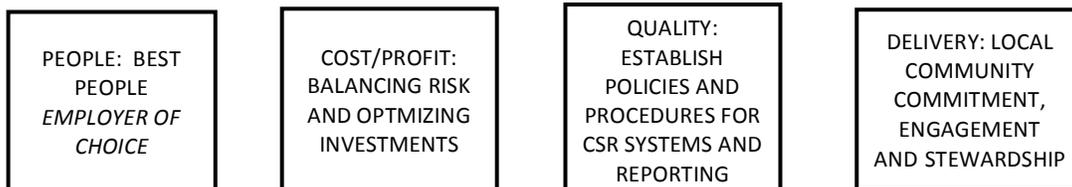
## Step Four: How?

Great CSR programs are aligned with both stakeholder expectations and business objectives. When the working group started, we sought support from the business leaders to which CSR activities reported: Legal, HR, and Corporate Communications and Investor Relations. Executive support is vital to CSR becoming and remaining a priority. The sponsorship team was quick to recognize the importance of the work but also prepared us for marginalization if it did not reflect the company’s strategy. The mission became two-fold: 1) Align CSR with the priorities of the business and 2) Create a report to tell the global story. It sounds easy, but with U.S.-focused programs and limited resources to complete the work, the mission seemed daunting.

The CSR working group knew we had to align CSR priorities with the business. Where would CSR have the biggest impact from a business perspective? We determined four key areas: People, cost and profit, quality, and delivery. Each area aligned with the company’s larger priorities and plan. (See exhibit 3)

The working group shared the framework internally and collaborated with global business partners to validate the priorities. It then embarked on a series of global visits to learn about what other countries were doing, establish what their stakeholders were interested in, and determine how we could collaborate moving forward. We discovered some remarkable things about CSR during that journey. We learned that some markets were more advanced in prioritizing safety and environmental sustainability, and we also found that Grainger businesses across the globe were facing increased expectations of CSR. We gained perspective and quickly realized that while business priorities were not all the same, each region had alignment around important commitments.

### Exhibit 3



## Telling the Story

Combining all the components of CSR was a fascinating journey. One big rule of thumb in telling the CSR story is that it must be authentic. CSR is broad and exciting, but at the end of the day, it has to be realistic and reflect the brand and value system of the business. New York environmentalist Jay Westervel coined the term “green washing” in a 1986 essay regarding the hotel industry’s practice of placing placards in each room to promote the reuse of towels — ostensibly to “save the environment.” The term is generally used when significantly more money or time is spent advertising green behaviors rather than actually spending resources on environmentally sound practices. The truth is, people can see through a CSR story very easily by looking at a company’s actions, commitments, and level of transparency.

That is not to say that companies cannot profit from being green. A UC Davis study, “Going Green: Market Reaction to CSR Newswire Releases,” has joined a growing body of evidence that it pays to be green. The authors, Graduate School of Management Professors Paul Griffin and Yuan Sun of UC Berkeley, focused on the relationship between companies’ voluntary disclosure of greenhouse gas emissions and stock values. The researchers tracked stock prices of firms around the time these companies voluntarily issued press releases disclosing carbon emission information. Their main finding was that in the days following their press releases, companies saw their stock prices increase significantly. In other words, disclosing information on environmental emissions benefited shareholders. However, it did not necessarily matter how the company performed; they benefited simply by sharing.

Yet conventional CSR reports and carbon disclosures may not tell the entire story. While telling a CSR story may lead to a stronger reputation, some believe that a good reputation can represent a liability. A new study from two management and law professors at Northwestern University titled, “Good Firms. Good Targets: The Relationship Between Corporate Social Responsibility, Reputation and Activist Targeting” claims that earning a reputation as a “most admired company” may make a company a bigger target for

activists. What’s more, a firm’s efforts to address social issues proactively through CSR programs may increase the level of activist scrutiny.

Telling the CSR story is one of the first steps in developing a CSR platform. This is why communication became one of the biggest priorities of Grainger’s CSR working group. Jonathan Yohannan talks about *5 Tips for Marketing CSR in the Context of Our New Reality*. Some of the highlights include:

1. **Start Inside:** Internal education and engagement is essential for the success of any CSR commitment and campaign. Defining CSR must work for the internal stakeholders based on the reality of business practices, their propensity for risk, and a desire for leadership.
2. **Brand or Bust:** Branding provides a way to tie disparate assets together and provides a framework for key audiences, such as employees, to contribute and share the company’s story.
3. **Industry Matters:** Understanding the material issues of the company are critical. While many companies focus on environment, philanthropy, diversity, and inclusion, they may be missing compliance issues or areas that may lead to brand differentiation.
4. **Efficiently Influence:** Focusing on a handful of sustainability or key opinion leaders in the social space can elevate your company’s profile dramatically. Gaining CSR notoriety can provide a “halo” for an improved reputation and drive core business objectives, such as license to operate and sales.
5. **Measure Relentlessly:** Know the end game. While CSR is a journey, it must deliver a spectrum of results every step of the way. Understand the urgency in the business and customize your marketing by audience and channel.

The ultimate goals in communicating CSR are authenticity and engagement. There is a good reason why “start inside” is at the top of Yohannan’s list. Employees are the biggest assets of the CSR store because they represent the company’s brand. According to the 2012

Edelman Trust Barometer, credibility of information shared by CEOs and government officials plummeted while the credibility of information exchanged between peers and regular employees saw a dramatic rise. This has been touted as the single most important finding from Edelman's study and one that should serve as an impetus for leaders and communicators. Now, more than ever, companies should be looking for ways to activate their employees and engage them in the community as ambassadors to CSR and the company brand.

## The Reward

The CSR working group at Grainger has made tremendous progress. We have benchmarked and learned that the company has a unique opportunity in our industry to emerge as one of the first industrial distributors to have a comprehensive CSR strategy. In 2012 Grainger participated publically for the first time in the Carbon Disclosure Project (CDP), and the company will publish a CSR report in March 2013 to bring the CSR story to life. Grainger's working group is translating indices like GRI to identify where we have data and where we may have gaps. The working group team is expanding to bring in more global perspective and business expertise. Finally, we are working with company leadership to garner their perspective on the opportunity for CSR to impact business priorities and identify where CSR can have the biggest impact. Our goal is to deliver a comprehensive CSR strategy led by the top and driven by the company's 21,000 employees.

In the meantime, our reputation continues to build a positive brand. Grainger and the American Red Cross were honored as the U.S. Chamber of Commerce Business Civic Leadership Center's Best Partnership Award for the Ready When the Time Comes™ program in 2011. This award was the result of the program's impact, but also won on behalf of the 44,000 people who supported the partnership during a public voting campaign. The program has great reach to employees, customers, and communities. From an industry perspective, CSR is already evolving into concepts like "corporate responsibility" and "shared value." The word *social* is being removed all together, which implies that thinking socially is part of our core business. Other

terms like "social enterprise," "social entrepreneurs," and "social *intrapreneurs*," are being introduced to reflect the power of businesses and their people to make a difference in society. Employees are not just being viewed as volunteers. They are being empowered to develop new programs, partnerships, and products.

One great example of an innovative partnership is between Grainger and Howard University. What began as an idea to heighten the effectiveness of Grainger's recruiting turned into a project that leveraged Grainger's expertise to teach students about sustainability and encourage them to design plans to improve their campus. The Action Learning Program engaged 100 students in the School of Business Executive Leadership Honors Program. The students were divided into 10 teams that included not only Grainger experts, but also outside speakers from the Environmental Protection Agency and the U.S. Green Building Council to create plans for campus sustainability upgrades. "It was a mind-blowing learning experience," said Shani Carter, a senior from Raleigh, North Carolina, who led one of the ten student teams. "It was very satisfying to have some of our recommendations accepted, including the creation of a student-led sustainability committee." (*Profiles in Diversity Journal*, October 2011)

Technology and social media are making it easier for people to leverage expertise and find opportunities to participate in CSR. Nonprofits like Sparked have created avenues for individuals to apply their expertise and "micro" volunteer. Platforms like crowd funding have been used to support a wide variety of projects and causes from disaster relief, citizen journalism, music, political campaigns, and scientific research. Certified B Corporations, or "B Corps," are a new type of company altogether and use the power of business to solve social and environmental problems. Unlike traditional businesses, B Corps meet comprehensive and transparent social and environmental performance standards. There are over 500 Certified B Corps across 60 different industries from food and apparel to law and office supplies.

As the definitions and avenues for CSR evolve, Grainger will rely on our framework to stay true to our business priorities, become more proactive

to stakeholder expectations, and engage employees as innovators and ambassadors to the brand. Communication and employee engagement will be the most important tools for Grainger to shape the future of CSR and create new programs and partnerships. No longer is charity “scattered at the feet of man like flowers.” Grainger will look to its employees to ignite its CSR strategy. “Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it’s the only thing that ever has.”—Margaret Mead. ■

