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CORPORATIONS AND SOCIETY: DOING SOCIAL GOOD WHILE DOING WHAT'S GOOD FOR BUSINESS

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Social Responsibility and Strategy Meet in the Boardroom

The context for corporate performance is changing rapidly: Consideration of the corporation's role in society is moving from the periphery to the center of corporate thinking. Increasingly, investors, customers, employees and other stakeholders expect companies to understand the *total impact* of their strategy and actions. A tighter connection between "social capital" and bottom-line performance is being forged.

How a company manages environmental and social issues—and connects those activities to financial and operational performance—are increasingly signals to investors of how well the company is run and its long-term financial sustainability. It's critical that boards today understand how the company is embedding corporate responsibility initiatives into its growth strategy, risk management and corporate culture.

Companies and boardroom discussions are moving at different speeds on addressing environmental and social issues; yet—as we're learning from our own commitment to finding synergies between purpose and long-term value at KPMG—the board can help lead the organization forward by focusing on the big picture:

Help set (or reset) the context for the company's discussion of environmental and social issues. Determine what these programs mean to the company and its customers, employees and investors; and articulate how they relate to long-term value. Leadership from the board is critical, and language matters. (A boardroom discussion about the "connection between environmental stability and the company's financial stability" is more nuanced and meaningful than a discussion about "global warming.")

Energize management's assessment of risks and opportunities. Identify significant social or environmental *risks* related to the company's operations—e.g., environmental degradation, product and worker safety, and waste generation—including legal, regulatory, brand and reputational risks. Are there *opportunities* to improve operational efficiencies—by reducing water usage, energy consumption, carbon emissions and waste? Take a close look at the company's supply chain, where some of the greatest environmental/social risks and opportunities may reside.

Embed environmental and social initiatives into the strategy and operations. For starters, identify environmental and social investments that align with the company's business interests and long-term viability. This involves trade-offs, disruptions and an innovative mindset, and may require different skills, expertise and KPIs. As we can attest from KPMG's own corporate responsibility initiatives, *this is difficult,* but essential to our long-term performance.

Communicate the company's efforts to investors and stakeholders. Insist that the company's environmental and social activities—progress, results and the linkage to strategy—are effectively and regularly communicated to investors, employees and customers. Understand how investors and other stakeholders view the company's management of environmental and social issues.

Set the tone and drive the culture. Assess and help calibrate how the company rewards corporate responsibility, encourages innovation and fosters prudent risk-taking. Help alleviate short-term pressures, and let management know—clearly and consistently—that the board supports thinking and acting with a long-term view.

In short, a company needs to see its corporate responsibility program as both a matter of principle *and an economic imperative*—to be embedded into its strategy and culture. And leadership from the boardroom is essential to making this happen.

Dennis T. Whalen
Leader, KPMG Board Leadership Center

CORPORATIONS AND SOCIETY: DOING SOCIAL GOOD WHILE DOING WHAT'S GOOD FOR BUSINESS

The Problem, the Opportunity and the Implications of Inaction

MAYBE THERE IS A BETTER WAY.

As the public sector increasingly struggles with a wide array of social issues—climate change and environmental sustainability, income inequality and job creation, safeguarding public health and rebuilding the public infrastructure—a growing chorus of voices is arguing that corporations have an important role to play in solving these and other intractable problems. Their logic is hard to refute. As Harvard Business School associate professor of business administration George Serafeim has noted, corporations not only contribute to many of the world's challenges—for example, their operations may have a big impact on the environment—they also are uniquely positioned to address them with cumulatively greater human and financial resources than government alone can muster.[1]

Business leaders are beginning to view corporate responsibility not just as a matter of conscience but also as an economic imperative.

The notion that business should contribute to the social good is not new, of course, and many modern companies have long endeavored to do so through what are now often called corporate responsibility programs. "I don't think we've suddenly changed what we're doing," says Jim Smith, president and chief executive of Thomson Reuters Corp., a provider of news and information for professional markets that has a history of philanthropy and community service. "What I do see today is a much greater appreciation of what we're doing—and more encouragement for us to go further and deeper—from our employees, from the communities where we operate and from our customers."

Against this backdrop of rising expectations, business leaders also are beginning to view corporate responsibility not just as a matter of conscience but also as an economic imperative. They see the interests and well-being of their customers, employees and investors, as well as the health of the environment and the availability of natural resources, as being inextricably linked to their companies'

1 "The Role of the Corporation in Society: Implications for Investors," The Calvert-Serafeim Series, September 2015

Doing good on social issues while also doing well on the bottom line is not easy, strategically or operationally, and can involve trade-offs between short-term benefits and long-term gains.

long-term success. Many also have taken note of the growing body of literature suggesting that shares of companies that score higher on environmental, social and governance (ESG) issues tend to do better than those of companies that don't—a message increasingly appreciated by the investment community, too.[2] According to US SIF, a foundation that promotes sustainable and responsible investment, more than one of every five dollars under professional management in the United States at year-end 2015, or about $8.7 trillion, was invested according to strategies that consider ESG criteria. Over the past year, Serafeim reports ESG issues accounted for the majority of all shareholder proposals at public corporations.[3]

"People are getting more sophisticated about the connection between corporate responsibility and business strategy, and rightly so," says Stanley S. Litow, vice president of corporate citizenship and corporate affairs for International Business Machines Corp. and president of the IBM International Foundation. "If you are strategic and analytic, being a good corporate citizen can also produce real sustainable value for your company."

It's not just public companies that are embracing this new way of thinking, either. Dave MacLennan, chairman and CEO of privately held food, agriculture and nutrition company giant Cargill Inc., says business leaders both public and private are responsible not just for building financially successful companies but also for leaving a legacy.

The problem, of course, is that doing good on social issues while also doing well on the bottom line is not easy, strategically or operationally. It can involve trade-offs between short-term benefits and long-term gains, and necessitate difficult changes in how companies do business. It requires an investment in people with the skills and background to understand how best to address social problems, and new ways of scoring executives on their performance in this area. It also demands an innovative mindset, especially as public companies remain tethered to the tyranny of quarterly earnings reports and labor under the long-held—but rapidly fading—notion that financial results and "stockholder welfare" are the corporation's sole ends.[4]

For leaders in this movement, enhancing shareholder value and contributing to the social good simply are no longer viewed as mutually exclusive.

2 "The Role of the Corporation in Society: Implications for Investors," by George Serafeim, Emily Kaiser, Joshua Linder, Ivan Naranjo, Kim Nguyen-Taylor and John Streur, The Calvert-Serafeim Series, Calvert Investments, September 2015

3 "KPMG Board Perspectives: Sustainability Issues Move from the Periphery," KPMG, 2016

4 "The Dangers of Denial: The Need for a Clear-Eyed Understanding of the Power and Accountability Structure Established by the Delaware General Corporation Law," by Leo E. Strine Jr., *Wake Forest Law Review*, Vol. 50, pg. 761, 2015

Companies with strong corporate responsibility programs point to tangible benefits for their organizations, and hence their shareholders, even where they are difficult to measure. Among other things, they say, an aggressive approach to corporate responsibility can help them attract capital from like-minded investors, recruit and retain employees who care about these issues (especially important among millennials), deepen customer loyalty, win favorable media coverage and generally enhance public perception of their brands. When fully incorporated into a company's strategy, they add, social initiatives can even help them open new markets and strengthen supply chains. They also can energize and empower workers. Pfizer Inc. vice president of corporate responsibility Caroline Roan says

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DOING GOOD: IN FOCUS

Cargill Inc.

Cargill Inc. chairman and CEO Dave MacLennan argues that the most substantial social good delivered by Cargill flows directly from its core business operations. "Nourishing the world is inextricably linked to advancing social good," he says. At the same time, the company takes on a wide array of overt social responsibility initiatives, focusing, MacLennan says, on big goals that relate to its business operations but can be achieved only by partnering with customers, governments, NGOs and others. These include promoting sustainable farming practices in the palm oil and cocoa supply chains, and pioneering, with The Nature Conservancy and other partners, a pragmatic, market-based approach to reducing deforestation in the Amazon River Basin. Elsewhere, the company has pledged to do its part to reduce carbon emissions by signing the American Business Act on Climate Change. It also has partnered with CARE for more than 50 years to combat poverty, contributing nearly $20 million over the past eight years alone to improve food security, education and economic opportunities for more than 300,000 people in eight countries. Cargill is a founding member of the Midwest Row Crop Collaborative, which works with farmers to optimize soil health practices and outcomes while conserving water and reducing greenhouse gas emissions. And through the Cargill Cocoa Promise, the company has trained 90,000 cocoa farmers in sustainable farming practices in key cocoa-producing countries such as Côte d'Ivoire, Ghana, Indonesia, Cameroon and Brazil, an undertaking that has improved cocoa yields by more than 20 percent.

"Nourishing the world is inextricably linked to advancing social good."

Dave MacLennan, Chairman and CEO, Cargill Inc.

DOING GOOD: IN FOCUS

Pfizer Inc.

Like many organizations that provide goods or services fundamental to human life, pharmaceutical company Pfizer Inc. sees an intrinsic connection between its core business activities and doing good for society. However, it doesn't take that link for granted. In an industry that garners more than its fair share of critical press, Pfizer counts among its four strategic imperatives earning greater respect from society, and identifies a commitment to corporate responsibility as being central to earning that respect. In fact, says Caroline Roan, the company's vice president of corporate responsibility and executive director of the Pfizer Foundation, "Our license to operate very much depends on our ability to build that trust and that respect with society."

In keeping with best practice, most of Pfizer's efforts in this area are tightly aligned with the company's business of developing medicines and vaccines that help people around the world, with a focus on communities where access and affordability to those products can be significant stumbling blocks to good health. Patient assistance programs provide Pfizer's medicines at no charge, or at a significant savings, to qualified uninsured and underinsured patients. Elsewhere, through a long alliance with the World Health Organization and multiple other governments, nongovernment organizations and private foundations, it has provided more than 600 million doses of antibiotic to more than 33 countries around the world for the global elimination of trachoma, the world's leading cause of preventable blindness. It also has partnered with the Bill and Melinda Gates Foundation and the Children's Investment Fund Foundation, among others, to provide its long-acting contraceptive to women in 69 of the world's poorest countries. Through its partnership with Gavi, the Vaccines Alliance, it also has committed to providing 740 million doses of its Prevenar 13 vaccine to infants and young children in the world's poorest nations through 2025, which will help in the fight against pneumococcal diseases, the leading cause of infant mortality.

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>
> Caroline Roan, Vice President of Corporate Responsibility, Pfizer, Inc.

While critical to improving the most pressing global public health needs around the world, these efforts also support Pfizer's core business interests. "Our philanthropic activities align very directly, in the broadest sense, with building a viable market—not for our products per se, but for quality healthcare, so that patients everywhere can access quality healthcare," Roan observes. "That's good for our business, and most importantly, it's good for patients. It's easy for us to justify these investments because in order to do our business we've got to have a healthcare delivery system that is functional and meeting the needs of all patients."

“Some people say social responsibility isn’t our job—that our only job is to try to make a profit…I reject that. I can tell you with much proof that it is accretive to shareholder value.”

Howard Schultz, CEO, Starbucks

colleagues who participate in Pfizer’s Global Health Fellows program, which deploys them to communities around the world to work with international development organizations on healthcare delivery, often return to their jobs more resilient and more willing to innovate and take risks to better meet the needs of patients.

“When you do social good right, it creates dual value, clear benefits that can be directly connected to your bottom line,” says IBM’s Litow. “We make sure our corporate responsibility programs produce quantifiable benefits to society and our shareholders.”

Howard Schultz, CEO of coffee retailer Starbucks Corp., echoes this theme. His company sponsors numerous programs that promote employee education and the welfare of the world’s coffee growers while at the same time providing the company with a better-prepared workforce and a more sustainable supply chain. “Some people say social responsibility isn’t our job—that our only job is to try to make a profit,” Shultz told shareholders at the company’s annual meeting in March 2016. “I reject that. I can tell you with much proof that it is accretive to shareholder value.”[5]

IBM, Cargill, Pfizer, Starbucks and Thomson Reuters aren’t the only companies that take a passionately favorable view of corporate responsibility, of course. Still, it’s safe to say their outlook isn’t universally embraced in boardrooms across corporate America. What happens if that doesn’t change? With populist sentiment growing in many developed markets, some worry that neglecting corporate responsibility could pose a threat to capitalism itself. Writing in *The American Prospect*, George Mason University professor Steven Pearlstine observed that current criticisms of American capitalism, as seen in movements from the Tea Party to Occupy Wall Street, embody more than just a “collective disappointment in the inability of American capitalism to deliver on its economic promises of wealth and employment opportunity. Running through them is also a nagging question about the larger purpose of the market economy and how it serves society.”[6]

It is sentiments like these that have helped drive the corporate responsibility movement and its various offshoots, including “conscious capitalism,” which refers to doing business in ways that serve all of a company’s major stakeholders, and “shared value,” in which companies pursue financial success in ways that also benefit society.

5 “Starbucks CEO Howard Schultz’s Strategy to Boosting Profits,” by Micah Solomon, *Inc.*, April 8, 2016

6 “When Shareholder Capitalism Came to Town,” by Steven Pearlstein, *The American Prospect*, April 19, 2014

HOW CORPORATIONS CAN CONTRIBUTE TO THE SOCIAL GOOD IN WAYS THAT CREATE SUSTAINABLE LONG-TERM GROWTH

So how can corporations do more? And where should they focus their efforts?

The starting point is, obviously enough, managing negative externalities. Like doctors, corporations must aim first to do no harm. For many companies, this will take the form of minimizing their negative impact on the environment or the communities in which they operate. But in a world where hundreds of millions of people lack sufficient food to lead active, healthy lives;[7] where tens of millions are refugees;[8] where income inequality is worsening; and where healthcare is not always readily available, it's easy to conclude that managing negative externalities is not enough. Companies that have already embraced the corporate responsibility mindset offer five tips for organizations that want to do more:

1. Embed environmental and social initiatives into the corporate strategy and culture.

Giving away money through charitable programs is clearly beneficial; it supports a cause while generating periodic goodwill and positive publicity. Yet it often lacks a strategic view. To do the most good—and ensure that it makes sense to all of a company's stakeholders, including its shareholders—companies need to embed environmental and social initiatives into the corporate strategy, culture and mindset, driven by a strong tone at the top. The focus should be on the key issues affecting the long-term success of the business, such as resource scarcity and changing customer interests, and on identifying opportunities to improve the company's strategy or operations by making environmental- or social-related investments. Finding this alignment between social and environmental initiatives and the company's long-term viability should be a core, ongoing discussion.

"It can't just be the pet project of the CEO," says Thomson Reuters' Smith. "Your corporate responsibility initiatives need to be tied to your business mission. When you do that, there's an authenticity that resonates with the external world, and a galvanizing effect inside the firm because you're going after issues your people care about."

This approach also boosts the odds that funding for, and commitment to, important corporate responsibility initiatives will continue even when budgets get tight. "Nobody argues with a company making investments in research or advertising or marketing when they're struggling financially. In fact, those assets can be vital to financial recovery," says IBM's Litow. "Companies won't take away funding for corporate responsibility programs under those circumstances either, but only if they are producing real, long-term value for the organization." (See sidebar: How Starbucks Stayed the Course with Corporate Responsibility.)

Litow suggests that in nearly every corporate responsibility initiative companies pursue, they should seek to leverage the capabilities that underpin their business

7 World Food Programme, https://www.wfp.org/hunger/stats

8 The UN Refugee Agency, http://www.unhcr.org/en-us/figures-at-a-glance.html

HOW STARBUCKS STAYED THE COURSE WITH CORPORATE RESPONSIBILITY

It's easy for companies to fund noncore activities when times are good, and just as easy to withhold funding when business conditions turn tough—which raises a question. Are corporate responsibility programs a core or non-core function? When they are tightly aligned with a company's business strategy and long-term success, they're increasingly viewed as the latter. Consider coffee retailer Starbucks Corp., which for years has pursued corporate responsibility programs aimed at, among other things, helping coffee farmers sustain their businesses while simultaneously improving the resilience of Starbucks' supply chain and ensuring the company a long-term supply of high-quality coffee beans. Starbucks has invested more than $70 million in such efforts, which include programs designed to strengthen local economic conditions in coffee-growing regions, the provision of loans to coffee farmers who can't get financing through traditional channels, and a commitment to ethical sourcing of coffee and other agricultural products.

In 2008, it might have been tempting to pull back on these initiatives. Amid the financial crisis that year, Starbucks' sales slowed for the first time in its history and its net income and stock price each fell by more than half. The company has since said it was "fighting for its survival." But rather than back away from its corporate responsibility programs, it doubled down on them, setting ambitious new goals it wanted to reach by 2015. Then, it largely met them. In 2008, nearly three-quarters of Starbucks' coffee was certified or verified by a third party as ethically sourced, and it operated one "Farmer Support Center." By 2015, 99 percent of its coffee was ethically sourced, and it was operating seven Farmer Support Centers in Latin America, Asia and Africa. Between 2008 and 2015 the company also boosted its purchases of renewable energy from 20 percent to 100 percent of its total energy requirements, and dramatically reduced the amount of water consumed by its operations.[9]

Are corporate responsibility programs a core or non-core function? When they are tightly aligned with a company's business strategy and long-term success, they're increasingly viewed as the latter.

The upshot? From the end of 2008 through November 30, 2016, Starbucks' stock significantly outperformed the S&P 500 stock index. The point isn't that corporate responsibility programs alone accounted for Starbucks' rebound; the company did a lot of other good things during that period, and its sales and profits soared. The point, rather, is that a company can maintain its commitment to corporate responsibility—even when fighting for its very survival—if its activities in that area are aligned with its long-term business strategy.

9 "Global Responsibility Report 2015," Starbucks Corp.

success. "Take disaster relief and recovery," he says. "Everyone knows there are going to be natural disasters around the world. When there is one, should you be the first one to find a check and make it out with a large number of zeroes to somebody? Sure, that would be generous and good. But what if you moved beyond checkbook philanthropy and actually managed the relief and recovery organization in a particular geography, delivering real sustainable value? Or look at the challenge of incorporating new immigrants into Western Europe. Rather than just giving money, what if you built a mobile app that makes it easier to resettle refugees—creating something that actually solves a problem, and demonstrates a link to your technology expertise? These are the kinds of things we are doing."

DOING GOOD: IN FOCUS

Thomson Reuters Corp.

Thomson Reuters Corp. President and CEO Jim Smith is understandably proud of the good delivered by his company's core businesses. "We supply news, information and tools to help professionals do their jobs better," he says. "We shine the light of journalistic inquiry around the world, promote transparency in financial markets, promote free and fair tax systems, and promote and support the rule of law around the world." Still, he says, the company would not be living up to its promise if it didn't try to do more than turn a profit on these activities.

"I don't buy the premise that you have to make a trade-off between doing well and doing good," Smith says. "In fact, I believe that if you want to truly create sustainable long-term value, you have to be making a positive contribution to all your stakeholders."

To that end, Thomson Reuters funds a wide variety of corporate responsibility initiatives that are aligned with the issues most important to its employees and their communities, and that support the overall mission of the company's businesses. Among the highest-profile examples are TrustLaw and Trust Women, two initiatives operated by the Thomson Reuters Foundation. The first connects nongovernment organizations and social enterprises with law firms and corporate legal teams around the world who are willing to offer them pro bono legal services. To date, this program has resulted in the delivery of more than 2.5 million hours of pro bono legal work. Trust Women convenes hundreds of global leaders each year at an annual conference to pursue solutions to empowering women and fighting slavery and human trafficking worldwide.

"Would our business fall over in a week or a month or two years if we didn't do these things? Of course not," Smith says. "Would we be less vital to the communities we serve—the physical communities where we operate, or the professional communities of which we are a part? Absolutely. Those bonds would be weakened. We thrive on being part of the professional communities we serve. We don't want to be another commodity provider that wins each and every RFP because we have the lowest price. We want broad and deep relationships with our clients, and with the communities we serve. We believe, at the end of the day, that's a win-win for all our stakeholders, including our stockholders."

Similarly, Cargill seeks to ensure that its sustainability efforts have tight ties to its corporate strengths and strategy, as evidenced by its commitment to mitigate and help farmers adapt to climate change. "More than perhaps any other business, the agricultural sector depends on the climate," explains MacLennan. "It gets a lot harder to ensure a dependable food supply in a world where growing zones for crops begin to shift rapidly and farmers risk being confronted with extreme drought one day and torrential rains the next. That is why we have committed to reducing our own carbon footprint and tackling deforestation. Building this into our business strategy not only is the right thing to do, it also makes sense from a long-term business perspective."

Another way for companies to tie corporate responsibility programs to business goals, Litow says, is by focusing on geographic regions where they have an interest in growing. IBM has long identified Africa as an attractive emerging market, for example, and has undertaken numerous initiatives to solidify its position there, including ones in which teams of IBM employees work on the ground to help provide financial, healthcare and literacy assistance to the continent's poor women and children. The company says its efforts have demonstrated its leadership capabilities and problem-solving expertise, and helped it become an integral part of Africa's business and technology communities. These efforts are undertaken by the company's Corporate Service Corps, the largest program of its kind in the nation, in which top management prospects are trained to work with government and community counterparts in nearly 40 countries around the world at the intersection of technology and society.

In short, companies must make sure their responsibility programs make sense and cents. As Harvard Business School professors Robert G. Eccles and George Serafeim have written, capital markets, of course, don't reward firms for responsibility initiatives that fail to enhance financial performance, but "they punish those whose programs—relevant or not—depress financial results."[10]

> Capital markets don't reward firms for responsibility initiatives that fail to enhance financial performance, but "they punish those whose programs—relevant or not—depress financial results.
>
> Robert G. Eccles and George Serafeim, Harvard Business School Professors

2. Be proactive, not reactive.

If, by chance, your business involves running a coal-fired power plant, you know that carbon dioxide emissions are going to be a hot-button issue for a host of your stakeholders. You scarcely need reminding that this risk needs to be actively managed. Litow suggests that companies take that same proactive approach to all of their corporate responsibility initiatives. "Just by way of example, let's suppose you have a very large supply chain, and some of your suppliers are engaged in activities you might be held accountable for," Litow says. "If you're smart, you would get out in front of that by building a supplier code of conduct, regularly auditing your supply chain, creating processes that help suppliers improve, and having policies and procedures for removing suppliers who are not effective. This would not only protect you from risk, but might allow you to attract investors looking for companies that have a high profile in this area. You might even find potential clients who are more interested in doing business with you." Similar

10 "The Performance Frontier: Innovating for a Sustainable Strategy," by Robert G. Eccles and George Serafeim, *Harvard Business Review*, May 2013

benefits could accrue, he says, from having admired labor practices or strong environmental programs.

3. Build a business case for environmental and social projects.

"Don't treat this as something you would look at any differently than any other significant strategic function," says Litow. "For anything else, you would be studying the most effective models for success, benchmarking against your competitors and determining the return on your investment. Don't look at corporate responsibility any differently just because it's not something that has

DOING GOOD: IN FOCUS

International Business Machines Corp.

With a focused approach to linking social-good initiatives to corporate strategy, International Business Machines Corp. has moved well beyond the realm of checkbook philanthropy and set an example for how companies can align business and corporate responsibility initiatives. "Most of our corporate responsibility programs are aimed at driving systemic change using IBM's best research and our best technology and talent," says Stanley S. Litow, the company's vice president of corporate citizenship and corporate affairs. To cite just one example, IBM has created a virtual supercomputer called World Community Grid that pools the donated, unused cycle time of millions and millions of computers and other smart devices. IBM then donates that power to scientists researching health and sustainability issues. One key outcome: identification of several possible drug treatments for neuroblastoma, one of the most common and dangerous forms of childhood cancer.

International Business Machines Corp. has moved well beyond the realm of checkbook philanthropy.

Elsewhere, the company dispatches top IBM experts and other employees to undertake economic development, education, disaster recovery, municipal services, social responsibility and environmental sustainability, and public health projects around the world through its Smarter Cities Challenge, its Corporate Service Corps and its new Health Corps. And through its IBM Impact Grants program, it provides consulting expertise and software to not-for-profit and educational organizations to help them solve problems and better serve their communities. IBM's innovative approach enjoys the strong support of the company's CEO, senior executives and board of directors.

Still, the company hasn't completely abandoned the idea of simply helping communities or organizations in need with cash resources. It just does it in a slightly different way. The company encourages all 400,000 of its employees to perform community service on their own time. About 260,000 of them do so. Where employees commit 40 hours of service on their own over the course of a year, the company will make a grant to the organizations where those services were provided. Litow estimates the market value of IBM's social responsibility efforts at about $400 million annually.

an easy bottom line. There are many functions that don't have an easy way to measure the bottom line. But people still invest heavily in them."

"Like the old adage says, what gets measured gets managed," agrees Thomson Reuters' Smith. "We've always been actively involved in the communities we serve, but today we're far more rigorous about how we manage that in terms of tracking the hours our employees commit to these efforts and making sure we're coordinating efforts to the greatest effect. It requires more discipline than perhaps we and many other companies were applying in the past."

4. Be transparent.

For some shareholders, the idea of investing corporate resources in anything that is hard to correlate directly to financial results is always going to be a difficult sell. But companies can head off criticism and boost the odds of winning shareholder support by being relentlessly transparent about what they're doing, why they're doing it, and how it benefits the long-term interests of the company and all its stakeholders. To that end, IBM has been hosting regular phone calls with socially responsible investment funds for the past 15 years. Today, that audience includes not only funds managed by investors who invest exclusively according to SRI principles, but also SRI funds operated by mainstream investment firms. And like many large companies, IBM produces an annual "corporate responsibility report" outlining its approach to and performance on social responsibility initiatives and, importantly, providing year-to-year comparisons.

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If communication with external stakeholders is important, it's also important within the company—especially between those who are leading corporate responsibility programs and the C-suite and boardroom leaders who are reviewing and funding them.

5. Work in partnership with governments, NGOs and industry peers.

Because their own resources are often not sufficient to bring a solution to scale, companies with active corporate responsibility programs say it's important to promote and encourage the participation of others who can help to advance their causes, including industry partners and government and nongovernment organizations. When IBM created a new six-year school called P-TECH that combines high school, community college and work experience in one, for example, it encouraged other companies to adopt and expand its model. Today, more than 250 companies have helped create schools based on IBM's education model, which has spread across the U.S. with community colleges, school districts and state partners.

Cargill, too, is an active partner in the corporate responsibility space. In 2014, for example, it joined forces with a host of other companies, governments and NGOs from around the world to endorse the United Nations New York Declaration on Forests, which pledges to halve deforestation by 2020 and end it by 2030. "As a precursor to last year's Paris Agreement, it showed that business can help drive multilateral government action," says Cargill's MacLennan. Cargill also works extensively in conjunction with other companies, NGOs and governments on numerous educational and other programs focused on improving the lives and livelihoods of cocoa farmers and their families in West Africa.

In addition to partnering with others, corporations looking to address societal ills can further their cause by speaking out publicly on important social and environmental issues, by bringing the power of facts to public discourse, by pressuring government officials to act and by leading through example.

CONCLUSION

For corporations and their stakeholders, doing well is no longer doing enough. As governments continue to struggle to resolve the world's most important and challenging problems, corporations increasingly understand that they must lend their energy, expertise and influence to the fight.

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Jim Smith, President and CEO, Thomson Reuters Corp.

"In times like these, with so much macro political uncertainty, it is more important than ever to focus on those issues we care about, those values we hold dear, and to work really hard to advance and support them," says Thomson Reuters' Smith.

Creating value for all stakeholders isn't easy, to be sure. In the short term, companies sometimes face conflicts between "doing good" and "doing well," and managers face tough choices over how to optimize long-term financial value within the economic constraints on their businesses. But beyond the moral case for doing good, more and more companies are buying into the economic argument that investing in environmental and social causes can protect and enhance shareholder value, especially when those efforts are tightly aligned with their business strategy and long-term perspective.

This argument only gets stronger as broad cross sections of the public continue to demand more from corporations. "The more customers, employees, investors and local communities expect from companies to perform their functions in responsible ways, the more responsible companies will be rewarded and irresponsible companies will be punished," writes Harvard Business School's Serafeim.[11]

"We find ourselves at a point in history where big trends have come together to create marked uncertainty and ambiguity," adds Cargill's MacLennan. "We are dealing with geopolitical shifts, trade dynamics, climate change and other challenging forces. As corporations, we are having to make tough decisions in order to deliver strong results today while protecting the profitability of future generations. Those decisions are never easy—but they often are the ones that define successful companies over the long term."

Making charitable contributions, minimizing the company's impact on the environment and detailing these efforts in sophisticated annual reports have become standard fare for almost all large corporations today. But increasingly, there's an appetite for—and an expectation of—more.

11 "Turning a Profit While Doing Good: Aligning Sustainability with Corporate Performance," by George Serafeim, published by the Center for Effective Public Management at Brookings

hbr.org/hbr-analytic-services

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