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Corporate Sustainability: An Analysis of CSR and CSV

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ABSTRACT

This study explores the reporting Corporate Social Responsibility (CSR) and Creating Shared Value (CSV) programs in organizations. We analyze Bloomberg data that is based on publicly disclosed information. Currently companies are measuring their own progress on their social benefit and business value with significantly different reporting formats. Our study explores these issues through two case studies profiling Nestlé and PepsiCo, and comparing their programs. We find that CSR and CSV program metrics are not standard across the industry, companies can select and exclude metrics to represent and best support their programs. We recommend that companies create or maintain accurate reporting and tracking for their CSR and CSV programs until standard guidelines are implemented within their industries. Standard and consistent metrics will help companies attain effective sustainable practices throughout their supply chain, and thereby contribute to improved performance and enhanced brand image.

KEYWORDS: Corporate Sustainability, Corporate Social Responsibility, Creating Shared Value

INTRODUCTION

Corporate Sustainability is a mix corporate social responsibility, creating shared value, stakeholder theory and accountability. It's an emerging concept that leaders are adopting as an alternative to the conventional growth and profit-maximization model. It takes into account that corporate growth and profitability are essential, but there also should be a focus on pursuing societal goals, relating to sustainable development, environmental protection, social justice and equity, and economic development. Corporate sustainability also creates long-term consumer and employee value by implementing green initiatives that take into consideration how a business operates in the social, cultural, and economic environment. The Institute of Supply Management defines sustainability as "Sustainability is the ability to meet current needs without hindering the ability to meet the needs of future generations in terms of economic, environmental and social challenges."

Corporate Social Responsibility (CSR) and Creating Shared Value (CSV) programs complement each but are not composed of all of the same concepts. CSR is focused on philanthropy and improving the brand image by giving back. CSV, on the other hand helps businesses to prosper

over the long term, so that the communities they serve also prosper. It explains how businesses can create competitive advantage, which in turn will deliver better returns for shareholders, through actions that substantially address a social or environmental challenge. It is important for MNCs to implement these programs for brand favorability and long term sustainability.

The Sustainability Accounting Standards Board is working on creating industry standards for investors and stakeholders to compare and evaluate companies based on their social impact. The International Integrated Reporting Council is developing a process to submit integrated financial, environmental, social and governance reporting. Finally, the most important factor in establishing a corporate social responsibility program is to conduct extensive research to define a social problem that fits well within the company structure and culture.

The Institute for Supply Management (ISM) has created 10 primary Principles of Sustainability through Corporate Social Responsibility and Creating Shared Value: (1) Anti-corruption (2) Diversity (3) Environment (4) Ethics (5) Financial Integrity & transparency (6) Global citizenship (7) Human Rights (8) Labor rights and (9) Sustainability. They measure their best-in-class practices by sustainability/CSR Initiatives, committing resources to CSR, organization wide program integration in supply chain, engagement by executive management and sharing strategies internally and with suppliers. ISM recommendations to ensure Sustainability: (1) select sustainable suppliers, (2) measure supplier performance, (3) track supplier compliance, (4) establish processes for supplier sourcing, (5) manage risk and contingency plans to ensure uninterrupted supply (business continuity), (6) develop sustainability strategies, goals and objectives, establish policies and procedures and (7) publish results and accomplishments.

LITERATURE REVIEW

This literature review will begin by addressing the essence of Corporate Social Responsibility ("CSR") and its basic working definition. Some have suggested that CSR laid the foundation for the Creating Shared Value ("CSV") concept. However, not all in academia agree that CSV is a brand new concept. Therefore, the counter-argument then will be presented. Finally, an emerging concept blending both the CSR and the CSV concepts into a macro-framework, Integrated Value Creation ("IVC"), will be discussed.

Citing Carroll, Nalband and Al-Amri (2013) explained that there are "...four faces of corporate citizenship": 1) economic responsibilities to the corporation, 2) legal responsibilities to operate within the boundaries of law and policy, 3) ethical responsibilities to act morally and ethically, and 4) philanthropic responsibilities to benefit society as a whole. They then elaborated by citing Lawrence, Weber, et al who approached CSR from a slightly different perspective identifying charity and stewardship as the core elements. According to Nalband and Am-Amri, the challenge for organizations is not so much the charity, as many corporations donate to worthy causes; rather it is the stewardship component that poses difficulty because "it compels business to be 'trustees,' an obligation to function in the general interest of the public." Authors Ghasemi, Nazemi, & Hajirahimian (2014), on the other hand, opted to adopt the definition of CSR established by the World Business Council for Sustainable Development (WBCSD): "...[A] business commitment which contributes to sustainable economic development through team work with employees and their representatives, their families, and local and public communities, to improve the quality of life by means of beneficial ways both for the business itself and for development".

Orr and Sarni (2015) define CSV as: “. . . policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress”. Authors Ghasemi, Nazemi, & Hajirahimian (2014) discussed how companies can morph from being a CSR to CSV using a case study of an Iranian Steel company. The Mobarakeh Steel Company believed in CSR for purposes of gaining a competitive advantage in the world marketplace but decided to progress forward with a CSV approach to improve upon its current successes. They sought a win-win through the application of a formulated set of detailed tasks. These tasks included: 1) disclosing CSR in annual reports, 2) promoting the use of CSR indicators nationally and internationally, 3) aligning synergistic goals, 4) using expert opinions with regards to social impacts of decisions made, and 5) benchmarking to competitors.

Numerous companies exhort the benefits of CSV. For example, in an interview by Nina Kruschwitz of the MIT Sloan Management Review (2013), Hans Joehr, corporate head of agriculture at Nestlé, stated that Nestlé provides “people with the access to knowledge and information they need to increase productivity and establish sustainable production systems. It’s all part of the company’s Creating Shared Value (CSV) approach to business, a process that requires us to look for ways to create value for our shareholders while also ensuring we create value for the communities in which we operate”. He also stated that, unlike many companies, Nestlé doesn’t need to use sustainability officers because CSV is built into all their operations.

Orr and Sarni (2015) stated that what delineates the CSV from CSR is that companies using CSV “embrace longer-term, more environmentally and socially inclusive strategies as opposed to *ad hoc* forays into sustainability initiatives”. Glaringly missing from both models, according to Orr and Sarni, however, is the presence of personal values in the equation. Echoing the sentiment of authors Nalband and Am-Amri, Orr and Sarni also concluded that even CSV is lacking an overall stewardship of the mission. Collective action and governance seem omitted from CSV.

Orr and Sarni are not the only detractors of CSV. In a scathing critique of CSV, Crane, Palazzo, Spence and Matten (2014), argued that “. . .it is unoriginal, it ignores the tensions between social and economic goals, it is naïve about the challenges of business compliance, and it is based on a shallow conception of the role of the corporation in society”. One of these authors’ major concerns is the lack of a universal alignment for all stakeholders. Satisfying one group might not be satisfying another. They used Nestle to illustrate that in “. . .the processed food industry, . . . [companies such as Nestlé] have been lauded as pioneers of shared value in some aspects of their operations while simultaneously castigated for deliberately addicting consumers to high contents of sugar, salt, and fat in their main business”. The authors continued with their arguments also pointing out that CSV is unrealistic in terms of corporate compliance with government regulations and the monitoring of its supply chains.

Recently, authors Visser and Kymal (2015) introduced yet another concept, Integrated Value Creation (IVC), which extends CSR and CSV. IVC “. . .combines many of the ideas and practices already in circulation, like corporate social responsibility (CSR), sustainability and creating shared values (CSV), but signals some important shifts, especially by focusing on integration and value creation”. According to the authors, most organizations respond piecemeal to: 1) safety and social issues, 2) quality issues, 3) environmental, economic, and ethical issues, 4) labor issues, 5) carbon or climate issues, and 6) health and human rights issues. The authors suggested a seven step process for the integration of the goals and concepts

promulgated by CSR and CSV. The steps to be taken in order are as follows: 1) Context Analysis, 2) Stakeholder Assessment, 3) Leadership Review, 4) Risk Assessment, 5) Opportunity Analysis, 6) Process Redesign, and 7) Systems Integration. The authors concluded that the most important item in this entire process of IVC is the implementation and delineated in detail the processes needed to reach the next steps.

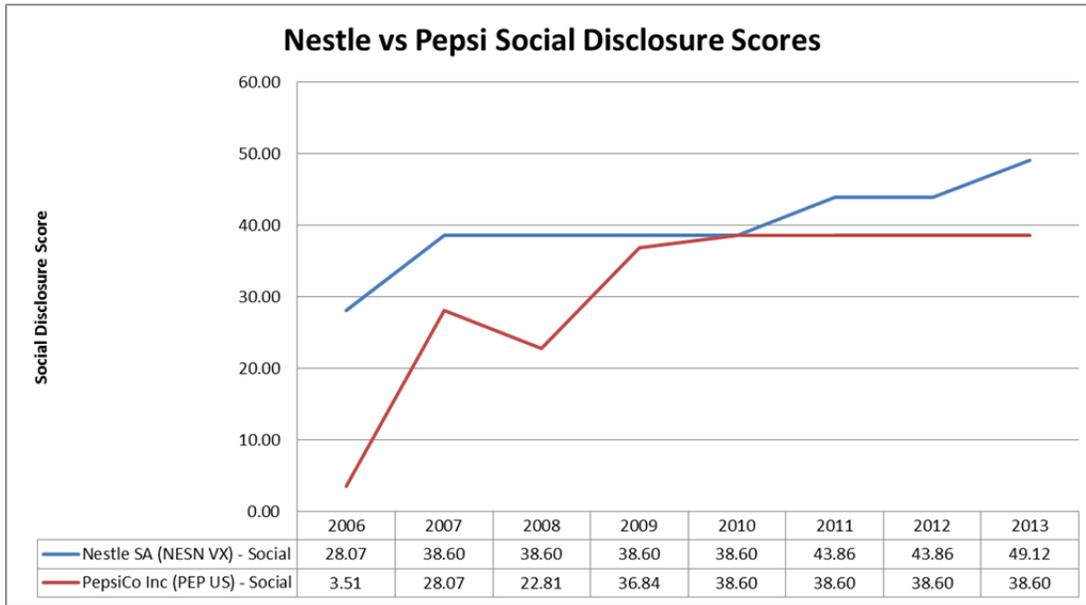
This study explores the reporting Corporate Social Responsibility (CSR) and Creating Shared Value (CSV) programs in organizations as they relate to their supply chains. Since there are no standardized guidelines for reporting CSR and CSV programs, we analyze data from company profiles and reports with the financial and environmental data extracted from the Bloomberg terminal that is based on publicly disclosed regulatory compliance information. Currently companies are measuring their own progress on their social benefit and business value with significantly different reporting formats. Our study explores these issues through comparing two programs at Nestlé and PepsiCo.

CASE STUDY: COMPARING Nestlé and PepsiCo

PepsiCo's sustainability program "Performance with a Purpose", main goal is to deliver top-tier financial performance while creating sustainable value for all stakeholders. PepsiCo's 2013 Sustainability report, they state that they conserved water in internal operations and throughout their supply chain, respect shared users of water and work with partners to help provide access to safe water. In 2013 alone, their operational water efficiency programs achieved estimated water-flow savings of more than 14 billion liters. In 2013, their packaging, recycling and waste reduction included Frito-Lay North America eliminating more than 11 million pounds of flexible film packaging and PepsiCo recycled and/or reused nearly 93% of total waste generated at their company-owned manufacturing facilities. PepsiCo's Greenhouse Gas (GHG) Emissions program has a goal of achieving total reduction in GHG emissions by reducing energy use in their manufacturing operations, exploring renewable alternatives, and improving the efficiency of their fleet and suppliers. Sustainable agriculture helps secure their supply chain, drive productivity and enable future growth. Focus areas include responsible sourcing, sustainable certification for ingredients and sustainable palm oil sourcing.

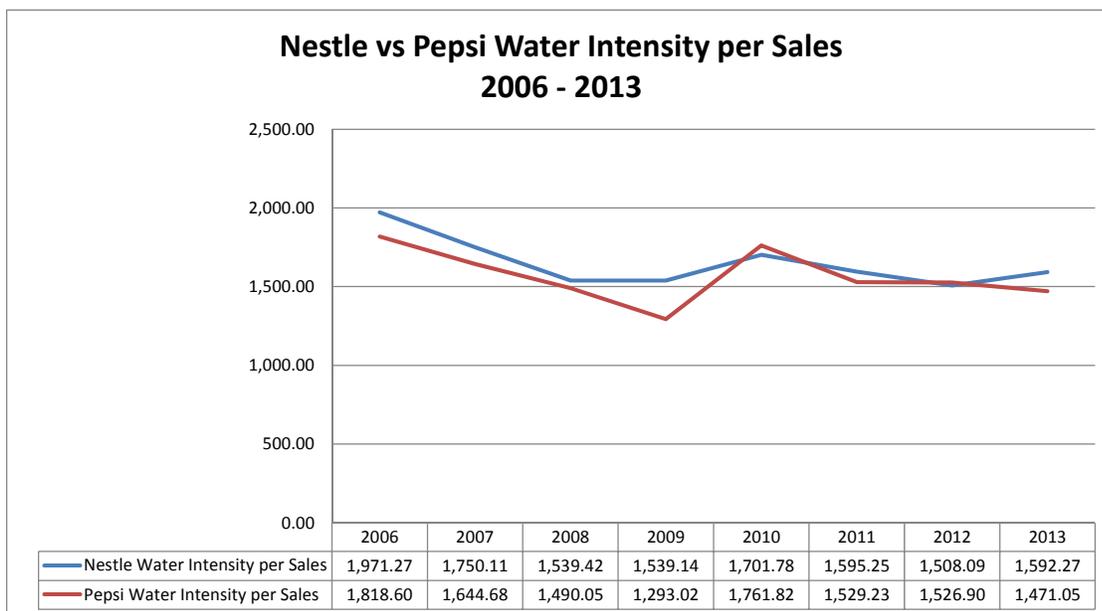
We compared Bloomberg data by segment for Nestlé and Pepsi which are both in the food and beverage industry. The data for both companies is categorized by (1) Social; (2) Environmental; (3) Environmental Social and Governance (ESG) ratios; (4) Carbon Dioxide Project (CDP) Climate Change; (5) Executive and Director Compensation; and (5) Governance. However, key performance metrics within each of these categories are not standard across both companies. Nestlé and Pepsi report different data sets within each category. Despite the differences with metrics, there are enough comparisons across categories to compare company performance. Nestlé outperforms Pepsi in the Bloomberg data analyzed within the categories.

Social: Both Pepsi and Nestlé reported social disclosure scores from 2006 – 2013. Nestlé had higher social disclosure scores each year, except in 2010, where both companies scored the same (38.60). Nestlé shows an upward trend in scores during this time period which implies a relationship with their CSV programs. Pepsi remains flat from 2010 to 2013. Pepsi reported CSR employee training in 2009. Nestlé did not report any CSR employee training from 2006 – 2013.

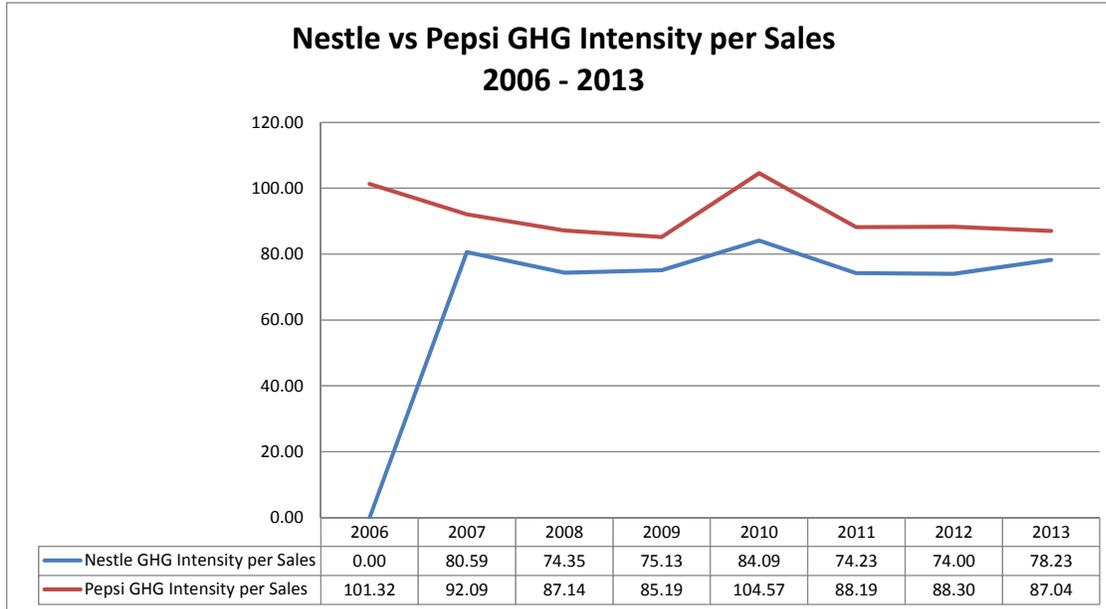


Bloomberg reports social metrics beyond the social disclosure scores including employee related metrics. We selected the disclosure score as a metric that tied most directly to CSV programs rather than other metrics such as employee turnover and % women in management metrics. Although the employee components are important measures within a multinational company, the social disclosure score is a method to compare and contrast companies. Other metrics within this category are not reported across companies.

Environmental: Bloomberg reports several metrics within the environmental category (1) environmental disclosure score; (2) greenhouse gasses; (3) emissions; (4) energy consumption; (5) water use, and (6) waste. Nestlé and Pepsi report different metrics within the environmental category. Nestlé reports more comprehensive data than Pepsi which implies attention to detailed environmental operations, transparency and a continuous improvement culture.



Nestlé and Pepsi both report water intensity which is a component related to operations and manufacturing processes. Water consumption is a factor for some companies to measure and market sustainability. Nestlé water intensity trends downward from 2006 – 2013 compared to Nestlé which shows a spike from 2009 to 2010 and then a decline.

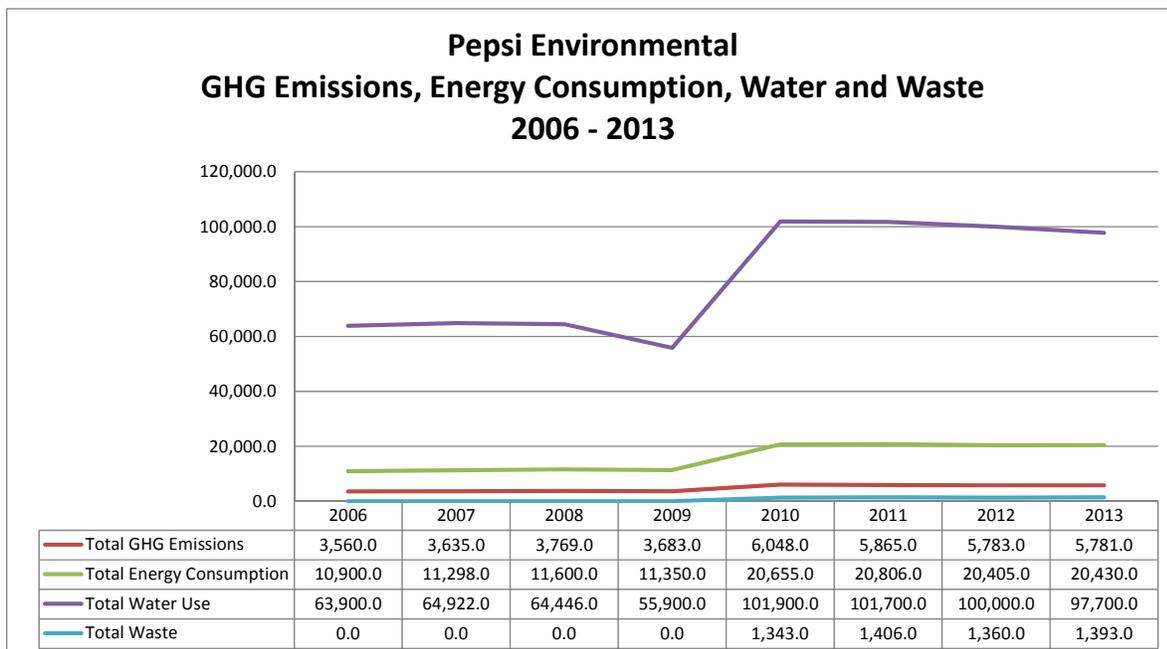
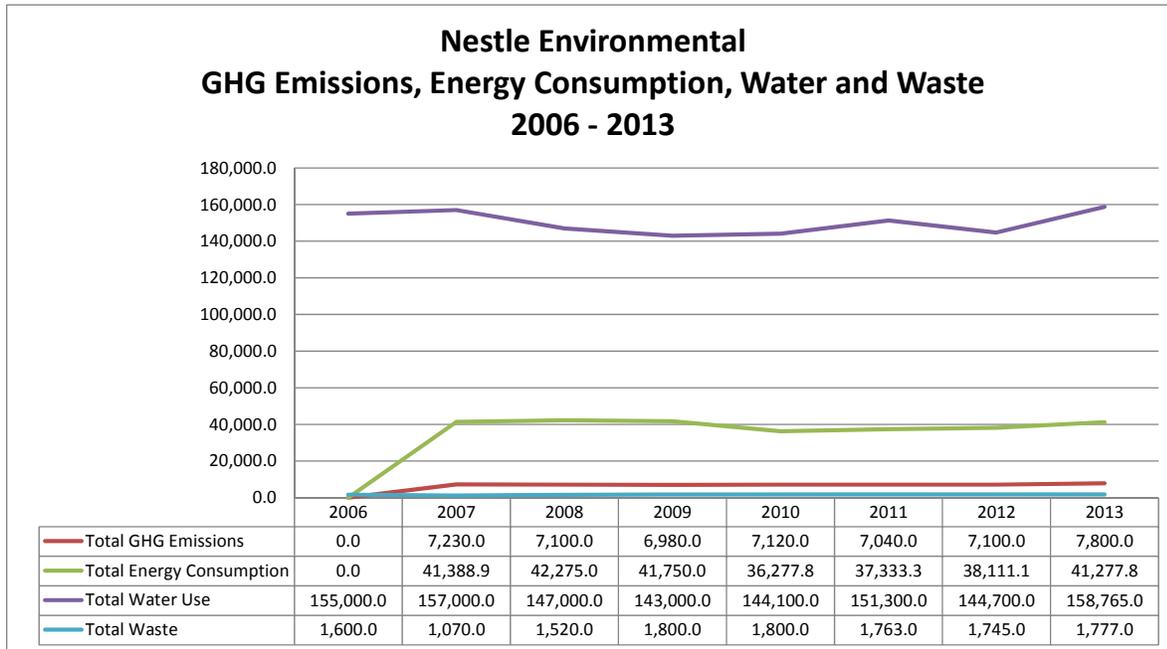


Nestlé and Pepsi both measure greenhouse gas intensity per Sales. Nestlé did not report this data in 2006. Both companies experienced an increase in 2010 and relatively flat performance for the time period 2006 – 2013. Pepsi has a higher intensity compared to Nestlé.

We analyzed the environmental data set and combined the most relevant operational metrics to compare Nestlé and Pepsi's performance. We selected greenhouse gas emissions, total energy consumption, total water use and total waste. During 2006 – 2013, Nestlé's total energy consumption increased while the water and waste remained flat. Total greenhouse gasses remained relatively flat with only a slight uptick from 2012 to 2013.

During the same time period, Pepsi's total water use increased from 2009 to 2010. Greenhouse gas emissions, total energy consumption and total waste increased slightly during when water use increased from 2009 to 2010. All metrics remained relatively flat from 2010 to 2013.

Nestlé and Pepsi also reported environmental scores and ISO certified sites. Nestlé reported higher environmental scores compared to Pepsi. Nestlé also had 5 to 6 times the number of ISO certified sites compared to Pepsi during 2013.



Environmental Social and Governance (ESG) ratios: Bloomberg reports ESG ratios which are useful to compare the relationship with the environmental metrics and the financials. Further research is necessary in order to properly interpret and derive conclusions about each metric. For example, Nestlé improved with GHG intensity per sales but increased with GHG intensity per energy. Pepsi reports improvements with GHG intensity per sales and has improved since 2006 with GHG intensity per energy. The next step in the research is to better understand the calculations and drivers of these metrics and how these associate to the operational processes with energy efficiency.

Carbon Dioxide Project (CDP): The Bloomberg category for CDP disclosure reports the same categories for both companies however the metrics within each category are different for each company. This supports the hypothesis that companies do not measure sustainability performance consistently. The differences within the CDP category are enough that conclusions cannot be drawn without further research. It is worth noting that both companies have reductions in place.

Executive and Director Compensation: Bloomberg reports executive and director compensation as part of the sustainability reporting. Both companies report essentially the same metrics. It is worth noting that Pepsi had more executive changes reported than Nestlé.

Governance: The final category of Bloomberg sustainability reporting is related to governance. Both companies report governance disclosure scores of 66 and measure similar characteristics of board diversity and structure. The governance section has the least variation with metrics and reporting. From the initial research, there do not appear to be any notable factors between the two companies that would likely contribute to sustainability differences.

CONCLUSIONS

Nestlé has more comprehensive reporting with metrics that pertain to sustainability and CSV programs compared to Pepsi. The first tier suppliers and many of the secondary suppliers seem to contribute to a “green” supply chain from the reported metrics. Since the metrics are not standard across the industry, companies can select and exclude metrics to represent and best support their CSV programs. Our recommendation is for corporations to create standardized metrics until there is an industry standard established. Despite this it is interesting to note that Nestlé had significant food safety issues with their major brand Maggie Noodles in India in 2015.

Many companies are still trying to clarify what is a good sustainability strategy is and what does it mean to be “green”? This means different things to companies depending on their industry. Overall it means giving back to communities and creating a strategy that solves a social and/or economic problem that will in turn increase profits. CSR and CSV is still an emerging concept that varies greatly from company to company in every aspect. CSR is about “doing good” through philanthropy while CSV is focused on profit maximization while solving an economic, social problem. Both of these are essential in maintaining corporate sustainability. We found that Nestlé has done extensive reporting on their CSV program since 2005. The Bloomberg portal data varied greatly by company, and had a lot of detail on company segments, their suppliers and their customers. Our recommendation is for companies to create or maintain accurate reporting and tracking for their Corporate Social Responsibility (CSR) and Creating Shared Value (CSV) programs until standard guidelines are implemented. Standard and consistent metrics will help companies maximize profits and drive down their operational costs through supplier collaboration and efficiency. The operational improvements toward sustainability will improve the overall brand image.

REFERENCES

References available upon request.