

# 1

## An action-based approach for linking CSR with strategy

### Framework and cases

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Although the call from academics and consultants to integrate CSR with corporate strategy has been established, there is concern that many firms seem to lack direction on how to address CSR in an innovative way and, importantly, strategically. By way of example, while CEOs acknowledge that addressing stakeholder expectations for CSR is an important consideration for competitive success, they appear to be struggling with just how to link CSR with corporate strategy (Hirschland 2005; McKinsey & Company 2006; PricewaterhouseCoopers 2007; IBM 2008). Recent reports reveal that a majority of organisations have no defined strategy for CSR, while many companies are unclear about how to adequately anticipate which social issues will affect their overall strategy (Work Foundation 2002; McKinsey & Company 2006; IBM 2008).

In an effort to explore innovative ways of addressing CSR, this chapter seeks to develop a couple of key themes and insights. First, we seek to identify how to view CSR strategically. To do this, an argument is made that firms need to take an 'issues' perspective of CSR by identifying social issues that are prevalent to stakehold-

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ers. According to Aguilera and colleagues (2007), CSR is best defined as actions designed to improve social conditions. By identifying prevailing social issues, firms place themselves in a position to improve social conditions. However, not all social issues are relevant—let alone strategic—across all industries. We develop a means to strategically address the matter. Second, once firms identify social issues that are strategic, action must be taken. Strategy is about tough choices and trade-offs and our framework explains three means of action with respect to CSR. The main objective of the chapter is not to offer a pure theoretical treatment, but rather to discuss a sensible approach to CSR and strategy, and to highlight what the use of the framework might look like pragmatically.

To proceed, the chapter first offers an overview of our framework; we discuss the logic behind the framework, including theoretical and practical aspects. Next, three short cases are elaborated which expound the framework. The companies are Aveda, Herman Miller and Toyota. Lastly, implications and conclusions are offered.

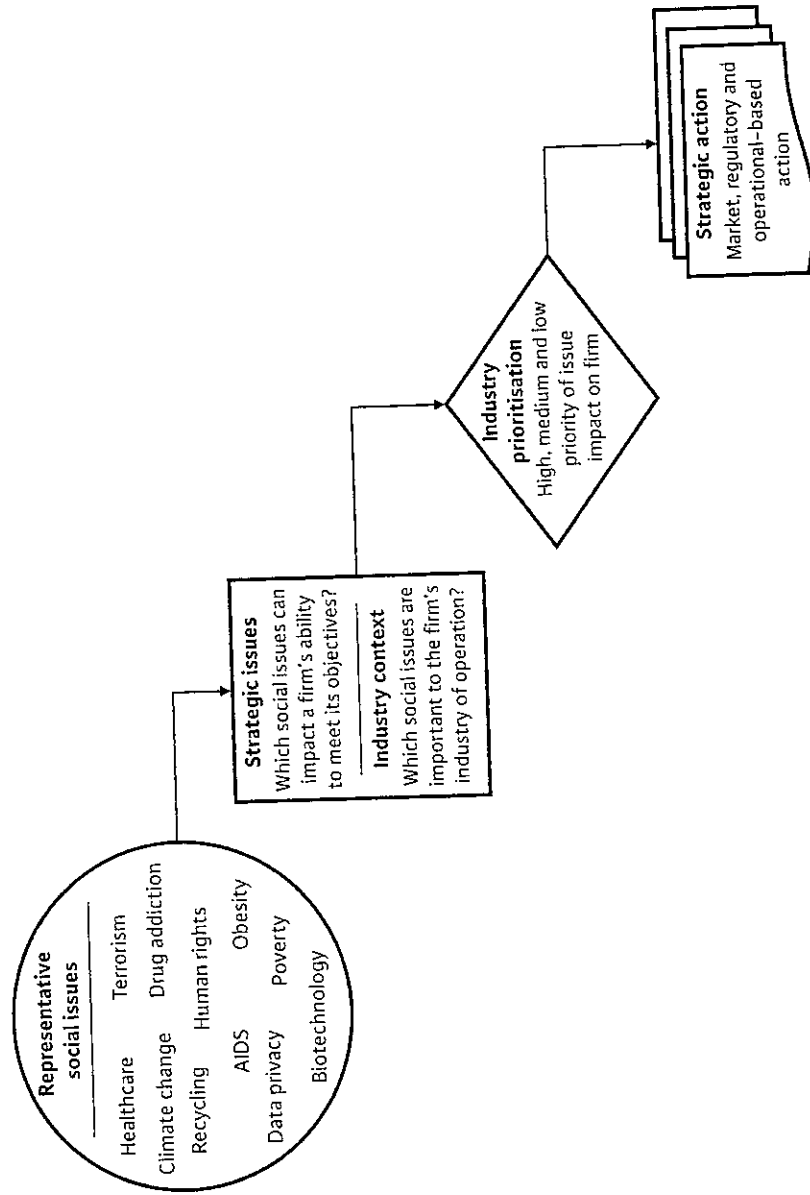
### Linking CSR and strategy: an action-based framework

Our research suggests that many firms appear to be struggling with how to create a dynamic link between CSR and strategy. This struggle is exacerbated by the fact that many firms seem to equate CSR with 'cheque-book' philanthropy, codes of ethics or public relations efforts, which are too far removed from strategy (Davis 2005). To move beyond such approaches and to view CSR strategically, firms should consider five key aspects: (1) the social issues perspective; (2) strategic issues; (3) industry context; (4) issues prioritisation; and (5) strategic actions (Figure 1.1).

The five aspects are rooted in social issues management (Mahon and Waddock 1992; Lamertz *et al.* 2003), industrial organisation economics (Bain 1959; Porter 1981), stakeholder theory (Clarkson 1995; Mitchell *et al.* 1997) and the strategy literature (Ansoff 1980; Porter 1980, 1996). Although there are many potential aspects that could be important to linking CSR and strategy, we make the argument that the five aspects outlined above are most critical.

First, although CSR has been elevated to one of the most widely accepted concepts in business in the last 20 years, multiple definitions and theoretical treatments create confusion regarding precise meaning (Min-Dong 2008). In simplest terms, we believe that CSR is best defined as actions designed to improve social conditions (Wood and Jones 1995; Waddock and Bodwell 2004; Aguilera *et al.* 2007). What this definition suggests is that, if firms are going to demonstrate CSR through a given set of actions, they need to understand what social 'conditions' need to be improved. Understanding social conditions is perhaps best framed within the

FIGURE 1.1 Proposed framework



'social issues' perspective (Mahon and Waddock 1992; Lamertz *et al.* 2003). More specifically, a social issue is one deemed problematic to society through the actions of stakeholders capable of influencing governmental or corporate response and policy (Mahon and Waddock 1992). Many social issues exist: HIV/AIDS, climate change, human rights, terrorism, pollution, obesity, information privacy and so on. However, not all social issues are important to a given firm and, thus, firms need to consider which ones are *strategic*.

Understanding social issues in light of the *strategic issue* concept is important. Ansoff (1980: 133) suggests that 'a strategic issue is a forthcoming development, either inside, or outside the organisation, which is likely to have an important impact on the ability of the enterprise to meet its objectives'. What Ansoff suggests is that, while firms might face a variety of issues (including those that are social), only certain ones could be considered significant enough to have an impact on the ability to fulfil corporate objectives. For example, a local symphony orchestra that is under threat of closure because of a lack of funding is not likely to be a social issue that is going to have a major impact on the ability of a given firm to compete effectively. On the other hand, when consumers begin buying a green alternative laundry detergent from a rival because of a growing social issue such as concern for the environment, then a leading firm that does not address environmental quality in its products could be under threat of losing market share and failing to meet its growth objectives. This example raises another closely related factor in our framework: namely, industry context.

Industrial organisation economists and strategy scholars alike argue that industry context is one of the most important considerations for strategy development and for understanding the determinants of firm performance (e.g. Bain 1959; Porter 1980, 1981). Industry sector, for example, comprises many structural characteristics such as intensity of competition and number of competitors, capital requirements, access to distribution channels and the degree to which suppliers or buyers have bargaining power, among others. By taking an issues perspective in relation to strategy, we argue that the importance of some social issues is greater than others in a given industry. For example, in the apparel industry, safe working conditions and fair pay are key social issues. Mining firms must address air and water pollution. Alternatively, producers and retailers in the food industry face intense pressure over the obesity issue. Given industry context and the fact that some issues are more pressing than others, managers should first understand the 'hot button' social issues that are specific to their industry of operation. This requires the ability to understand stakeholder demands and pressures (Clarkson 1995; Mitchell *et al.* 1997), and to identify which social issues stakeholders view as most critical.

While addressing all known social issues might be a noble goal, strategy is about tough choices and trade-offs (Porter 1996). To address CSR in the context

of strategy, firms must prioritise social issues. To do so, we recommend the following approach. First, by studying industry context and asking questions related to stakeholder demands and pressures, several social issues will be identified. These (potentially many) issues can be assessed by placing them within a prioritisation matrix (Figure 1.2). One dimension of this matrix looks at stakeholder salience: the degree to which stakeholders demonstrate power, legitimacy and urgency (Mitchell *et al.* 1997). Stakeholders have power when they hold a firm responsible for a given social issue and can organise and take action if it is not addressed. They have legitimacy if they have a claim on the firm, such as a legal or contractual obligation, a moral right or an at-risk status.

**FIGURE 1.2** Representative prioritisation matrix

**Oil producer**

Stakeholder salience	High	Terrorism	Human rights	Climate change
	Medium	AIDS	Pollution	Health & safety
	Low	Drug addiction	Layoffs/ offshoring	Resource depletion
		Low	Medium	High
		Effect on firm		

Stakeholder urgency refers to the degree to which a stakeholder claim requires immediate attention. Because stakeholder demands can often be varied and conflicting, firms can have trouble identifying the range of relevant social issues they must address. Examining stakeholder salience is a good means to develop sense-making.

The other dimension looks at the degree to which the issue is expected to affect the firm's ability to meet its objectives. That is, in light of stakeholder salience, if a firm does not address a given issue, will its ability to meet corporate objectives be constrained? Studying the impact of social issues on the firm, within industry

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context and via stakeholder salience, enables issues to be placed into low, medium and high priority (Figure 1.2). The result helps firms to better prioritise those social issues that are strategic, versus those that are non-strategic. Evidence suggests that this type of assessment is critical. For example, Hillman and Keim (2001) found that firms who addressed social issues that were not related to their core strategy were punished financially. Thus, to respond to stakeholder demands for social responsibility and to allocate resources, social issues must be prioritised. After prioritisation, firms can develop their strategic agenda. Specifically, firms need to consider the types of strategic action that need to be taken.

According to one scholar (Galbreath, in press), there are three types of action that firms can take to address CSR strategically: (1) market-based; (2) regulatory or standards-based; and (3) operational-based. Market-based actions include those that are market-driven. Market-based can include actions such as entering a new market or market segment that directly addresses a social issue, introducing new products that are oriented towards social responsibility, or redesigning existing products to offer features or characteristics that address a social issue. For example, McDonald's initially approached the rising concern over obesity (a social issue) mainly by defending its menu as nutritious through PR campaigns—a risk management approach. Now, McDonald's approaches obesity as an opportunity for developing and selling new products, including salads and other types of fresh, healthy food.

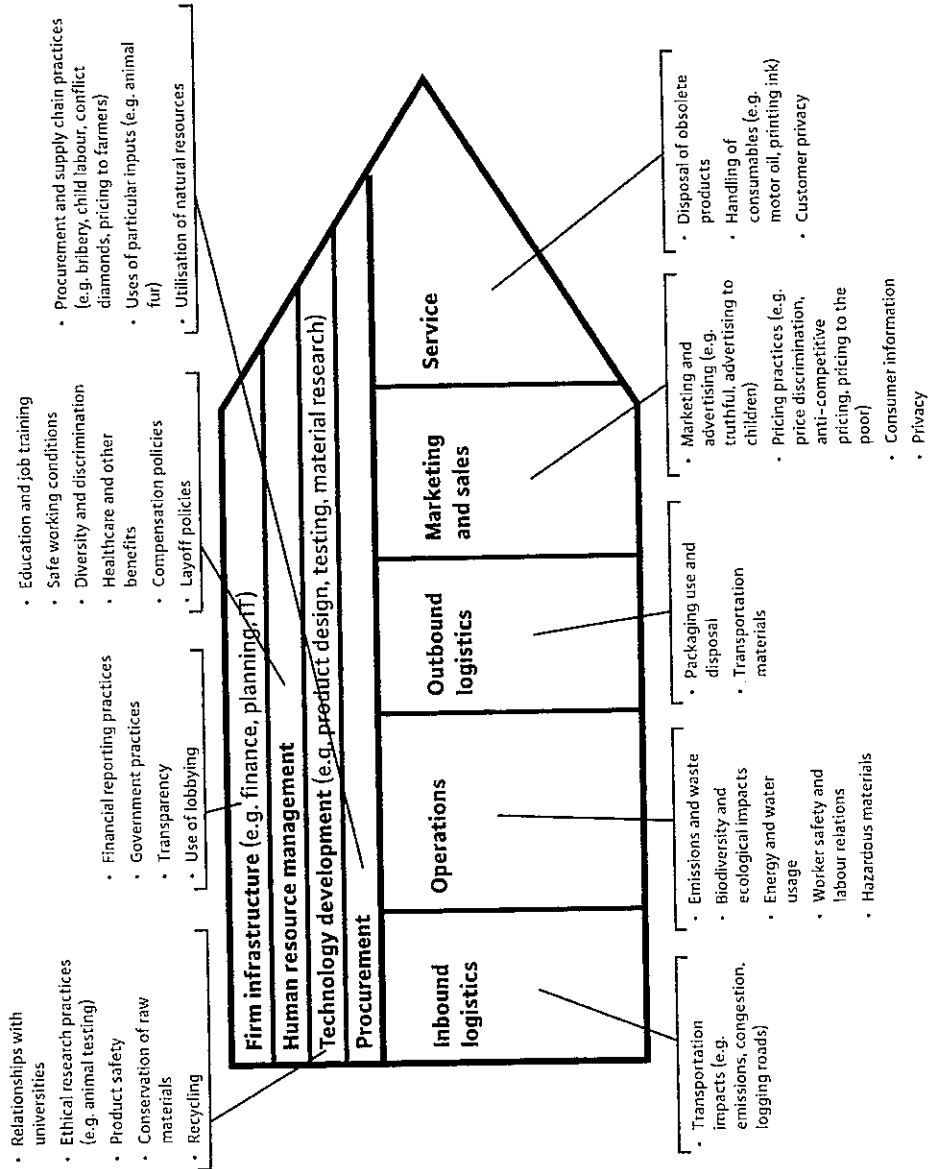
Second, governments can require firms to address social issues by enacting laws and regulatory frameworks. In the 1960s, for example, the rights of workers in the US was an unmet social need before it became a social issue, eventually enforced through labour laws (Dobbin and Sutton 1998). On the other hand, in the absence of regulatory mandates, a firm such as Whole Foods Market voluntarily created its own set of standards to meet specifications for certification of organically grown foods—standards that were eventually incorporated by the United States Department of Agriculture (USDA) in 2002 (Greene and Kremen 2003). Therefore, regulatory or standards-based actions include those that bolster reputation, mitigate risk or otherwise give the firm some level of advantage.

Third, according to Porter (1996), operational excellence is necessary for competitive strategy. Operational effectiveness largely refers to the degree to which a firm demonstrates exemplary performance in the way it conducts business. Perhaps the best way to determine operational-based actions is to examine the value chain. Exploring the value chain is a common approach to understanding the activities that firms carry out in day-to-day business. The value chain consists of activities such as finance and accounting, research and development, human resources management, procurement, production, logistics, sales and service. According to Porter and Kramer (2006), virtually all value chain activities can be viewed in light of issues related to social responsibility (Figure 1.3). Thus, operational-based

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Source: Porter and Kramer 2006

FIGURE 1.3 Value chain and issues related to social responsibility



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actions include those that enable the firm to capture or internalise the benefits of operational activities specifically related to a given social issue. For example, food retailers, particularly large retailers, consume considerable amounts of energy and produce significant carbon emissions in the construction of new facilities and in ongoing operations (Royal Institute of Chartered Surveyors 2005), which is directly related to a social issue such as climate change. Whole Foods Market, in its new store construction, addresses many environmental issues by reducing the amount of virgin material used and the toxic waste produced (Porter and Kramer 2006). Construction material includes recycled steel, biodegradable linoleum and tiles made from recycled glass bottles.

In sum, three forms of action are proposed to explore CSR strategy options: (1) market-based; (2) regulatory/standards-based; and (3) operational-based. The reality is there is no consensus, either theoretical or empirical, that implies that one type of action is more important than others or results in higher value benefits to the firm—or society. Research simply does not exist at this point to empirically verify how firms should prioritise their actions, nor what an optimal mix of actions looks like. Practically, firms can probably address all three strategic actions in order to proactively address CSR. However, in certain contexts, in certain industries and under certain conditions, one form of action may be more of a priority than others for a firm at any given point in time. The skill of the strategist, therefore, is required to prioritise response.

### **Applying the framework: case studies**

So far, this chapter has described a framework that can be used to more tightly link CSR with strategy. In this section, we develop three mini case studies to examine how the framework might be applied pragmatically. Three companies are explored: Aveda, Herman Miller and Toyota. These three companies were chosen after reviewing several sources (e.g. 'scorecard CSR lists' such as those produced by the Coalition for Environmentally Responsible Economies and the Dow Jones Sustainability Index; companies listed in the Global Reporting Initiative on sustainability reporting) to identify exemplar and innovative firms—firms that demonstrate social responsibility to their stakeholders. Further, we believe these firms offer a good mix of diversity in terms of industry and products and the social issues they face, making them ideal for comparative purposes. Data were primarily collected through annual reports and supplemental reports (e.g. CSR reports), corporate websites and other published information generated outside the organisations but dealing directly with them, such as scholarly articles and media reports.



What the cases are designed to demonstrate is a representative application of the framework, such as issues prioritisation and how each firm's strategy reveals market-based, regulatory/standards-based and operational-based action. While the cases do not detail the technicalities of implementation, they do provide examples and guidance on how the framework might be applied to link CSR with strategy.

### **Aveda Corporation**

Aveda Corporation ('Aveda') operates in the personal care products industry. Established in 1978 by world renowned stylist Horst Rechelbacher, Aveda offers a full line of premium professional and consumer, plant-derived personal care products. Today, the company is a network of approximately 7,000 salons, day spas and retail outlets located in America, Canada, Europe, Asia and Australia. The company has also established Concept Schools to prepare students for cosmetology licensing, while its Institutes and Advanced Academies teach seasoned pros new techniques. Approximately 3,000 people are directly employed by Aveda, while another 45,000 are connected to the Aveda spa and salon network.

Aveda was acquired for US\$300 million in 1997 by the cosmetics giant Estée Lauder, although it operates as an independent entity. As part of the Estée Lauder family of brands, Aveda has contributed substantially to corporate growth, particularly in hair care products. According to research firm Datamonitor, one in three consumers sought cosmetic products, for example, with natural and organic credentials more frequently over the 2005–2006 period (Datamonitor 2007), suggesting the growing interest in the market for products offered by Aveda.

### **Industry context and prioritisation of issues**

Aveda conducts business in the personal care products industry, an industry estimated at US\$180 billion plus globally. However, even within broad industries, sub-groups exist in the form of strategic groups, which face their own unique set of competitive rules (Porter 1980). In the case of Aveda, the firm operates in the natural and organic personal care market, a US\$14 billion niche group of the broader personal care product industry. Within this context, while several issues related to CSR confront the industry, a few are particularly important.

Most personal care products contain petrochemicals which are potentially toxic to humans and the environment during their entire life-cycle. Further, in the continual pursuit for ingredients in the production of personal care products, rare plants are often over-harvested, important ecosystems such as rainforests plundered and indigenous cultures robbed of their botanical knowledge (Marinova and Raven 2006). In the 1980s and 1990s, however, a new generation of consumers who were environmentally and socially conscious began to elevate concerns over

personal care product ingredients and sustainable development, placing the problem on the radar screens of manufacturers in the industry.

Beyond ingredients and sustainable production concerns, other key issues have also been the focus of stakeholders in the industry. For example, there has been growing ethical concern over product testing on animals. In order to pass safety standards, personal care product manufacturers test products and ingredients on live animals, including eye, skin and oral toxicity tests. Such tests can lead to skin irritations, sickness or even death. In recent years, many stakeholders—especially well-informed consumers—have rejected purchases because of animal testing. Other issues include packaging, standards and energy use. Packaging, for example, is one of the main components of a personal care product, representing a massive waste footprint for the industry. Recent stakeholder concern has arisen calling on manufacturers to invest in biodegradable and recyclable packaging, as well as offering refillable products. On the other hand, in the absence of government-mandated standards for natural and organically certified personal care products, stakeholders have also expressed concern over the validity and truthfulness of manufacturer claims. Lastly, as with most industries, electrical energy use is a key contributor to greenhouse gas emissions and climate change. The personal care products industry is no exception and stakeholders increasingly appear to be concerned about brands that can demonstrate carbon neutrality and sensitivity to the natural environment in their operations.

### **Aveda: strategic action**

#### **Market-based action**

In many ways, Aveda's value proposition to sell organic, natural and healthy personal care products addressed a social issue long before it was recognised as a social 'issue'. For example, upon Aveda's founding in 1978, Horst Rechelbacher drew on his knowledge of herbal medicine to create products from pure plant and flower-based ingredients using sustainable practices, such as renewable sourcing, economic development of indigenous communities and no over-harvesting. By introducing the concept of 'aromatherapy', Aveda became one of the first companies to use botanically based beauty products. Thus, Aveda addressed ingredients and sustainable production issues in the personal care products industry long before they were recognised as being potentially problematic to society. Bonini and colleagues (2006) suggest that addressing unmet social needs affords firms opportunities to be first-movers, which can lead to a competitive advantage.

With respect to market-based action, Aveda has helped to build an entire market around natural and organic personal care products. The firm offers one of the largest ranges in the industry including hair care, styling, skin care, body, makeup and

perfumes; all products must meet strict, natural/organic ingredient standards. In the process, Aveda has carved out a market which appeals to consumers who are concerned about natural and healthy personal care products. Currently number two in the US professional product market, Aveda has focused on its core competences to increase its product range, improve product performance and gain market dominance, while at the same time addressing social issues such as sustainable agriculture and healthy product ingredients.

#### Regulatory/standards-based action

Aveda's founder, Horst Rechelbacher, and current president, Dominique Conseil, are acutely aware of what biodiversity means for their business: if new plant species and indigenous knowledge are lost through habitat destruction and displacement, so too are the potential healing properties they may hold. Rooted in the belief that individuals can make a difference, and have a responsibility to educate others, Aveda has been an industry leader in environmental sustainability for 30 years. Aveda adheres closely to the 10 Ceres principles it adopted in 1989: protection of the biosphere, sustainable use of natural resources, waste minimisation, energy conservation, risk reduction, safe products and services, environmental restoration, informing the public, management commitment, and assessment and reporting.

Committed to sustainable agricultural techniques, Aveda has set industry standards that form the foundation of OASIS (Organic and Sustainable Industry Standards) and the Organic Trade Association, which promotes organic and sustainable production for the beauty industry. The company has achieved these standards by forming close business partnerships with its supply chain—often community-based farmers and indigenous communities. The rose and lavender oil farmers of Bulgaria, for example, were offered long-term contracts and supported financially during the transition from conventional to organic farming practices.

Lastly, Aveda has recently received, from the Environmental Protection and Encouragement Agency (EPEA), cradle-to-cradle (C2C) certification (Braungart and McDonough 2002) for sandalwood, lavender, rose oils and uruku ingredients, which must meet stringent ecological and health criteria. Aveda was also the first beauty company to receive C2C accreditation for any of its products. With over 80% of its botanical ingredients certified organic in 2007, Aveda is well on the way to achieving its aim of having all its products and packaging C2C accredited, demonstrating its proactive stance with respect to industry standards.

#### Operational-based action

As a company Aveda focuses on continual improvement and social responsibility, and its operational-based actions are driven by a 'Green Ingredients Policy' and the

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closely related C2C philosophy. For example, every step of the manufacturing process, from soil to bottle, has been designed and refined to minimise toxic waste and maximise energy efficiency. Concerned about the toxicity of petrochemicals since its inception, Aveda's innovation has made it an industry leader in the replacement of petrochemical surfactants with organic and biodegradable substitutes. In the manufacturing of products, the company has successfully replaced nearly 50% of its petrochemical surfactants with glucose and compounds derived from coconut and babassu oils. In 2007, less than 20% of Aveda beauty products contained petrochemicals. These will be phased out as suitable, high-performing alternatives are identified (Conseil 2008).

Aveda has also revised its manufacturing processes, based at its Minnesota facilities, to minimise the use of inorganic compounds and the production of toxic wastes, for which it received ISO 14000 certification (Aveda 2008a). Herb sterilisation using gamma-irradiation, a technique widely used in the US food industry, has been replaced by neo-autoclave and other greener alternatives. Plastic derivatives used in styling products have been substituted with pine resin, and plant-derived acids including salicylic acid from oil of wintergreen have eliminated the need for many inorganic preservatives including formaldehyde. Energy consumption during every step of the production and manufacturing process is also scrutinised and improved upon. Energy consumption has increased by just 30% despite an 80% increase in production between 1996 and 2006 (Aveda 2006).

Another concern among stakeholders in the personal care products industry is the issue of packaging and recycling. Aveda, like any corporation, lacks control over how much of its packaging, if any, will be recycled once a product has been purchased. To address the situation, Aveda has focused on minimising packaging while using post-consumer recycled materials. Nevertheless, packaging must be appealing to consumers, comply with safety standards and provide product protection during transport, storage and use. Materials containing high post-consumer recycled content are given preference over virgin plastics and forest products. In 2007, over 80% of Aveda packaging was obtained from recycled PET and HDPE bottles and jars, reducing the need for virgin high-density polyethylene by 300 tonnes (Aveda 2008b).

Lastly, as in its manufacturing processes, Aveda attempts to address stakeholder concerns over the environment and sustainable development in its on-the-ground operations, such as buildings. Building materials and fixtures that are non-toxic, rapidly renewable, biodegradable or easily recyclable—such as sustainably harvested and recycled timbers—are used in the construction of new retail outlets. Aveda is currently investigating ways of incorporating agricultural and timber wastes in construction materials as well. In Aveda retail outlets, the need for artificial lighting is reduced by the use of skylights that track the sun and direct natu-

ral light into buildings. Energy consumption is offset by investing in wind farms; the company has become the first in the industry with 100% certified wind power. Aveda also assists third-party owners to green their own businesses, and works with the US Green Building Council to develop green standards in the operation of retail buildings (Aveda 2006).

### Herman Miller

Herman Miller is an internationally acclaimed furniture design house for office, healthcare, educational and residential use. Since its purchase from the Michigan Star Furniture Company in 1923 by D.J. DePree, the Herman Miller brand has become synonymous with classic, high-quality designs recognised and housed by Cooper Hewitt, National Design Museum, Smithsonian Institution. The company's award-winning products include seating, furniture systems, storage and material handling solutions, freestanding furniture and case goods, which are complemented by furniture management and strategic consulting services. Primary products are sold through wholly owned subsidiaries in the US, Canada, South America, Europe, Australia and Asia. These products are also sold through independent dealerships, extending Herman Miller's market reach to over 100 countries across the globe.

A relentless pursuit of innovative solutions coupled with a strategy to diversify into new and emerging markets, both in the US and internationally, has enabled Herman Miller to grow despite slowing economic activity in key markets (Herman Miller 2008). Herman Miller is one of the top four suppliers of office furniture in the US, representing an approximate 16% share of a US\$9 billion-dollar industry (Lee and Bony 2008). The firm's domestic and international sales, in fiscal 2008, generated just over US\$2 billion in revenue.

### Industry context and prioritisation of issues

Herman Miller operates in the office furniture manufacturing industry, a multiple-billion-dollar global market. As with most manufacturing firms, climate change, CO<sub>2</sub> emissions, worker safety and the environmental impact of the supply chain are social issues facing Herman Miller. However, with international markets becoming increasingly important to Herman Miller's net income, especially in Europe, furniture design and manufacturing must comply with international guidelines and standards and a broadening range of stakeholder concerns. For example, office furniture typically contains over 50% polyvinyl chloride (PVC) because it is durable, versatile and cost-effective (Lee and Bony 2008). Unfortunately, the high chlorine content in PVC forms the potent carcinogen dioxin as a by-product of its manufacture and incineration. PVC-based products entered into landfill, as opposed to

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incineration, still pose environmental problems. PVC is not biodegradable, and both PVC and its associated softening agent DEHP release toxins which leach into the soil and waterways. These toxins have been linked with asthma, birth defects, childhood brain cancers, leukaemia and male infertility (Lee and Bony 2008). Public outrage during the 1990s in the US, Europe and Japan has seen governments in both developed and developing countries strictly regulate the use and incineration of PVC, creating institutional pressures from key stakeholders for furniture manufacturers to develop PVC-free alternatives.

Other issues facing the industry and Herman Miller include health-related concerns. For example, health risks associated with the slow release of volatile organic compounds (VOCs), such as formaldehyde, from furniture and soft furnishings, ranks indoor air pollution as one of the top five major environmental public health risks (Herman Miller 2007a). 'Sick building syndrome' is particularly acute in people with respiratory problems such as asthma and allergies and people with depressed immune systems, making it especially problematic in hospitals where VOC emissions may actually hinder patient recovery. Increasingly, public and private institutions are seeking low- or no-VOC furniture and fittings.

Lastly, a social issue facing the industry is sustainable design—from the supply chain through to disposal. As society generates larger volumes of waste, more and more land is dedicated to the disposal of non-biodegradable, and often toxic, waste. Government agencies urge everyone to reduce, re-use or recycle, yet over 30 tonnes of waste is generated for every one tonne of product that reaches the consumer, who throws away 98% of those products within the first six months of purchase (Herman Miller 2003). With respect to furniture manufacturers, a growing social issue is ensuring that product designs are eco-effective and sustainable, so that they can be quickly and easily modified for re-use, rather than creating more disposable product that increases toxic waste and landfill footprints.

### **Herman Miller: strategic action**

#### **Market-based action**

An important component of the Herman Miller business strategy is to actively pursue a programme of new product research, design and development. The company generously funds its research and development unit to the tune of US\$40 million per annum. By focusing R&D on customer needs and problems to enhance working life, Herman Miller has been able to provide innovative solutions that address social issues related to the furniture industry. The ergonomic chair is one such example. The company employed a designer with a deep understanding of how poor furniture design impacted on musculoskeletal health. Launched in 1976, Herman Miller's iconic Ergon chair, with easily adjustable settings to suit individual needs,

was one the first of its kind to address health issues in the workplace through furniture design. Now ergonomic design is the norm in office furniture rather than the exception, demonstrating that Herman Miller's status as a first-mover has been beneficial not only to its own success, but to the broader industry.

Herman Miller has also innovatively targeted the market by developing its own Design for Environment (DfE) guidelines, which were used to address sustainable design through the introduction of the Mirra chair, an eco-efficient product. Specifically, eco-effectiveness offers a truly sustainable industrial system that does not deplete natural resources or generate pollution because it mimics the cyclical nature of biological systems. Detailed assessment of all materials used in product manufacturing is essential under the McDonough Braungart Design Chemistry (MBDC) or C2C protocol. Materials are classified as biological or technical nutrients and the two should be kept separate to assist ease of recyclability at the end of the product life-cycle. Biological nutrients such as water and natural fibre can be safely returned to the natural environment, while technical nutrients such as plastic and metal alloys are continuously recycled to produce new products. In addition, chemical selection and product manufacturing processes must have little or no impact on the environment.

By using their DfE guidelines, Herman Miller made environmentally informed decisions about material selection, product disassembly at the end of its life-cycle and material recyclability. Over time an inventory of C2C suitable chemicals and materials has been compiled and used in the design and manufacture of the Mirra chair, the first highly engineered product to receive C2C certification. The DfE guidelines resulted in a less costly, more elegant, PVC-free design that has since been patented (Herman Miller 2003), and has added to Herman Miller's credentials as an innovator when it comes to market-based social responsibility. In fact, the Herman Miller brand is synonymous with quality and socially responsible business practices, so much so that the company was named the 'Most Admired' company in its industry by *Fortune* magazine for the 20th time in 22 years in March 2008.

#### Regulatory/standards-based action

Herman Miller's founder D.J. De Pree was an environmental visionary, establishing corporate values in the 1950s that led the company to be 'a good corporate neighbor by being a good steward to the environment' (Rossi *et al.* 2006: 194). These core values form the basis of the company's 'Perfect Vision' programme which was developed by its Environmental Quality Action Team (EQAT). EQAT started as a voluntary team formed in 1989 and later became a formal steering committee to set the company's environmental direction and priorities, and to monitor progress in the early 2000s. In developing the company's Perfect Vision guidelines the EQAT

has set a target date of 2020 for: (1) 100% reductions in VOC emissions to air, its use of process water, hazardous waste, waste to landfill; and (2) 100% increases in the use of renewable energy, sales from DfE-approved products, and leased or owned buildings which meet or exceed the US Green Building Council (USGBC)'s Silver certification standard (Herman Miller 2007b).

With the company's Perfect Vision goals in sight and convinced that the strict environmental standards emerging in Europe will become global practice, Herman Miller is determined to develop its own standards to stay ahead of its competitors and provide market-ready products before tighter industry standards emerge. This vision has enabled Herman Miller to obtain GREENGUARD certification for about 50 products. GREENGUARD is an industry-independent, third-party testing programme for low-emitting products and materials. Companies already offering furniture with GREENGUARD certification appear to have a strategic advantage over those that have yet to come on board, given stakeholder concerns over sustainable design. Lastly, Herman Miller's Perfect Vision guidelines have also assisted the company in obtaining ISO 14001 and ISO 9000 certification, demonstrating that the firm takes seriously its approach to regulatory frameworks and other standards in the industry.

#### Operational-based action

While Herman Miller is keen to address sustainable design, much of the effort involves how the firm manages its operations, particularly its supply chain operations. For example, the success of the Herman Miller Production System and DfE protocol is critically dependent on developing synergistic relationships with suppliers (Rossi *et al.* 2006). One way in which this is demonstrated is in materials selection. Herman Miller asks its material suppliers to provide the chemical constituents, down to 100 parts per million, for each of the components planned for a product so that the environmental safety of the nutrients can be assessed (Rossi *et al.* 2006). However, some suppliers are understandably reluctant to enter into the process because this means that they must endeavour to address environmental concerns in their *own* operations—and in the raw materials and inputs they supply to Herman Miller. Thus, Herman Miller does give its suppliers the option to decline participation; if one declines, the company finds another supplier that is willing to meet its stringent requirements.

Supply chain matters are not the only operational focus of Herman Miller. As with any manufacturing firm, employee health and safety has long been a social issue of major importance. Herman Miller takes employee health and safety seriously. For example, in its Van Wagoner, Michigan, manufacturing facility, the firm introduced an innovative workplace safety programme that reduced on-the-job injuries by 40%. The programme focuses on alignment/extension body movements



and eyes on path/work, among others. This has helped Herman Miller to maintain an incident rate per 100 employees of about 2.5 since 2005, with no fatalities.

Lastly, with respect to something basic to operations—buildings—Herman Miller has long recognised the importance of ‘green’ buildings. As such, the company was an early pioneer in developing environmentally sound and aesthetically pleasing manufacturing and office spaces. By using green design techniques, such as energy efficiency, grey water usage, natural lighting, use of recycled materials in construction and low-VOC paints and carpets, Herman Miller became a pilot study for the development of the LEED (Leadership in Energy and Environmental Design) Green Building Rating System, now in force throughout the world. Given that buildings consume more than 40% of total annual US energy use and emit more than 100 million tonnes of carbon dioxide, Herman Miller demonstrates commitment not only to a social issue such as sustainable design in its products, but also to a social issue such as climate change through the way it operates buildings and office space to produce those products.

### Toyota Motor Corporation

Toyota Motor Corporation is Japan’s largest vehicle manufacturer and one of the largest automotive companies in the world. Established in 1937, the automobile manufacturer grew rapidly during Japan’s economic boom, gaining market dominance over its closest rivals Nissan and Honda during the 1980s. Toyota’s strategic expansion into offshore markets during the 1980s and 1990s saw it surpass Ford as the world’s second largest manufacturer of automobiles in 2004 (Reinhardt *et al.* 2006). A truly global enterprise, Toyota had 53 production sites and manufactured automobiles in 27 countries and regions in March 2008, employing approximately 300,000 people worldwide. A total of 8.9 million vehicles were sold in more than 170 countries and regions under the Toyota, Lexus, Daihatsu and Hino brands at the end of March 2008. Toyota aims to reach 15% world market share over the next decade (Reinhardt *et al.* 2006).

### Industry context and prioritisation of issues

The automobile industry has long been critical to nations around the world as a source of jobs, economic growth and simply moving people and goods around. It is an industry that defines societies, communities and other industries. Indeed, automakers are one of the biggest consumers of steel, aluminium, copper, glass, zinc, leather, plastic, platinum and rubber. As an indication of size, forward estimates predict that private vehicle ownership will increase from just under 500 million vehicles in 1996 to as many as 3 billion vehicles across the globe by 2050 (Saperstein and Nelson 2003), while the global market size for the auto industry is over

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US\$1 trillion, making it one of the largest of any industries. In terms of production, for years, the US 'Big Three'—General Motors, Ford and Chrysler—dominated global market share. However, Japanese firms, including Honda and Toyota, have steadily made inroads in the global market, and especially in the US. Given its size and scope, many social issues face the industry.

In an industry employing such massive numbers, health and safety for workers is an issue that has certainly confronted automobile manufacturers for years, and continues to be a major stakeholder concern. Safety of automobiles is a similar concern. Given that motor vehicle accidents are the leading cause of death and injury to 5–45 year olds in the industrialised world, auto-makers are constantly under pressure to build safer vehicles—those that fail here risk being labelled irresponsible. In the wake of intense stakeholder concern over high petrol prices, auto-makers also need to address the fuel efficiency issue. Here, in the US, regulatory pressure forced improvements in the average miles per gallon (mpg) of a vehicle from 13–14 mpg to 28 mpg. However, in recent years, perhaps one of the most pressing social issues with respect to the automobile industry is climate change.

Despite improvements in fuel efficiency, petrol accounts for a third of the world's fossil fuel consumption (Reinhardt *et al.* 2006), and is set to increase as China and India become the economic powerhouses of the 21st century. Predicted increases in private vehicle ownership will increase the level of carbon dioxide (CO<sub>2</sub>) emitted when fuel is burnt in a traditional combustion engine. In Europe, for example, fossil fuel consumption accounted for 80% of all greenhouse gas (GHG) emissions in 2006/7. Of particular concern, however, if one accepts the science and projections behind climate change, is that a cost of up to 3% of global GDP annually is predicted if no efforts are made to reduce CO<sub>2</sub> emissions (Llewellyn 2007). Climate change is also predicted to lead to increased social problems, such as health issues, diseases, infrastructure degradation and high unemployment (Research Australia 2007). Thus, as stakeholders become increasingly savvy about the impact of climate change on their future and that of their children, their expectations for cleaner automobiles clearly have a direct impact on the automotive industry. In an industry that is often seen as one of the leading contributors to global warming, 'sustainable motoring' is perhaps the key issue facing automobile manufacturers.

### **Toyota Motor Corporation: strategic action**

#### **Market-based action**

For much of its history, Toyota was comfortable selling 'look-alike', reliable cars, but its lack of innovation dissuaded younger drivers, who were more concerned about the aspirational value of their purchase than mature drivers. Recognising growing concerns of younger drivers over social issues such as fuel efficiency and climate

change, Toyota saw an opportunity to manufacture the ultimate eco-car. Believing that competitors would produce eco-efficient vehicles once government regulations were in force, Toyota put in place a strategy to be first to market by offering a new, innovative product before it was legitimised by consumer demand, and in the process gambled that its technology would drive future government policy.

As part of the process, Toyota sought to build an eco-car by combining the luxury features of existing vehicles with a technology that accommodated new energy sources, which had low exhaust emissions. Hybrid technology showed the most promise. Hybrids combined existing technology with environmentally conscious technology, offering 100% improvement in fuel economy, while demonstrating adaptability to new energy sources as they became available. Toyota aggressively focused research efforts on releasing its first hybrid car, the Prius, in 1997, in the hope that competitors would not have the infrastructure, technology or product plans to be able to compete effectively in this emerging market (Saperstein and Nelson 2003).

The consensus seems to be that Toyota's gamble is paying off. The firm had sold 1 million hybrid cars by the first quarter of 2008, capturing two-thirds of the global hybrid car market, with 80% market share in the US. However, in the quest to tap into—if not build—a new market segment, Toyota had to endure losses on each Prius produced as variable costs were US\$3,000–4,000 more relative to a comparable gasoline-powered car (Reinhardt *et al.* 2006). The company was taking an enormous risk, but was also making a clear statement about a commitment to environmental protection and combating climate change. Toyota aims to sell 1 million hybrid cars per month during the next decade and has committed to expand hybrid technology in all vehicle series by 2020 (Toyota Motor Corporation 2008a). With respect to market-based action, although Toyota is by no means the first to offer an eco-friendly car (zero-emissions electric cars existed long before the Prius), the firm has demonstrated that a commitment to innovation, sustainable motoring and market needs is resulting in first-mover advantages in the hybrid car segment.

#### Regulatory/standards-based action

Given the groundswell in stakeholder concern about climate change and dwindling oil reserves, Toyota predicted stringent environmental regulations in the future. For example, the US state of California has consistently initiated aggressive environmental regulations that have been adopted by other states and the federal government. In 1990 the Californian Air Resources Board adopted a Zero Emission Vehicle programme, mandating that 10% of cars would need to have zero exhaust and zero evaporative emissions by 2003 (Saperstein and Nelson 2003). Similarly, at the federal level, the US government was legislating for greater fuel economy, and the EU was aggressively implanting policies to cut GHG emissions by 2020. It

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was in Toyota's strategic interest to become an industry leader in developing new technologies that would satisfy society's expectations for sustainable motoring, and set industry standards. By relying on its guiding principles, which include a commitment 'to provide clean and safe products' (Reinhardt *et al.* 2006), Toyota is not simply practising 'greenwashing' for public relations benefit; rather, the firm clearly demonstrates care for the environment through the Prius model and technology that is far exceeding industry standards for fuel efficiency and CO<sub>2</sub> emission reductions.

Another way that Toyota has addressed standards relates directly to the Japanese market. In 1999, the Japanese government first established fuel economy standards under the 'Top Runner' energy efficiency programme. Fuel economy targets are based on weight class, with automakers allowed to accumulate credits in one weight class for use in another and, if targets are not met, penalties apply. The effectiveness of the standard is enhanced by the fact that highly progressive taxes are levied on the gross vehicle weight and engine displacement of automobiles when purchased and registered, which is designed to promote the purchase of lighter vehicles with smaller engines. In December 2006, the government revised the fuel economy targets upward, from 13.6 km/l (kilometres per litre) in 2004 to 16.8 km/l in 2015, under the new 2015 Fuel Efficiency Standards initiative. Through the Prius model, Toyota was the first automobile manufacturer in the world to not only meet the 2015 Fuel Efficiency Standards, but exceed them (delivering 35.5 km/l compared with the standard of 16.8 km/l). According to Carroll (1979), firms have the option of doing nothing with respect to standards (essentially reject or ignore them) or meet the minimal requirement. However, they can also be proactive and exceed given standards. In the case of Toyota, the firm demonstrates a proactive response to standards, further bolstering its reputation as a firm committed to social responsibility and to sustainable motoring.

### Operational-based actions

For any automobile manufacturer, making cars (i.e. manufacturing) is the most basic and fundamental aspect of its operations. Part and parcel with the groundswell of concern over climate change, manufacturing facilities, like automobiles, have come under increased pressure from stakeholders to become 'cleaner'. Toyota has responded to the challenge and demonstrates action against climate change, not only in the vehicles it sells, but in how it produces those vehicles. Specially, Toyota demonstrates commitment to the climate change issue in its operations through the sustainable plant concept.

In order to incorporate the concept of sustainability into manufacturing operations, Toyota plants in Japan, USA, Europe and Asia are being built or modified to incorporate greener technologies. In the Tsutsumi Plant in Japan, for example, the

company has installed an innovative gas engine cogeneration system which translates into a reduction of approximately 140,000 tonnes of CO<sub>2</sub> emissions annually (Toyota Motor Corporation 2008b). The plant also has a polysilicon-type photovoltaic power generation system, one of the largest in the world, which is capable of supplying approximately half the electricity needed for the assembly process (Toyota Motor Corporation 2008b). Part of the generated electricity is also stored in batteries and is used for powering the streetlights surrounding the plant. However, Toyota extends sustainable practices beyond just manufacturing plants.

The company's South Campus expansion of its headquarters in Torrance, California, was the largest facility in the US to earn LEED-gold rating in 2003. The building was a pivotal project for the green building movement because it dispelled the myth that LEED-certified buildings were more expensive to operate than conventional buildings. Each building has long narrow wings with north-south orientation so nearly 90% of offices enjoy natural light and views. Rooftop photovoltaic panels combined with highly efficient air handling units and gas-powered chillers contribute to a 31% reduction in energy consumption. Recycled water is used for watering, toilet flushing and cooling, saving 78.4 million litres of potable water per annum. The South Campus enjoys high employee retention rates, greater productivity and less absenteeism (Lockwood 2006), demonstrating that attention to social issues such as climate change and 'sustainability' in operational-based actions can benefit firms beyond the manufacturing floor.

## Conclusions

If an assumption is made that CSR is important to competitiveness, and if strategy serves as a foundation for a business firm's creation, while establishing its position in the market, its competitiveness and its ongoing existence, then placing CSR within the context of strategy seems vital. Thus, as highlighted in this chapter, an attempt at elaborating this relationship surfaces a few important implications.

First, as firms seek to move CSR from a peripheral to a core activity, they need to frame the effort from an issues perspective. This will probably uncover many issues as stakeholders within the industry will have a broad range of expectations regarding a firm's social responsibilities. Second, to address CSR strategically, a firm will have to narrow its focus. The closer a given social issue is to a firm's mission and objectives and the greater its stakeholder salience, the more strategic the issue is likely to be. Lastly, firms have to make choices about how they will address social issues. What we have suggested is that firms focus efforts in three areas, including market-based, regulatory/standards-based and operational-based actions. While

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**TABLE 1.1** Summary of case studies

Company	Key social issues	Strategic actions
Aveda	<ul style="list-style-type: none"> <li>• Sustainable agriculture</li> <li>• Use of harmful ingredients</li> <li>• Animal testing</li> <li>• Recycling/product disposal</li> <li>• Climate change</li> </ul>	<p><i>Market-based:</i></p> <ul style="list-style-type: none"> <li>• One of the first firms to produce organic and natural personal care products</li> </ul> <p><i>Regulatory/standards-based:</i></p> <ul style="list-style-type: none"> <li>• Set industry standards that form the foundation of OASIS (Organic and Sustainable Industry Standards) and the Organic Trade Association which promotes organic and sustainable production for the beauty industry</li> <li>• Cradle-to-cradle (C2C) certification for sandalwood, lavender, rose oils and uruku ingredients, which must meet stringent ecological and health criteria</li> <li>• Over 80% of its botanical ingredients certified organic in 2007</li> </ul> <p><i>Operational-based:</i></p> <ul style="list-style-type: none"> <li>• Every step of the manufacturing process, from soil to bottle, has been designed and refined to minimise toxic waste and maximise energy efficiency</li> <li>• 80% of product packaging is obtained from recycled materials</li> <li>• Develops 'green' retail outlets</li> <li>• First company in their industry with 100% certified wind power</li> </ul>
Herman Miller	<ul style="list-style-type: none"> <li>• Sustainable design</li> <li>• Use of PVC in products</li> <li>• Indoor air pollution ('sick building syndrome')</li> <li>• Toxic waste</li> <li>• Health and safety</li> <li>• Climate change</li> </ul>	<p><i>Market-based:</i></p> <ul style="list-style-type: none"> <li>• Developed first ergonomic chair, the Ergon, which addressed worker health through furniture design</li> <li>• Produces the eco-efficient chair Mirra, which addresses sustainable design</li> </ul> <p><i>Regulatory/standards-based:</i></p> <ul style="list-style-type: none"> <li>• Has obtained GREENGUARD certification for about 50 products</li> <li>• ISO 14001 and ISO 9000 certification</li> <li>• In-house environmental quality action team develops regulatory/standards strategy</li> </ul> <p><i>Operational-based:</i></p> <ul style="list-style-type: none"> <li>• Suppliers must meet strict sustainable design requirements for raw material inputs or else jeopardise relationship with Herman Miller</li> <li>• Employee health and safety programmes</li> <li>• Green building design and techniques (pilot company for development of the LEED Green Building Rating System)</li> </ul>
Toyota	<ul style="list-style-type: none"> <li>• Sustainable motoring</li> <li>• Climate change</li> <li>• Fuel efficiency</li> <li>• Sustainable production</li> </ul>	<p><i>Market-based:</i></p> <ul style="list-style-type: none"> <li>• Developed and markets most successful, eco-efficient, hybrid vehicle in the world</li> </ul> <p><i>Regulatory/standards-based:</i></p> <ul style="list-style-type: none"> <li>• Exceed government requirements for fuel economy and emissions reductions through the Prius model, particularly in Japan (2015 Fuel Efficiency Standards) and the US (Californian Air Resources Board's Zero Emission Vehicle programme)</li> </ul> <p><i>Operational-based:</i></p> <ul style="list-style-type: none"> <li>• Sustainable plant concept for manufacturing facilities</li> <li>• Torrance, California, headquarters largest facility in the US to earn LEED-gold rating and was pivotal for the green building movement</li> </ul>

the optimal mix of actions is context specific, firms that can address all three are likely to expand options to address CSR strategically.

In conclusion, firms acknowledge the increasing importance of CSR and are concerned about its impact on their ability to compete. However, there does appear to be some confusion over how to address CSR strategically. What this chapter represents is a pragmatic approach to link strategy and CSR. By drawing on the strategy and issues management literature, we have developed a framework that addresses the task of creating strategies for CSR. Three mini cases were developed that highlight how the framework might be applied. The cases reveal which social issues are important in the context of industry and the types of action taken that demonstrate strategic social responsibility (Table 1.1). Our hope is that this chapter offers meaningful guidance to scholars and practitioners on the subject of strategy and CSR, and that the work will stimulate further research and development on innovative ways to address firms' social responsibilities.

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## 2 Exploring precise advances

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