ONE

The long and winding road to CR value

Corporate Responsibility (CR) and you

On September 5, 2007, the Buddhist monks of Pakokku, Myanmar joined the citizen protests that erupted in that impoverished country in August of that year. The uprising was triggered by a long-simmering array of discontents ranging from high commodity prices to human rights abuses, including the long-term detention of pro-democracy leader Aung San Suu Kyi. The ruling military government in Myanmar, in power since 1962, took action to quell the protests. A few days after the monks joined the protests, troops fired on protesters in a crackdown that left at least ten people dead by the government's account (opposition groups put the fatalities at around 200). Independent reports suggest that several monks were beaten and killed.

Amid the international outcry over these events, the only company in the US to issue a public statement was Chevron (see Exhibit 1.1). Why? Because Chevron is the only American company doing business in Myanmar, in the face of a systematic, comprehensive and sustained US trade boycott of that nation. Chevron acquired a minority stake in Unocal (a US conglomerate) that operates the Yadana Valley Project, which produces 650 million cubic feet per day of natural gas for export to neighboring Thailand. A loophole in US sanctions has allowed Chevron to operate in Myanmar.

Exhibit 1.1 Chevron statement on Myanmar

San Ramon, California, October 2, 2007

Chevron supports the calls for a peaceful resolution to the current situation in Myanmar in a way that respects the human rights of the people of Myanmar. Chevron's minority, non operated interest in the Yadana Project is a long term commitment that will help meet the critical energy needs of millions of people in the region. Our community development programs also help improve the lives of the people they touch and thereby communicate our values, including respect for human rights.

Myanmar Community Development Program

The Yadana Project partners have invested in a model socio-economic program that positively improves people's lives in Myanmar.

The Yadana project community development programs have delivered the following benefits:

- 50,000 people along the Yadana pipeline now have free and improved healthcare
- Ten doctors now work in villages when there were none and thirty-three health care workers have been trained
- Local infant mortality is 1/6th the national rate
- Malaria mortality rates down by a factor of 10
- TB mortality rate halved since 2002
- Student enrollment in schools has doubled
- Forty-four schools have been built and 20 renovated in 23 villages
- Financial support to 350 teachers, library program to 16 schools, scholarship program for 1,050 pupils and computers at 8 schools

- Improvements to local roads and the building of 24 bridges have resulted in both public and private transportation that was nearly nonexistent before the pipeline project
- 6,300 projects loans for small businesses have been granted resulting in numerous enterprises that help generate economic development for local communities

Source: Chevron website

Not surprisingly, then, both the US Congress and human rights organizations the world over have been trying to pressure Chevron into pulling out of Myanmar, not least because, according to independent human rights groups, gas sales from the Yadana Valley Project account for the single largest source of revenue for the military government, helping it stay in power and suppress human rights in that country (see Exhibit 1.2).

Chevron, on the other hand, argues that its presence in Myanmar is a positive influence, because of its health, economic development and education programs in the Yadana Valley. Chevron insists that locals living near Yadana are "better off by virtue of Chevron and its partners being there," and that "multiple third-party audits have confirmed"[1] this point.

This may be the first time you are learning about Chevron's involvement in Myanmar. Or you may have already followed this story in the newspapers and on TV. Perhaps you went to the Chevron website to learn more about the company's point of view. Or you learned about this issue from blogs and the websites of human rights organizations. Or you work for Chevron and have discussed the Yadana Valley Project with your colleagues.

Regardless, take a minute to think about what you have just read about Chevron. How do you feel about the company? Do you believe that Chevron is demonstrating corporate responsibility (CR) – that is, being socially responsible – by operating in Myanmar?

Exhibit 1.2 Report on oil majors propping up Myanmar regime

Oil majors propping up Myanmar regime: rights group

By Danny Kemp (AFP) – September 9, 2007

BANGKOK – Energy giants Total and Chevron are propping up Myanmar's junta with a gas project that has allowed the regime to stash nearly five billion dollars in Singaporean banks, a rights group said Thursday.

France's Total and US-based Chevron have also tried to whitewash alleged rights abuses by Myanmar troops guarding the pipeline, including forced labour and killings, two reports by US-based EarthRights International said.

The group urged the international community to exert pressure on the two companies, which have long managed to avoid Western sanctions against the generals who rule the impoverished Southeast Asian nation.

"Total and Chevron's Yadana gas project has generated 4.83 billion dollars for the Burmese regime," one of the reports said, adding that the figures for the period 2000–2008 were the first ever detailed account of the revenues.

"The military elite are hiding billions of dollars of the peoples' revenue in Singapore while the country needlessly suffers under the lowest social spending in Asia," said Matthew Smith, a principal author of the reports.

The junta had kept the revenues off the national budget and stashed almost all of the money offshore with Singapore's Overseas Chinese Banking Corporation (OCBC) and DBS Group (DBS), the watchdog said.

"The revenue from this pipeline is the regime's lifeline and a critical leverage point that the international community could use to support the people of Burma," added Smith, the group's coordinator for the country.

But Chevron said related development projects had helped local communities.

"We believe that Total's health, economic development and education programs, which we support, are critical and substantively make positive improvements to the lives of the people in the Yadana project communities," a Chevron statement said.

Total questioned the accuracy of the reports.

"An initial reading has already enabled us to identify inaccuracies . . . lack of precision or mistaken interpretations," Total vice-president Jean-Francois Lasalle told AFP.

He added the rights group "at no moment recognizes the benefits of our presence, notably in the areas of education and health".

Total and Chevron are two of the biggest Western companies in Myanmar and have recently come under fire for their dealing with the regime, following the extension in August of the house arrest of pro-democracy icon Aung San Suu Kyi.

Total has been able to continue working there because EU sanctions against the country currently only cover arms exports, wood, minerals, gems and metals.

US lawmakers in July 2008 dropped plans for sanctions that would have ended tax write-offs enjoyed by Chevron and would have pressured it to pull out from the Yadana project.

Total has been a major investor in the Yadana project since 1992, holding a 31.24 percent stake. Chevron has a 28 percent stake in the field, production from which represents 60 percent of Myanmar's gas exports to Thailand.

EarthRights said that as a result of the hidden revenues, Total and Chevron were a "primary reason" why international and domestic pressure on the Myanmar military regime had been ineffective for decades.

The group meanwhile said that impact assessments of the pipeline by US-based CDA Collaborative Learning Projects, a US non-profit organisation commissioned by Total, had covered up adverse effects and abuses, the group said.

Report co-author Naing Htoo said CDA "willfully participated in whitewashing Total and Chevron's impacts in Burma and their role in forced labour, killings, and other abuses."

CDA visited villages in the pipeline area on five occasions but only with escorts from the oil company and interpreters from Total, while villagers were warned by security members not to give bad news, the report said.

The Chevron statement said however that the firm believed the CDA's findings "provide a credible assessment of the Yadana Project's community engagement activities."

Like many people we have talked to, you might have an immediate, gut reaction to the story. It might be obvious to you that Chevron is not being socially responsible, because no matter what it does for the people of Myanmar, there is no getting around its support of a military dictatorship. On the other hand, you might feel that Chevron *is* being socially responsible because it is actually taking concrete actions to alleviate the myriad of social problems in the Yadana region, something other companies that would take the place of Chevron might not do.

How do *you* decide whether or not Chevron is being socially responsible? Do you base your opinion on a cost–benefit calculus, where the gains from Chevron's contributions to the community need to be weighed against the harm done by its support of the junta? Is your judgment colored by your beliefs about CR in general, the oil and gas industry, and the company itself? Will you reason differently if you are a Chevron employee? Will it matter whether you live in Bangkok or Boston? And perhaps most importantly, will what you have just learned and thought about change your likelihood of pulling into a Chevron gas station next time you need gas?

There are no easy answers to these questions. We have heard almost as many opinions and intentions pertaining to the ethical and socially responsible implications of Chevron's involvement in Myanmar as the number of people we have polled. And Chevron is but one example of a much larger phenomenon. There is as much media coverage on "corporate green washing" as there is on "corporate responsibility," and contributing to the complexity in the CR context, many companies are portrayed *both* as model citizens and corporate villains depending on the news story. As a result, people's perceptions can vary greatly, even about a single company.

So today, not only Chevron but, we'd argue, *all* companies must understand how and why stakeholders react to such information about companies and their actions. Why? For the very simple reason that today *our reactions – as consumers, employees, investors, or even just the public – to a company's socially responsible actions (or the lack thereof) can have an unprecedented impact on its fortunes*. And while some companies are taking the lead, many, if not most, companies are at sea when it comes to understanding how their stakeholders think, feel and react to the impact that their actions have on not just the bottom line but the welfare of the world at large.

This book seeks to fill this void in our understanding of stakeholder reactions to CR initiatives. We delve into the minds of the two most important stakeholder groups to companies – consumers and employees – to systematically comprehend why, when and how they react to CR. Armed with this insight, companies can maximize the value of their CR initiatives by fostering strong stakeholder relationships and thus energizing stakeholders to respond positively to such initiatives. Specifically, by identifying the psychological levers behind desired stakeholder behaviors (e.g., employee retention, customer loyalty), companies can develop, implement, and evaluate compelling social responsibility programs that generate value for both the company and its stakeholders, be they consumers, employees, or others.

Why stakeholders matter

Let's step back a bit from the Myanmar example to locate it in the broader context of today's global corporate landscape. Few notions today have so totally captured the corporate consciousness the world over as the twin ideas of corporate responsibility (CR) and sustainability. It is all but impossible to find a Fortune 500 company today that does not engage in CR activities.[2] In fact, most executives view CR as a key ingredient in their corporate strategy. In a recent Accenture/Global Compact study, 81 percent of CEOs, compared to just 50 percent in 2007, stated that CR issues are now fully embedded into the strategy and operations of their companies (whether this is founded in reality or not).[3] This enthusiasm for CR is reflected in publications such as *The New York Times*, *The Economist*, *Business Week*, and other major publications that have devoted entire sections to CR.[4] Terms like corporate (social) responsibility, sustainability, strategic philanthropy, and corporate citizenship are firmly embedded in today's managerial vernacular.

But what do these terms mean? Rather than waste precious real estate on debating similarities and differences between them, we simply choose CR as the focal term for this book and use it to denote the unified sense – which pervades all these terms – that *a company's long-term success, and sometimes even existence, is inextricably tied to its stewardship of not just its own well-being but also that of the natural and social environment in which it operates.*

This realization has led more and more forward-thinking companies to take a strategic approach to CR, devoting unprecedented efforts and resources to creating and maximizing what Porter and Kramer, in their *Harvard Business Review* article, have called "shared value" (i.e., value for the company and for society).[5] In other words, companies are flocking to the CR concept not only as a way to improve society, but also because of the promise it holds as a way to enhance corporate performance.

This desire to "do well by doing good" is motivating many of the world's largest corporations to collectively invest billions of dollars in a wide spectrum of social and environmental issues. Communications touting CR activity as a means to entice consumers to purchase products and services are proliferating. CR is alive and well in many companies' communications to employees. And a recent KPMG study found that 86 percent of the major shareholders and board members believe that CR is "in the best interest of our company."[6]

At the heart of this strategic approach to CR is *the central and ascendant role of the stakeholder*. Specifically, companies are increasingly construing CR in terms of the interests of a specific but large and diverse set of stakeholder segments (e.g., consumers, employees, investors, communities, government, environment, etc.). These efforts are shaped by the strong belief that endeavors in the CR domain can elicit company-favoring responses from these stakeholder groups. In fact, we could go as far as to argue that CR cannot succeed without stakeholder demand for it. In other words, *if stakeholders do not ultimately value CR, rewarding companies for their efforts in this domain, the CR movement itself cannot be sustainable*.

Two of these stakeholder segments stand out as particularly critical for CR management: customers and employees. This is borne out by a McKinsey survey of companies that have signed on to the UN Global Compact. When McKinsey asked the CEOs of these companies which stakeholders will have the greatest influence on the way in which companies manage societal expectations in the next five years, the CEOs pointed squarely to customers and employees as their greatest priorities.[7]

Customers are already a frequent target of CR communications, as CR messages can be a potent ingredient of marketing messages. Since customers provide the lifeblood – revenues – for any commercial endeavor, they are likely to remain central to CR management into the foreseeable future. But now, employees are quickly becoming a key consideration for CR managers as well. Employees are critical from a dual perspective, because companies need to motivate employees and strengthen their relationship with the company, while employees also represent an excellent channel through which companies can make customers aware of their CR activities. With these considerations in mind, our primary focus in this book is on customers and employees. At the same time, however, we expect the fundamental psychological process behind stakeholder reactions to CR activity to be similar across the other stakeholder groups.

So, who is this ever-important stakeholder? The answer is: *all of us*. We are the consumer, the employee, the investor and the regulator, and we all lie at the heart of a successfully sustainable company. But do we really care about the CR activities of the companies we encounter?

But do we (the stakeholders) really care?

Even as recently as a decade ago, many of us knew and cared little about the actions of companies beyond buying from them, working for them and investing in them. Today that is no longer the case. A confluence of forces, headed by the information revolution, the environmental crisis, the widening gap between the haves and have-nots, declining faith in the public sector, and the coincidental ascendancy of the transnational corporation and global brands, has started a public movement which, while smaller in some corners of the globe than others, is unstoppable. Call these consumers the LOHAS ("Lifestyle of Health and Sustainability") segment or the Awakening Consumer;[8] whichever moniker we use, more and more people are not satisfied with just affordable products that satisfy their needs. Instead, they now want these products to come from socially responsible/sustainable producers. Thus, the actions of Chevron in Myanmar matter as much – if not more – to these consumers as the price of its gas.

This trend is reflected in marketplace polls that point to large and growing swaths of consumers who want to buy products and services that not only *are* good but also *do* good. In the most recent survey conducted by Cone Communications (2008), 79 percent of consumers said that they are likely to switch from one brand to another (price and quality being about equal) if the other brand is associated with a good cause.[9] Similar trends have been observed, of course,