

# Measuring What Matters

## Evaluating CSR's Return on Investment

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**It has been the burning question for corporate responsibility since the beginning and remains so today, even as corporate responsibility has skyrocketed to the top quartile of many global corporations' agendas: Will we ever fully and easily find the exact return on investment for corporate social responsibility (CSR) to our collective satisfaction? Is this even a reasonable question to ask?**

Consider the following story depicting the ROI of CSR: In the fall of 2008, a company came to recruit MBA students at the University of California, Berkeley's Haas School of Business, where I teach. One of the companies brought a senior executive team of eight different people, including the heads of strategy, brand and finance. Each of these leaders spoke to the students about why this company was a great place to work.

The next day, my students were abuzz before class started. The previous day's corporate recruiting presentation was remarkable, they told me. One student elaborated: "Every single employee said that the company has a three-pronged corporate strategy focus right now: 'Technology, innovation and

sustainability.' And then each person talked about how that strategy worked within the company and within their respective functional areas such as finance or brand."

The students were taken aback by the emphasis this company placed on CSR in its corporate strategy. They had never heard this kind of consistent CSR messaging during the recruitment process — and as students who care about sustainability issues, they were excited by the prospect of working for a company that takes CSR that seriously. The company's message was simple, strategic, consistent — and effective. They made four offers to my MBA students, and all four offers were accepted.

This story illustrates one of the intangible benefits to companies with a strong CSR strategy: employee recruitment. Although recruiting isn't a traditional metric used to measure the effectiveness of corporate strategies, it's an important part of why many companies develop CSR programs. Other indirect returns include company reputation, employee engagement and brand perceptions.

I fear that as a CSR community, we are shortchanging

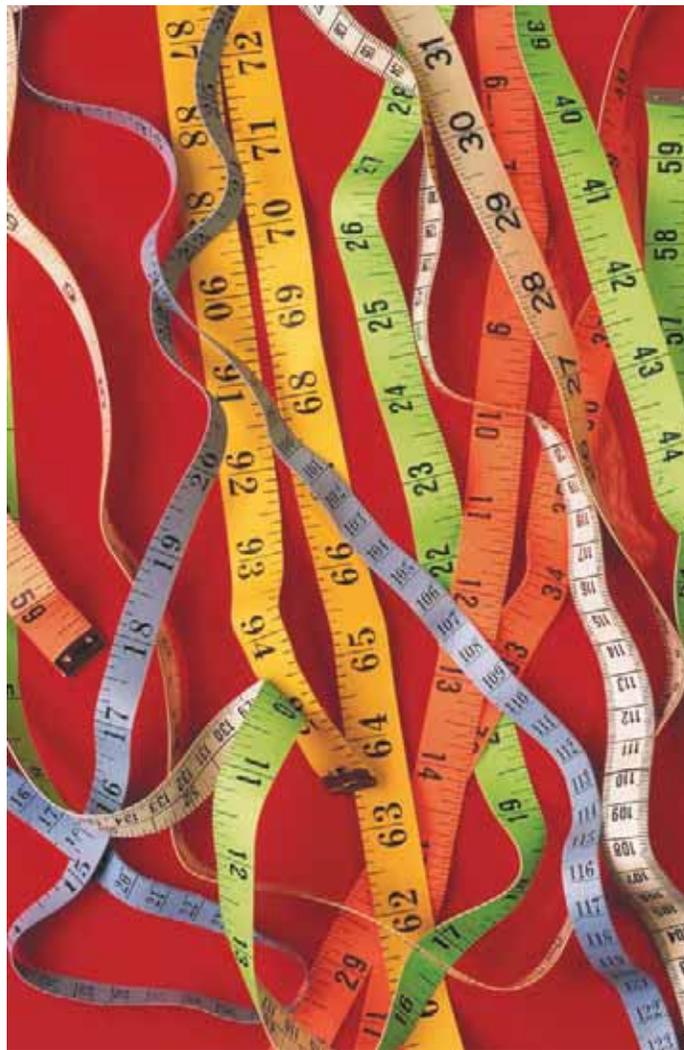
### Conference Spotlight

CSR's ROI: Does It Matter? 10:30 a.m. – noon, Friday, November 7

ourselves by assuming that the ROI of corporate social responsibility has to be an exact science. By using this lack of ROI quantification as an excuse, we may not be committing adequate resources to CSR strategy development and execution — and we may be cheating ourselves out of critical opportunities to communicate CSR's *raison d'être*.

For years, we assumed that ROI in general was something we should attempt to measure in traditional ways, and we learned the hard way from Enron and WorldCom that there is no such thing as an exact science when it comes to measuring the return on important CSR strategies like transparency.

Take another hot topic in business: innovation. Innovation is hugely important in the corporate world, but no one is complaining that its effectiveness is nearly impossible to measure using traditional metrics. Yet when it comes to CSR, everyone wants to know the exact measurements — how big, how many, how often, for how long, how much impact, how many species, how many tons of this, how many kilograms of that. And they want the silver bullet study proving causality. But causality



is nearly impossible to prove for many things that companies do routinely — like advertising, training and development, and branding. The relationship to these business strategies and business success is correlative, just as it is with CSR.

Instead of focusing on the no-win question of finding the exact ROI of CSR, I recommend that companies focus on the following far more useful metrics.

### Measure Fewer Things Better

Don't try to measure everything that can be measured from the start — which is a surefire way to spend more time measuring than actually doing great CSR work. Focus on measuring a few specific things that are relevant to your CSR strategy, such as brand reputation, energy efficiency and dollars saved, employee loyalty, and positive changes in leadership skills among employees. And if your CSR strategy is working, communicate this. Then add a few more metrics. I have seen countless companies that have used a story around one or two solid metrics from a CSR strategy to elevate its reputation, and I have seen countless

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other companies whose CSR programs have been cut because the team was so bogged down executing a complicated metrics plan.

## Measure What Matters

Every company has core business objectives. For example, Hewlett-Packard's core business objectives are growth, efficiency and capital. So when HP sets out to measure progress on its chosen CSR strategies, the company should start by measuring the impact of these initiatives on its growth: Did the company's energy optimization strategy penetrate new markets or new customer segments or win big government contracts? When thinking about what to measure, start by thinking about what your CSR strategy did to support your overall corporate strategy.

## Measure Your Stated CSR Focus Areas

For Wal-Mart, the focus areas are waste, energy and sustainability, so the company should be looking at developing two or three good metrics in each of these areas, such as energy and dollars saved from removing light bulbs from the vending machines in all of their break rooms. If your company is focused on sustainable products — like Walkers potato crisps, which includes its carbon footprint on the label — measure the increase in sales for those products or product lines.

## Communicate Fewer Metrics in Multiple Ways

Rather than aiming to measure as many metrics as possible, think about measuring the same thing and articulating its value in several different ways. For instance, evaluate your CSR strategy on the dimensions of value:

- **Monetary:** accounting-based value of cash in and cash or work out
- **Financial:** translation of in-kind contributions of employee time and/or product into a dollar value
- **Quantitative:** number of new energy-efficient or sustainable products added to a product line
- **Qualitative:** types and descriptions of new energy-efficient or sustainable products; storytelling (the narrative) or marketing value through media mentions or changes to consumer attitudes from marketing notices

Measuring value these ways can be difficult for companies

that train employees to articulate all value in terms of money, but by employing these measurements, it's possible to paint a better picture of the value of a company's CSR strategy.

Consider, for instance, the example of Dow Chemical Company shipping two tons of water purification filters to Africa. After calculating the monetary value for the company, there are other benefits that can be measured, such as employee pride and satisfaction, enhanced brand reputation, and access to new markets of potential customers and employees.

And remember, stories trump facts. That is not to say that you should forget the facts, but you should develop and communicate the story using both facts and real examples of impact. Ultimately, a story has value and stickiness.

Look at Dow's experience with its Human Element campaign, an advertising campaign based on CSR strategy: The campaign announces Dow's vision of addressing some of the most pressing economic, social and environmental concerns facing the global community in the coming decade. It showcases human stories of Dow's commitment to technology, innovation and sustainability to communicate the power of "the human element" to solve global problems such as poverty and access to clean water. To measure the effectiveness of this campaign, Dow looked at the impact of its storytelling on consumers and found that after some exposure to the campaign through TV advertisements, the web, and print media, consumers were much more likely to support Dow as a business in their communities, recommend Dow stock to a friend, and defend Dow's reputation to a friend.

This campaign has helped edge Dow closer to the reputational scores of its peers, which historically have been significantly higher. Is this a wholly causal relationship? Probably not. But it is correlative. And we know from recent research that reputation accounts for a significant component of a firm's intangible assets, which in today's valuations can account for up to 80 percent of a firm's value.

When viewed from this perspective, perhaps CSR's return on investment can be measured as exactly as most other things in business — which is not nearly as exact as we'd like to think. ■

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