
Theory and Evidence
Corporate Social Responsibility:
Opening Doors for Consumer Packaged Goods Companies

By

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Abstract: Today, not only do people want companies to sell good quality products at fair prices but also to treat their employees and suppliers well, exercise good ethics, protect the environment and create prosperity for their shareholders and the communities in which they operate. People simply want more from companies. However, for consumer packaged goods companies (CPGs), who touch the lives of billions of people around the world everyday, this is no simple task. Especially with ever-increasing popularity of generic brands and private labels, the pressure on CPGs is higher than it has ever been before. Corporate social responsibility (CSR) is a way to address such demands. This study explores the long-debated meaning of CSR and evaluates the current model of CSR as an opportunity-seeking tool for businesses by analyzing the CSR efforts of two global CPG companies, Proctor & Gamble and Unilever.

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Introduction

As consumers, when we have the option to select from a variety of brands, we choose to buy a particular brand for many different reasons. Sometimes we buy this certain brand because we really like its television commercial; sometimes we buy it because we have a coupon for it; other times we buy it because we heard from a friend that it is the best brand for the product. Our reasons for buying a certain brand run the gamut from the quality of its products to its promotions. What marketers try to do is to control all of the information surrounding the brand by directly influencing the dissemination of such information to the consumers through advertisements, public relations activities and the like.

However, in today's world where there is countless number of choices of brands, it can be difficult for any *one* brand to stand out. The time when simply good quality product speaks for itself is gone. The key to differentiating oneself is to create a connection with the consumer that goes beyond the brief moments as part of a fad, beyond the medium-term period as the frequently promoted brand and beyond just a couple of years as the industry leader. Many corporations are realizing this and are turning to more comprehensive methods to make that strong emotional connection with their consumers. Even advertising agencies are also wrapping their heads around this connection. Kevin Roberts, the Worldwide Chief Executive Officer of Saatchi & Saatchi, has even written a book, coining these brands that go above and beyond and produce "loyalty beyond reason," *Lovemarks*.¹

In addition, the idea that a company should be sensitive to the needs of all

¹ Robert, Kevin. "Loyal beyond Reason."
<<http://www.brandweek.com/brandweek/photos/2005/09/20050919RobertsSpeech.pdf>>

stakeholders—that is, anyone who impacts or is impacted by the workings of the firm—in order for the company to be sustainable beyond the short-term economic gains. Many large multinationals like Proctor & Gamble (P&G) are incorporating this concept into their mission statements, moving beyond the traditional Shareholder Wealth Maximization model. P&G’s mission statement states, “We will provide branded products and services of superior quality and value that improve the lives of the world's consumers. As a result, consumers will reward us with leadership sales, profit, and value creation, allowing our people, our shareholders, and the *communities in which we live and work* to prosper” (emphasis added).² Clearly, P&G aim to go beyond its basic goal as a profitable business and to have a positive influence on the larger society in which it operates.

The way to achieve such goals is through Corporate Social Responsibility (CSR) activities. By supporting a social issue, improving the surrounding communities that the company occupies or practicing ethical, environmental or other respectable business tactics, corporations can create a better reputation for itself and consequently, stronger and more lasting connections with their consumers. While there are still questions as to whether these responsible actions are truly beneficial to the companies as commercial entities, many far-reaching global companies are not passing up the opportunities to be good corporate citizens.

Large consumer packaged goods (CPG) companies sell products that are basic and essential to billions of people worldwide. As a result, they are serious about their CSR efforts. A recent publication of *Fortune*’s “Most Admired Companies,” which

² P&G Corporate Website.
<http://www.pg.com/company/who_we_are/ppv.jhtml;jsessionid=F1Z0VNVXC1UOHQFIAJ1S0HWAVA BHMLKG>

ranks companies according to their reputation on eight key attributes, including social responsibility, included several CPGs. Among them, P&G and Unilever ranked in the top five in their respective categories—household and personal products and consumer food products—with P&G assuming fourth place on the “America’s Most Admired” list and third place on the “Global Most Admired” list. In addition, in the Dow Jones Sustainability Indexes, which assesses a company’s performance on economic, social and environmental dimensions, P&G and Unilever were both top contenders in their respective categories of nondurable household products and food.

While these rankings attempt to outline different elements of CSR, it is not clear what the true objective and value of CSR is. This study seeks to define CSR in the current business sense, but also delineates several different views regarding the purpose of CSR. It also delves deep into the CSR issues among CPGs by analyzing two of the most important names in the industry, P&G and Unilever.

What is Corporate Social Responsibility?

The World Business Council for Sustainable Development (WBCSD) defines CSR as “businesses’ commitment to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life.” The WBCSD also believes that “a coherent CSR strategy, based on integrity, sound values, and a long-term approach offers clear business benefits to companies and contributes to the well-being of society.”³

In essence, CSR aligns a company’s business objectives and practices with social

³ WBCSD.

<<http://www.wbcd.org/templates/TemplateWBCSD1/layout.asp?type=p&MenuId=MzI3&doOpen=1&ClickMenu=LeftMenu>>

values and the welfare of the society its business impacts. It also actively considers the interests of all stakeholders of the business. This concept puts what the industry is now referring to as “the triple bottom line” at its forefront, which essentially measures the social, environmental, and financial success of a company. In achieving these three goals, transparency and accountability are essential.⁴

Today, consumers, investors, other relevant stakeholders and nongovernmental organizations (NGOs) are more knowledgeable about the business world than ever before. Consequently, they expect the companies to take responsibility for the consequences of their business decisions and to disclose information about their policies and actions resulting from those policies so that anyone interested will be able to easily access it. Such communication has become an increasingly necessary part of a corporation’s duties because these stakeholders reward companies who seriously consider the demands of their stakeholders, who proactively work to improve their performance on the issues identified and who consistently demonstrates a lasting commitment to this process. Many also argue that such companies have greater chances of achieving a long-term or sustainable financial success.

Thus, it is important to note that CSR activities are not limited to the occasional donations to the American Red Cross or the establishment of charitable organizations like the Ford Foundation and the Ronald McDonald House. It encompasses activities addressing issues of business efficacy and ethics, employee rights, supplier relations, environmental protection and community development. Such wide array of issues to address is a tremendous task that requires the companies to find the appropriate equilibrium among all stakeholders’ needs, including the shareholders’. Therefore, the

⁴ CSRWire. <<http://www.csrwire.com/page.cgi/intro.html>>

thoughtful and charitable actions of a company should not only be socially responsible but also profitable. Thus, in the words of Peter Drucker, the proper corporate social responsibility “is to tame the dragon, that is, to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth.”⁵

The History of Corporate Social Responsibility

CSR has come a long way since its inception. According to Ralph L. Neubert and Margaret A. Stroup in their article, “The Evolution of Social Responsibility,” popular consensus on CSR has changed from corporations “voluntarily doing good” to “mandated” to doing so and now to “doing better by doing good.”⁶

Milton Friedman’s classical view of the firm dictates that the only social responsibilities that businesses should adopt are providing employment, paying taxes and ultimately, maximizing shareholder value. He writes, “Few trends would so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as they possibly can.”⁷ In effect, Friedman sees CSR as a liability taken on by good-hearted but unfocused companies who are abandoning their primary responsibility of generating profits for its owners, and this was how most people saw CSR throughout most of its history.

At the turn of the twentieth century, businesses in the United States created the concept of *doing good*, achieving this through corporate philanthropy, giving to causes

⁵ Caulkin, Simon. “The Giving List 2002 Comment: ‘Turn a Social Problem Into Wealth.’”

⁶ Neubert, Ralph L. and Margaret A. Stroup. “The Evolution of Social Responsibility.”

⁷ Friedman, Milton. *Capitalism and Freedom*.

that were of interest to the leaders of the company and its employees and their surroundings. However, some companies came to see philanthropy as competing with expenditures for business operations and as voluntarily reducing corporate income. Thus, it led to many abandoning their philanthropy efforts at times of need to re-focus their attention on their core business. This philosophy of CSR as examination of “corporations’ obligation to work for social betterment,” which William Frederick referred to as CSR₁, continued as the dominant thought until the mid-twentieth century.⁸

After the Second World War, people began to re-evaluate the relationships between business, society and government.⁹ Then, in the 1970s, the public called on “corporate social responsiveness” or “the capacity of a corporation to respond to social pressures,” or what Frederick called CSR₂.¹⁰ Those who felt that the companies’ voluntary acts of philanthropy were insufficient forced them to recognize social issues and to implement measures to solve them. T. Cannon’s idea that “in a free society any business operates only so long as societal members continue to grant it that right” was gaining support.¹¹ S.L. Holmes even writes that “in addition to making a profit, business should help to solve social problems whether or not business helps to create those problems even if there is probably no short-run or long-run profit potential.”¹² Because *doing good* was now mandatory, it was deemed “as unavoidable costs of doing business” to be passed on to the customers, meaning that consumers bore the financial burden of philanthropic campaigns in the prices that the companies charged.¹³ Yet still, some

⁸ Frederick, William C. “From CSR₁ to CSR₂: The Maturing of Business-and-Society Thought.”

⁹ Cannon, T. (1992) cited in Lance Moir. “What Do We Mean by Corporate Social Responsibility.”

¹⁰ Frederick

¹¹ Cannon

¹² Holmes, S.L. “Executive Perceptions of Corporate Social Responsibility.”

¹³ Holmes

managers felt that philanthropy forced them to compete needlessly for corporate resources when they believed that profitability should take priority in a business.

Most recently, with the increase in “systematic critique of business’s impact upon human consciousness, human community and human continuity,” large corporations began to consider the far-reaching effect of their business operations.¹⁴ Peter Drucker argues that “a healthy business, a healthy university, a healthy hospital cannot exist in a sick society. Management has a self interest in a healthy society, even though the cause of society’s sickness is not of management’s making.”¹⁵ Michael Porter echoes that point when he says, “Companies do not function in isolation from the society around them. In fact, their ability to compete depends heavily on the circumstances of the locations where they operate.”¹⁶ For example, providing education for those in the local community a company operates in is often dismissed as just a social effort, but to Porter “the educational level of the local workforce substantially affects a company’s potential competitiveness. The more a social improvement relates to a company’s business, the more it leads to economic benefits as well.”¹⁷ With that, corporations were no longer conceptualized as an isolated money-making entity but as one that is part of the community in which it does its business.

Today, businesses are increasingly acknowledging CSR as “an investment which improves the long-term performance of an enterprise” and as a way to gain competitive advantage simply from doing their business well rather than taking on extra work.¹⁸ In their article, “The Competitive Advantage of Corporate Philanthropy,” Michael Porter

¹⁴ Frederick

¹⁵ Drucker, Peter F., “The New Meaning of Corporate Social Responsibility.”

¹⁶ Porter, Michael E., and Mark R. Kramer. “The Competitive Advantage of Corporate Philanthropy,” 5.

¹⁷ Porter, 5.

¹⁸ Neubert.

and his co-author Mark Kramer declares that “[corporation’s] social spending shouldn’t come at the expense of its economic results,” and that “[it] should provide greater benefit than [the benefit] provided by individual donors.”¹⁹ This is because corporations command respect, thereby enhancing the credibility of the CSR effort. Also, they can tap into their vast networks of customers, suppliers and other partners as resources for support by employing their access to means of communication and the expertise to disseminate information effectively to reach even more supporters.²⁰ In addition, companies are becoming patient in recognizing that the rewards of CSR may only be realized in the long-run, and that such long-term benefit of CSR activities such as enhanced reputation and greater employee loyalty and retention will outweigh the short-term costs.

The Value of CSR

According to managers surveyed in the PriceWaterhouseCoopers’ 2002 Sustainability Survey Report, reputation is the biggest driving factor behind CSR actions (see Appendix 1).²¹ Clearly, corporate image is a vital asset to the companies. But, who are the companies looking to when they seek to improve their corporate image, and why should companies act responsibly? That depends on which theory of CSR the company subscribes to.

First, there is the stakeholder theory. A stakeholder is “any group or individual who can affect or is affected by the achievement of the organization’s objectives,” which can include employees, suppliers, customers, government groups, nongovernmental

¹⁹ Porter, 10.

²⁰ Ibid.

²¹ PriceWaterhouseCoopers 2002 Sustainability Survey Report.

organizations and members of the communities the company operates in.²² Ronald K. Mitchell, et al. state that CSR is, then, a simple matter of giving priority and paying attention to those stakeholders possessing one or more of the attributes of “power, legitimacy and urgency.”²³ Next is the social contracts theory, which views society as “a series of social contracts between members of society and society itself.”²⁴ As a result, a business presumably acts in a responsible manner because it is part of how society implicitly expects it to operate rather than acting with a merely commercial interest at hand. Thirdly, the legitimacy theory argues that a business uses its power to substantiate its activity with “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions.” Therefore, according to this framework, businesses use CSR to “gain, maintain and repair” the legitimacy of the business and stake its claim as a “desirable, proper, or appropriate” entity within the community.²⁵

Taking all of these theories into context means that companies cannot ignore the commercial aspect of the business in their CSR efforts because shareholders are important stakeholders of a business with definite contracts with the firm and the power to legitimize the business as a source of income for themselves. If we think about it, all other stakeholders depend on the companies to be profitable because this allows them to pay its employees and suppliers, to continue to develop better quality products and to enhance the communities around them. In order to see CSR as an investment opportunity rather than a financial burden that enhances the sustainability of a firm, the actual

²² Freeman, R.E. cited in Moir, Lance.

²³ Mitchell, Ronald K., Agle, Bradley R. and Wood, Donna J. “Toward a Theory of Stakeholder Identification and Salience.”

²⁴ Gray, R., et al. cited in Moir, Lance.

²⁵ Suchman, Mark C. “Managing Legitimacy: Strategic and Institutional Approaches.”

benefits of its activities must be clear. Unfortunately, it is quite difficult to measure the exact dollar for dollar impact of most CSR activities because either it takes a long period of time for a program to have a measurable influence and therefore, hard to quantify in advance, or any noticeable influence may be a result of many confounding variables.

However, what *is* clear is that ultimately, the CSR activities are suppose to make the companies good corporate citizens in the minds of their stakeholders. Therefore, it is important to see whether they believe it to be valuable. Recently, an eleven-year Corporate Citizenship Study by a strategy and communications agency, Cone Incorporated, showed that eight in ten Americans say that “corporate support of causes wins their trust in that company.”²⁶ However, this trust does not come at the expense of other fundamental characteristics of businesses because Americans place stronger emphasis on other more salient elements of companies like quality of products and services, employee benefits and human rights rather than the social issue that the company is supporting (see Appendix 2). In fact, the social issue that a company supports is the least important for having a favorable opinion of the company. In addition, if the company acts unethically or illegally, then resulting actions of its stakeholders may be devastating to both the short-term and the long-term growth of the firm. People have cited “considering to switch to another company’s products or services” to even “refusing to invest in that company’s stock” and to “refusing to work at that company” as punishments for misbehaving corporations (see Appendix 3). Therefore, it is important to communicate with the stakeholder to assess the value of CSR actions.

²⁶ Press Release of 2004 Cone Corporate Citizenship Study. <http://www.coneinc.com/Pages/pr_30.html>

Challenges Facing the CPG Industry

Consumer packaged goods (CPG) or fast moving consumer goods (FMCG) are basic products we use everyday such as toothpastes, laundry detergents and frozen ready-to-eat meals that penetrate almost every room of our houses. These products are sold mostly in supermarkets but are also be available at small grocers, discounters and drug stores. They have quick turnovers from the retailers' shelves and are often relatively low-cost and low-consideration purchases. Furthermore, the CPG industry has had a long history. Many of the large firms that still exist today like P&G and Unilever entered the business around the turn of the twentieth century with bar soaps and margarine. Because CPGs are necessities to living in modern society, their market will never cease to exist. However, because of this, the competition has always been fierce. The multinational corporations that survive to today gained their foothold in the industry through a combination of product innovations, strong focus on their core brands, extensive marketing campaigns and improvements in productivity.

At present, after decades of growth and innovation, the revenues and market values of this \$2 trillion industry is leveling. According to the McKinsey's "Executive Insight" on the industry, "[since] the late 90's the industry has not matched its earlier strides in value, quality and convenience, and CEOs are awakening to the notion that this may not be the growth industry that it once was."²⁷ The reason behind such depressing outlooks is that it is becoming increasingly hard to bring "new ideas to these basic, yet mature, categories."²⁸ Many scholars and experts in the industry see excessive product

²⁷ "Consumer Packaged Goods: Executive Insight."
<<http://www.mckinsey.com/clientservice/consumerpackagedgoods/insight.asp>>.

²⁸ Gilbreath, Bob. "It's Not Too Late for CPG to Lead Online."

extensions as warnings signs that innovation has run out of steam amongst CPG marketing executives. The biggest CPGs have combated slowing growth rates through mergers and acquisitions, focuses on their strongest brands, divesting the weaker ones, and global purchasing from centralized supply chains. However, the billions of dollars in amortization of goodwill and intangibles weigh greatly on the balance sheets and much of the quick gains from centralized supply chains have been gained already.²⁹

Adding to this pressure is the growing popularity of private label products as a result of price-sensitive consumers and powerful retailers. Private labels or store brands came about as a way for retailers to serve the low-end market, but today they are quickly shedding their low-cost identity. Paco Underhill, an expert on consumer shopping habits, describes that “[it’s] often being purchased based on somebody perceiving themselves as a smart, informed consumer buying the lesser priced product. There is no stigma.”³⁰ In 2004, one in every five products sold in U.S. supermarkets was a private label product according to Information Resources, Inc.³¹ “Private label sales in that channel reached \$40.5 billion,” and “[private] label sales in drug stores added another \$3.9 billion,” compared to store brands accounting for approximately 10% of sales around 1950, a percentage that had held steady for many years.³² Such change was first “spurred by tremendous inflationary pressures in the 1970s” when “the private-label brand has pushed more forcefully to make a place for itself on the store shelf and at the table.”³³ Also, the popularity of store brands has grown “partly due to steady increases in the quality of store brands, but also due to retailers putting more marketing muscle behind their own brands,

²⁹ Haden, Peter D., Olivia Sibony, and Kevin D. Sneader. “New Strategies for Consumer Goods.”

³⁰ Hein, Kenneth. “Shopping Guru Sees Death of Detergent Aisle.”

³¹ Jusko, Jill. “Muscling In.”

³² Ibid.

³³ Ibid.

using them as an important point of differentiation from their competitors.”³⁴ With consolidations, these retailers have become increasingly powerful, and store brands make them both clients and competitors of CPG companies.³⁵ Moreover, consumers have begun to see store brands as a way to avoid the extra margins that national brands charge “for comparable products to offset advertising costs.”³⁶ In this grim climate of the industry, it is ever more critical for CPGs to consider innovative alternatives to re-ignite their growth, and CSR provides that alternative in a sustainable fashion.

Strategic Corporate Social Responsibility

According to Michael Porter and Mark Kramer, there are four factors that influence a company’s competitiveness: skilled and motivated employees, efficient local infrastructure, the size and sophistication of local market and the extent of governmental regulations.³⁷ With this knowledge, a company can use their social responsibility efforts “to improve their *competitive context*,” which “brings social and economic goals into alignment and improves a company’s long-term business prospects” and “[leverages] its capabilities and relationship in support of charitable causes.”³⁸ Essentially, by increasing their CSR campaigns, a company is investing in the well-being of itself and its future just as it would invest without the positive externalities to enhance its operations.

Accordingly, Porter and Kramer believe it most appropriate for companies to focus their CSR activities on the following areas:

³⁴ Ibid.

³⁵ Jusko.

³⁶ Oldenburg, Don. "Store Brands vs. National Brands."

³⁷ Porter, 4; Note: Porter and Kramer define competitiveness as “productivity with which companies can use labor, capital, and natural resources to produce high-quality goods and services; productivity depends on having workers who are educated, safe, healthy, decently housed, and motivated by a sense of opportunity.”

³⁸ Porter, 4-5.

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1. Factor conditions (i.e. train employees, improve local infrastructure, protect natural resources or raw materials)
 2. Demand conditions (i.e. expand target market, increase consumer sophistication)
 3. Context for strategy and rivalry (i.e. support protection of intellectual property or promote corporate governance and disclosure standards in developing countries)
 4. Related and supporting industries (i.e. encourage the creation of clusters).³⁹

The following will analyze the current CSR activities of both P&G and Unilever along the four areas outlined above.

Case Study: Proctor & Gamble and Unilever

Proctor & Gamble (P&G) and Unilever both have made serious goals regarding CSR and have been recognized numerous times for their progress, including Top 100 Best Corporate Citizens from *Business Ethics* for P&G and America's Most Admired Companies from *Fortune* for both companies.⁴⁰ According to the Dow Jones Sustainability Indexes, the two companies are both CPG leaders of CSR activities within their respective categories—personal and household goods, and food and beverage.⁴¹

In 1999, P&G established the Corporate Sustainable Development (CSD) department under the leadership of George D. Carpenter to define the company's global CSR policy, identifying emerging issues, managing the corporate reporting, building external relations and supporting the company's business units to incorporate sustainable

³⁹ Porter, 5.

⁴⁰ *Fortune's* America's Most Admired Companies.

<<http://money.cnn.com/magazines/fortune/mostadmired/>>; *Business Ethics'* Best Corporate Citizen.

<<http://www.business-ethics.com/100best.htm>>; Unilever Recognition Page.

<<http://www.unilever.com/ourvalues/environmentandsociety/Rankingsandrecognition/>>

⁴¹ Dow Jones Sustainability Indexes.

<http://www.sustainability-indexes.com/html/indexes/djsiworld_supersectorleaders.html>

development into their business practices. The CSD's ultimate goal is "to help P&G become a Sustainable Corporation by delivering unique solutions to improve lives, protect the environment, and build shareholder value with the support of our consumers, employees, communities, shareholders, governments, and thought leaders."⁴² Clearly, P&G "[believes] that [both] social and economic drivers are fundamental for improving environmental performance, and [is] striving for a win-win-win solution."⁴³ The CSD has decided to focus on two themes from which all of its CSR activities stem: water, and health and hygiene. Currently, P&G's main global campaign is the Live, Learn and Thrive program, which provides assistance for the development of children in need in the form of financial support for equipment, technology and education and in the form of employee volunteers. In terms of contributions to the community, the P&G Fund has donated over \$100 million in 2005 alone.⁴⁴

In 2004, Unilever redesigned its corporate mission to "adding Vitality to life."⁴⁵ The company states that this new mission "encompasses our brands, our culture and our commitments to society and the environment, uniting what we do as a business with the people who use our products and what they care about."⁴⁶ Under the direction of the two chairmen, Antony Burgmans and Patrick Cescau, and the Unilever Environment Group, this company also seeks sustainable development by "creating a balance between the economic, environmental and social aspects of our business."⁴⁷ Their primary sustainability initiatives focus on the areas of agriculture, fish and water, where the firm

⁴² P&G CSD Vision.

<http://www.pg.com/company/our_commitment/sus_faqs.jhtml;jsessionid=0C3NXB2JY05KBQFIAJ1S0HWAVABHMLKG>

⁴³ Ibid.

⁴⁴ P&G Contribution Report, 1.

⁴⁵ Unilever's Mission. <<http://www.unilever.com/ourvalues/purposeandprinciples/ourpurpose/>>

⁴⁶ Unilever Social Report, 3.

⁴⁷ Unilever Sustainability. <<http://www.unilever.com/ourvalues/environmentandsociety/sustainability/>>

believes it can make a “measurable contribution” as these areas are critical resources for their food products.⁴⁸ Unilever also contributes to nutrition, hygiene and personal care issues. In terms of its community involvement, Unilever has contributed to over 13,000 organizations and reached over 200 million people in 2004 alone.⁴⁹ Their total contribution accrued to €65.3 million (approximately \$79 million) in 2004, and from 1999 to 2004, it has averaged 1.7% of pre-tax profit.⁵⁰ About one in ten Unilever employees engaged in community activity.⁵¹ The company plans to combine its environmental and social reporting into one document by 2007, reflecting its efforts to consolidate and strengthen its CSR activities.

As respected multinationals with significant investments in CSR efforts, both P&G and Unilever adhere to international standards for employee health and safety, consumer safety, business partner relations and environment protection. They also seek to spread their internationally certified standards to their stakeholders, especially their suppliers. They partner with many world-renowned organizations like UNICEF and World Health Organization (WHO) for wider, more effective impact. They aim to impact society not only by voluntary contributions but also through their direct operations and through their value chain, which includes everyone from suppliers to trade customers and consumers. Such efforts, thus, reflect their movement towards those means that positively influence society by working *with* their business operations instead of against it.

Improving “Factor Conditions”

According to Porter, factor conditions necessary for high levels of productivity is

⁴⁸ Unilever Sustainability. <<http://www.unilever.com/ourvalues/environmentandsociety/sustainability/>>

⁴⁹ Unilever Social Report, 3.

⁵⁰ Ibid.

⁵¹ Ibid.

the availability of high quality, specialized inputs, including trained workers, scientific and technological institutions, reliable physical infrastructure and natural resources.

Some of the factor conditions that are critical for these two CPG companies are natural resources like water and agricultural goods, well-trained employees and a wide distribution of their products. The two companies have concentrated on several environmental issues and education of human capital, and have also contributed to local communities in developing countries in order to work around the inadequacies of physical infrastructures in those countries.

First and foremost, protecting the environment is crucial to the core operations of these two companies because water, agricultural products and fish are the main ingredients in many of Unilever's food products and conserving water and energy cuts significant raw material costs for both companies. P&G is constantly conserving energy, reducing waste and emission of pollutants and discovering new ways to re-use waste as energy. In the past year, 95.93% of all raw materials used became finished products, 2.38% were recycled or reused and only 1.72% went to waste.⁵² More specifically in its biggest market, North America, the Family Care plants have increased energy efficiency by 5% in the last year, and in its second largest market, Europe, its "Connect and Save Energy" task force expects to reduce its energy usage by 10% within 12 to 18 months.⁵³ With energy conservation at the forefront of its mind, P&G has channeled its knowledge of conservation methods into formulating new laundry detergents that are effective in cold water, which has tremendous energy-savings. Launched in early 2005, Tide Coldwater in North America, Ariel CoolClean in the U.K. and Ariel Cold Active in

⁵² P&G Sustainability Report, 46.

⁵³ P&G Sustainability Report, 47.

France can save a North American household up to 20% of energy (or 730 kilowatt hours of electricity per year for a savings of up to \$63 per year) necessary to heat water and reduce up to 3% of electricity usage (or 68 kilowatt hours of electricity per year) in a French household.⁵⁴ Potentially, if all U.S households wash in cold water, then they can save up to 70-90 billion kilowatt hours per year, which represents up to 3% of total national energy consumption, up to 10% of output from the nation's nuclear power plants, reduction of 1% of total CO₂ emissions and an energy cost savings of \$3.4 to \$4.4 billion per year nationally.⁵⁵ P&G has not only made such headway in developed countries but also in developing countries as well. For example in the Philippines, P&G has run a test market of Tide 1-Rinse, a product that helps to reduce the number of rinses for laundry to just one rinse, along with water saving tips and a campaign to adopt two hectares of watershed land, home to many indigenous trees.⁵⁶

Similarly, through its Sustainable Agriculture Programme and Sustainable Water and Fish Initiatives, Unilever has created guidelines for suppliers to grow their vegetables in a sustainable way, to conserve water whenever possible and to purchase fish from sources that adhere to the Marine Stewardship Council (MSC) Standard for sustainable fisheries. Through these efforts, the company has improved the agricultural practices of all 50 of its third-party frozen vegetable suppliers in Europe and partnered with other major food companies like Groupe Danone and Nestlé to enhance the spread of the Sustainable Agriculture Initiative Platform.⁵⁷ Also, its manufacturing facilities have reduced unit water consumption by 54% globally since the company initiated its first

⁵⁴ P&G Sustainability Report, 62; Avery, Greg. "Tide Promises Energy Saving Washes."

⁵⁵ P&G Sustainability Report, 63.

⁵⁶ Ibid.

⁵⁷ Unilever Environment Report, 6.

started systematic measurement in 1995.⁵⁸ Such focus on conserving water has also spurred the company to reformulate its *Surf Excel* laundry detergent, which foams less, thus requiring less rinsing. This product, popular in the dry southern Indian states of Tamil Nadu and Andhra Pradesh, saves two buckets of water per wash.⁵⁹ Finally, the company is now buying more than half of its fish used from sustainable sources today.⁶⁰

Secondly, educating potential future employees is a great way to invest in the future of the business. Proctor & Gamble has recently donated \$2 million to Tuskegee University to help finance the construction of a 45,000-square-foot building for the University's College of Business and Information Sciences. The partnership between the two institutions has spanned over 25 years to educate African-American engineers, and today, almost 70 African-American P&G engineers are Tuskegee alumni.⁶¹ Likewise, Unilever has also invested on future business leaders in a three-year corporate responsibility research, education and training program with the European Academy of Business in Society (EABIS). Through this program over 30 business schools from 14 countries plans to train future business leaders with managerial knowledge to benefit both companies and society together.

Finally, though a program called Project Shakti, Unilever has partnered with over 300 partners, including NGOs, banks and both state and local government departments in a unique project to reach the remote rural villages in an important emerging market, India. This project trains local entrepreneurs to help supply Unilever products as far and wide as possible in this country where public infrastructures, specifically transportation, have

⁵⁸ Unilever Environment Report, 7.

⁵⁹ Ibid.

⁶⁰ Unilever Environment Report, 8.

⁶¹ "P&G Invests in Tuskegee University."

much room for improvement. By the end of 2004, Shakti entrepreneurs were covering 50,000 villages across 12 states in India, reaching 30% more of the rural population than when the program first started in 2000. Unilever's seeks to recruit enough entrepreneurs to cover 400,000 villages and 400 million consumers by 2008.

Enhancing "Demand Conditions"

In order to address demand conditions of their products, the two companies must not only locate potential demand for their products, but they must also create products to address those needs. Sometimes, the companies may need to educate consumers who may not necessarily understand the benefits of certain products in order to create demand, and sometimes, consumer trends drive companies to design products to address them.

However, at other times, emergencies and natural disasters compel companies to innovate products to tackle immediate concerns. This is exactly what happened at P&G. In collaboration with the U.S. Centers for Disease Control and Prevention (CDC), the company has developed a low-cost technology called PUR Purifier of Water, to purify even heavily contaminated drinking water so that it meets WHO standards for safe drinking water.⁶² With this product, P&G's CSD has dubbed the Children's Safe Drinking Water program its signature global social responsibility campaign, addressing more than 5,000 children who die each day from diseases caused by drinking unsafe water.⁶³ The program has served over 200 million liters of safe drinking water to children in some of the poorest regions of the world thus far.⁶⁴ Not only does the program donate this product to people in need at emergencies, but it has also developed

⁶² Seabrook, Charles. "Deadly Tsunamis: New Water Purifier Could Be a Godsend."

⁶³ P&G Contribution Report, 2.

⁶⁴ Ibid.

market-based partnerships in order to ensure a sustained supply of safe drinking water even long after the disasters. Along with Population Services International (PSI), the American and British governments, and Johns Hopkins University, P&G has created social markets in Haiti, Pakistan, and Uganda, where the emergencies are less severe but the need for safe drinking water is equally vital.⁶⁵ This program has not only created an affordable and innovative product, but also has built long-term, extensive markets for water purifiers.

With the increase of health-consciousness among consumers, Unilever initiated a nutrition enhancement program in 2004 to screen its current food and beverage portfolio and to continue to develop ever-wider range of healthy food options for the increasingly health-conscious consumers. The program is meeting these consumer demands by reducing trans fat, saturated fat, sodium contents and sugar levels across all Unilever food product lines. This effort has also led to several product innovations, including Bird's Eye Steamfresh, which are frozen vegetables without any additives other than the freezing process to keep it fresh, and Knorr Vie shots, which are a mixed fruit and vegetable smoothies also without additives that provide half of the WHO-recommended daily fruit and vegetable intake.⁶⁶ In addition, the company is running a "No Bread without Spread" program in Kenya to educate children in over 750 schools about the nutritional benefits of vitamin-enriched margarine.⁶⁷ The education programs such as this help to make consumers more sophisticated about healthy eating, which is a key differentiating point for many of Unilever's food products.

Similar education programs are in effect in the personal hygiene categories as

⁶⁵ P&G Contribution Report, 2.

⁶⁶ Unilever Social Report, 11.

⁶⁷ Unilever Social, Report, 7.

well. For example, Unilever’s Lifebuoy “Swasthya Chetna” or “Health Awakening” campaign is the largest rural educational program on health and hygiene ever undertaken in India. The five-year campaign aims to help educate 200 million people or 20% of the Indian population about basic hygiene habits by working with parents, health educators, teachers, community leaders and government agencies.⁶⁸ P&G has launched comparable programs as well focusing on children’s health and hygiene. A study conducted by P&G’s Safeguard soap brand and the U.S. CDC concluded that hand-washing can prevent pneumonia, which is the number one killer of children under age 5. Parallel studies in other parts of the world have led to a global campaign for washing hands with soap. In addition, P&G’s Crest dental care has reached over 50 million children worldwide, and by partnering with national organizations in many countries, including China, Poland and Russia, the company is working to raise awareness of dental hygiene internationally.⁶⁹ In the process, P&G has “laid the foundation for a new market where none existed before.”⁷⁰

An important and still less widely tapped market in the world is the low-income population. By comparing the price of the lowest-priced food and home and personal care (HPC) products in 82 countries (or 90% of Unilever’s global turnover) with that country’s daily minimum wage, Unilever has given a serious consideration to those countries’ poorest wage-earning consumers. In the study conducted in 2004, the company found that its lowest-price HPC product costs less than 5% of the minimum daily wage in 52 countries, and that the lowest-price food product is less than 5% of the

⁶⁸ Unilever Social Report, 10.

⁶⁹ P&G Contributions Report, 27.

⁷⁰ Carpenter, George, and Peter White. “Sustainable Development: Finding the Real Business Case,” 4.

minimum daily wage in 50 countries.⁷¹ Furthermore, both companies are selling their products in smaller, individual-sized packets so that it is more affordable for each unique purchase. For example, in Asia, Unilever has made its personal care products more affordable to enable low-income consumers to experience Unilever brands by selling mini-sticks, mini-roll-ons and sachets of deodorant lotions along with personal hygiene education programs to help consumers understand their benefits.⁷²

Creating the “Context for Strategy and Rivalry”

While the existence of demand and the factors to produce the supply of goods is critical in running a business, it is the rules and the norms that govern the competitive environment in a country or a region that have a fundamental influence on facilitating that competition fairly and efficiently. Porter also notes that “[policies] that encourage investment, protect intellectual property, open local markets to trade, break up or prevent the formation of cartels and monopolies, and reduce corruption make a location a more attractive place to do business.”⁷³ As a result, working to increase the standards of these issues, especially in emerging markets, is essential for CPGs because these are the markets where CPGs can find measurable growth.

As one of the founding members of the Global Sullivan Principles, P&G promotes economic growth, social justice, human rights, political justice and equal opportunity worldwide. As a result, the company has revised its policies to ensure that they are aligned with the Global Sullivan Principles.⁷⁴ Similarly, Unilever is a founding

⁷¹ Unilever Social Report, 7.

⁷² Ibid.

⁷³ Porter, 8.

⁷⁴ P&G Sustainability.

signatory of the United Nations Global Compact whose ten principles on human rights, labor, environment and anticorruption impact Unilever's everyday business operations.⁷⁵ In 2004, Unilever also co-chaired the Trans Atlantic Business Dialogue (TABD), a forum constituted by executive officers of over 30 companies from the Americas and Europe.⁷⁶ The main goal of TABD is to call for a successful completion by 2006 to the Doha Development Round of world trade talks, which seeks to secure economic growth and prosperity in developing and emerging markets through better integrations into the global economy.⁷⁷ Among its agenda is the campaign against counterfeiting, which threatens consumers with unsafe products and generates high costs to business and governments.⁷⁸

Advancing "Related and Supporting Industries"

The supporting industries for CPG companies include providers of raw materials and packaging, distributors who distribute their products to the retailers and retailers who in turn sell the products to consumers. Guiding these supporting industries is critical to the companies' own operations because the suppliers, distributors and retailers provide the materials to manufacture the products, sometimes even manufacturing the products themselves, and the means to deliver the products to consumers all over the world.

By establishing its Business Partner Code, Unilever is taking strides to ensure that its 19,000 suppliers worldwide strive towards the same kinds of standards applied within the company.⁷⁹ With the majority of first-tier suppliers assessed by end of 2005, the

<http://www.pg.com/company/our_commitment/sus_faqs.jhtml;jsessionid=0C3NXB2JY05KBQFIAJ1S0HWAVABHMLKG#economic>

⁷⁵ Unilever Social Report, 17.

⁷⁶ Ibid.

⁷⁷ Ibid.

⁷⁸ Ibid.

⁷⁹ Unilever Social Report, 2.

newly established supplier approval process and the training of local auditors have strengthened the implementation of its code.⁸⁰ To assist those suppliers who are working to meet the new standards, Unilever has provided technology transfers, including machinery, formulations, and quality assurance and analytical methods, financial support to upgrade equipment and extensive training programs on key issues such as safety and environmental awareness.⁸¹ Unilever managers also have helped manufacturers increase efficiency, quality and consistency of their products.⁸² Improving the operations of these suppliers has benefited for both suppliers and Unilever itself. For example, in 2000, by working with five major manufacturers and 130 raw and packaging suppliers, Unilever has provided Vietnamese suppliers with around \$34 million of business and indirectly supported approximately 5,500 jobs.⁸³ As a result of supplier improvements, Unilever has gained consistent, regular and good quality lines of supply and reliable local knowledge and support. In addition, with better local manufacturing suppliers, the company has been able to get its products to market quickly, efficiently and at relatively low start-up costs.

P&G also outlines its expectations of suppliers regarding business conduct for suppliers in its Sustainability Guidelines for Supplier Relations.⁸⁴ Based on P&G's values and principles, the guidelines help suppliers to operate effectively and ethically as P&G does. Additionally, established in 1972, P&G's Supplier Diversity Program identifies and partners with nearly 700 minority- or women-owned businesses in the

⁸⁰ Ibid.

⁸¹ Building Partnerships with Suppliers.

<<http://www.unilever.com/ourvalues/environmentandsociety/casestudies/economicDev/indonesia1.asp>>

⁸² Ibid.

⁸³ Ibid.

⁸⁴ P&G Sustainability Report, 26.

United States. Between 2004 and 2005, P&G's spending with such suppliers exceeded \$1.5 billion, accounting for about 10% of its total U.S. spending.⁸⁵ Also, P&G joined forces with advertising agencies to refer employment seekers to each other and to help minorities gain entry into the companies.⁸⁶ Diversity ensures that its employees "are 'in touch' with its global markets, customers, and business partners."⁸⁷

CSR as an Important Investment for CPGs

Many critics of CSR regard it as a public relations scheme to promote a positive image and reputation of corporations to mitigate any negative, illegal and unethical actions they are responsible for, citing Enron and Phillip Morris as examples. While it is true that Enron was once considered model corporate citizens until the world suddenly found out they were not or that Phillip Morris contributed \$75 million to charitable organization in 1999 only to spend \$100 million to advertise to publicize it, CSR works to eradicate the corporate world exactly of crooks like these.⁸⁸ By implementing sustainable policies on issues such as consumer rights, environment protection and economic development in emerging markets, companies are able to compel themselves to consider all of its stakeholders at every stage of their business operations. Some like Milton Friedman may consider such efforts still inadequate and completely inefficient because they see CSR as wasting necessary capital in efforts that are peripheral to the business. However, the newest definition of CSR aims to challenge exactly that notion.

Many scholars and businessmen alike now agree that CSR enhances the long-term

⁸⁵ P&G Sustainability Report, 28.

⁸⁶ Ibid.

⁸⁷ P&G Sustainability Report, 27.

⁸⁸ Caulkin; Porter, 3.

economic growth of companies. This is because CSR is seen as an investment into the factors that make a corporation gain a unique edge in the highly competitive environment whether this edge is a better corporate image, a more desirable product or a voice in the international forums that greatly impact the way people do business all over the world.

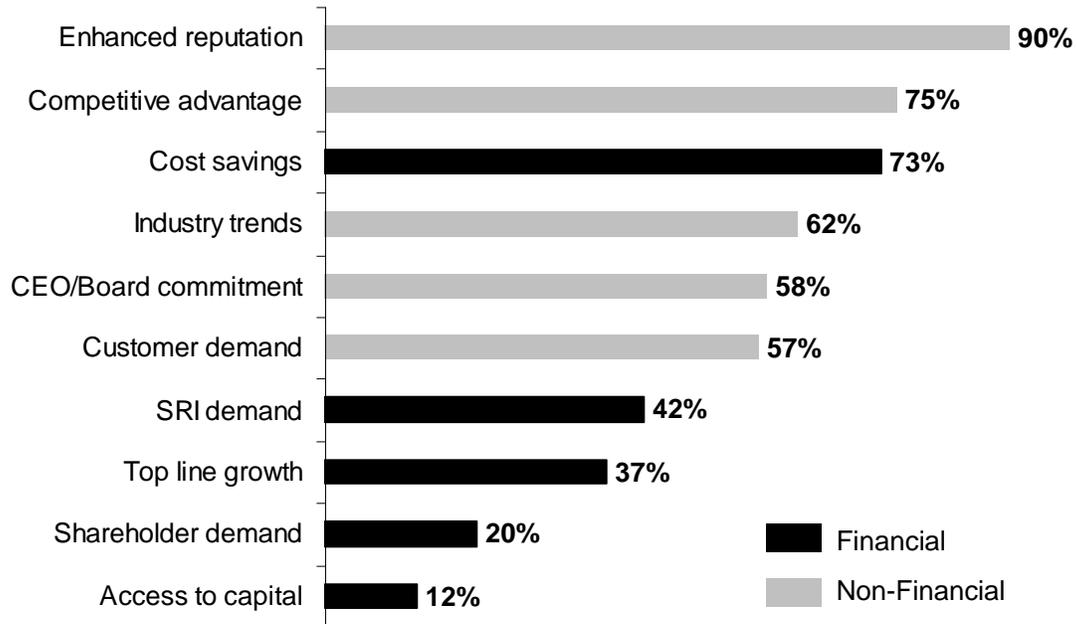
To the two CPG leaders, P&G and Unilever, this paper examined, CSR is an important source of fuel for their growth. Specifically, they have guided their CSR activities towards four areas to increase their competitiveness: inputs, demand, business environment and surrounding industries. Two have made efforts to protect the environment to secure a lasting supply of raw materials, to educate the consumers on the benefits of their products, to spread the high standards that they abide by to others in order to create an environment of transparency and fairness and to motivate its suppliers to enhance their own business practices. This has led the two companies to lead the industry in its CSR work. Thus, staying at the forefront of CSR will keep these two companies at the forefront of their industry and the business world.

As the world punishes more wrongdoers that violate their CSR and rewards more companies who reflect positively on the “brand of capitalism,” it will become more evident that CSR is no trivial matter. Just as CSR has opened many doors for the CPG industry, which they continue to explore, CSR will open doors for many more industries, making itself an indispensable part of business.

Appendices

Appendix 1: Top 10 Reasons Managers Adopted Sustainable

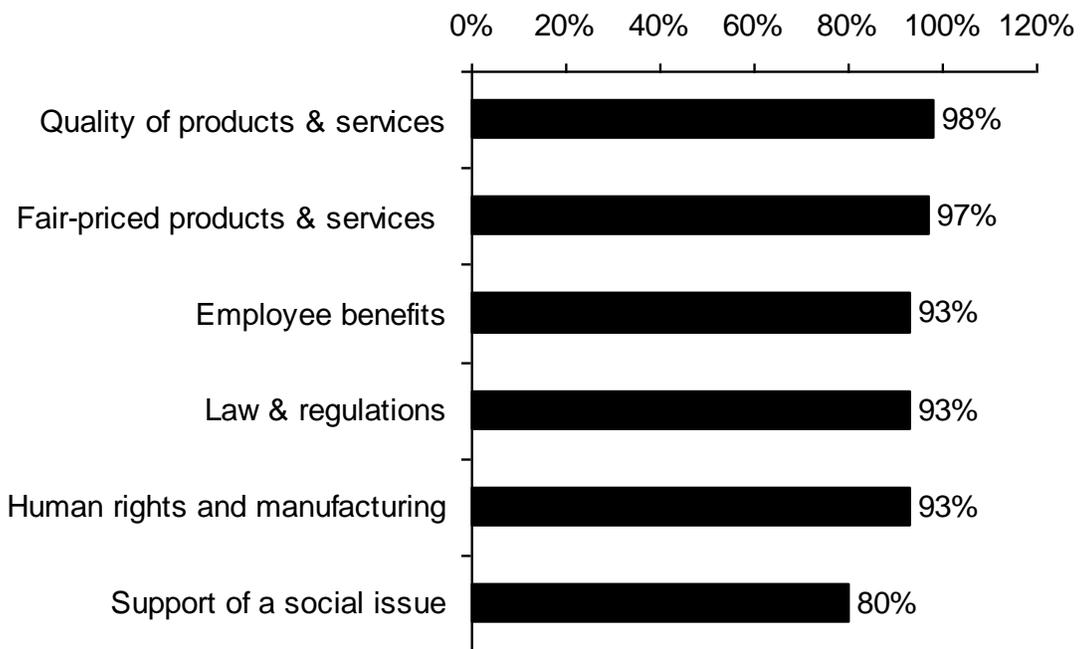
Business Practices



Source: 2002 PriceWaterhouseCoopers Sustainability Report
<http://www.pwcglobal.com/fas/pdfs/sustainability%20survey%20report.pdf>

Appendix 2: Cause-Related Efforts Must Be Part of Larger Corporate Citizenship

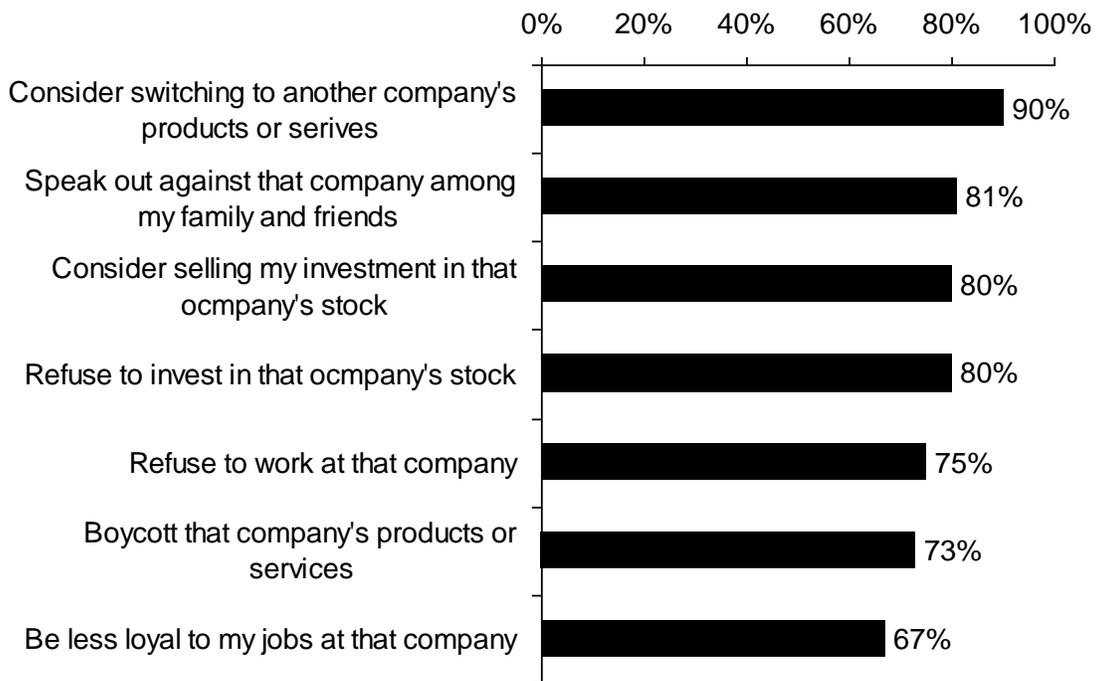
While communicating support for social issues is important, Americans value other positive characteristics of corporations even more, suggesting “that advertising support of social issues without ‘walking the talk’ in other areas can be counterproductive and poor business strategy.” Thus, “building trust and enhancing reputation requires companies to be good corporate citizens across all of their business practices.”



Source: 2004 Cone Corporate Citizenship Study
http://www.coneinc.com/Pages/pr_30.html

Appendix 3: Americans Will Punish Bad Corporate Behavior

While supporting social issues can improve trust in a company, Americans are ready to act against companies that behave illegally or unethically. If consumers discovered about a company's negative practices, then they would do the following, causing devastating effects in the long-run:



Source: 2004 Cone Corporate Citizenship Study
http://www.coneinc.com/Pages/pr_30.html

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