Creating a Virtue Matrix Strategy

The Challenge

The world’s large corporations face a particularly challenging time as they deal with unrelenting pressure to show more corporate social responsibility (CSR). The media often attack corporations for slips in their behaviour, consumers are showing an increased willingness to punish corporations they think are not being socially responsible, and employees are less inclined to work for corporations they believe are not socially responsible.

There is no widely accepted standard for corporate social responsibility performance.

The tricky and frustrating challenge for corporations on the receiving end of these escalating expectations is that CSR covers an incredibly wide sphere of activity. To be socially responsible, corporations are asked to:

- Adhere to strict standards of governance and business morality;
- Protect and steward the environment in which they operate;
- Ensure the emotional, physical and financial health of their employees; and
- Contribute to the health, education, well-being and prosperity of the communities in which they operate.

On top of this challenge, the standard required for being considered socially responsible in each of these diverse areas is ambiguous, at best. There is no widely accepted standard for CSR performance. Some standards, such as the United Nations-sponsored Global Compact or the Global Reporting Initiative, are emerging. However, no single performance standard has gained anything close to broad acceptance, and there is certainly no widespread understanding of what CSR really means.

Finally, the commentators, customers and employees calling for corporate social responsibility have little or no advice for the corporations as to how they should trade off earning returns for their shareholders against performing acceptably well across this wide spectrum of social areas. They just want social responsibility from their corporations—whatever that may mean—and less than acceptable performance will be punished. Whether we are talking about the case of Royal Dutch Shell after the Brent Spar incident, or Nike in the wake of Asian sweatshop allegations or Arthur Andersen after the Enron scandal, the punishment can be harsh indeed.

Because the CSR universe is broad, the standards high (yet ambiguously defined), and the economics mysterious, it is extremely difficult for a corporation to rebut an allegation that it is being socially irresponsible. When Wal-Mart is assailed for allegedly engaging in sexually discriminatory employee practices, it is difficult for the company to defend itself as being socially responsible throughout its activities. Commentators, customers and employees tend to ascribe overall irresponsibility to Wal-Mart, whether rightly or wrongly, based on this one issue.

The Virtue Matrix Tool

A corporation can use the Virtue Matrix as a tool to assess its own performance and to develop a CSR strategy. The Virtue Matrix consists of four quadrants (Exhibit 1) and provides a framework for evaluating civil, government and stakeholder claims, while encouraging business leaders to be as innovative in enriching society as they are in increasing wealth for their shareholders.

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The bottom pair of quadrants makes up the Civil Foundation, which is a depiction of the historical development of the laws, regulations, norms and behaviours that underpin our civil society.

The right quadrant, Civil Foundation—Compliance, is the accumulation of laws and regulations with which corporations must comply. For example, a corporation that chooses to discriminate on the basis of age, gender, religion or sexual preference risks being fined or prevented from continuing to operate. These laws and regulations...
tend to build up over time, as the economy advances. In developed economies, the legal and regulatory environment tends to be deep and robust, while it is often fragile in less developed nations.

In the lower left quadrant, Civil Foundation—Choice, are the customs and norms to which corporations tend to adhere by choice, rather than by fiat. Lack of adherence to the customs and norms in an industry or economy can result in a corporation being ostracized from others in the industry, experiencing lower customer loyalty, or having greater difficulty in attracting and retaining employees. For example, in some cities and industries, it is a norm for corporations to give 1–5 per cent of pre-tax profits to charity and, in doing so, become a member of “The One Per Cent Club.”

The top left quadrant, the Strategic Frontier, encompasses activities for which motivation is intrinsic (i.e., it feels like the right thing to do) and whose impact on shareholder value at the time the activity is launched is ambiguous. In this case, however, the activity, once established, produces sufficiently positive reactions from customers, employees or other stakeholders to make it a positive contributor to shareholder value creation. The introduction of environmentally friendly beauty-care products by The Body Shop is an example of an intrinsically motivated action that achieved economic success far beyond what might have been anticipated.

The Virtue Matrix is a dynamic model, in that actions in the Frontiers tend to migrate into the Civil Foundation over time. Successful actions in the Strategic Frontier tend to be copied by the innovator’s competitors and become a norm in the industry in question and hence part of the Civil Foundation—Choice. The Body Shop achieved effectiveness far beyond its own walls when competitors realized that they needed to copy the company’s environmentally conscious actions or risk losing a painfully large share of their beauty business. Collective actions in the Structural Frontier tend to be ensconced in laws and regulations, becoming part of the Civil Foundation—Compliance. For example, the Kyoto Accord is in the process of migrating from an initiative by numerous parties in the Structural Frontier to a legally binding agreement in the Civil Foundation.

A corporation with a great commitment to social responsibility will have a Virtue Matrix strategy that has the following four features:

1. It puts mechanisms in place to ensure that it is in strict compliance with the letter and spirit of all laws and regulations in the Civil Foundation—Compliance;
2. It takes the lead in adopting the norms and conventions of its industry, rather than being a laggard in the Civil Foundation—Choice;
3. It has several chosen Strategic Frontier projects underway that are of particular relevance to its own stakeholders across the spectrum of CSR areas; and
4. It is leading several chosen Structural Frontier projects, for which it actively builds coalitions for change and overcomes the externalities associated with these new initiatives.
A corporation with a great commitment to social responsibility has internal processes for choosing its focus areas, invests prudently in projects to overcome deficits in the Civil Foundation and breaks new ground in the Strategic and Structural Frontiers. When asked why it doesn’t do x or y, it can explain authoritatively that x and y are not its CSR focus areas, but a, b and c are its three chosen activities, and why these are more critical to pursue than x or y.

**To develop a Virtue Matrix strategy, a corporation first needs to perform a CSR assessment by working through the quadrants.**

### The Virtue Matrix Assessment

To develop a Virtue Matrix strategy, a corporation first needs to perform a CSR assessment by working through the Virtue Matrix quadrants clockwise, from the lower right.

#### CIVIL FOUNDATION—COMPLIANCE

The key issue for this quadrant is: Is the corporation now, or does it wish to be, in full compliance with all the laws and regulations pertaining to its jurisdiction and its industry? In order to assess its performance in this quadrant, the corporation should ask itself the following questions:

- What are all the laws and regulations pertaining to important CSR areas such as business standards, environmental protection, employee relations and community support that apply to the corporation?
- To what extent does the corporation seek to be in full compliance with each of the above laws and regulations?
- How does the corporation ensure that it meets all laws and regulations?
- How does/can the corporation demonstrate and communicate compliance?

The goal of the assessment in this quadrant is to come to a conclusion as to:

- The two to three priorities for overcoming compliance issues that prevent the corporation from being in 100 per cent compliance; and
- Any new processes required for ensuring 100 per cent compliance on an ongoing basis.

#### CIVIL FOUNDATION—CHOICE

The key issue for this quadrant is: To what extent does the corporation wish to be a leader or a laggard in adhering to the norms and customs in its jurisdiction and its industry? In order to assess its performance in this quadrant, the corporation should ask itself the following questions:

- What are the industry’s norms and customs in all the important CSR areas?
- Who is the leader in setting norms in the industry, as demonstrated by above-average commitment and a comprehensive action plan?
- To what extent is the corporation a leader or a laggard in adopting norms?
- How does the corporation choose to adopt norms that emerge in the industry? Does it look to a leader inside the industry? Does it look outside the industry?

The goal of the assessment in this quadrant is to come to a conclusion as to:

- The corporation’s goal with respect to the Civil Foundation—Choice:
  - industry leader in adopting new norms and conventions;
  - “fast follower”; or
  - some other goal;
- The two to three priorities for overcoming compliance issues that prevent the corporation from being in 100 per cent compliance; and
- The new processes required for ensuring adherence on an ongoing basis at the level of the stated goals.

#### STRATEGIC FRONTIER

The key issue for this quadrant is: What are the greatest opportunities in all the primary CSR areas in which the corporation could create great value for customers or employees by taking bold action of a sort that has never been taken before? In order to assess opportunities in this quadrant, the corporation should ask itself the following questions:

- How does the organization pursue and develop proposals for innovative activity in the Strategic Frontier?
- What activities that the corporation’s customers, employers, shareholders or suppliers want could the corporation provide, if it chose to do so?
- What are the impediments to putting such practices into action?
- What could be the business case for undertaking such practices?

The goal of the assessment in this quadrant is to come to a conclusion as to:

- The corporation’s goal, with respect to the Strategic Frontier:
  - to be known inside and beyond the industry for making periodic break-throughs that lead to the establishment of new conventions;
  - being seen as a “fast follower”; or
  - some other goal;
- The two to three innovative initiatives in the Strategic Frontier that would be most important to stakeholders; and
- A plausible action plan for each initiative.

#### STRUCTURAL FRONTIER

The key issue for this quadrant is: How can we determine the areas in which there is a compelling need for customers, employees or society that cannot be tackled alone because of the great externalities, but
in which the corporation could play an
initiating role in creating a coalition for
action? In order to assess opportunities in
this quadrant, the corporation should ask
itself the following questions:

- What practices desired by customers/
  employees/shareholders/stakeholders
  would require collective action among
corporations in the industry in order to
make them happen?
- How could a coalition of interested
corporations be pulled together for
each potential practice?
- What governmental/non-governmental
  organizations might the corporation
include in a coalition?

The corporation will be well-positioned
to fend off attacks from single-issue
CSR critics.

The goal of the assessment in this
quadrant is to come to a conclusion as to:

- The corporation’s goal, with respect to
  the Structural Frontier:
  - to be known inside and beyond the
    industry as an instigator in creating
    coalitions for breakthroughs in CSR
    areas fraught with externalities in
cases where individual action by
one firm is insufficient;
  - being seen as a “fast follower”; or
  - some other goal;
- The two to three new initiatives in the
  Structural Frontier that would be most
important to stakeholders; and
- A plausible action plan for each of the
  priority initiatives, including the struc-
ture and composition of the coalitions
that would need to be built.

**Virtue Matrix Strategy**

The corporation’s Virtue Matrix
Strategy pulls together the assessment
from each of the four quadrants to pro-
duce a comprehensive strategy as follows:

- The corporation’s goal, with respect to
  the overall Virtue Matrix:
  - to be known for being 100 per cent
    compliant, leading adherence to
    norms and conventions, being an
    innovator in the Strategic Frontier
    and an instigator of coalitions in
    the Structural Frontier; or
  - to be as compliant as necessary
    without getting into trouble, a “fast
    follower” on new norms and con-
    ventions, and able to avoid the risks
    associated with the Frontiers; or
  - some combination of these two
categories;
- The top five initiatives that warrant
  the most urgent action, drawn from
the 8 to 12 highest priority initiatives
across the four quadrants;
- A comprehensive action plan for each
  of the five priority initiatives; and
- A plan for communicating the corpora-
tion’s overall Virtue Matrix Strategy
  and its individual initiatives.

With such a Virtue Matrix Strategy in
place and well-communicated, the corpor-
ation will be well-positioned to fend off
attacks from single-issue CSR critics who
say: “Why aren’t you doing the following
for society? You would, if you were a
responsible corporation.”

Rather than responding defensively, as
many corporations do today, the company
would be able to answer thoroughly and
confidently any questions about what it is
doing and why. The company could out-
line the reasons why that strategy makes
the most sense for both the corporation
and society. And it would be more likely
not to be asked the question in the first
place, because its commitment to CSR as
well as to shareholders would be evident
from the execution and communication
of its Virtue Matrix Strategy.

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The Institute was created in late 2004
with the generous support of AIC
Limited’s Chairman and CEO, Michael
Lee-Chin; its purpose is to help current
and future business leaders integrate cor-
porate citizenship into their business
strategies and practices by creating
and disseminating a robust, actionable
decision-making model.