Case Study - NAC Enterprises and CSR Plans

NAC Enterprises is privately held and managed by the 3rd generation Nac family. Annual sales are around $200~ million with around 400 employees located across the U.S. NAC is proud of the long-term collaborative partnerships that they continue to grow and develop with their employees, customers, and suppliers. Continuous improvement and innovation are the heart of NAC as they seek to be the "Go-To Provider" of goods and services that make the products we ultimately use as consumers the best that they can be. Their Quality Policy is Driving Customer Satisfaction through Commitment, Communication, Creativity, Collaboration and Celebration. They strive to be the market leader by having and monitoring quality objectives, satisfying applicable requirements, and continuous improvement of the Quality Management System.

NAC Enterprises is one of the leading suppliers of processing aids and equipment to the entire beverage industry, focusing on the beer, wine, juice and distilled spirits segments. NAC continues to manufacture and exclusively represent many world-wide suppliers of superior products for fermentation applications. NAC also has developed a dominant leadership position in the manufacture and distribution of filtration products (depth filter material, fiber, sheets, stacks, cross flow) and specialty products such as absorbent products and other custom materials. These products are used in a variety of industrial and commercial applications. NAC's manufacturing plants have achieved ISO 9001 status and GMP certification.

The values of Integrity and Respect in addition to Commitment, Communication, Creativity, Collaboration and Celebration are the cornerstone values of NAC's operating vision. NAC claims, "People want to work with NAC because we care about them and what we do**."** NAC is well-known for their quality, responsiveness, dependability, and flexibility in addressing business needs. NAC's offices/warehouses are strategically located throughout the USA, and their domestic and international distributors further enhance their accessibility to their customers.

As the consumer pressure builds for all companies to implement their own Corporate Social Responsibility (CSR) plans and sustainability goals, they begin to evaluate their own suppliers and supply chains. NAC's business model is focused on business-to-business sales and is often a strategic supplier in many companies' supply chains. As these external stakeholders are seeking information from consumers on CSR and sustainability initiatives, the onus is now on NAC to supply their sustainability commitments, such as carbon footprint, waste water and GreenHouse Gas (GHG) emissions.

NAC Enterprises is considering investing in a sustainability/CSR initiative. Its largest customer has asked for information on product specific carbon footprints (PCF). Other known descriptions for PCF include environmental product declaration (EPD), carbon footprint of a product (CFP), and supplier-specific emission factor (SEF). Since NAC does not currently have a framework in place to track this information, this key external stakeholder has asked when NAC Enterprises

will have this information in the future. Several other top customers, who have CSR plans of their own, have also inquired about NAC Enterprises' carbon footprint reports and CSR plan.

NAC's organizational structure allows for buy-in from various departments before a high-level strategy decision is made. This buy-in process often requires that a case is made to provide tangible support that a strategy would benefit NAC. This process often takes considerable time and prevents strategies from moving forward quickly.

The President is supportive of developing and implementing a CSR plan but questions if the resources are available to undertake a major initiative to put a plan in place. Recent business focus has been on increased manufacturing capacity. Manufacturing, quality and supply chain are resistant to additional pressures and requirements to implement an Environment Management System (EMS) plan due to (perceived) resource constraints. The finance/accounting department is open to the concept.

In a conversation at the operating committee meeting:

Company President: "As a stable family-owned business with a focus on innovation and significant R&D investment, we have an opportunity to finally implement a Corporate Social Responsibility (CSR) Framework, which would include a sustainability plan."

Head of R&D: "We are really efficient at research & development, as we are so much further ahead than our competitors in our product portfolio. The processes for R&D, although innovative, are slow. I noticed that some of our competitors, who recently implement CSR, are starting to report on their data. Implementing a CSR/Sustainability plan is not something that we have really explored. I agree with you that something needs to be done. There are also additional new regulatory requirements which need to be looked into, to ensure that we can do both well - new products and sustainability."

Head of Manufacturing: "We don't have time for this! We are working extra shifts just to meet the demand of the filtration business. I do not have anyone I can spare to look at sustainability or implement an EMS plan. We need to get the product out, no matter the cost, or what our resource use is. It's what we've done for years and it's worked."

Head of Human Resources: "Is there anything you need from me? This seems like a manufacturing, R&D and maybe supply chain issue? If you need resources, let me know and we can look into hiring or outsourcing."

Head of Marketing & Sales: "This could really help us in our market leadership position if we get this right. It would give the sales team a new opportunity. We needed this last year."

Head of Finance: "We need to know what this will cost us. We need this to be linked to value creation by keeping the cost of capital and operating costs in check as we think about this."

Company President: “The industry is changing, and with our leading positions, we need to do this. I am sure that there are some strategies that are out there that we can use for implementing a CSR/Sustainability plan. We need to consider how each aspect of implementing CSR/sustainability into our company impacts other areas within the company.” Since our manufacturing and R&D resources are currently overwhelmed, let me reach out to one of our manager’s, Nate, who is a doctoral student studying CSR and sustainability, to get recommendations on how NAC Enterprises should develop a sustainability and CSR plan.”

NAC Enterprises Teaching Guide/Instructor's Manual

Target Learning: MBA Students with a CSR focus

Course/knowledge Prerequisites: Organizational structure, ethics, systems thinking, general finance, supply chain management, product life cycle management.

Key Learning Objectives:
Students will be able to research, evaluate, analyze, and then generate a SWOT (situational analysis) and develop strategies for the organization.

Students will be able to analyze internal capabilities, then determine the competitive advantage of implementing a CSR Plan and apply the solution for the organization.

Students will be able to analyze stakeholder needs and internal capabilities, then determine the change management strategy and apply the solution for the organization.

Students will be able to examine, decide and create recommendations for use of linear versus systems theory in this organization.

Synopsis: A small private company under pressure from external stakeholders to share their environmental data (carbon footprint, GHG, etc.) The company does not have a CSR plan in place and has some resistance amongst senior leaders. The need to report on environmental data has been growing for some time and is now at a critical stage. The president of the organization is supportive in moving forward with this initiative and asking for a 'how-to' recommendation.

What four things are the most important background issues for your case?

1. External pressure on need to disclose environmental data.
2. Internal resistance on need for environmental data/action
3. Lack of current environmental measures (i.e., GHG, TBL, etc.) in place today
4. Reactive mindset regarding external pressures

Crafted Questions:

1. Based on the scenario, what are the Strengths, Weaknesses, Opportunities, and Threats (SWOT) to this organization?

SWOT Analysis		
	Strengths Financially Stable Family company (3rd gen) Focused products for diverse markets R&D focused Innovation Driven	**Weaknesses** Lengthy R&D review process Steady state is preferred. Tenure at manufacturing site a risk Lack of CSR/sustainability
Opportunities Market/geography expansion Supplier growth in new geographies Growth with top accounts by leveraging sustainability/CSR	**S-O Strategies (Invest, Capitalize)** Capitalize in & invest in sustainability/CSR. Invest in Supplier growth in new geography & top accounts. Invest in assets (facilities, manufacturing, storage)	**W-O Strategies (Develop, Outsource)** Develop CSR Develop R&D efficiencies Outsource consultant for efficiencies.
Threats Regulations for filtrations Increased regulations on beverage side Customer requests for CSR. Top Customer impact to business	**S-T Strategies (Repel, Counter)** Counter regulatory changes with improved structures/capabilities internally Repel changes by being on the working groups for regulations. Diversify strength of top customer base	**W-T Strategies (Defend, Withdraw)** Do not develop CSR. Defend market position using existing tactics/methods. Withdraw from current customer base

2. Based on the mission-vision-purpose of this organization, what opportunity costs need to be weighed when deciding which CSR plan to implement?

   Following Grant's resource base theory for competitive advantage, a good starting point should come from the firm's identity and purpose, in the form of a mission statement, to

identify customers and their needs the firm is looking to serve. NAC's Vision Map, Appendix 1, states that their vision is to "Create and deliver success through experience and innovation solutions." It also states, "People want to work with NAC," "NAC Enterprises is the 'Go-to Provider,'" and these lead to "Increasing Value." In order to meet the Vision Map they have implemented; NAC needs to weigh the opportunity cost of meeting their customer's request for PCF data versus its internal capabilities of being able to produce this information in the customer's desired time frame.

According to Grant's resource base theory for competitive advantage, organizing a firm's capabilities is a difficult task and it involves the finessing of organizational routines to achieve cooperation and coordination between resource teams. There is always a tradeoff between efficiency and flexibility. The strategy NAC chooses should constantly push capabilities slightly beyond their limits at any point in time. This pushes towards efficiency improvements/perfection and aids in developing current capabilities for future strategies.

3. Based on the organizational structure what considerations would you need to take into account to develop and implement a CSR plan appropriate for this organization?

   Using Grant's resource base theory for competitive advantage, NAC should follow a 5-stage process for strategy formulation:

   1. Analyzing the firm's resource base;
   2. Appraising the firm's capabilities,
   3. Analyzing the profit-earning potential of a firm's resources and capabilities;
   4. Selecting a strategy; and
   5. Extending and upgrading the firms pool of resources and capabilities

   Internal resources and capabilities provide the direction for the firm's strategy and are the primary source of profit. NAC's key customers are their primary source of profit and their needs need to be met or they risk losing them as customers in the future. NAC should identify its internal gaps which should not only focus on the deployment of existing resources but also the development of the resource base. This development and deployment process requires replacement investment and augmentation continuously. NAC is an experience and innovation driven organization. Since they don't have internal experience with CSR/Sustainability planning, they should look towards an outside firm to aid them in gaining knowledge to get a strategy plan together and off the ground.

4. What strategy should NAC's President use to implement a CSR/Sustainability plan?

   The core of the case is how to implement change in an organization. One framework the President could follow is Kotter's 8 steps for leading change.

   Step 1 - Establish a sense of urgency. NAC's customers have their own sustainability initiatives and CSR plans; now they are asking them from their suppliers too. For being an innovation driven organization, they are now playing catch up to meet the needs of their customers. NAC can assume its main competitors are developing their own

CSR/Sustainability plan to meet these demands as well. The President needs to convey the urgency of the situation to the other heads of departments.

Step 2 - Form a powerful coalition. In order to build momentum internally, the President needs to form a powerful coalition with key internal stakeholders. The President needs R&D and Manufacturing committed to the cause and willing to commit resources to developing a plan.

Step 3 - Create a vision to direct the change effort. The President needs to affirm the firm's commitment to following its Vision Map, which could also incorporate new verbiage in it to include sustainability. A new vision statement could read "Create & deliver success through experience and innovative solutions in a sustainable manner."

Step 4 - Communicate the vision. The President should use every mode of communication possible and frequently to communicate the vision to the entire organization. An initial communication release could be sent in an email with the updated vision statement communicating NAC's vision for sustainability. In order for the new vision statement to gain traction, discussing sustainability should be interwoven into daily communications and conversations making it a focal point of company culture.

Step 5 - Empower others to act. The President can't be pulling all the levers to make the implementation happen, so others, such as the department heads and key line leaders, need to be empowered to make decisions and take risks involving nontraditional ideas.

Step 6 - Plan for and create short term wins. A comprehensive CSR plan can take years to develop. NAC should take a stepped approach in developing their CSR plan. The immediate need is to get their key customers PFC and GHG reports. In order to do so, a framework must be in place to benchmark, track and report on the findings. For these specific reports, ISO 140001 should be used as a framework. As momentum builds, long term goals can be set to create an overall CSR plan. By year two, in conjunction with GRI reporting, a Sustainability Report can be created. To build upon that, NAC should next focus on developing a Social Responsibility report using ISO 26000 as a framework. By year three, joining the Environmental Sustainability report and Social responsibility report, NAC could create a comprehensive CSR plan. Throughout this process, employees contributing and encouraging change towards implementation should be recognized and rewarded.

Step 7 - Consolidate improvements and create more change. As the initial sustainability framework implementation process nears completion, the powerful coalition needs to build upon the credibility it has achieved with its short-term wins and promote further institutional change throughout NAC. Promoting and hiring new employees that can implement the new vision will be needed.

Step 8 - Institutionalize new approaches. The tangible gains NAC receives from implementing a sustainability framework and ultimately a CSR plan should be celebrated and used to push towards creating new cultural norms within NAC. Succession planning

for senior leadership needs to be able to meet the future needs of NAC's new sustainability vision.

5. Traditionally, companies use linear thinking versus systems thinking. In reviewing this case, which thinking methodology would best support implementation of CSR/ sustainability and the business strategy? Why? Defend your position on the impact to the organization as a whole.

   Linear thinking is also known as "open loop" thinking because decisions are "unaffected by the decisions themselves." This is quick fix thinking. A problem needs fixing, so apply the fix and the problem is solved; so linear thinkers contend. Linear thinking assumes that cause and effect are "close in time and space." Many authors clarify that "effect" means the symptom or issue resulting from the underlying, undetected problem, which might be declining attendance, ineffective discipleship, non-existent outreach, or decreased giving, for example.

   Systems thinking, on the other hand, is "closed loop" thinking. Closed loop thinking understands that every decision affects the system and its context. And that decision will produce change in the system and the context, which will, in turn, impact the system. In closed loop thinking, "every change changes everything."

   An integrated approach can help define the ambiguity of sustainability by understanding what is valuable. Integrated management is the process of including Environmental, Social and Governance (ESG) performance in close coordination between business processes, functions, groups, organizations, and systems. Systems thinking provides an understanding of a system by examining the linkages and interactions between the components that comprise the entirety of the defined system (Sroufe, 2018).

   For this case, it is alluded to that there are interconnections between the functions if CSR/Sustainability is implemented. The Head of Manufacturing is demonstrating linear thinking; the Head of Marketing and Head of R&D are demonstrating systems thinking, etc. A table to evaluate where each Department Head is would be a valuable exercise.

   Depending on the thinking model chosen, students should provide information regarding how linear and systems thinking impacts organizational strategy (i.e., strategic plan is every 3-5 years for linear thinking, whereas it's continuous for systems thinkers)

6. Optional/Alternative Question: What limits the integration of sustainability into an enterprise?

   This question is designed to have students think about all involved aspects for integrating this type of change. Topics to discuss include but are not limited to:
   - Does this change our competitive advantage? Is this a core competency that we need to develop?
   - Where, who and how is the support for this initiative coming from? Where are the risks?

- Change management and mindset changes are needed; what are they?
- What technology is needed for measurement/metrics?
- What are the competitors doing? Have there been negative spillover effects from bad press which may impact implementation?
- Are there challenges with core values, culture, responsibility with this topic which need to be addressed?
- Does the business have a sense of urgency with this? Are they being impacted directly and therefore more or less motivated by this change?

Thoughts here are that this may be multifactorial: 1) improved sustainability is not valued in internal capital allocation decisions; 2) the goals of the corporate sustainability teams and financial teams are not well aligned; 3) enterprises lack metrics to account for external environmental costs and; 4) sustainability factors, such as climate change and water scarcity are not being fully integrated into the long-term business strategy (Sroufe, 2018).

Resources by Question

Question 1

SWOT analysis with TOWS:
https://www.smartinsights.com/marketplace-analysis/swot-analysis/swot-analysis/

Question 2 & Question 3

Grant's Resource Theory:

> Grant, R. M. (1991). The resource-based theory of competitive advantage: Implications for strategy formulation. California Management Review, 3, 114.

Question 4

Kotter - Leading Change:

> Kotter, J. P. (2007). Leading change. Harvard Business Review, 85(1), 96-103.

Other change theorists

Question 5

Linear vs Systems Thinking:

https://luminexusa.org/wp-content/uploads/2020/03/Systems-Thinking-Series-Week-1-Part-2-Linear-vs-Systems-Thinking.pdf

Question 6

No additional resources

References

Sroufe, Robert (2018). Integrated Management: How Sustainability Creates Value for Any Business. (first ed.) Emerald Publishing Limited

Appendix 1

Vision Map

Figure 1