



Microsoft Corporation: Global CSR Strategy

Sustainability case studies brought to you by Flagship.

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1. INTRODUCTION

Microsoft Corporation is one of the best-known multinational companies in the world and figures as one of the biggest producers of computer software and services. It was founded in 1975 by Bill Gates and Paul Allen and its headquarters is based in the state of Washington, USA. It has around 114,000 employees and in 2016 its net revenue was 16.8 billion dollars.

Unlike its well-known owner Bill Gates, from the CSR point of view Microsoft does not specialize predominantly in philanthropy, but is dedicated **to various important topics that drive its business towards sustainable development.**

CSR and sustainability commitments of Microsoft are very widespread and therefore we have decided to focus this case study on only one of the topics covered in their CSR strategy – **responsible sourcing**. Through sourcing Microsoft influences thousands of suppliers around the world. First, however, let's have a look at their global [CSR strategy](#).



2. GLOBAL CSR STRATEGY

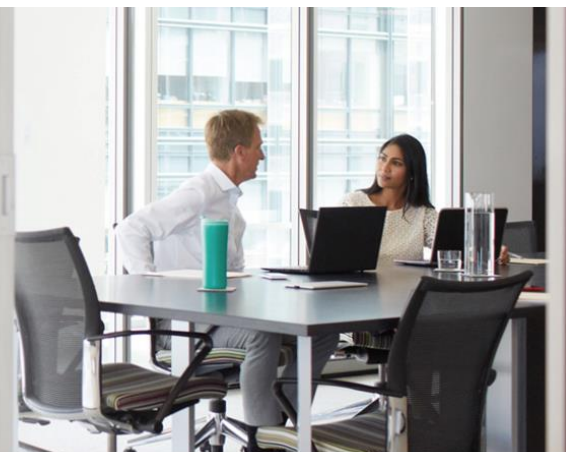
✓ CSR in hands of top management

The key to success of any well-established CSR strategy relies on it being the responsibility of the company board. In Microsoft, there is a Regulatory and Public Policy Committee of the Board of Directors that was delegated with responsibility of providing guidance to the Board of Directors about the company's policies and programs that relate to corporate citizenship, including human rights, environmental sustainability, corporate social responsibility, supply chain management, charitable giving, and political activities and expenditures.

Furthermore, there is Microsoft's Business and Corporate Responsibility (BCR) team that functions as part of Corporate, External, and Legal Affairs group. The Corporate Vice President of Business and Corporate Responsibility reports directly to Microsoft's President and Chief Legal Officer, who reports to CEO Satya Nadella and sits on Microsoft's Senior Leadership Team.

Governance of corporate social responsibility

We work to earn the consistent trust and confidence of the public, our customers, partners, employees and shareholders.



✓ CSR strategy main pillars

Microsoft has divided its CSR strategy into 3 main pillars, all of which it continuously develops and aims to continuously improve. Specific topics of each of the pillars reflect on the stakeholder dialog and material topics identified by them as key for the success of the company as well as their own well-being.



Principles

- Human rights
- Privacy and data protection
- Corporate governance and ethics
- Public policy engagement
- Responsible sourcing



People

- Empowering our employees
- Accessibility to technologies by all
- Empowering our communities



Planet

- Climate and energy
- Water and waste
- Products and partnerships

✓ Strategy foundation – stakeholder engagement

STAKEHOLDERS

Microsoft is well-aware of how it impacts and equally is dependent on many people or groups with which it comes into direct or indirect contact. It, therefore, collects inputs and opinions of millions of people (ranging from customers to regulators or human rights specialists), to make sure they inform their decision-making. Microsoft then publicly shares their learnings to influence the CSR and sustainability debate in their industry, to inform public, but also to encourage general progress in sustainable development.



STAKEHOLDER ENGAGEMENT EXAMPLES:

Suppliers

Microsoft engages with suppliers through capacity-building workshops and trainings, supplier advisory boards, an annual supplier summit (hosted by them), and participation in industry coalitions, such as the Electronics Industry Citizenship Coalition. They also conduct anonymous Voice of the Supplier Surveys, which include questions on CSR issues. Their work to address environmental and social issues in collaboration with their suppliers is reflected in the [Responsible Sourcing section](#) of their reporting website.

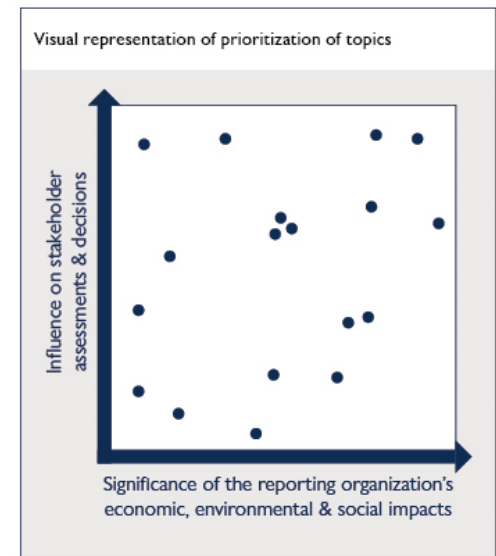
Investors

Engagement with investors has influenced many important parts of Microsoft's CSR strategy, such as human rights commitments under the Global Network Initiative, a collaborative effort between information and communications technology (ICT) companies, human rights groups, socially responsible investors, and others.

✓ Strategy foundation – identification of material topics

Microsoft uses guidelines set up by the Global Reporting Initiative (GRI) in order to determine its material topics. It means it engages in dialog with all of its important stakeholders, learns which topics they are interested in and reflects on them in their CSR strategy. The material topics defined by their stakeholders are:

1. Access to technology and economic opportunity
2. Climate change and energy
3. Corporate governance
4. Data privacy and security
5. Device lifecycle impacts
6. Environmental/social applications of technology
7. Ethical business practices
8. Human capital
9. Human rights
10. Responsible sourcing and manufacturing



Microsoft includes these topics **within the 3 main pillars of their CSR strategy** and sets up specific activities for fulfilment of their goals related to each topic. Company's stakeholders are regularly informed about progress and results in each area.

To better understand their CSR strategy, we will now have a look at how Microsoft deals with one of the ten topics: excellently defined area of Responsible sourcing.

3. SELECTED TOPIC: RESPONSIBLE SOURCING

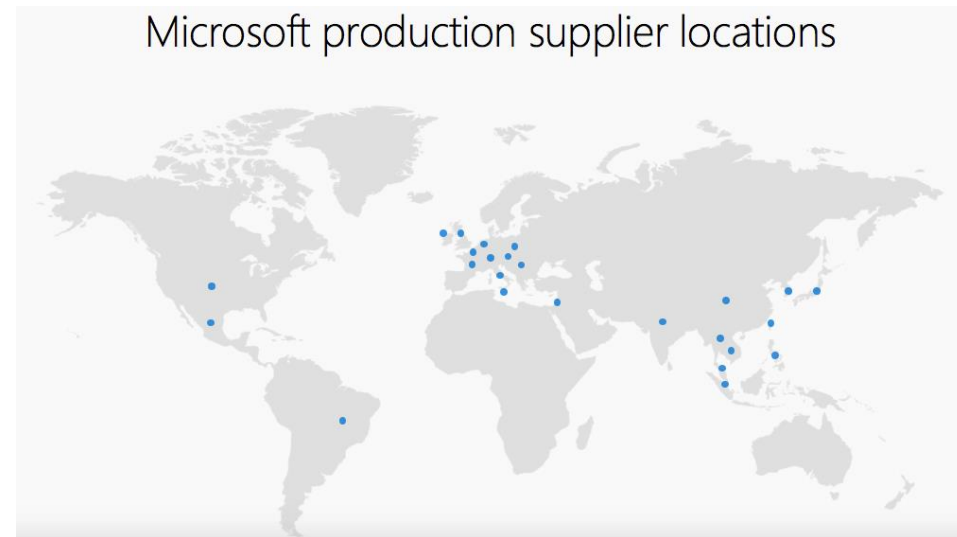
One of the biggest impacts Microsoft generates on its surroundings, is realized through responsible sourcing and production. It established rigorous standards and works with all of their suppliers in a way, so that they can all adhere to them and so that their partnership is based on mutual trust and support.

Microsoft works with thousands of suppliers all around the world. Supplier support extends to all hardware suppliers, key to produce Microsoft products, as well as to suppliers of components that are used for hardware production, including all their indirect suppliers responsible for all the services ranging from advertising, construction to maintenance. Each supplier must comply with the same conditions set up in the extensive [Supplier Code of Conduct](#) covering human rights issues, health and safety regulations, environmental requirements and business ethics.

Microsoft's [Responsible sourcing policy](#) is realized through:

1. **Analysis of risks and opportunities**
2. **Assurance and accountability**
3. **Capacity building**
4. **Creating shared value**
5. **Raw material sourcing policy**

These 5 areas will now be explored in detail.



1. ANALYSIS OF RISKS AND OPPORTUNITIES

Analysis of risks and opportunities is carried out through **careful evaluation of social and environmental impacts of all supplier activities** aided by Microsoft's Audit Management System (AMS). AMS contains an overall profile of every supplier, allows for easy analysis, overview of results and simplifies corrective actions.

With the sheer amount of raw materials used in its supply chain, **Microsoft assesses all potential risks associated with raw material sourcing.** Assessment is carried out based on the risk to Microsoft's supply chain, material-specific social and environmental risks and Microsoft's ability to influence and impact production of those materials.

All other suppliers (excluding hardware) **are assessed based on 23 different ethical, social, and environmental risks by country and by commodity category.** Suppliers with the highest risks go through special assurance programs and training on privacy, security and anti-corruption.

23

The number of different ethical, social, and environmental risks Microsoft uses to screen our non-hardware suppliers.

2. ASSURANCE AND ACCOUNTABILITY

Microsoft systematically supports all of their suppliers, especially the direct and indirect hardware ones, with the goal to move them **from reactive compliance to self-management**, so they can embrace a **culture that fosters social and environmental accountability**. Suppliers are encouraged to develop their own management systems leading to progress and risk prevention. This transformation allows for active risk management, performance monitoring and continuous improvement. The final goal is **to integrate Social and Environmental Accountability (SEA Culture) into their overall business management and to make it part of their DNA**.



Supplier SEA Engagement Approach

We systematically and proactively engage with our hardware and packaging suppliers to communicate our requirements and expectations. Our four-step Social and Environmental Accountability engagement approach includes an initial assessment and audit as part of our onboarding process, as well as ongoing engagement and monitoring.

Step 1: Onboarding Requirements



Step 2: Assessments, audits, and scorecards



Step 3: Corrective Action and Validation



Step 4: Continuous Improvements



3. CAPACITY BUILDING

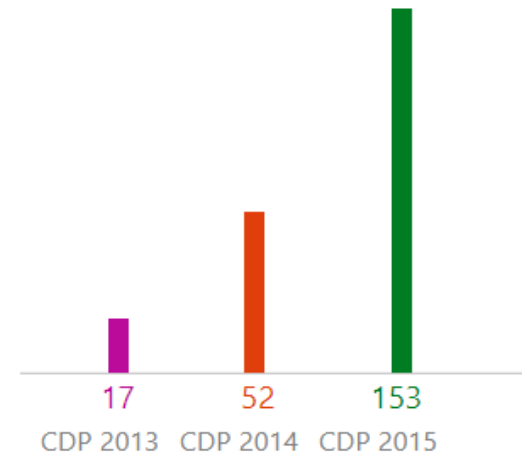
Controlling and auditing suppliers can only be effective in the short term, unless the company helps to develop their long-term expertise in this field as well as understanding, why certain activities are required from them. Microsoft has, therefore, developed specially designed training and programs for sharing experiences.

Specific example: Supplier carbon emissions reporting

CDP (Carbon Disclosure Project) reporting, Microsoft engages in, includes emissions associated with direct manufacturing and emissions coming from 80 % of their suppliers (by spend). All indirect suppliers are also engaged in CDP Supply Chain Program to provide them with a standardized platform for a better understanding of the risks and opportunities that climate change presents to them.

The success of training programs led to **a nine-fold increase in CDP questionnaire responses**, from 17 to 153. The 153 suppliers that disclosed in 2015 reported \$4 billion invested in emissions reduction activities, **reducing their collective footprint by 5.6 million metric tons of carbon dioxide equivalents (CO₂e) and saving them \$865 million.**

The carbon reduction made by our indirect suppliers is equivalent to the annual emissions of 750,670 American households.



9x increase in indirect suppliers disclosing climate change impact

4. CREATING SHARED VALUE

By creating a shared value, Microsoft focuses on developing added value and long-term partnership with its suppliers. The company strives to create terms of partnership that benefit the company itself, as well as their suppliers and those who work for them.

An example of this is a [Supplier Diversity Program](#) aimed at increasing supplier diversity – encouraging businesses owned by women, veterans, minorities or other disadvantaged and small businesses. Diversity support is not limited to main hardware suppliers, but extends to all other suppliers such as law firms, banks or other financial institutions whose services Microsoft uses.

Top 20 in
the world

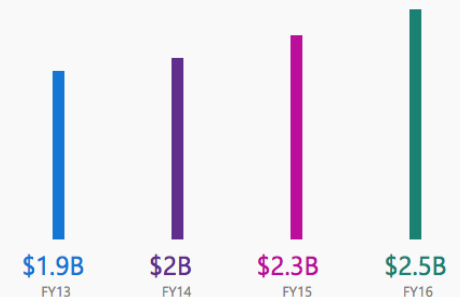
Microsoft's place in terms of global spending with businesses led by historically disadvantaged groups.

Microsoft also creates an added value by supporting education in technology and technological skills. [Microsoft's YouthSpark Supplier Community Technology Center](#) (CTC) offers all suppliers, their employees and local community members a special set of training that provides participants an opportunity to receive a no-cost Microsoft Digital Literacy certificate, a key qualification for many technology jobs.

To date, 16 suppliers have launched centres at 26 locations in 14 countries and trained 60,000 participants to achieve a Microsoft Digital Literacy Certificate.

Microsoft also helps their suppliers to hire and train disadvantaged workers and awards those with significant positive social and environmental impact through their [MSP Excellence Awards Program](#).

Microsoft spending with businesses owned by minorities, veterans, and women



5. RAW MATERIAL SOURCING POLICY – CONFLICT MATERIALS

From 2010 the US Dodd-Frank Act requires all businesses to publish information on whether they source any minerals from conflict zones such as the Democratic Republic of Congo (DRC). Some of the most common conflict minerals are tin, tantalum, tungsten and gold. Extraction of these minerals is often linked to violations of human rights and profits from their extraction are used to fund armed conflicts in these high-risk regions.

Based on this Act, Microsoft has been publishing their annual **Conflict Minerals Report** ([last report](#) from May 2016) since 2014.

They have also established a special strategy for [Responsible Sourcing of Raw Materials](#), are one of the founding members of [Conflict Free Smelter Initiative](#) aimed at supporting non-conflict mines and back one of their main projects – the Conflict Free Smelter Program (CFSP) that assesses and audits the risks associated with individual mines based on rigorous standards.

Microsoft also actively cooperates with their competitors, global and local NGOs and industry associations to encourage standard-setting practices, best practice sharing and alignment across their industry as well outside of it.



For the 2016 reporting year, 87% of suppliers were either compliant or on the CFSP active list (85% in 2015 and 73% in 2014). Out of 303 smelters prone to risk, the number of CFSP compliant smelters increased significantly from 213 to 249.

4. INTERESTING FACTS

✓ Protection of environment and carbon neutrality

In 2012 Microsoft has reached the goal of becoming **carbon neutral across all its operations**, including their data centres. Their commitment spreads over more than 100 countries around the world. To encourage even greater responsibility for their carbon emissions they have set up a special “**carbon fee**” to put a price on their carbon emissions (resulting for example from using air travel) across all their business groups. Collected funds go to:

- **Internal energy efficiency investments**
- **Purchases of renewable energy equal to 100 percent of their consumption**
- **Externally certified carbon offset projects**
- **Support for e-waste recycling and renewable energy innovation**

Since the inception of the carbon fee, Microsoft has:

- ✓ **Purchased more than 14 million megawatt-hours (MWh) of green power.**
- ✓ **Reduced company-wide emissions by more than 9 million metric tons of carbon dioxide equivalent (mtCO₂e).**
- ✓ **Supported the lives of more than 7 million people in emerging nations through carbon offset community projects.**



✓ Inclusive design – products for people with disabilities

There is more than a billion people with some kind of disability in the world. Respecting their right to lead an independent life pushes Microsoft forward to ensure equal access of everyone to use their technologies.

In 2016 a new Microsoft team was created to increase **accessibility of Microsoft products for people with disabilities**. They have since created e.g. [Learning Tools for OneNote](#), a toolbar add-in that improves the reading and writing experience, especially for those with dyslexia or [Cities Unlocked](#) project, which uses Microsoft 3D soundscape technology to help people with vision loss navigate around town more easily.

Microsoft has also launched a special customer support for disabled – [Disability Answer Desk](#). Their team is trained to use many popular assistive technologies, communicates in three languages over the phone or via online chat and with a videophone they manage to support their customers in sign language (so far only in the US). **In 2016, this customer support handled more than 10,000 calls.**

5. ABOUT FLAGSHIP

This case study was prepared by Flagship CSR Consultancy, first specialised sustainability consultancy in the Czech Republic focused on sustainability strategy, corporate responsibility and non-financial reporting.

Flagship belongs to the pioneers of responsible business in the country and is the data partner of Global Reporting Initiative (GRI), international non-financial reporting standard organisation, in the Czech Republic and Slovakia. Our company is also a proud certified B Corporation, a movement that brings together companies that use their businesses to solve social and environmental problems, act transparently and responsibly.

Apart from corporate sustainability strategies and non-financial reporting, Flagship also implements CSR management systems into all types of businesses – ISO 26000, UNGC, OECD Guidelines, SA 8000 and others.

“We make responsible business happen and change the world for the better.”

We will be happy to work with you, please feel free to get in touch with us at info@flagship.cz or call us at +420 222 317 685.

www.flagship.cz/en