

SENSE AND SUSTAINABILITY

Inaugural lecture – David Grayson, Doughty Chair of Corporate Responsibility,
Cranfield School of Management – October 2007



This lecture was given at Cranfield on Monday October 15th and at the Merrill Lynch European Headquarters in London on Tuesday October 16th 2007

THE DOUGHTY CENTRE FOR CORPORATE RESPONSIBILITY

VISION

Sustainability and responsibility at the heart of successful management.

MISSION

To inspire future and current managers with the passion for, and to equip them with the skills and outlook to put sustainability and responsibility at the heart of successful organisations.

The Centre has been made possible by a personal donation from Nigel Doughty - one of the Cranfield alumni. Over the next five years we aim to establish a leading European Centre for the research, teaching and practice of all aspects of Responsible Business.

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INAUGURAL LECTURE – SENSE AND SUSTAINABILITY – IMPROVING THE PRACTICE OF RESPONSIBLE MANAGEMENT

“Earnest,” “dull,” “misguided,” “irrelevant,” “anti-business,” “vague,” “confusing,” “PR-spin,” “an oxymoron!” I have heard all those descriptions used of Corporate Responsibility over the years – and more. And there is – or can be – more than a grain of truth in all of those criticisms. And yet, the critics don’t convince me.

I also see:

- BskyB goes carbon neutral itself and then persuades its parent company NewsCorp to set a similar goal.
- Lafarge recycles waste ash from power stations into low-carbon cements, saving 1.6 million tonnes of ash going to landfill and conserving more than 2 million tonnes of primary aggregates, preventing the creation of 120,000 tonnes of CO₂.
- Merrill Lynch uses its core skills and knowledge to develop new environment-related financial services and products.

This is business harnessing its creativity and entrepreneurial skills to find commercially attractive solutions to global problems. As President Clinton said the other day at the New York Launch of the latest Carbon Disclosure Project Report V:

“Almost every one of the commitments in the climate change area [of his Clinton Global Initiative] are actually good business that I believe will probably make a profit for the people making the commitment. Does that make it a bad thing? No, that makes it a good thing. Think how many fewer problems society would have if all social problems could be solved with a profitable solution. Just look at the Walmart experience in the last few years. They’ve cut packaging a mere five per cent, and its going to save their supply chain \$3.5billion and it has the impact of taking 210,000 diesel trucks off the road.”

So, my purpose tonight is three-fold:

- 1.** To talk what I hope is commonsense about Corporate Responsibility – what is it, how has it developed, why is it so important to business and to the world?
- 2.** To explore what it means for business and especially for the practice of management
- 3.** To explain what I hope the new Doughty Centre, as an integral part of the Cranfield School of Management, can do to help improve the practice of responsible management – both ourselves and then by influencing other business schools around the world so that business minimises its negative environmental and social impacts and maximises its positive contribution towards greater environmental and social sustainability – profitably.

And all in 50 minutes – although you should never believe the short-term forecasts of an ex-Procter & Gamble brand manager!

I am going to talk principally about big business although I will touch on what we are going to do in relation to smaller firms. And whilst I am talking largely about business, Cranfield is a School of Management – and much of my argument applies to our guests from the public and the charity/non-profit sectors as well. And, of course, all of us as individual consumers and active citizens and as owners of businesses through our pension funds and our savings and life insurance funds can influence business behaviour, if we want to. So as you listen, please hold two questions in your head:

1. What does this mean for me and my organisation?
2. Where could we work with the Doughty Centre to make faster progress?

THE EVOLUTION OF CORPORATE RESPONSIBILITY

Do the roll-call of some of the seminal moments in the evolution of our understanding of Corporate Responsibility:

- Bhopal disaster, India
- Guinness insider trading scandal
- Exxon Valdez, Alaska
- Shell Brent Spar and Nigeria
- Nike "sweatshops"
- BP Colombia and security
- Monsanto and GMOs
- Blood diamonds
- Seattle anti-globalisation protests
- Mars, Cadburys, Hersheys and child labour allegations in West Africa
- Chiquita & right of association
- Collapse of pharmaceuticals' court case against South African Government
- Enron, Worldcom
- Parmalat
- "Supersize Me" obesity
- Coca Cola & water supplies, Kerala /India
- Google in China controversy
- BP North America - Texas
- Olympics merchandise and child labour

It seems a long time since Bhopal, or even since Brent Spar and the Body Shop campaign against Shell in Nigeria. When I read the obituaries to Anita Roddick last month, I was particularly struck by the editorial in the *Financial Times* and the piece in *The Economist*, that recognised she was part of the movement that changed our ideas about the role and responsibilities of business in society. But it feels as if there is a new intensity to debates about the behaviour and the purpose of business. As *The Economist* noted last month (In Search of the Good Company, September 6th 2007):

"The debate about the social responsibilities of companies is heating up again... If you believe what they say about themselves, big companies have never been better

citizens. In the past decade, 'corporate social responsibility' (CSR) has become the norm in the boardrooms of companies in rich countries, and increasingly in developing economies too. Most big firms now pledge to follow policies that define best practice in everything from the diversity of their workforces to human rights and the environment."

Rarely a day goes by without a series of media stories about Corporate Responsibility. Andrew and Nada Kakabadse have recently reviewed the academic literature on Corporate Responsibility in "Delving Deep." But even just a glance at Wikipedia shows Corporate Responsibility or CSR remains hugely contested as a perusal of some of the editing in recent years of the Wikipedia definition of CSR shows:

- "Corporate social responsibility is a slogan or ideal mandating that large, highly profitable corporations provide support for socialist, environmental and other (mostly Liberal) initiatives."
- "Business case for CSR: Attention diversion – corporations may undertake high-profile CSR programmes in an effort to distract the public from the ethical questions posed by their core operations."

As with most debates there is some truth in both propositions viz:

- Some of the running has been made by non-governmental organisations (NGOs) and activists – not all of which like business nor understand the complexities of running a modern business;
- and equally, there are still too many companies where, as Julia Cleverdon from Business in the Community (BITC) says, "the launch, the lunch and the logo" still rules OK!

I was in a walled town in Tuscany this summer. I saw two women arguing violently with each other across the street from upstairs balconies. They were still arguing when I retraced my steps later. I don't understand a word of Italian – but I knew they were never going to agree – because they were arguing from different premises! You just had to leave them to it – and I suspect the same applies with the two extremes against Corporate Responsibility.

WHAT IS A COMPANY FOR?

Since I was a child growing up in what was then a mining village in north Derbyshire, I have viscerally believed in the positive power of enterprise. I believe in profits! It would, of course, be rather hypocritical of me to have come to Cranfield to establish the new Doughty Centre, which has been made possible by the personal generosity of one of our alumni who has given some of the profits he has made in business, if I did not believe in profits! I do believe in profits – but I don't believe that the purpose of business is to make profits; nor that "There is only one social responsibility of business - to engage in activities designed to increase its profits, so long as it stays within the rules of the game" as the late Milton Friedman memorably argued in an article you can read in the Sources and Resources section of the Doughty Centre website.

Rather, I agree with the managing-partner of McKinsey worldwide, Ian Davis, who wrote in a special "By Invitation" piece in *The Economist*:

*"Paradoxically, the language of shareholder value may hinder companies from maximising shareholder value in this respect. Practised as an unthinking mantra, it can lead managers to focus excessively on improving the short-term performance of their business, neglecting important longer-term opportunities and issues. The latter would include not just societal pressures, but also the trust of customers, investment in innovation and other growth prospects."*¹

(You can also access the Ian Davis piece from the Doughty Centre website: www.doughtycentre.info) I am also reminded of what Charles Handy writes in "The Empty Raincoat" (page 15):

"We misinterpreted Adam Smith's ideas to mean that if we each looked after our own interests, some 'invisible hand' would mysteriously arrange things so that it all worked out for the best for all... Adam Smith, who was a professor of moral philosophy, not of economics, built his theories on the basis of a moral community. Before he wrote "A Theory of the Wealth of Nations" he had written his definitive work – "A Theory of Moral Sentiments" – arguing that a stable society was based on 'sympathy,' a moral duty to have regard for your fellow human beings. The market is a mechanism for sorting the efficient from the inefficient, it is not a substitute for responsibility."

Yes – much of what is today covered by "Corporate Responsibility" can be justified using the Friedmanite doctrine, particularly if you take a medium to long-term time-frame. After all, if you are cavalier about health and safety at work, if you treat your staff poorly, if you don't create opportunities for employees to learn and to grow in their jobs, to balance work, family and personal commitments – then in today's Internet era, the word will get out. Pretty fast, you will find it harder to attract, retain and motivate people to give of their best. You will end up paying more in increased wages, in recruitment costs and in down-time whilst lost institutional memory is re-built. That is why one of the most powerful measures of a company's health is the percentage of staff who would positively recommend working for the company to their best friend.

You can repeat the arguments similarly for treating your customers well, developing your supply chain and so on. Increasingly, at least in the maturer, market-economy, open societies, this is recognised as just good business. Not without reason do Marks and Spencer now call their board committee dealing with Corporate Responsibility and Sustainability, "the way we do business" committee.

It would clearly be foolish and sloppy to suggest that it is axiomatic that anything claimed by business as Corporate Responsibility (or indeed as described as such by others) is necessarily either appropriate or beneficial for either business (individually / collectively) or society (including the environment). This is especially so if Corporate Responsibility is treated just as a bolt-on to business operations, when it has to be built-in to business purpose and strategy.

¹ The Economist May 26th 2005

THE REAL CORPORATE RESPONSIBILITY DEBATES

The real debates now, and what I want to discuss this evening and what I want the Doughty Centre to work on over the next few years are these:

- What is the purpose of business?
- Are you only responsible – only to do “the right thing” - where you can make it pay – i.e. where there is a business case?
- Why is the Friedman position insufficient?
- Why if there is a business case for so much of what is now called CSR or Corporate Responsibility do, by their own admission, even the companies which are on this journey, say it is so difficult?
- Is Corporate Responsibility, as Robert Reich has argued, a distraction from getting politicians and governments to act, and, by implication, potentially undemocratic?
- Who is going to set the agenda for what constitutes “good business” and will it be the same the world over?
- Are we claiming too much from Corporate Responsibility – for businesses and / or for the world?

PURPOSE OF BUSINESS

So, if the purpose of business is not “maximising shareholder value” what is it? To quote Ian Davis again: he urges “CEOs to articulate publicly the purpose of business in less dry terms than shareholder value. Shareholder value should continue to be seen as the critical measure of business success. However, it may be more accurate, more motivating, and indeed more beneficial to shareholder value over the long term, to describe business’s ultimate purpose as the efficient provision of goods and services that society wants. This is a hugely valuable, even noble, purpose.”

That is why I like the definition of the business leaders involved in Tomorrow’s Global Company Inquiry which reported this summer. The TGCI says the purpose of Tomorrow’s Global Company is “to provide ever better goods and services in a way that is profitable, ethical and respects the environment, individuals and the communities in which it operates.”²

DEFINING CORPORATE RESPONSIBILITY

In turn, that leads me to describe the responsible business as:

“One that has built-in to its purpose and strategy a commitment to deliver sustainable value to society at large, as well as to shareholders, and has open and transparent business practices that are based on ethical values and respect for employees, communities, and the environment.”

² Tomorrow’s Global Company: Challenges and Choices – June 2007

CORPORATE SOCIAL OPPORTUNITY

Three of the biggest shifts I have seen in the field over the past two decades in the debate about and the practice of Corporate Responsibility are:

- A shift from philanthropy and community activities to focus on the core - coherence and consistency.
- Three waves in terms of why do it: from noblesse-oblige; to business-case; to to-day's third wave of blended value: enlightened self-interest. When I was an undergraduate at Cambridge, I had the privilege of once having lunch with one of the leading politicians of the day – the late Sir Keith Joseph. Rather nervously, I asked Sir Keith – “why do people go in to politics.” There was a long, long silence – and I thought he had forgotten my question or worse, thought it was too silly to merit an answer. At last, with a long sigh, he replied, “all politicians go in to politics for a mixture of altruism and egotism,” he paused before adding, “it’s just the percentages which vary!” In my experience, business leaders committed to Corporate Responsibility do it for a mixture of “it just makes business sense and it’s just the right thing to do.” In practice, those percentages may vary for the same business leader depending on the topic; and certainly will vary even within a business and between businesses. I think we should stop searching for the Holy Grail of precise motivation. We would be much more sensibly employed on improving the practice of management so that whatever the particular motivation, the performance can be commercially viable.
- Within the business case, there has been a shift away from risk minimisation to one that emphasises more the opportunity – both in relation to employees and to innovation.

Adrian Hodges from the International Business Leaders Forum (IBLF) and I have argued – first in “Everybody’s Business” in 2001 and then in “Corporate Social Opportunity” in 2004, that Corporate Responsibility should not just be about risk-minimisation – but can and should also be about opportunity maximisation.

We were delighted that our argument was taken up in the *Harvard Business Review* last December by Professor Michael Porter and Mark Kramer:

“Corporations are not responsible for all the world’s problems, nor do they have the resources to solve them all. Each company can identify the particular set of societal problems that it is best equipped to help resolve and from which it can gain the greatest competitive benefit. Addressing social issues by creating shared value will lead to self-sustaining solutions that do not depend on private or government subsidies.”

When a well-run business applies its vast resources, expertise, and management talent to problems that it understands and in which it has a stake, it can have a greater impact on social good than any other institution or philanthropic organization.”³

³ Strategy and Society: Competitive Advantage and Corporate Social Responsibility
HBR Dec 2006 - Michael E. Porter and Mark R. Kramer

More importantly, we are now seeing this integration with strategy and link to opportunity maximisation occurring in numerous companies, such as GE with Ecomagination and Dupont and Marks and Spencer with their Plan A. I attended a stakeholders' progress report on Plan A in the summer, hosted by Stuart Rose. I was particularly struck by an unscripted answer from David Gregory, the very experienced head of Food Technology for Marks & Spencer. He explained that the very fact of the commitment to Plan A had spurred the company to go looking even more proactively for innovations that would deliver the Plan A targets. They had already found a number of technologies they had not previously been aware of. The commitment to sustainability was stimulating innovation.

Done well, i.e. with the practice of responsible management, Corporate Responsibility can help businesses especially in relation to employee satisfaction, corporate reputation and innovation. A review last year by professors from the IESE Business School in Spain – including four meta-studies – analyses of the findings of many other studies – shows that there is a positive correlation between sustainability and financial performance in the majority of the academic studies examined.

Tabla 2
Resumen de los resultados con respecto a la relación entre rendimiento social y rendimiento financiero

	Griffin y Mahon (1997)	Roman et al. Mahon (1997)	Margolis y Walsh (2003)	Orlitzky et al. (2003)	
Relación positiva	33	32	54	16+	27
Relación negativa	20	5	7	0+	2
Relación nula o no significativa	9	14	28	3+	-
Resultados mixtos	-	-	20	3+	23
TOTAL	62 (51)*	51 (46)*	109*	22*	52

Fuente: Adaptado de Allouche y Laroche (2006)

* El total de trabajos considerados no coincide con la suma de las diferentes conclusiones porque algunos de los trabajos ofrecen más de una conclusión según las variables utilizadas.

+ El rendimiento financiero es la variable independiente.

But I believe that Corporate Responsibility is not just important for individual businesses. It is important for business collectively.

CORPORATE RESPONSIBILITY – INTEGRAL TO WINNING THE CASE FOR OPEN, MARKET ECONOMIES?

It was briefly fashionable after the fall of Communism to talk of the end of history. It was always a misunderstood concept, but in the immortal words of the former British Prime Minister, the late Harold Macmillan: "events, dear boy, events" soon put paid to that.

Globalisation -

"...freer movement of goods, services, ideas and people around the world"... ⁴

...is not uncontested.

Financial Times July 24, 2007 LEADER: A difficult sales job:

"An FT/Harris poll, published yesterday, provides evidence that citizens of rich countries feel that globalisation is more of a curse than a blessing. Sadly, this is no great surprise. Unease about the effects of globalisation has been building for a number of years..."

The number of Britons, French and Spaniards who believe that globalisation is having a negative effect outweighs those with a more positive outlook by three to one. Opposition to globalisation is almost as strong in Italy and the US..."

Across the world there is widespread opposition to globalisation and to the big businesses which are seen to be driving it. What may seem inevitable in the boardrooms and the global stock markets often looks different in the favellas and in the terrorist training camps – there is a licence to operate which can be expanded or curtailed for individual businesses and for business generally.

To quote McKinsey's Ian Davis again:

"It can help to view the relationship between big business and society in this respect as an implicit 'social contract': Rousseau adapted for the corporate world, you might say. This contract has obligations, opportunities and mutual advantage for both sides." ⁵

I think well-conceived and well-executed Responsible Business practice is a bulwark of securing long-term societal belief in, and enthusiasm for, the market economy. Of course, that does require that mainstream, credible business leaders, credible with their peers, credible with society, follow the advice of Ian Davis that:

"It is time for CEOs of big companies to recast this debate and recapture the intellectual and moral high ground from their critics."

I also believe we should treat Corporate Responsibility as an integral part of the projection of what Joseph Nye has called "soft power", which is why the British Council interest in Corporate Responsibility is important. As the British Foreign and Commonwealth Office website states:

"Corporate social responsibility... fits well with other key FCO globalisation objectives – to promote sustainable development, tackle climate change and support peace and stability, as well as build respect for British values." ⁶

⁴ John Micklethwait & Adrian Wooldridge, *The Economist*

⁵ *The Economist* May 26th 2005

⁶ www.fco.gov.uk

RE-EXAMINING MILTON FRIEDMAN ON CORPORATE RESPONSIBILITY

According to *Forbes* magazine 2007, the world's 200 largest companies had combined sales last year of US \$13.5 trillion. For comparison that \$13.5 trillion exceeds the GNI of the world's largest economy: the USA (\$13.2 trillion).

Now, I have never bought the argument that the growth in scale and reach of international business means governments and states now have become powerless. It is, of course, an absurd argument but business in most countries is more centre stage thanks to privatisation, liberalisation and consequent globalisation. Not surprisingly, therefore, interest in how business makes its money and the impacts it has on society and on the environment, has grown too.

- Since I was a teenager, we have seen international business evolve from the transnational company (essentially a national company doing business across national boundaries) to the multi-national corporation (replicating its activities in largely autonomous national markets) to the global business – or what the IBM CEO now calls “the Global Integrated Enterprise” with diverse workforces, managements and boards; and integrated operations – “work flows where work is done best.”
- One of key consequences is the trading which now goes on within these global enterprises.
- More fundamentally, many of these global enterprises are now operating in many more national markets where public governance is weak. If I am an extractives business – mining, oil etc – is my responsibility only to pay the government where I am operating, the agreed royalties and licensing revenues even if I am suspicious about where those funds may end up – if I fear it could be a severe case of a different kind of AIDS – Acquired Income Deposited in Switzerland. Do I have any responsibility other than to hand over the money to the government?

As my friend and colleague Chris Marsden has recently written:

“One of your colleague directors has just come up with a proposal to relocate one of your plants to India to benefit from cheaper labour and lower health and safety regulations. Your Africa area manager is pressing you to sign a lucrative contract which entails a 30% facilitation fee, most of which you know will end up in the pocket of the trade minister. You have a strong equal opportunities policy in Europe, based on EU standards, but your business development in the Middle East depends on not appointing women to key positions. You are being offered excellent terms by a South American government for a major investment opportunity but you know this is strongly opposed by the indigenous community where the investment would take place. You are already facing criticism in the press for using the security forces of another South American country to defend your assets from attack by insurgent groups. You source manufactured materials from the Far East and suspect these factories use child labour...”⁷

⁷ The Troubled CEO – European Business Forum 2007

Chris Marsden and I discuss these and other arguments and examples for why we believe the old Friedmanite position needs to be re-examined, in a new Doughty Centre Occasional Paper.⁸

Global enterprises must not be the harlots of the 21st century: with greater power comes greater responsibility.

BUT IS CORPORATE RESPONSIBILITY UNDEMOCRATIC?

In his new book, "Supercapitalism"⁹, Robert Reich denounces CSR as a dangerous diversion that is undermining democracy, not least in his native America. Mr Reich, who served as labour secretary under Bill Clinton and now teaches at the University of California, Berkeley, admits to a Damascene conversion, having for many years "preached that social responsibility and profits converge over the long term". He now believes that companies "cannot be socially responsible, at least not to any significant extent", and that CSR activists are being diverted from the more realistic and important task of getting governments to solve social problems.

I have never seen Corporate Responsibility as either / or – in the real world we need a smart mix. In particular, early adopters of advances in Corporate Responsibility can show how to achieve maximum public good for minimum cost.

As a former would-be politician who has witnessed the professionalisation of the political class in many countries – university to special adviser / parliamentary researcher to MP to minister – maybe via a think tank or a lobby group – personally, I would be very cautious about putting all our eggs in the governments route alone, as Reich seems to imply – especially given the urgency of the global challenges we face. I think good global governance requires good corporate governance and engagement as one crucial element to tackle our problems. This is not as an alternative to engaged governments but as a crucial complement to government activity.

Corporate Responsibility may offer one route either to new mechanisms for creating smart standards, i.e. better influenced by technological and market-place possibilities, because the voluntary early adopters provide their practical experience to regulators of how to achieve their policy goals, or as a voluntary alternative to formal regulation, if there is enough industry / sectoral support for voluntary standards so as to obviate the need for formal regulation.

In "Tomorrow's Global Company: Challenges and Choices"¹⁰ a number of international business leaders suggest that one key role now for Global Companies is setting standards – these may be at the level of the individual firm; voluntary, industry-wide agreements or the fore-runner of mandatory national or international standards. Professor Atle Midttun from the Norwegian School of Management has suggested that individual companies adopting Corporate Responsibility may be self-regulators and where a group of companies together adopt higher standards of ethical, environmental and / or social

⁸ Should Companies do Good Things – Doughty Centre Occasional Paper I – 2007

⁹ "Supercapitalism – The Transformation of Business, Democracy and Everyday Life", Robert Reich – Knopf 2007

¹⁰ Final Report from Tomorrow's Global Company Inquiry, London, June 2007

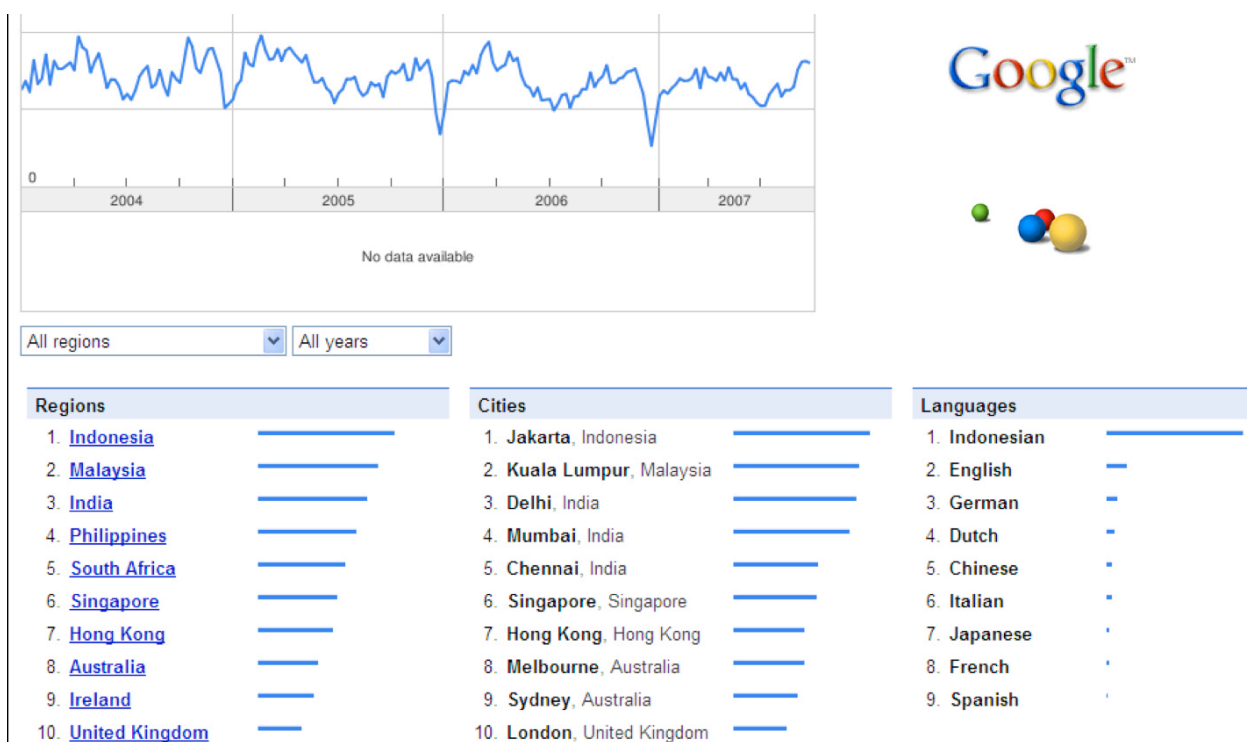
www.tomorrowscompany.com

performance, they are co-regulating. Midttun further suggests that putting some kind of democratic framework around these voluntary company commitments may also be one of the ways of addressing some of the current criticisms of Corporate Responsibility as being either undemocratic or anti-competitive.¹¹ The Extractive Industries Transparency Initiative would be a good example of the process that Midttun describes. Academic literature tends to ignore companies as players in international relations. This reflects the prevailing lack of focus amongst political scientists on companies as significant actors in global governance. One person who has highlighted the role of companies is John Ruggie from the Kennedy School of Government. Ruggie argues¹² that a Global Public Domain is emerging no longer coterminous with the system of states and that Corporate Responsibility is one manifestation of this.

CORPORATE RESPONSIBILITY FOR ALL SEASONS?

At the same time, Corporate Responsibility must not be just a Western construct. As the admirable think tank and consultancy, Sustainability, says in their recent scenarios for the next 20 years¹³ there needs to be global South voices in the Corporate Responsibility debate. We aim to be part of that debate with a series of Doughty Centre Occasional Papers on Corporate Responsibility in key emerging markets like India and China.

Happily, there is a growing global debate about business in society. There is a wonderful little device now on Google which lets you see not just the volume of searches on particular topics but also where they are coming from. I have typed in Corporate Social Responsibility as the still most frequently used phrase. You will see that in the past four years Indonesia tops the list of Google searches on "CSR."



¹¹ Presentation to the European Academy for Business in Society Colloquium 2007, Barcelona

¹² Ruggie, j(2004) "Reconstituting the Global Public Domain – Issues, Actors and Practices" European Journal of International Relations Vol 10(4)

¹³ Raising our Game- www.sustainability.com - 2007

THE SCALE OF CHALLENGES THE WORLD NOW FACES DEMANDS FAR MORE SERIOUS AND URGENT RESPONSE FROM ALL PLAYERS – INCLUDING BUSINESS

I am by nature an optimist, but our world faces dramatic challenges such as: climate change; resource depletion; loss of bio-diversity. It is hard not to share the conclusion of Tomorrow's Global Company Inquiry that:

"We believe that we are entering a period of history in which it is becoming clear that the operation of the current system is unsustainable";

and Future Leaders Survey, 2006, Forum for the Future and UCAS, which asked young Britons what will the world be like in 2031: "78% think climate change will make their lives a little or a lot worse; 52% predict a war will have been fought over access to water."

In the face of these challenges, we need significant changes from all the major change-agents: governments and international institutions, civil society, and businesses.

As Professor Jorgen Randers from the Norwegian School of Management and a member of BT's stakeholder advisory panel has said:

"Do the profitable thing now, and do it as responsibly as possible. At the same time, press hard, on a moral basis, for making more of those responsible things more profitable in the future".

HOW TO EMBED CORPORATE RESPONSIBILITY IN BUSINESSES

Type in "CSR" on Amazon.co.uk you get over 300 books and type in "Corporate Responsibility" you get 464. Yet despite all those books and the growth of boutique and mainstream consultancy CR services; and despite the growth of Business School activity, there is still a gap between rhetoric and practice when it comes to Corporate Responsibility.

McKinsey Survey of UN Global Compact Company CEOs: (see figure 1, page 14)

The survey found that these committed CEOs regarded competing strategic priorities as the biggest barrier to implementing a systemic approach to sustainability across their companies. The complexity of implementing these issues across different business functions also posed problems, as did the lack of recognition from financial markets.

Corporate Responsibility cannot be treated as a bolt-on to business operations; it has to be built-in to business purpose and strategy. How does business integrate Corporate Responsibility? Top leadership in the business has to believe and walk the talk. Staff and other stakeholders need to hear their leaders explain regularly what Responsibility and Sustainability means for the business and why it is important. It is surprising how even in companies committed to Corporate Responsibility staff often say they have never heard their bosses talk about this. Yet, as a new book by Stephen Denning ¹⁴

¹⁴ The Secret Language of Leadership, How leaders inspire action through narrative, Stephen Denning – 2007

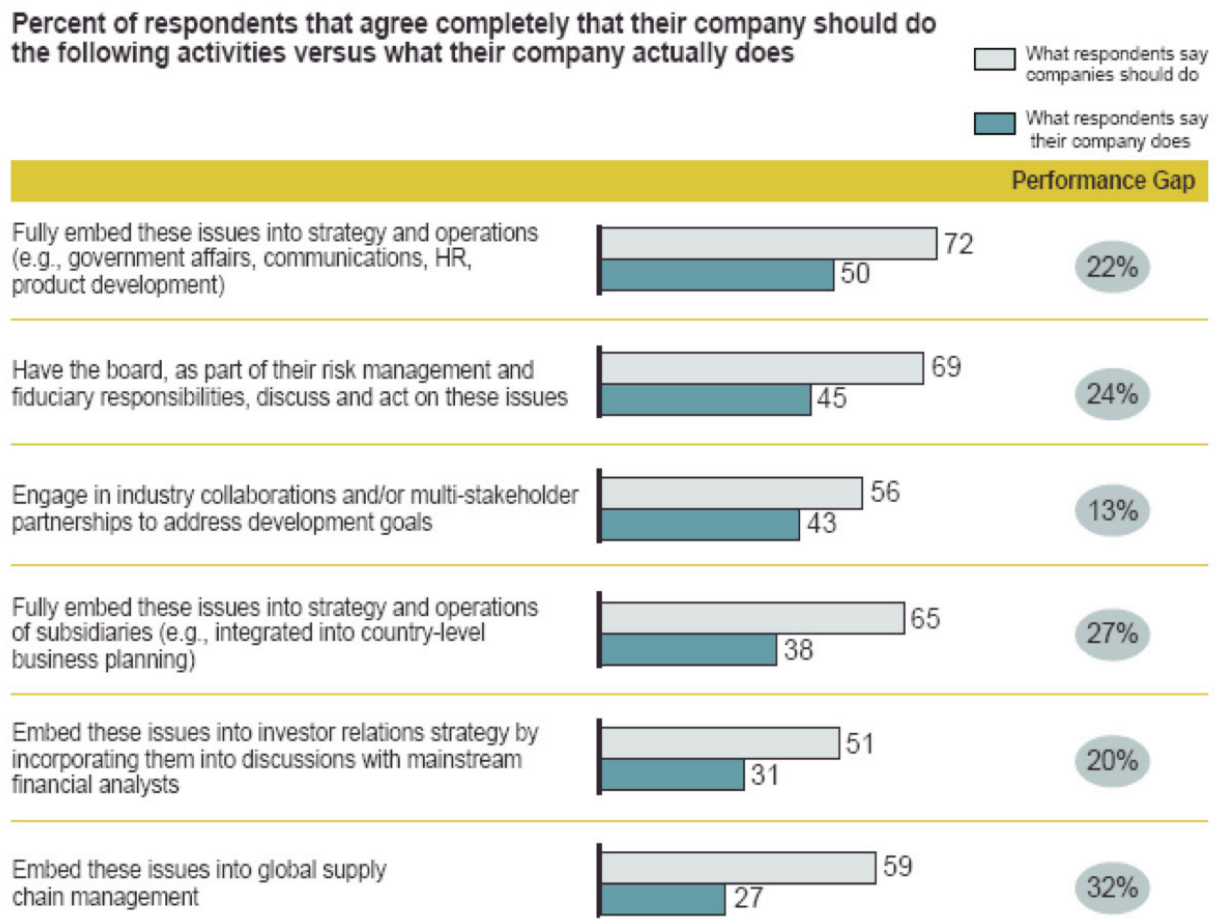


figure 1.

emphasises, story-telling is important in modern business. Which is why the Doughty Centre is teaming up with the entrepreneurial business: Fifty Lessons¹⁵ to produce the Doughty Centre Fifty Lessons on Corporate Responsibility next year.

Corporate Responsibility has to be explicitly linked to the stated values of the business. Intelligent companies use their values as criteria in the recruitment of staff; does a potential recruit share our values? They incorporate values into induction and on-going staff training, in appraisals and for determining compensation and promotions. The values are the criteria against which the business takes tough decisions.

Corporate Responsibility requires effective board governance. Last month, Nigel Doughty and I met with a group of non-executive directors of FTSE 100 companies. They had different titles but each chaired their board sub-committee or led for the board on Corporate Responsibility. Some companies have a board committee for Corporate Responsibility and Sustainability. Some have a lead non-executive director in charge. Some have a mixed committee of executives and non-executives. Whatever the precise structure, it is important that the company regularly addresses what are the most significant Responsibility and Sustainability issues for it and discuss these at the most senior levels. A mining company will have some very different priorities in terms of environmental and social impacts than a bank or an insurance company.

¹⁵ www.fiftylessons.com

There is a huge range of topics now covered by the term Corporate Responsibility – see figure 2 below.

The practice of responsible management is needed to prioritise and to identify what is really material and significant to a particular business.



figure 2.

I am delighted that KPMG have agreed, in principle, to second an about-to-be partner to work with the Doughty Centre on the governance of Corporate Responsibility and what non-executive directors need to know.

Any business, large or small, needs a process for getting each part of the business, each business function, to understand their significant environmental and social impacts. Many large businesses have Corporate Responsibility or Sustainability departments. If you do, these should not be treated as the dumping ground for anything to do with Responsible Business. Rather they should be treated as an internal consultancy, advising and prodding different parts of the business. Corporate Responsibility has to be everybody's business – not hived off to a "good works" department! I have huge admiration for the Corporate Responsibility professionals who have often had to carry the torch. We will be working with the search firm Odgers on a think-piece on the evolving role and therefore, desirable competences of the Corporate Responsibility/Sustainability professionals in companies.

In particular, this means effectively engaging stakeholders – people who are affected by or can affect the business. Learning how to work with stakeholders needs to become a core management skill. A centre associate will publish a Doughty Centre How-to Guide on stakeholder engagement next year. Another growing aspect of Responsible Business is transparency and accountability which means a business being able to measure and then report their environmental and social impacts in an increasingly

varied range of different formats from websites and blogs, to putting environmental or health information on packaging and leaflets for consumers. The Doughty Centre is co-ordinating a research programme for The European Academy for Business in Society (EABIS) on how companies measure and report on non-financial performance to the investment community.

SMALL BUSINESS

You don't need to be a global business to do all of this – and make it part of your DNA – as a new business school case-study on the fast-growing iconic business Innocent Drink plc, which I am just completing together with Robert Brown from Cranfield for EABIS, shows. We will be publishing a Doughty Centre Occasional Paper together with Tom Dodd from the EU Commission on small firms and responsibility. I hope this may lead to a research programme with the Bettany Centre for Entrepreneurial Performance and Economics at Cranfield on growth through sustainability for entrepreneurs.

ROLE OF BUSINESS SCHOOLS

It would be rather presumptuous, as an academic of less than 200 days standing, to ask whether business schools are fit for purpose when it comes to Corporate Responsibility. Fortunately, a group of far more experienced and distinguished business school professors from across the world have done just that:

In the Global Responsible Leadership Initiative:

*"Globally responsible leadership is the global exercise of ethical, values-based leadership in the pursuit of economic and societal progress and sustainable development. It is based on a fundamental recognition of the interconnectedness of the world."*¹⁶

*"The entire MBA curriculum must be infused with multidisciplinary, practical and ethical questions and analyses reflecting the complex challenges business leaders face."*¹⁷

We now have the PRME Principles of Responsible Management Education and I am delighted that Cranfield is one of the first schools globally to sign up to these Principles. Now they have to become integral to everything we do.

¹⁶ Global Responsible Leadership Initiative, 2005, www.efmd.org

¹⁷ Warren Bennis and James O'Toole May 2005 Harvard Business Review quoted in Global Responsible Leadership Initiative, 2005, www.efmd.org

THE DOUGHTY CENTRE FOR CORPORATE RESPONSIBILITY

I have some guiding principles which are what the Doughty Centre will aim to be known as / for:

- **Be collaborative:** A trusted partner of business and its stakeholders, faculty and students across the School of Management, the University and externally, collaborating with a wide range of partners.
- **Be cutting-edge:** Authoritative, rigorous research but which is also accessible and never research for its own sake. It always aims to help managers and their organisations to embed Sustainability and Responsibility and to be practical both in what we do and in how we do it.
- **Be candid:** Sympathetic to the challenges and complexities of running a modern business, but not sycophantic, nor blind to poor business behaviour – a “candid friend”.
- **Be passionate:** About finding approaches to help businesses continuously improve their positive environmental and social impacts.
- **Be integrating:** Built-in not bolt-on, both in terms of our approach to Corporate Responsibility and in how the School of Management treats the theme.
- **Be entrepreneurial**

The Doughty Centre will work in three broad areas. Namely:

1. Knowledge-creation: Research
2. Knowledge-dissemination: Teaching
3. Knowledge application: Practice and Networking. I am delighted that Cranfield will be hosting, for the first time in the UK, the 2008 EABIS Colloquium on leadership development, culture and sustaining change.

SUMMARY

I have argued tonight for an end to the sterile, theoretical debates about Corporate Responsibility. In the real world, it is not “whether” or “why” but “how” and “what”.

I have also argued that believers in the market and in the moral legitimacy and worth of enterprise should embrace a “muscular” Corporate Responsibility.

I have suggested that we need a far greater sense of urgency from business generally to integrate Corporate Responsibility. I have outlined some of the tools and techniques necessary for this and some of the specific initiatives of the new Doughty Centre for Corporate Responsibility to help improve our collective knowledge of just how to do this most effectively.

Ultimately, this all depends on people. I invite you to reflect specifically on three things:

- What can you do in your own organisation to advance this agenda?
- What can you do through your professional and social networks as a non-executive director, in your trade association, in your professional body, with your friends?
- And – because once trained as a marketer always a salesman – are there specific initiatives which you would like to work with the new Doughty Centre on, either some of those I have described this evening, or others which you have been stimulated to think about?

WHY TO ACADEMIA AND WHY TO CRANFIELD?

I hope I have demonstrated tonight that I passionately believe in the importance of Corporate Responsibility – both for business and for society. But just as strongly, I believe that we need far more intellectual rigour. As Richard Lambert, now the Director-General of the CBI, has said in the past about Corporate Responsibility, “we need to be able to kick the tyres.” I want to be part of ensuring that the tyres are full, part of developing a more robust framework for Corporate Responsibility. As one of my new Cranfield colleagues, Professor Kim Turnbull James, says, “there is nothing so practical as a good theory!”

But it has to be grounded in practice and commonsense and, if there were to be a Business School League Table based on closeness to the market and customers, then Cranfield would be right up there. So Cranfield provides a unique platform, to which I hope my practitioner and campaigner experience of almost three decades now will be a useful addition.

Cranfield also has the advantage that we have a well-regarded MBA programme and several MSc programmes to influence tomorrow’s leaders, a flourishing Alumni Association; the Cranfield Management Association (CMA) and excellent executive education to influence today’s leaders.

Also, thanks to Nigel Doughty, we have the resources to start-up. And throughout my life I have thrived on start-ups.

So, I have not come to Cranfield to peddle my old views and ideas, but rather through the platform it provides, to contribute to a more informed and therefore, more useful debate about the nature of Corporate Responsibility; and whether and under what circumstances it is to the benefit of business and of society – and what that means for the practice of management.

A few weeks ago, a good friend and colleague, Robert Davies, died after a tough battle with cancer at the age of just 56. I knew Robert for almost a quarter of a century when he was deputy CEO of BITC and then from 1990 when he established and then led IBLF as CEO for the last seventeen years. As the *Financial Times* obituary of Robert said, “he was a towering figure in the movement for sustainable development.”

In May, when he was fighting cancer, Robert said: "Our lives are too short not to share what and who we know so the world can profit and the journey to sustainability can be shorter."

The last time I saw Robert was on May 24th when Julia Cleverdon from BITC hosted a dinner party at her house for a small group of long-term friends and colleagues to celebrate my appointment to Cranfield. Although gravely ill, Robert made a special effort to come. He only had strength to stay for a short time but he made an amazing impromptu speech, exhorting me to keep the faith and to use the new platform at Cranfield to advance the common cause that the group of friends gathered at Julia's, had worked on for so long. His exhortation rings in my ears to-day.

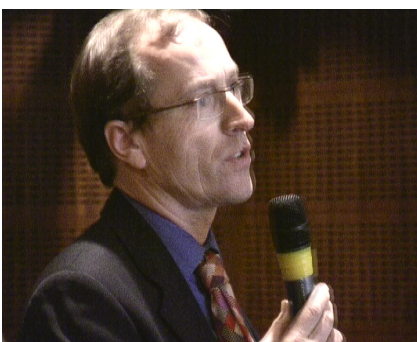
"Our lives are too short not to share what and who we know so the world can profit and the journey to sustainability can be shorter."

London Lecture Questions and Answers



Stephen O'Brien, International Business Leaders' Forum – You made much of the whole issue of globalisation in the first part of your presentation. I believe that the only way of raising living standards around the world, is by the effective development and management of business which equals the creation of wealth. How can that key message be taken forward by the Doughty Centre?

Ivor Hopkins, MHC International Ltd - You started with a timeline. Can I ask you for a future timeline, how do you see CSR in five years and what will the Doughty Centre be doing in that time?



Mark Goyder, Tomorrow's Global Company – You encouraged us to follow your example in tackling this in a spirit of candour. If you follow the logic of corporate social responsibility no longer being something that is out on one side, how do you apply that in a business school where, from all that we observe business schools are notorious hotbeds of territorial jealousy? How long will it be before we can hope to see a kind of integrated module at the heart of business education which actually goes to asking students "Now, before you

get into your specialisms, just start thinking about where does business success come from?" and challenges them to come up with their own concepts and theories before loading them with other people's?

David Grayson - I think you actually articulated, far better than I did, what I hope will be a measure of success for the new Doughty Centre. It will mean learning from other business schools, through the European Academy of Business in Society and elsewhere, and also sharing with them. We are starting with a number of opportunities.

For example, the MBA students' own end of MBA course conference at Cranfield last month. Unprompted by any of the academics, the MBA students themselves chose that the entire focus of the two-day, end of their experience at Cranfield conference, would be on Corporate Responsibility. In that two-day conference we got a huge amount of energy: David Pitt-Watson from Hermes gave a fantastic speech. I think the richness of what came out from that student group was excellent, but what is really exciting is that it was organised by the students themselves.

At the start of our new MBA intake last week, one of the challenges that I threw down to all of our new MBA students was to create a Cranfield chapter of Net Impact. This is a very successful American organisation. Net Impact used to be known as Students for Socially Responsible Business and it is now operating in a whole series of businesses school campuses in North America and at places like London Business School here in Europe. I threw down the challenge to our new MBA intake to develop a Net Impact Group and we have already got two students, one from the Philippines and one from Australia, who have taken up the baton to develop that.



One of our study visits next June for the MBA programme will be to China where we are going to have a special visit looking at the implications for responsible business and sustainability of doing business in China, both for international businesses going into China and for Chinese businesses as they expand out from China. So we are already trying to get CR into the programme. We have just got agreement from the University authorities, within four months of the Doughty Centre starting, for a new elective on sustainable enterprise. This is really exciting because a whole group of us are going to be teaching this elective from across the entire School of Management so it won't just be our little silo. When I said one of my key principles, for the Doughty Centre is to be integrated, it is precisely because it has got to be integrating right there into the core. And that is why we need to learn a lot more from other business schools internationally who are doing this through things like the European Academy for Business in Society. So, that leads me onto Stephen's question about how are we going to get every manager to understand that this is part of their job and this is not simply something that you hand over to some specialist. Corporate Responsibility should be part of the key performance indicators of every manager.

If you are a communications director, or if you are an HR director, or if you are a marketing director or indeed if you have got any kind of function in a business, this is part of your job. It is not something just for the specialists. That is a message that can be projected by people in schools of management. It ought to be a critical part of what we get across. But it is also the responsibility of chairmen and CEOs and boards to do so. I just wonder how many of the CEOs and boards and chairs of companies - even those that are members of Business for Social Responsibility or of the International Business Leaders' Forum, or of Business in the Community, or who have signed up for

the UN Global Compact - have now got these ideas into the specification for the top talent development in their businesses. Are they telling whoever is in charge of top talent development in those companies that Corporate Responsibility is important? Are they saying: "we want to make sure our young managers really understand what these issues are and what are the broader implications of globalisation? Do we really have young managers who understand what are the human rights impacts of what we are doing in Azerbaijan or in Columbia?"

Do we really understand, and do our managers understand, how - not to manage stakeholders - but how to engage them? I was in Diageo in North Bondi in North Sydney a few months ago - working with a group of young brand managers in Diageo Australia. Those young managers are now having to learn how to engage with a whole range of new stakeholders such as Mission Australia, the police force, the Government of New South Wales, and with a whole range of different stakeholders because otherwise there is going to be huge pressure on Diageo - and on the whole of the drinks industry in terms of binge drinking, irresponsible drinking. I think Diageo Australia is a fantastic example for the way in which they have taken a leadership role, brought their industry together, and yet got a competitive advantage. This requires young marketing managers - who may be much happier just doing traditional marketing activity - to have stakeholder engagement skills as a critical part of their ability to have a licence to operate.

So, yes, it requires business schools to understand all of this. Hence the point I made in my lecture about the "Global Responsible Leadership Initiative" involving business school professors. But it also requires CEOs and boards to be able to set the key performance indicators. Making it part of bonuses at the end of the year. Are bonuses paid not just on "did I hit my sales targets?" but also on "how did I do it?" I know now of several FTSE 100 companies which are now starting to explore that kind of link between responsible business behaviour and whether you get your bonus or not. That's when it starts to get real!

To Ivan's question about looking ahead. I think it could go one of two ways. I am by nature an optimist and I do think there is a whole series of very exciting examples out there. We see it, for example, in a whole series of new technologies. I heard Bob (Wigley) last Tuesday morning at the UK launch of the Carbon Disclosure Project 5th Report where he and other business leaders were talking about a whole series of marketplace innovations to tackle climate change. Nigel Doughty and I have talked about some of the exciting business opportunities that private equity sees in sustainability. So there are a lot of really very positive developments. On the other hand, I am certainly not at all convinced that collectively the business community in this country or internationally yet sees, and is seized by, the seriousness of the issues that we face. Is the glass half full or is it half empty? I caught a few months ago a fascinating play on Radio 4, about the man who was the detective to Winston Churchill in the wilderness years in the 1930s. The detective was called back into service when Churchill became Prime Minister. He went with Churchill to Buckingham Palace when Churchill got the commission from George VI to form a government. As they were driving down the Mall afterwards, just him and Churchill in the car, he turned to the new

Prime Minister and said "Congratulations Prime Minister". Churchill apparently turned and said, "Thank you very much. I very much hope it is not too late; but I fear it is." And the detective said never ever again did he ever hear from the mouth of Churchill anything other than complete conviction in public and in private of ultimate victory. I just wonder when I listen to people like Al Gore talk about climate change and many of the people like Chris Hope in Cambridge who has been doing some great work with Polly Courtice in the Cambridge Industry Programme and others to try to develop our understanding of these issues: Is there a sense a little bit like Churchill in 1940 fearing it is too late? If you say that then of course there will never be any hope of inspiring and motivating people. You have, of course, to be optimistic so that you can make a positive difference. I do actually believe that we can make a positive difference if we get enough sense of urgency into it.

So, rather than saying it will be like this this or it will be like that , I ask: "What if?"

- What if every company chairman in membership of Business in the Community or the International Business Leaders' Forum and so on, said that in this coming year, in every one of our investors meetings we will explain why our strategy on sustainability and Corporate Responsibility is an integral part of our forward business strategy; and we will do it with passion and conviction?
- What if all those chairmen had read that Stephen Denning book, so they would be able to tell their investors a narrative in a convincing way because they really believed it and it really is built in to the way they do business?
- What if every major FTSE 100 company HR director said, "In the next year, I will do at least one of the significant diversity indexes, such as Race for Opportunity or the Employers' Forum on Disability benchmarking standard to see where we are doing on diversity - because it does make such business sense?"
- What if all of the chairmen and CEOs of the 20% of the world's 500 largest companies who did not respond to the Carbon Disclosure Project said "This year we will do so?"
- What if, in fact, some of their key investors took the initiative quietly and picked up the phone and said "Why did you not respond to that survey when 80% of the world's 500 biggest companies did respond? Could you just explain why you don't think a carbon strategy is relevant to the future of your business?"



Sir David Varney – Cranfield is a school of management but the Doughty Centre presentation you are doing today is very much about PLCs. There is a whole series of other organisations like the BBC and HMRC. Who is going to speak for the non-profit sector? Secondly, I think there is a very distinctive difference between most of what you were talking about and the current focus of

business schools. I am intrigued to see how best practice will be built into the DNA of business schools. I say this as somebody who has got an MBA so this is not an attack - but so many of those corporate scandals you referred to, have got the fingerprint of MBAs all over them. An institution which has been so productive in producing them might need to reflect on what is it that is in its business model that that so successfully produces these behaviours?

Peter Lacy, European Academy of Business in Society – With another hat on as well, as one of the authors of the McKinsey report around performance gaps you referred to, I think that gap between performance and aspirations is absolutely palpable. I want to ask you, you talked a lot about what you are trying to do in thinking through developing the next generation of managers through the MBA at Cranfield. In what ways do you envisage engaging with existing managers, either through executive education or working actively with companies at the coalface?



Jean Gomm – I am probably the first woman MBA from Cranfield. I have a Harvard MBA as well, and I am on the Social Enterprise Committee here in London of Harvard Business School. I also worked for many years in the international arena.



You talked about the role of government briefly, you have talked extensively about the role of industry, you have addressed the role of business school education. There is a whole raft of international organisations out there of which you have mentioned only the UN. You have the World Trade Organisation, OECD, the World Bank, the IMF, the European Union. In a globalised context they must have a role to play. How do you see that?

Bob Wigley, Merrill Lynch International – Do you think that given the literally life-threatening nature of the climate crisis, that there is a risk that as large companies suddenly rush to become carbon neutral and develop sustainable policies, that the whole of the rest of the CSR agenda is lost?

David Grayson – Interestingly, Bob, that was one of the very specific questions that we debated when a number of us were together at Cranfield in July at our Doughty Centre scoping workshop. I think Climate Change is such a critically important issue that we must make sure that it has proper attention. Equally, there is a danger - the FSA made an announcement just the other day, warning the markets against over exuberance in terms of too much money going into green funds which weren't going to be able to find enough good projects to invest in sufficiently fast. I think we do have to watch that kind of sudden market exuberance but we do clearly need to have plenty of attention on climate change.

If you think about it, what we are talking about is core business activity. The way you treat your staff. Do you market responsibly? Do you really believe, as John Neill here from Unipart, who has been a passionate advocate for twenty years in long-term shared-destiny relationships with your supply chain? Are you fair in the ways that you organise your relationships with suppliers? Do you think at all about what is happening in your suppliers' factories? You have got lots of different people in your business whose jobs are all about those things. So what we are saying to all of those people is: think about your wider responsibilities in the way you go about doing your day job. We are not talking about having to have a whole series of extra things somewhere separately. Corporate Responsibility is the way you do the core business. I think of that great book from Collins and Porras, "Built to last." They talk about moving from the tyranny of the "or" to the genius of the "and." So, for me it is not, climate change or the rest of Corporate Responsibility. Rather it should be the genius of the and: climate change and the rest of the agenda of Corporate Responsibility. In fact, I think, it ought to be completely reinforcing: a greater understanding of what is happening in wider society should in fact give you a greater sense of urgency about tackling climate change.

To answer David Varney: I very carefully kept reminding you all that we are a school of management at Cranfield - and not simply a business school. Therefore, Cranfield provides a particularly good opportunity not just to be addressing business but to be able to address the public sector too. What you did with HMRC is a great example of what can be done in terms of building a responsible organisation. I agree - rather than simply Corporate Responsibility it is organisational responsibility. And I think clearly that also goes for the third sector - which is why I was so particularly pleased to see various colleagues from the third sector tonight. These ideas are of course just as relevant to any organisation whether it is a profit-distributing one or not.

The business school point is well taken. One of my great mentors is a great professor of business ethics: Henri-Claude de Bettignies. He is now in Shanghai in the Chinese International Business Centre. Henri-Claude is always reminding us that the Chairman of the Audit Committee of Enron, who for many years was one of the world's leading authorities in academia on accounting standards and was also the Dean of a major business school. The CEO of Enron Jeff Skilling was a distinguished alumni from Harvard. So, yes, absolutely right. And that is the point that is quoted in that Global Responsible Leadership Initiative I quoted. The authors say it is not just about business schools developing lots of new things, it is about forgetting and stopping doing certain current things. I am actually a bit more optimistic than that because I do see lots of positive developments. It has been great being welcomed into the Cranfield faculty, not just in the School of Management but across the University. In fact, we have just got a new Vice Chancellor at Cranfield, Professor Sir John O'Reilly, who was there last night. One of his initiatives is to develop Cranfield as the Green University so that we walk the talk. Not just in the School of Management but across the University. There is some fascinating technology going on in the School of Engineering on carbon sequestration. We have got some fascinating stuff going on in terms of water management. I was speaking last Thursday to all of the new Masters students in the School of Applied Sciences, because we have to motivate the technology experts who will create the

solutions for when business leaders commit to sustainability.

The very last question. Absolutely right. There is a whole extra lecture about the role the different international institutions are playing already. You saw some interesting stuff particularly when James Wolfensohn was leading the World Bank. This is where I do see applying my first guiding principle for the Doughty Centre: namely to be collaborative. We need to work with groups like the International Business Leaders' Forum and others which have already got those kind of links with the World Bank and UNIDO etc.

Thank you very much indeed for your patience this evening. I look forward very much to developing some collaborative projects, hopefully with many of the organisations here this evening. And once again, on everyone's behalf, Bob, that you very much indeed for hosting this evening.

If you would like to receive brief, termly email updates on developments in the Doughty Centre, please just go to:



www.doughtycentre.info