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Essay

Why companies must build the business case

By David Grayson

Leading companies understand why being a good corporate citizen leads to economic success

The “business case” for corporate responsibility was given new resonance this summer by the News of the World phone hacking scandal and the events that followed. For the media companies involved, “corporate responsibility” had been reduced to an optional extra that could be abandoned when management creates a culture of sales targets (circulation and advertising) and profitability improvements at all costs.

In the end, that narrow perspective cost people’s jobs and reputations, a great deal of money and, ultimately, the business itself. That’s a high price to pay for ignorance.

In contrast, there is a growing number of companies whose leaders see that corporate responsibility is about how companies behave in their core operations: how they go about their business and how they make their money.

For such companies – particularly those whose performance has been recognised through Business in the Community’s Awards for Excellence and its Corporate Responsibility Index – responsible business behaviour is embedded in the DNA of the business. It’s part of the organisation’s culture and strategy, manifesting itself in what gets said and done by everyone from boardroom executives to those working at the front lines of the most remote business units. Corporate responsibility is a coherent part of the corporate “story”. It’s not something a company does; it’s what a company is.

“The idea that managing the impact of commercial activity on society and the environment brings business benefits is gaining momentum,” writes columnist Sarah Murray in the latest Financial Times Special Report on Responsible Business¹.

“Addressing social and environmental concerns is becoming part of mainstream business.”

Revisiting the business case

The companies whose leaders “get” the importance of embedding corporate sustainability and responsibility deep into a business are becoming more intelligent at managing their own corporate sustainability and responsibility programmes – and assessing their impacts on business and wider society.

This is particularly evident in research on the corporate responsibility business case conducted recently by the Doughty Centre and Business in the Community². We worked together to update the 2003 Arthur Little study³ that examined the arguments for companies to take responsible business more seriously. We also reviewed companies’ submissions for BITC’s Corporate Responsibility Index.

Many academic articles, as well as numerous management consultants’ reports, have been produced since the 2003 study. We found that both the academic theory and practitioner arguments were remarkably consistent with each other.

Our study – which encompassed both an academic and practitioner literature review as well as companies’ own reports of their activities in their BITC’s Awards for Excellence and CR Index submissions over the period 2003-10 – identified seven key business benefits. In order of the frequency with which they were cited, these were:

1. **Brand value and reputation** – benefits realised from responsible business that improve the value of the brand and/or the reputation of the brand or organisation.

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2. **Employees and future workforce** – benefits from responsible business practice that affects the working life of employees, and the ability to attract and hold on to talent. This includes employee motivation, productivity, recruitment, satisfaction, retention, engagement, and loyalty.
3. **Operational effectiveness** – improvements and innovation in an organisation's practices and processes as a direct result of being more responsible and sustainable, creating more effective operations and higher levels of efficiency.
4. **Risk management** – benefits resulting from CR efforts that improve the organisation's ability to identify and reduce exposure to risk, and prepare for and manage risks better.
5. **Direct financial impact** – direct benefit to the financial performance of an organisation. For example improving access to capital, reducing costs, and improving shareholder value.
6. **Organisational growth** – an opportunity for overall organisational growth derived from being a responsible business, whether through new markets, new product development, lateral expansion, new customers, or new partnerships/alliances.
7. **Business opportunity** – new opportunities or innovation generation created for all stakeholders specifically because of their efforts in being a responsible business. This can result in new business development, but critically it is about win-win opportunities for a variety of stakeholders.

In addition, there were two new categories of benefit that emerged in the most recent years covered by the review.

- **Organisational leadership** – defined as “leadership achieved through helping society” which results from a radical change in the internal corporate values and external market reconstitution.
- **Macro-level sustainable development** – defined as “the impact and responsibilities an organisation has to higher level economic, social and environmental issues”.

The emergence of this last benefit signals an important trend – namely that, as companies have become progressively sophisticated in their management of sustainability issues, the more aware they are of the close interdependence between the fate of their business and that of the world at large.

They are recognising that their businesses have a direct stake in ensuring the success of sustainable development – and therefore their efforts to mitigate the impacts of climate change, poverty, famine, health pandemics, corruption and other global socio-economic, political and environmental crises are not bolt-on extras to the business but are direct investments in the long-term viability of the business.



Is it accepting sustainability?

The emergence of 'shared destiny'

What is particularly striking about companies recognised in BITC's 2011 Awards for Excellence⁴ is that the boundary between what gets described as “business” on the one hand and “social” and/or “environmental” benefit on the other is becoming blurred. For example:

- **EDF Energy's Zero Harm programme**⁵ – this aims to achieve “zero harm” (no incidence of workplace injury and no form of work casual or work aggravated illness). The case study cites cost savings, reductions in work-related ill health incidence rates, days lost and musculoskeletal health problems as “business benefits” while employee pride, advocacy and perceived management interest in employee health and well-being – which could also be construed as business benefits – are cited as “employee benefits”.
- **Tata Consultancy Services' Adult Literacy Programme**⁶ – this utilises TCS IT expertise to create Computer Based Functional Literacy (CBFL), a multimedia software package that tackles adult literacy in a 40-hour programme. By shortening the development time for CBFL products in different languages, TCS can address wide-scale Bottom of the Pyramid literacy problems more swiftly (a social benefit). However, the roll-out of these products, engaging employees and families as volunteers in the process, also helps open up new markets and boosts recruitment, retention, motivation and enhanced company perception – all clear business benefits.
- On the environmental side, The **Co-operative Group** has focused on reducing its own greenhouse gas emissions as well as providing or withholding of finances to companies in order to

Businesses have a direct stake in ensuring the success of sustainable development



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Empowered employees achieve more

The purpose of the corporation must be redefined as creating shared value

reduce the impact of the products and services offered. These activities have reduced the environmental impacts of the Co-op as well as its clients and other stakeholders. But they also reinforce the Co-op's corporate reputation as a leading advocate for sustainability, attracting and retaining customers who have cited ethics/environment as a reason for opening and maintaining an account.

- Finally, construction company **Wates Group**, BITC's Company of the Year, has engaged a wide range of its stakeholders – including employees, customers, suppliers as well as risk specialists and a network of social enterprises – to redefine its approach to sustainability. Its activities encompass employee development and engagement, community transformation, carbon footprint reduction, elimination of waste and responsible sourcing through its supply chain. This has created a wide range of business benefits including enhanced employee engagement and responsible leadership, improved operational effectiveness, new business opportunities, more effective risk management and enhanced brand reputation.

What does the close alignment of these business and societal benefits signify? In the January/February 2011 edition of *Harvard Business Review*⁷, Professor Michael Porter and Mark Kramer have written that in light of recent historical trends, "the purpose of the corporation must be redefined as creating shared value, not just profit per se".

However, the work of these leading-edge companies whose achievements have been recognised by BITC and others suggests that something far more exciting is going on: that enlightened business leaders are recognising that their companies have a "shared destiny", not only with their employees, customers, suppliers and others in their immediate sphere of influence, but with a much wider range of

stakeholders with whom they are inter-connected.

By engaging the hearts and minds of individuals in these extended stakeholder networks – which can encompass even their own industry competitors (eg the Extractive Industries Transparency Initiative, the Kimberley Process certification scheme and other sector-wide sustainability initiatives) – businesses can build vibrant powerful engines of societal change, in tandem with growing and developing their own companies.

Engaging and building your stakeholder community

What is evident from these companies' corporate responsibility case studies is that their success depends on creating a sense of "shared destiny" among the company's key stakeholder groups, particularly among employees and suppliers as well as wider community constituencies. Cooperation, not competition, is central to this process.

The power of cooperation has been recognised by Harvard Law School Professor Yochai Benkler. In the July/August 2011 edition of *Harvard Business Review*⁸, he draws on research in evolutionary biology, psychology, sociology, political science, and experimental economics to argue that people behave far less selfishly than most assume. Evolutionary biologists and psychologists have even found neural and, possibly, genetic evidence of a human predisposition to cooperate. These findings suggest that instead of using controls or carrots and sticks to motivate people, companies should use systems that rely on engagement and a sense of common purpose.

The same principle applies to building a community of engaged stakeholders to achieve sustainability goals. Our Doughty Centre team believe that engagement is central, not only to embedding sustainability in companies, but to ensuring the success of the company in its widest possible sense. Our team has developed a roadmap for stakeholder engagement⁹ as well as a more recent how-to guide for engaging employees with corporate responsibility¹⁰.

But to create a foundation for engagement with sustainability, one has to begin, not just with the business case for corporate responsibility but at a more fundamental level, with a clear sense of what the business is for: the case for business.

In his landmark 1990 RSA Lecture¹¹, Prof Charles Handy made a simple but profound argument: that in the interests of business as well as wider society, companies should be reconceived as wealth-creating, self-governing communities, not as properties. Each corporate community must answer for itself the question, "what is our company for?" He argued eloquently that profit-making was a means, not an end, and every company needed to discover a purpose beyond itself. That purpose needs to be embody a vision that is ambitious

and yet accessible to everyone in the corporate community.

Answering this basic question cannot be achieved with a sanitised mission statement written down by a few top executives in a management strategy meeting. Dialogue with your corporate community's stakeholders is central to this process (see, for example, our Doughty Centre how-to guide on CR knowledge management¹² to understand the central role of corporate storytelling).

Knowing what your company is for, in the broadest possible sense, means understanding:

- **What your company is trying to achieve** (eg "to help people and businesses throughout the world reach their full potential" (Microsoft)).
- **Who is in your extended corporate community** (eg for many leading-edge companies, this includes not just the usual suspects close to the centre of the organisation, such as customers, employees and investors, but stakeholders who are more geographically remote, for example individuals in Bottom of the Pyramid groups working in factories at the furthest reaches of the supply chain).
- **How your company can best achieve its purpose in ways that respect all the members of your corporate community** (eg promoting the health and well-being of employees; alleviating poverty or tackling illiteracy among potential customers, employers and/or suppliers at the Bottom of the Pyramid; preserving the long-term integrity of natural resources shared with others).

It is only in this context that one can define what corporate sustainability and responsibility means to your company. That definition will be unique to every business. Ideally it should be broad enough – in its vision of who is part of your corporate community and the scope of the timeframe over which your business expects to operate – to encompass innovative, longer-term projects focused on creating sustainable value with a diverse mix of partners (see, for example, our Doughty Centre Occasional Paper on the work of social intrapreneurs¹³).

In this way it becomes possible to progress beyond maintaining reputation and legitimacy, and cost and risk reduction, to innovation and repositioning, and growth path and trajectory, the four quadrants in Hart and Milstein's Sustainable Value Matrix¹⁴.

Finally, your core purpose must be something that people feel, not just think. It needs, above all, to inspire people to work together to achieve some higher goal, through actions great and small, every day they come to work. Because, more than strategy or business plans, inspiration is what you will need most on your company's journey to sustainability. ■



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Success means creating "shared destiny" across the supply chain

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Inspiration is what you will need most on your company's journey to sustainability