

Essay:
Corporate social opportunity – Taking ethical risks to market

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Quality brand image to a T

Growing numbers of companies are seeing opportunities in meeting social and environmental needs, but business as a whole is not moving fast enough, say David Grayson and Adrian Hodges

Global revolutions in technology, markets, demographics and values are giving companies a whole new set of issues that they have to manage urgently.

These issues include the environment, human rights, diversity, health, work-life balance and the community. Historically, these have been regarded as “soft issues”, but they have become “hard” for business: hard to ignore, hard to manage, and very hard for the businesses that get them wrong.

We first marked this trend in our book Everybody’s Business: Managing Risks and Opportunities in Today’s Global Society, in 2001. Three years later, in Corporate Social Opportunity, we further developed our argument that, handled correctly, these issues need not just be about minimising risk, but could become a source of new marketplace insight and a stimulus to innovation. We always saw corporate social opportunity as being a corporate mindset, as well as developments in products and services. UK fruit smoothies maker Innocent Drinks, which has made its commitment to sustainability integral to its brand identity and values, and retailer Marks & Spencer’s Plan A commitment are good examples of what corporate thinking for sustainability can achieve.

We defined corporate social opportunities as commercially attractive activities that also advance environmental and/or social sustainability. We identified three types of such opportunities: new products and services; serving new or under-served markets; and the development of new business models in research and development, financing, marketing and distribution – typically involving partnerships with community organisations, campaigning non-governmental groups, or even the public sector.

Upcoming Ethical Corporation conferences & events:

2nd Annual European Anti-Corruption Summit

6th-7th October 2008, The Hague

Central & Eastern Europe Corporate Responsibility Summit

13th-14th October 2008, Prague

Stakeholder Engagement

13th-14th October 2008, Barcelona

The Ethical Supply Chain Summit 2008

16th-17th October 2008, Berlin

The 2nd Annual Corporate Responsibility Reporting & Communications Summit

25th-26th November 2008, London

Specific examples of corporate social opportunities have increased substantially since we wrote Corporate Social Opportunity. These include GE’s ecomagination range of green products; Mexican

cement maker Cemex's Patrimonio Hoy initiative, which developed an innovative and profitable self-construction housing programme in Latin America; Accenture Development Partnerships, which provides consultancy to international development NGOs; and BT's marketing of its own internet-based environment management system.

Bottom-line benefits

Recent reports from global consulting firms and investment banks have confirmed the potential for profitable products and services that also address sustainability and corporate responsibility. For example, Goldman Sachs's 2007 Sustain report analysed, sector by sector, the businesses that the bank's investment analysts believed were well placed to exploit their sustainability advantage over laggards in the sector.

The argument has been spurred on by a number of seminal articles, speeches and studies. These include Michael Porter and Mark Kramer's *Strategy & Society, The Link between Competitive Advantage and Corporate Social Responsibility* (Harvard Business Review, December 2006), which legitimised for many business leaders the notion that companies can gain competitive advantage by integrating and aligning societal expectations and need with strategy.

CK Prahalad's *The Fortune at the Bottom of the Pyramid* (Wharton School Publishing, 2006) and Jeb Brugmann and CK Prahalad's *Co-creating Business's New Social Compact* (HBR, February 2007) showed how business-NGO partnerships could create opportunities with commercial and societal value.

And Bill Gates, in his speech on "creative capitalism" to the 2008 Davos World Economic Forum, arguing for new market solutions to the global challenges of sustainable development, reinforced the "opportunity" message.

Even profit-hungry firms such as Wal-Mart are now seeing the business opportunities that come from sustainability. We welcome this development.

Former US president Bill Clinton said, when he launched the 2007 Carbon Disclosure Project Report: "Almost every one of the commitments in the climate change area [of the 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 Wal-Mart experience in the last few years. They've cut packaging a mere 5%, and it's going to save their supply chain \$3.5bn and it has the impact of taking 210,000 diesel trucks off the road."

Showing the way

Corporate social opportunities arise in many ways. Companies, for example, may consciously use their commitment to responsible business to gain new marketplace insights. Lloyds TSB, for example, has launched sharia-law-compliant financial products. Nike, through its Nike Grind recycling programme, takes old trainers and turns them into granulated rubber to make surfaces for community sports grounds. It is starting to use the recycled material in a new clothing range.

Corporate social opportunities may also be the result of businesses working with unconventional, non-business partners to make projects commercially viable. Tunstall, the healthcare company, for example, is partnering with social enterprise Housing 21 to develop new remote support products for people with dementia, with support from the UK government's Technology Development Board.

Companies may even set up a community initiative but subsequently find that it is commercially successful, such as Vodafone's M-Pesa initiative, which provides basic banking services in Kenya. M-Pesa started as a community project in partnership with the UK government's Challenge Fund to support overseas development. The project was so successful that it quickly became a mainstream

product for Safaricom, in which Vodafone has a significant stake.

Of course, not all corporate social opportunities work out positively. It could be argued that the subprime crisis arose out of a corporate social opportunity turned sour. The subprime mortgage market emerged to meet a social need – housing loans for people not being serviced by mainstream mortgage lenders. And it relied on new community channels to reach these under-served customers. But the opportunity was almost too good for some lenders, which mis-sold mortgages to customers with poor credit ratings, leaving them saddled with debt that they could not afford to pay.

Happily, most examples are positive. Unsurprisingly, it is the global fast-moving consumer goods companies, attuned to market trends and sophisticated market research techniques, that have been among the first companies to have tracked and interpreted changing market conditions, and exploited corporate social opportunities.

Procter & Gamble, one of the first companies to talk of corporate social opportunities back in 2004, has amended its statement of business principles and made sustainability part of its corporate strategy. P&G aims to sell at least \$20bn-worth of environmentally improved products over the next five years. In 2007, total global sales were \$68bn.

Unilever has developed the “Brand Imprint” assessment to identify and measure the social, economic and environmental impacts of every product it makes. Unilever believes that customers associate the care that its brands, such as Lipton Tea, put into ethical sourcing as illustrative of an overall commitment to high quality products. Unilever’s Indian businesses have been early adopters of the ideas of corporate social opportunity.

Profits amid poverty

Indeed, efforts to serve India’s growing population offer some of the best examples of corporate social opportunity in action. At one end of the consumer market, the provision of microfinance to India’s poor has for many years been the role of civil society organisations and agencies. But today mainstream funders see a market opportunity. As well as banks such as Standard Chartered and ABN Amro offering commercial microfinance, venture capitalists such as Silicon Valley’s Sequoia group are making significant investments – Sequoia investing \$11.5m in SKS Microfinance, an NGO specialising in micro-lending. Deutsche Bank estimates current global microfinance loan volume at \$25bn, with \$1.5bn of new capital channelled into the market each year. The global market is expected to increase tenfold by 2015.

India’s biggest bank, Icici, has an established business model of investing in and, if they are not already present, creating NGO microfinance institutions in India as a route to market. Icici has translated lessons from this bottom-of-the-pyramid market to build the market in the middle of the pyramid for higher-end financial products for India’s growing middle classes. After realising that a lack of financial literacy among the middle classes was both a barrier to its growth as well as a cause for defaults on loans, Icici established Disha Trust, an NGO that provides financial counselling services in a number of urban areas.

Serving poorer markets provides a rich vein of examples of companies that have created corporate social opportunities through innovation and adapting business models. In July, the United Nations Development Programme’s Growing Inclusive Markets Initiative published a report called Creating Value for All: Strategies for Doing Business with the Poor. Companies highlighted include Smart Communications, a Philippines-based telecommunications business that sells prepaid phone cards with a mission “to make mobile phones as accessible to as many Filipinos as possible”. It is now the Philippines’ leading wireless services provider with 32 million subscribers. Other companies picked out include Danone, which is developing an affordable and highly nutritious milk porridge for malnourished children in Poland; Lafarge, which is rebuilding cement-based houses and businesses in post-tsunami areas in Indonesia; and Natura, which is producing perfume essences from local vegetal biodiversity in Brazil.

In almost 30 years in the enterprise and development fields, we have observed that social

entrepreneurship often flourishes particularly at the margins. So perhaps it is not surprising to see that new emerging market success stories like Icici in India and Natura in Brazil are setting the pace in innovation.

Recipe for success

A commitment to responsible business and sustainable development creates more pressure to find new solutions that are both commercially viable and more environmentally and socially sustainable because it speeds up the process of innovation and makes the business more receptive to “out-of-the-box” thinking. It may also make the company more receptive to approaches from NGOs, governments and academia with ideas for collaboration.

A company genuinely practising responsible business and aspiring to corporate social opportunity is more likely to have eclectic and effective stakeholder engagement processes in place. Its employees, suppliers and business partners will have a better understanding of the company's interests in sustainability and where it might be particularly open to new ideas. Outsiders, such as NGOs or academic institutions, will be more likely to have the company on their radar screen as a potential collaborator and consider it more open to what at first might seem radical ideas.

A company committed to stakeholder engagement will be more likely to have highly accessible and visible contact points that external stakeholders, such as international development agencies, can approach. In turn, these company contact points are more likely to be able to link the external approaches to the most appropriate people inside the business.

The company is less likely to have a “not invented here” mentality that rejects new solutions from outsiders. Rather, it will engage in what the management guru Tom Peters called “creative swiping”, being open to ideas not just from other businesses but also from other sectors. Its corporate culture will be widely known and respected; not only will the company be willing to work with outsiders, but outsiders will want to work with the company.

A responsible business is more likely to have the right mindsets for fair and equitable collaboration with other sectors and partners. By understanding sustainability it will be more alert to opportunities as an integral part of keeping costs down and value up. It is also more likely to employ “social intrapreneurs” with the passion and the motivation to push corporate social opportunities. Social intrapreneurs, according to think-tank and consultancy SustainAbility, are creative individuals working inside big business, often against the status quo, to innovate and deliver market solutions to some of the world's most pressing social and environmental challenges.

As big companies start to take sustainability seriously, opportunities are growing for firms across a range of industries that improve their environmental footprint to become suppliers of choice for big business customers. Global brands such as Hewlett-Packard, Dell and PepsiCo want suppliers to show that they are lowering their carbon dioxide emissions. Wal-Mart, rapidly expanding in China, where it accounts for 30% of foreign buying, has said it will favour suppliers that can demonstrate high environmental management standards. Globally, Wal-Mart takes a carrot-and-stick approach: establishing tough sustainability requirements for would-be suppliers, but promising extra shelf-space and promotion for products deemed both sustainable and likely to sell in large volumes. Every senior Wal-Mart manager now must personally champion a sustainable “volume producing item”.

Not there yet

So, is it time for us all to declare victory in the battle to convince businesses that sustainability and corporate responsibility can be profitable and make good business sense? Sadly, no.

In his generally positive review of Peter Senge's new book, *The Necessary Revolution: How Individuals and Organisations Are Working Together to Create a Sustainable World*, Morgen Witzel, in the Financial Times, argues: “The case for sustainability is at heart a business case.” He is right. But Witzel concludes that despite the mass of examples and data that Senge and his fellow authors advance for their case, “ultimately the authors may be prophets without honour ... it is unlikely that

the majority [of businesses] will put the arguments of this book into practice on a meaningful scale.”

We would only qualify Witzel's pessimistic conclusion with the words “fast enough”, given the scale of global challenges such as climate change, water shortages and unsustainable production and consumption. It is too easy, as campaigners for responsible business, to be seduced by largely mixing with the businesses that “get it”.

So what will it take to get enough global chief executives and senior management teams to embrace corporate social opportunity?

Chief executives surveyed in 2007 for a UN Global Compact report, prepared by consultants McKinsey, identified the key things that companies need to do to embed corporate responsibility – a core requirement before corporate social opportunities can be found on a sustained basis. The main findings were:

- It has to be fully integrated into strategy and through each business function and within subsidiaries (for example at country-level planning).
- The company needs to engage in industry collaborations and/or multi-stakeholder partnerships.
- Corporate responsibility must be embedded into investor relations and incorporated into discussions with mainstream financial analysts.
- It must be embedded into global supply chain management.
- The company's board has to have effective oversight.

We agree with the McKinsey study that corporate responsibility requires effective board governance. Some companies have a board committee for corporate responsibility and sustainability; some have a lead non-executive director in charge; and some have a mixed committee of executives and non-executives. Whatever the precise structure, it is important that the company regularly asks what the most significant responsibility and sustainability issues are 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 from a bank or an IT company. Any business – large or small – needs a process for getting each part of the business to understand their significant environmental and social impacts.

To the McKinsey list, we would add that top leadership has to believe in responsible business and walk the talk. Staff and other stakeholders need to hear leaders explain regularly what responsibility and sustainability mean for the business, why they are important and how they are integrated with business purpose and strategy. Talk of responsibility and sustainability should be explicitly linked to the stated values of the business.

Responsibility embedded

Intelligent companies use their values as criteria in the recruitment of staff. They incorporate values into induction and staff training, in appraisals, and for determining pay and promotions. Values are the criteria against which the business takes tough decisions. Corporate responsibility has to be everybody's business – not hived off to a “good works” department. In particular, this means effectively engaging stakeholders such as suppliers. This requires being able to measure and then report 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.

Effectively embedding corporate responsibility is a necessary but insufficient condition for achieving the more substantial and rounded corporate social opportunity that we believe is more organisationally as well as more socially and environmentally sustainable because it harnesses the power and entrepreneurial creativity of business.

For more companies to discover corporate social opportunities, there needs to be a mass corporate outbreak of what we might call “corporate social intelligence”. We are starting to see this in the emerging combination of a corporate mindset for sustainability – which asks, to paraphrase the Economist Intelligence Unit, what business can do for sustainability, and what sustainability can do for business – and enhanced skills and behaviours empathetic to new ways of doing business.

Modern managers need to be sensitised to, and have good antennae for, risks and opportunities associated with their businesses’ impacts on society and the environment. They need to have good future-scanning capacity. And they need to understand how to instigate formal systems for undertaking “social due diligence” to complement financial due diligence, actively exploring social issues and actors linked to overall business strategy and significant business decisions and investments.

Managers must have credibility and demonstrate creativity for collaborative actions with other businesses and other parts of society, so as to produce societal and business benefits. They need to create new products, through innovation and partnerships, that enable their companies to deliver goods and services that add to the bottom line and meet the needs of society. To do all of this, these managers will have to empower their staff and create, to use Peter Senge’s term, learning organisations that enable employees to innovate.

Commentators have suggested that the current economic downturn is going to be bad for corporate responsibility. It is just as plausible to argue the opposite: that hard times could improve the embedding of responsible business and be the stimulus for corporate social opportunity. Companies are going to be looking for every means possible to differentiate themselves from competitors, and to make themselves more attractive to customers and talented employees. This should speed up the process of innovation, finding more cost-effective and creative ways of improving sustainability and deriving commercial benefits from being more sustainable. Already, we are seeing how escalating oil prices are stimulating more smart money to go in to green energy projects. Similarly, companies should now be trying to find more efficient ways of advancing their commitment to be a responsible business.

We are reminded of how some younger entrepreneurs describe themselves as running “not-just-for-profit businesses”. In the words of the Norwegian professor Anders Randers, these aspiring business leaders “do the profitable thing now, and do it as responsibly as possible”. At the same time they press hard, “on a moral basis, for making more of those responsible things more profitable in the future”.

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