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Sun Tzu and the Project Battleground
(with Shan Rajagopal)

The Bending Moment

CORPORATE

SOCIAL

RESPONSIBILITY

**BALANCING TOMORROW'S SUSTAINABILITY
AND TODAY'S PROFITABILITY**

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palgrave
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drains on the resource pool ahead of its ability to replenish itself and pollution will both increase. If we do not address the aspect of waste then some suggest we will simply clog up the business arteries.

What should be clear to us all is that globalization is a factor in all our lives at every level; even those in the developing worlds that have not yet heard of globalization are being affected. Those regions that want to use their competitive advantage of resources (whether material or human) in order to exploit the opportunities of joining the global commercial market provide a challenge to those who would criticize the business community for participating.

The global market place is a complex environment within which the business community has to constantly strive for growth and competitiveness. The issues of sustainability impact on most (if not all) decisions made. The challenge going forward is to integrate sustainability into strategic thinking and operational activities. What must also be appreciated is that the global market place is diverse and demanding, and thus meeting every aspiration of every pressure group is not practical. The reality is that finding the appropriate balance is the best we can hope for, recognizing that others across the developing regions have their short-term development needs and have an equal right to share in the growth. It should also be recognized that each country has its own path and is at a different stage of evolution.

It was suggested a few years ago that western business and consumer demand was exploiting Chinese sweatshops. It is equally likely that the exploitation was more internally driven to secure a position in the market place. Soon, given growth patterns and demographic forecasts, China's internal consumer demand will be creating exploitation elsewhere. China supports sustainable development at the political level.

This observation is not to suggest that we disregard the obvious impacts of sustainability and just leave the world to find its own levels; it is simply to reflect the evolutionary nature of things. What we should be looking to do is ensure that we raise awareness in the business communities that sustainability can be profitably integrated, and share this knowledge with the emerging new commercial powers around the world.

CHAPTER 3

Strategic conflict

If sustainability is to be truly addressed by the community then it has to become embedded in the business culture and a clear focus within the strategic development plans of organizations. It cannot simply be consigned to the annual report and satisfying the superficial needs of the investment market's assessments. Business-driven sustainability has to be reflective of the wider community as well as the traditional commercial drivers. Yet clearly the three overlapping sectors of the community shown here in Figure 3.1 each have their own drivers, which need to be balanced or blended in order to establish effective strategies, and work in collaboration to deliver.

These drivers do, however, start from totally different perspectives that must be understood within the wider profiling of activities and pressures. The average tenure of most CEOs is currently in the region of 2–4 years,

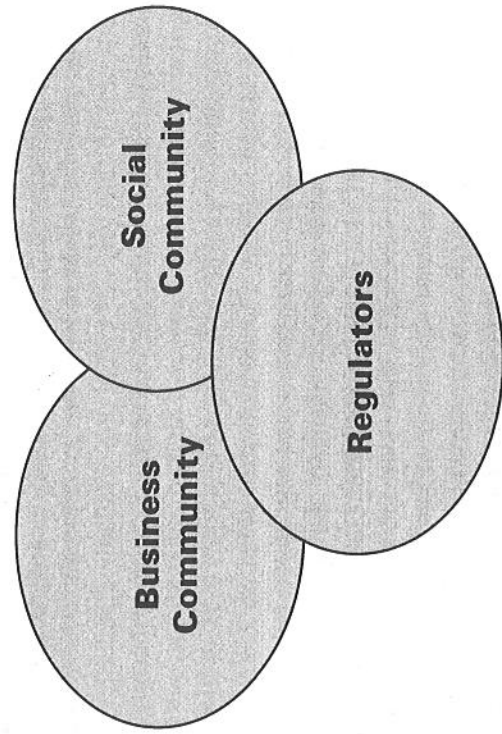


Figure 3.1 The overlapping communities

and within that span they will be expected continuously to deliver acceptable results to investors and shareholders. In fact their performance is crucial to generating wealth for the community at large. This short-term focus must be clearly reflected in the strategic investments under their governance and, whilst there may be some desire to take a longer-term perspective, the pressures are high. It must also be recognized that these strategies are being developed and implemented in a global environment where perhaps competitors have a different perspective of ethical trading and governance.

The community, on the other hand tends to look at sustainability from a personal or family impact first and then take a much longer view. The more remote the direct connection or constraint on their local position, the stronger the view on what others should be doing. It is this lack of balance, looking at the future wider arena, that to a large extent constrains the ability of business leaders to adopt what many would see as a more responsible approach. The social community is both the customer and the critic of the business community. If there is no compromise at the customer or consumer level then the business decision-maker's options are limited. The question of exploiting local social communities to support market competitiveness often brings values not previously seen. This creates a dynamic pull on the business strategy since competition will certainly exploit opportunities that are left open.

The third element driving the sustainable agenda is regulators and governments. Their challenge is to support the creation of wealth and balance this against the long-term impacts that over-exploitation can create. Frequently, however, the policy makers have their own time frames and for many these are perhaps only driving politically expedient solutions. The impact in the main, then, is a tendency for governments to introduce regulations, business to find ways of complying or avoiding penalties and for the community at large to complain that neither is being responsible.

Strategically the short-term pressures on business and demand-focused consumer aspirations create an environment that tends to push sustainability down the strategic agenda. The medium-term influence and responsibility of governments is to create targets and regulatory pressures on the business community, whilst trying to maintain the support of their local community. Without a global level playing field there is little chance of being able to focus many business leaders on the realities of reaching a return on investment as true long-term sustainable programmes are completely out of balance. If we cannot provide the impetus to understand and embed the sustainable approach then these three inter-dependent communities will continue to dance around each other but never really tackle the issues.

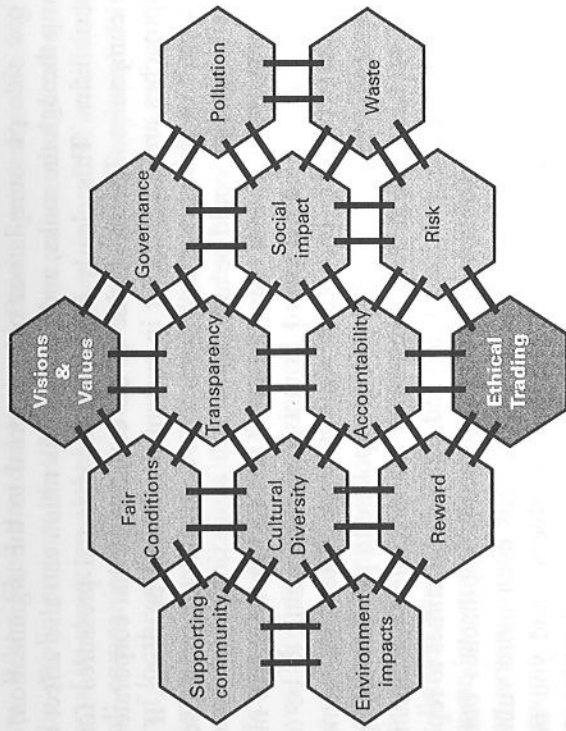


Figure 3.2 Interconnecting sustainable issues

This situation is reflected in research undertaken by the United Nations Environment Programme (UNEP) which suggests that communication of CSR issues is separated from the mainstream business communications processes, thus creating the illusion that the issues are not connected and further diluting the strategic focus. Sustainability touches every aspect of the business strategy as outlined in Figure 3.2; they are interconnected and thus it is crucial that organizations seek to identify the opportunities and risks that this entails.

The crisis that has created a backlash in the market place as regards corporate governance has perhaps over-shadowed the wider implications of sustainability. This is not to diminish the impact and importance that the Enron and WorldCom situations created but, whilst serious, they are not likely to have a major environmental impact. Certainly their investors would perhaps be less charitable (and who can blame them?), but we should not assume that sustainability is only about robust financial management.

The business leaders of today face increasing challenges from all sides and are between a rock and hard spot in terms of meeting everyone's aspirations. Some may suggest that these are problems for others and their role is to make money. This attempt to pull the blanket over one's head is flawed and shows that in many cases these responsible business leaders can benefit from sustainable approaches.

On one side pressure is not only external to the organization; it also comes up through the ranks, and poor consideration can also affect recruiting possibilities. This clearly builds on the external pressures for high-profile companies. The other side of the equation is that corporate values and approaches are a key factor in current investment profiling. If organizations don't meet investor aspirations then financial support for development and expansion could be affected.

To a large extent greater transparency is what needs to be put in place, but this is a double-edged sword in that if you are going to be open to scrutiny then you must be able to show a clean slate. Communications capability now puts companies at risk of exposure to pressure groups who can quickly turn minor over-sights into major issues. Companies are progressively joining up to Dow Jones and FTSE programmes to report and demonstrate where they are adopting sustainable approaches but many more are not and even those that do are perhaps even more vulnerable. Declare you are doing well and find small problems, and you may get worse treatment than those that said and did nothing within sustainable boundaries.

We hear lots of talk about corporate responsibility but what do we really expect it to be? It is generally assumed to be the ways we behave outside the regulatory controls. However, bear in mind that in the global trading environment there is a considerable disparity so which law companies are contravening can be difficult to assess. It is frequently these paradoxes that get exploited by those that see only short-term investment as the goal. Shifting operations to exploit low-cost labour, transferring pollution to other countries or even building firebreaks in the facilitation chains can all be legitimate actions. Multi-nationals can switch between friendly or more tolerant regimes, and all within the local legislation.

Responsibility is about commitment not compliance, and it is the challenge of this that becomes a dilemma for many business leaders. It would be easy to take a moral stance on this issue of responsibility but in the main this will drive organizations more towards compliance and short-term targets. What have to be evaluated are the commercial benefits of working differently, such as developing a cost-benefit analysis that supports an approach which improves customers acceptance, improves performance, reduces costs and in parallel helps contribute to the wider aspirations of society. We should also remember that for a business to be sustainable it has to have long-term growth prospects, which should be founded on customer expectations.

In the same envelope business leaders also have to consider the risks and rewards that come from operating in areas that attract high-profile

criticism. When Shell decided to dump Brent Spar it learnt a big lesson from the public protests that hurt its European business. Exxon suffered because of its stance on global warming. There is a raft of websites focused on 'bad' companies only too ready to attack the commercial drivers in favour of local campaigns.

The potential to benefit from a sustainable approach is frequently not considered by organizations that adopt the traditional structured thinking. Eco-efficiency tries to focus on the cost savings that complement sustainable objectives. Moving a manufacturing plant may have cost benefits but could damage customer confidence. Similarly the service industry has seen the 'call centre challenge' being faced in many different ways. Some organizations are exploiting the idea of not off-shoring. Exploiting low-cost workers may deliver limited product savings, but could they deliver higher productivity given some investment in community, health, working conditions and tools?

Many organizations such as the Body Shop have made sustainability a key corporate value and as such are building their future with commitment to the community they serve. These values have to come from the top and the organizations need to be encouraged to be creative and innovative in order to deliver value to their stakeholders. Perhaps the biggest challenge will be to ensure that incentives also become contributors to these programmes rather than a potential constraint on compliance.

There are of course governmental programmes which are aimed at providing guidelines and measurements to promote the effective communications of strategies and performances. The United Nations Global Compact has now developed a package of guides called 'Communications on Progress' to support its initiatives, which expect participants to keep their stakeholders informed of progress on sustainable reporting. The EU is trying to establish a directive on annual accounts. The Global Reporting Initiative (GRI) has introduced their 'Boundaries Protocol' to help organizations define boundaries, significance, control and influence.

Governments have introduced sustainable development organizations with the objective not only of promoting actions in the business community but also monitoring their community's progress by measuring key aspects. These groupings are operating all over the world but as yet have not found a common set of measurements. The implications for this discontinuity are that business has to continuously adapt to meet local targets and restrictions. Clearly the Kyoto Agreement on carbon emissions set targets, but unfortunately not every country has signed up, and even within certain regions there is a degree of manipulation going on. It is alarming that governments do not begin to appreciate more fully that borders are artificial as the environment itself has no boundaries.

It would be easy for the business community to simply step back and play the field within these anomalies of government and regulators. There is, however, a greater driver and that is the customer; this is where government and business need to be jointly focused to educate the community at large. Even without this aspect it does not take a rocket scientist to understand that if you exploit resources or pollute the environment it is not sensible. Commitment at individual, corporate and national levels is needed to start the process.

Governments should be looking to create incentives for business leaders to invest in sustainable approaches, rather than simply penalizing failures. They should be setting parameters for the customer and educating them towards sustainable solutions. It should also be appreciated that sustainability and corporate responsibility are not just concerns for the multinationals: they affect, and should be a factor in, every business, large or small. Small and medium enterprises (SMEs) are a significant part of every economy and in most industrial nations are accepted as being the predominant employers and wealth generators collectively. They frequently operate in the global market place and are, to some extent, even more vulnerable to unfair competition than the majors.

A compliance strategy is a greater burden to SMEs than to major organizations particularly if these requirements are pushed down the food chain from major customers wishing to enhance their own sustainability compliance and reporting on a take-it-or-leave-it basis. However, since they are smaller, their managements are both closer to the action and more able to influence approaches in support of sustainability. Part of the responsible strategic business approach must be consideration of the impact of decisions on the supply chain, with the emphasis on working to find solutions rather than creating commercial red tape to compound that created by governments.

Strategic plans that feed down the business infrastructure therefore can also play a significant role in the overall sustainable profile. Sourcing strategies may carry implications for the community and for economic growth. Responsible purchasing has a great deal to offer and, whilst one would refrain from suggesting that traditional competitive drivers are not important, it should be a factor for consideration.

SMEs are more adaptable and more responsive and certainly would benefit from cost savings if these investments were not too high. These savings could have direct benefits to customers and the community at large. In a similar vein, when looking to take advantage of low cost producers, short-term exploitation opens the way to risks of supply security and market backlashes.

Again one sees opportunities for government and the business community to develop joint strategies, such that policies are growth generators and also contribute to the wider and longer-term aims of sustainability. Clearly governments can become victims of their policies and agendas. In the US, scientists and environmentalists have accused the White House administration of suppressing and distorting studies (both theirs and independent programmes) in order to avoid conflicts with policy programmes. These have included global warming, air quality and cancer. As one would expect these challenges have been denied, but there is reportedly strong evidence that government spin is clouding the picture.

One would not suggest that the US government is alone in these debates. There is a great demand for transparency at the business level but if we are to make informed decisions and develop effective strategies then there must be transparency across the communities involved. UK government advisers have suggested that the environment is a bigger threat than terrorism, the logic being that in general we can recover from an attack, but if we abuse the environment then we shall never recover. Again, in the UK the investment in alternative energy such as wind farms is lower than the investment in road development. Trying to maintain the balance creates more friction and the efforts are expended on the debate instead of looking towards integrated strategies.

For the leaders of the corporate world these mixed messages from government, pressures from the NGOs and the demands of the consumers provide little solace when trying to steer a course towards growth and wealth creation. Creating a responsible strategy (as in Figure 3.3) means integrating consideration for all pressures.

What we see is that the conflicts are clear but the issues of sustainability have added a new and complex dimension to the business leadership's strategic plans. Throughout the Industrial Revolution the creating of business ventures was very much a localized situation. The relationship between, say a mill owner, his employees and the wider community was clearly understood. It is true that in many cases exploitation was rife and the advent of trade unions brought some responsibility to the interdependence. In very few cases was there a moral foundation to these integrated communities; one can think of cases like the Cadbury family that bucked the trend but their approach was founded on religious grounds.

The community today is more diverse and certainly global, but the interdependence remains. Business needs resources and customers to create a market. It has to meet the constraints of regulations, which globally can be diverse and conflicting. It has to respond to the community wherever it operates, produces or sells. It has to do all this and meet the aspirations of

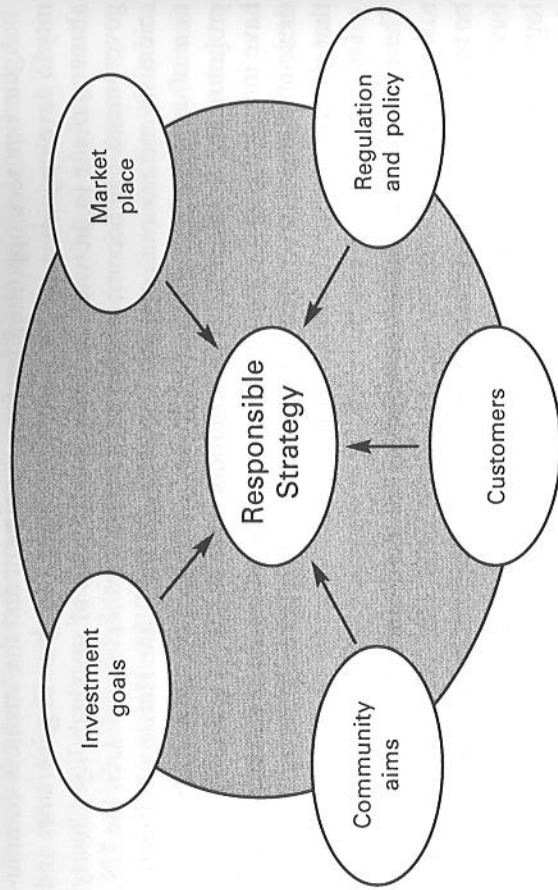


Figure 3.3 Integrating strategy

investors. Sustainability is now not simply about the long-term future of the business; it is about establishing responsiveness to the wider community.

Embedding sustainable principles at the heart of an organization will not change the world overnight. It is also unlikely that organizations will be able to address every aspect to the satisfaction of every pressure group or government. But much of the sustainability debate is not about turning the business community on its head, though perhaps some eco-terrorists would see this as their objective; it is about building into the core of business thinking the desire to look at each situation from a wider perspective.

Many of the risks that business faces in the global market can be turned to advantage by applying some common sense and taking the debate beyond short-term profit. When the corporate strategic trend was cost reduction the focus frequently shifted away from traditional common sense and addressed only the obvious cost issues. This frequently ignored performance, productivity and customer preference. As the trend shifts towards growth and expanding markets these issues should be addressed and, by considering the sustainable implications, can become both contributions to profitability and create customer recognition. Strategic intent and sustainable values can ride together in the business world, but the wider communities also have to play their part.

CHAPTER 4

Environmental change

The environment is a crucial part of all our lives and should be a concern in every aspect. The passion with which some champion their cause is probably a reflection of the worst exploitation. A change in the environment can result in all manner of implications, whether localized or global. Thus we should expect nothing less from our business leaders than that they commit to protecting the environment and conserving the ecological balance. Implementing effective environmental systems and safeguards is part of the business process. Clearly, however, this commitment frequently ranges from lip service to enthusiastic support but, in addition, on a global basis the appreciation for the bigger picture is often subdued by local pressures and understanding.

Companies should be expected to adapt to different business applications but maintain an overall sustainable profile. They should also be honest enough to report when there is a problem. Many however are reluctant to do this because they immediately become pilloried by the media and NGOs. Environmental standards have been established under ISO 1400, but again one finds a spectrum of adoption and application. Addressing the key issues such as pollution, energy consumption and waste are factors for every business to consider. These basics also have a clear opportunity to deliver value to the bottom line.

The threat of global warming has been with us for many years and yet there remains the debate as to whether this is caused by manmade influences or is simply part of the process of evolution. There are numerous reports of the Arctic ice cap melting rapidly; this has been confirmed after a 4-year study in the Arctic Climate Impact Assessment (ACIA) released in November 2004.² The results suggest the Arctic will warm by 4–7 degrees Celsius within the next 100 years. This will have a major global impact, including a contribution to rising sea levels.

Reports on the Greenland ice sheet by Reading University suggest an 8 degree Celsius warming in the next 350 years resulting in sea levels rising by up to 7 meters. Some may argue that these reports are so inconsistent