Sustainable business success through corporate social innovation

By Tania Ellis

New rules for future economic growth are paving the way for business unusual. Companies are future-proofing their business by building corporate responsibility and sustainable value-creation into their core.

Today's business world is a world of disorder. Global mega crises ranging from security threats, global warming and the depletion of natural resources to food shortage and the growing gap between the rich and the poor, as well as higher personal levels of stress are changing companies' freedom to operate, their reputations and brand value, the cost of capital and perceived investor risk.

Not only are the current imbalances making it more difficult for companies to sustain business as usual due to resource scarcity, natural disasters or social instability, which raise costs and endanger operations. They are also changing the expectations and demands of a broad range of stakeholders, including regulators, investors, employees, consumers and society at large.

In short, the 21st century business of business is still business. But the rules of how to stay in business are changing.

Today companies are expected to share responsibility with governments for tackling issues such as health or the environment, which, in the old-world economy would have been well under the corporate radar. For example, a 2007 Globe Scan poll on corporate citizenship found that a significant number of citizens in 25 countries held companies completely responsible for improving education and skills in communities, responding to public concerns, increasing global economic stability, reducing human rights abuses and reducing the rich-poor gap.

It is perhaps less surprising but equally important for companies wishing to maintain a good relationship with its stakeholders, that a large majority of the surveyed citizens also held companies completely responsible for the safety of their products, fair treatment of employees, responsible management of their supply chain and for not harming the environment.

In the wake of the economic crisis, the gap between the needs and expectations of society on the one hand and the objectives and practices of many businesses on the other has also widened dramatically: according to the 2009 Edelman Trust Barometer, nearly two-thirds of the public reported less trust in businesses than the year before.

Stakeholder responses ranging from public campaigning to

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lawsuits underline the demand for trustworthiness and responsible business practices. Consider, for example, the lawsuits filed against car companies for the costs of their alleged diminution of ecosystems, against tobacco companies for their alleged misleading of smokers about the dangers and addictiveness of cigarettes and against fast food companies for the alleged responsibility for their customers' obesity.

It is for reasons like these that investors of capital are starting to steer away from companies within sectors whose risks and potential liabilities are not well understood. Their calculus is increasingly reflecting the uncertainties of potential costs and liabilities associated with externalities, future regulatory constraints or restricted access to natural resources. And it is for reasons like these that corporations are rising to the challenge of rebuilding stakeholder trust by linking business with sustainability and including the broader interests of society in core strategic efforts.

SRI – a new growth market

Socially responsible investing (SRI) is increasing the attention on corporate social and environmental practices through either positive screens, i.e. identifying companies that in some way benefit society, or through negative screens which weed out poor SRI performers, including those who pollute or maintain poor working conditions.

Large pension funds around the world are already using screening agencies to assess how companies tackle so-called ESG (environmental, social, governance) issues like eco-friendly practices, human rights and corruption. 475 large institutional investors around the world representing more than $55 trillion of funds (2009 figures) investigate the emissions strategy of companies through The Carbon Disclosure Project (CDP). And stock market indexes like the FTSE4Good Index Series and the Dow Jones Sustainability Index are tracking the financial performance of companies that focus on creating long-term shareholder value by embracing opportunities and managing risks derived from economic, environmental and social developments.

The following figures reflect the growth trend within SRI: according to the Washington D.C.-based Social Investment Forum, SRI has soared 5,000% in less than two decades (in 1984 SRI was a $40 billion market, by 2003 it had morphed into a $2.16 trillion industry). In 2005 almost one dollar in ten under management in the US – $2.3 trillion – was invested in SRI funds. From 2005 to 2007 the average level of shareholder support for resolutions on social and environmental issues rose by 57%, from 9.8% to a record high of 15.4%, and in 2007 institutional investors that filed or co-filed resolutions on social or environmental issues controlled $739 billion in assets. That same year global investment banking firm Goldman Sachs anticipated that additional professional managers, although not necessarily adopting a pure SRI mandate, will increasingly incorporate environmental issues into their analyses.

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Interestingly, corporate scandals and the recent economic crisis have only proven beneficial to this trend: during 2008, when the crisis seriously started making its mark, the number of signatories to the investor-led and UN-backed initiative Principles for Responsible Investment (PRI) more than doubled to 381 as a response to the crisis, and has since then increased to 560 investors managing a total of $18 trillion in assets, including private equity firms.

Traditional business models are consequently being stretched. And with the reinforcing impact of the economic crisis, some of them are being stretched to a breaking point where short-term shareholder value creation cannot stand alone. As a result, companies are responding with attempts to reconfigure their DNA as pure profit seekers through responsible and sustainable business actions.

New-world CSR

'We believe that the leading global companies of 2020 will be those that provide goods and services and reach new customers in ways that address the world's major challenges – including poverty, climate change, resource depletion, globalization, and demographic shifts.' This is the manifesto for tomorrow's global business by World Business Council for Sustainable Development (WBCSD), a CEO-led global association of some 200 companies from more than 30 countries and 20 major industrial sectors, dealing exclusively with objectives for bridging business and sustainable development. Not because they should feel morally obliged to do so, but simply because it makes good business sense.

Like an increasing number of companies around the globe they realize that addressing business risks in a proactive manner will gain them a competitive advantage and that the key principles of sustainable business success are to:

• shift from a philanthropic add-on approach to corporate social responsibility (CSR) to a strategic approach, where CSR activities complement – or maybe even become – the core of business;

• that the vision and strategy must be accompanied by changes in the company's 'hardwiring' and 'softwiring', i.e. with accompanying structures, processes, performance and measurement systems as well as communications, employee and leadership development programmes designed to encourage sustainable value creation thinking, skills and practices;

• and that they must work in partnerships that combine private, public and civil sector resources, skills and expertise to enfuse their mainstream practices and thinking.

Business practitioners that have succeeded in doing so report of benefits like improvement of the corporate brand, differentiation from competitors, increased operational efficiency, attraction and retention of employees, innovation of products and services and access to new or under-served markets and customer segments.

British retail giant Marks & Spencer, for instance, has recognized the synergies between increasing productivity and revenue and cutting greenhouse gas emissions or other eco-friendly solutions. In 2007 the company budgeted $215 million for Plan A, an in-house five-year environmental programme which includes cutting the company's fuel and electricity use, charging customers for plastic bags, sourcing merchandise from

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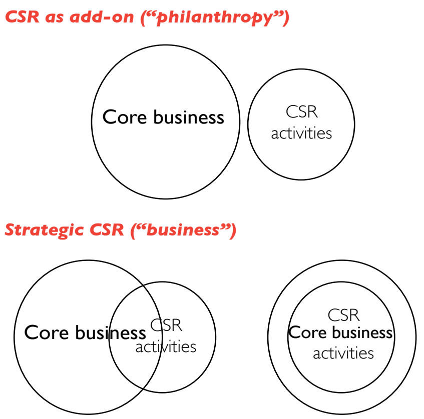
CSR approaches



Source: Ellis, Tania: The New Pioneers, Wiley 2010.

green factories and farms and a dedicated 'Plan A champion' at every store.

Marks & Spencer has linked up with NGOs and social organisations to share knowledge, develop solutions and support causes linked to Plan A, and as part of its employee engagement programme it provides, among other things, one day's paid time off for all employees to participate in a Plan A initiative.

The company has already saved 55 000 tons of CO2 in a year, it has recycled 48 million clothes hangers, tripled sales of organic food and aims to convert over 20 million garments to Fairtrade cotton. And according to the company's sustainable development manager, Plan A is so far paying for itself because it has lowered the company's energy expenses as well as other costs.

Sportswear company Nike, which initially integrated CSR into its business system as a response to accusations of child labour, low wages and unreasonable work hours in sweatshops run by the company's suppliers in the 1990s, has taken its CSR efforts to a new level. Over the past three years Nike has started moving beyond corporate responsibility and into what it calls Sustainable Business and Innovation, because 'success relies on our ability to transition into the sustainable economy', as Nike states on its website. This means integrating sustainability principles and practices into every aspect of its business – design, developing sustainable materials, rethinking processes and advocating for systemic change in the footwear, apparel and equipment industries.

In short, by applying a business strategic approach to CSR the in-built weaknesses of old-world CSR – where, for example, donations, sponsorhips and volunteering are unrelated to the company's business and therefore suffer cutbacks in times of crisis – are overcome. And thereby more sustainable value is added to both society and the company.

From CSR to CSI

Like Nike, a diverse range of companies are revitalizing their business models by putting innovation and sustainability at the core of their business thinking. They transform corporate social responsibility into corporate social innovation (CSI).

General Electric (GE), for example, – maker of jet engines, plastics and lighting and builder of power plants that churn large amounts of carbon dioxide into the atmosphere – is marking itself out as a leader within the field of eco-business.

GE's Ecomagination business strategy is a pledge to improve its environmental practices by focusing technologies, production capacity and infrastructure on developing solutions such as solar energy, hybrid locomotives, fuel cells, lower-emission aircraft engines, efficient lighting and water purification technology.

The industrial giant invests $6 billion each year in research and development, of which $4 billion is allocated to solving the problems of clean energy and affordable healthcare. In 2008, GE's energy-efficient technology reaped $17 billion in revenue, up 21% from the year before.

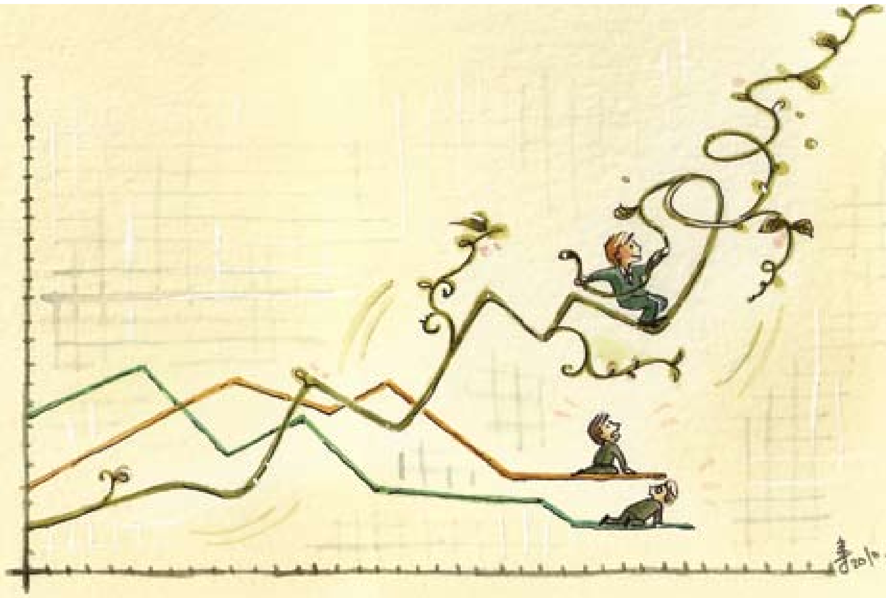
The world's third largest cement manufacturer CEMEX, on the other hand, has developed an inclusive business model to address Mexican low-income needs in the do-it-yourself homebuilding market. Here it uses its financial strength to lend raw construction materials which are paid back with regular loan payments and applies its know-how to give technical advice and ensure efficient use of materials. As a result, home-building costs are 30% less while the construction period averages 1.5 years instead of four to six. Thereby homes are built in communities that could otherwise not afford it, and CEMEX is generating revenue from a market that did not previously exist.

Multinational companies based in Europe, North America, Japan and other developed regions of the world are starting to recognize the need to move into regions with growing populations and developing economies. Thereby they can access new markets and new consumer segments, instead of relying on their traditional markets which are stagnating, shrinking or competition intensifying.

The innovative M-PESA banking system developed by telecommunication companies France Telecom, Safaricom and Vodafone not only enables simple payment transactions by SMS over a mobile phone for customers who do not have (access to) a bank account, providing safety from crime and helping micro-entrepreneurs avoid the sky-high interest rates of loan sharks. It also opens up a rapidly growing market for information and communications technologies in Africa that is already estimated at $2.0 billion (258 million people).

Operating in emerging markets can, in fact, provide fertile ground for new ideas and products that may eventually also sell to consumers all over the world by serving as beta sites for what has been dubbed 'trickle-up innovation'.

General Electric, for example, is now selling small-size, low-price handheld electrocardiogram devices and portable PC-based ultrasound machines in the USA, although these machines were originally developed for rural India and rural China. And for the multinational consumer product company Unilever some 40% of the company's sales and most of its growth are now taking place in developing countries with activities



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ranging wider than traditional research and development.

For Unilever's CEO, Patrick Cescau, getting involved in issues like poverty, water scarcity and the effects of climate change is vital to staying competitive in the coming decades: 'CEOs used to frame thoughts like these in the context of moral responsibility. But now, it's also about growth and innovation. In the future, it will be the only way to do business.'

The stress test of sustainable business

Before the credit crunch, companies which proactively designed environmental, social and governance practices to create sustained competitive advantage appeared to have a stronger financial performance than those which did not.

For example, a 2007 Goldman Sachs study of corporate responsibility leaders in six industrial sectors showed that they had outperformed the overall stock market by 25% over a two-year period, and within their own sectors 72% of the companies had outperformed their peers. The reason for this, according to a number of experts, is that corporate responsibility is a proxy for good management – and good management is the prime indicator of superior financial performance.

But in 2008, almost a third of global companies surveyed by Business for Social Responsibility, a global network of firms with an interest in CSR, said that they expected to cut their spending on sustainability as a result of the crisis, which would, at first glance, confirm CSR critics' belief that this is a trend that only thrives during economic booms.

Nevertheless, the economic crisis – as it turns out – is an effective way of separating the sheep from the goats by shaking out unsustainable or unrooted CSR efforts while showcasing the longevity of sustainable business models. In fact, a recent A.T. Kearney analysis of 99 companies on the Dow Jones Sustainability Index and Goldman Sachs's SUSTAIN focus list revealed that during the current economic slowdown, companies that showed a 'true' commitment to sustainability appeared to outperform their industry peers in the financial markets.

Europe's largest social bank, Triodos Bank, is a case in point. In the midst of the economic crisis in 2008-9, while large commercial banks were either nationalized, put into administration or were forced to ask their shareholders and governments for money to make up for their losses, Triodos Bank experienced renewed growth and an unprecedented interest in its sustainable approach to banking.

The bank has, in fact, generated continuous growth of 25% annually over the past two decades with assets under management of almost $5 billion, and it has close to 200,000 customers and almost 10,000 sustainable businesses and projects in its loan book, which builds on financing companies, institutions and projects that add cultural value and benefit people and the environment.

'Our growth is faster than foreseen; we continue to thrive despite the financial crisis, and have no shortfall of capital. This year we have grown faster than ever before, with more than an 18% increase in our customer numbers since January 2009. If nothing else, the financial crisis has taught us that it pays to choose sustainable,' Triodos Bank's CEO, Peter Blom, explained in a press release.

The increasing number of cases from around the globe that showcase how responsible business conduct and corporate social innovation open up new revenue streams, new industries and radically different business models – and prove to be crisis-resistant – is creating a new business mindset. In the new economic world order social responsibility and innovation drive good business. Sustainable value creation is the way for companies to future-proof their business.

About the author

Tania Ellis, Executive MBA, is a Danish-British prize-winning writer, speaker and business advisor, who specalizes in social business trends, www.taniaellis.com. Learn more about the principles of sustainable business success in her recently published book "The New Pioneers" (Wiley 2010) at www.thenew-pioneers.biz