

## What is Responsible Business?

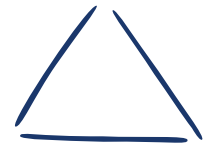
Business in the Community uses this framework of responsible business, to help members to integrate responsible practices into their day-to-day operations:

- Demonstrating clear leadership, governance and values and integrating responsible business practices across all business operations.
- Developing products and services with improved social and environmental impacts, and positively influencing customers' behaviour.
- Developing employees and the future workforce to build successful working lives.
- Investing in the communities in which the business operates and those communities in greatest need.
- Manage social, environmental, and economic impacts in your supply chain.
- Managing resources sustainably, taking action to reduce climate change and prepare for a low carbon economy.
- Working with others in collaboration to create change that benefits both business and society.

Business in the

Community

Doughty Centre  
Corporate Responsibility



Cranfield  
UNIVERSITY  
School of Management

The Business  
Case

for being a  
Responsible Business

Business in the

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Business in the Community  
stands for Responsible Business

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Doughty Centre  
Corporate Responsibility



The Doughty Centre  
for Corporate Responsibility

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## Foreword

The way we do business is changing. Customer needs and demands are developing. Emerging technologies are enabling new ways of working. Supply chains are shifting and new markets are opening up. A more deeply connected generation is emerging. Knowing more about the world presents enormous opportunity, especially for business.

What is needed is a form of capitalism that is driven by businesses which not only think about the short term returns but also about building longer term sustainable businesses that create economic, environmental and social value - what McKinsey & Co call 'long-term capitalism'. To ensure viable and sustainable businesses in a more responsible - and low carbon - economy, we need to increase the speed and scale of change towards responsible business and operate in a more connected way. This means ensuring that responsible business is at the heart of all aspects of business operations and business models, and not just a preoccupation of one department. And it means new connections and partnerships that will help businesses take a more joined-up approach to their activities.

Responsible business is not a trade-off between people, planet and profit - companies should be expanding the connections between societal and economic progress<sup>i</sup> and looking at innovative ways to integrate responsible business practices into their core practices. A divide is emerging between those that embrace sustainability-driven strategy and management, and those that don't. <sup>ii</sup> These 'embracers' are the businesses that will survive and thrive and to help those currently at an earlier stage of the journey, we need to provide the proof - the argument and numbers - that show why and how responsible business practices build successful organisations, to help them define those materially relevant to them.

For this report we have researched and compiled the most up-to-date data on what the business benefits are for being a responsible business today, and predict what the benefits will be tomorrow. This will help organisations and individuals understand what areas of operations they can look at to assess their societal, economic and environmental impact, how to gather support for building a responsible business, and why being a responsible business is not only the right choice, it's the sustainable choice.

Business in the Community (BITC) stands for responsible business. It is a business-led charity with a growing membership of 850 companies, from large multinational household names to small local businesses and public sector organisations. We advise, support and challenge members to create a sustainable future for people and the planet and to improve business performance. The Doughty Centre for Corporate Responsibility, an innovative centre based at Cranfield School of Management, combines knowledge with action for business sustainability through our teaching, research and advisory work. BITC and the Doughty Centre are delighted to collaborate on this project.

March 2011



Professor David Grayson, CBE  
Director  
Doughty Centre for Corporate Responsibility



Stephen Howard  
Chief Executive  
Business in the Community

## Introduction

The aim of this report is to articulate succinctly the business case for being a responsible business - a headline synthesis of the arguments being used and the most frequently stated business benefits.

In 2003, BITC and AD Little Consultancy researched and produced a report on the business case for corporate responsibility (CR).<sup>iii</sup> The report, while still well used, is now dated. Responsible business has evolved significantly since 2003 and further research was needed to assess if these earlier findings are still relevant, or if new business benefits can be identified and a more differentiated business case can now be formulated.

With this brief, between June and December 2010 the Doughty Centre researchers drilled into data from 2003-2010 from both academic research and what businesses themselves are saying. The main goals of this research are to:

- Identify the business case realised by businesses that embrace being responsible;
- Understand how this business case has changed in the past eight years; and
- Understand how the business case looks likely to develop over the next few years.

For the purposes of our research we define the business case from the viewpoint of companies. This report therefore focuses on the business benefits apart from the values and ethical case for being a responsible business, which we nonetheless acknowledge as essential for businesses to understand.

### The data

The team conducted an extensive review of reputable academic and practitioner/business literature between 2003 and 2010 (*henceforth called literature review*), and also looked at BITC CR Index submissions and the 'Awards for Excellence Big Ticks' within that same time period for what businesses themselves were saying (*henceforth called BITC-collated data*). 184 unique companies were identified stating a benefit, 127 from empirical data, and 57 from the literature review. For more information on the methodology, please see the appendix.

We would like to give thanks to all reviewers for their time and insight.

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## Executive Summary

Overall, we identified over 60 business benefits from the research which, when sorted by relevance and description, was clustered into seven key business benefits from being a responsible business.

1. Brand value and reputation
2. Employees and future workforce
3. Operational effectiveness
4. Risk reduction and management
5. Direct financial impact
6. Organisational growth
7. Business opportunity

The order of this list represents the frequency with which these benefits were cited from both business examples and academic papers - i.e. Brand value and reputation was most often cited, Business opportunity least often cited.

We identified two business benefits that have only recently started to emerge and are more prominent in companies that have already started the journey to being a responsible business. The criteria for these future trends are that they only recently started to be cited but have grown in frequency of citation each year since. We therefore suggest these benefits can be better realised as companies become more sophisticated in their efforts to be responsible:

8. Responsible leadership
9. Macro-level sustainable development

We can say with confidence that the seven current benefits and two future trends are what most businesses are realising as they become more responsible organisations. We feel there has been a high degree of investigation since the 2003 ADL/BITC report referred to in the introduction, and research and organisational practice of being a responsible business has improved. This has further developed the understanding and case for how sustainability and CR is relevant to business and why being responsible is the right business decision. These new benefits reflect significant shifts in mindset, legislation, macro-level issues, and the understanding and acceptance of responsible business - and are relevant objectives for any business today.

In the following sections we describe each of these benefits in turn in more detail, giving an indication of what each benefit means, examples, who was citing it, and which currently less-frequently mentioned benefits are growing in frequency of citation and therefore may become more important in the future. We also give an example of a business, Unilever, as a case study of a company realising many of these benefits. We conclude the report with an overview of our methodology.

We notice a clear difference in what smaller organisations (SMEs) refer to more often as business benefits, compared with larger multinationals and larger corporations (MNEs/LCs). 'Employees and the future workforce' is more likely to be seen as the key business benefit for SMEs, while 'Operational effectiveness' was most often referred to as a key benefit by larger organisations. We do refer to this in the following sections, but we will also follow this report later this year with an academic paper that will give more detail and analysis.

## Brand value and reputation

'Brand value and reputation' refers to any benefits realised from responsible business that improve the value of the brand and/or the reputation of the brand or organisation.

Brand value is an oft-cited benefit, however over time this citation decreased in frequency as companies learned exactly what benefits were gained from improvements to brand reputation, such as the benefit of better employee attrition, and therefore reclassified the benefit. We classify 'Brand value and reputation' specifically as benefits to product brand and also corporate brand.

Our research also shows that companies inter-link the value and the reputation of a brand closely. Reputation was cited as mostly being useful for improving the value of the brand. Conversely, the main way of improving the brand value was cited as being through improving reputation (for example, differentiation leading to customer attraction, retention and advocacy).

**Brand value enhancement** Values and standards can strengthen brand identity in order to attract customers, communicate transaction expectations better for more satisfactory relationships, differentiate the brand from competitors, and legitimise the brand with values and definitions which enable stakeholder trust to be built.

Research identifies that activities such as improved environmental performance, corporate standards and values in operations and customer treatment can improve the ability of a company's brand to attract consumers, employees and investors: "Consumers report that many claim to be influenced in their purchasing decisions by the CSR reputation of firms."<sup>iv</sup>

**Reputation enhancement** Financial bottom lines are not in themselves enough to build reputation and attract stakeholders. Acknowledging other stakeholders' relevant needs and concerns - such as employees, local and national communities and environmental issues - is seen as a responsibility to be addressed.

However, an organisation's image (from a stakeholder viewpoint) is not immutable, and can actually change quickly. Therefore, consistent and responsible stakeholder management, brand performance and communication need to be developed over several years.

"79% of CFOs believe ESG [environmental, social, governance] programmes add value to the business by maintaining good corporate reputation and/or brand equity."<sup>v</sup>

"In 2010 public trust in companies was least affected by financial performance (only 45% of respondents cited this as important to corporate reputation), whereas 64% cited good corporate citizenship and 83% cited transparent and honest practices as important to corporate reputation."<sup>vi</sup>

### Examples

- **Esh Group:** 'Grow with Esh' is a scheme aimed at helping young people to develop horticultural projects. It was also set up to enhance the Group's profile in the North East of England. To date the partnership has delivered over £30,000 worth of positive press coverage, and demonstrated in tendering processes how they invest in the local community, particularly within the region's primary schools.
- **The Co-operative Group:** report that its ethical policy has positively impacted customer attrition. 88% of The Co-operative Food's customers believe that its ethical policy made the business more appealing.

### Observations

- SMEs are more likely to refer to this as a benefit than MNEs/LCs. SMEs recognise that improved reputation is a business benefit which can be particularly relevant "in terms of generating opportunities for innovation and the development of niche markets".<sup>vii</sup>
- Across all the data, 'Brand value and reputation' is extremely likely to be cited as a key benefit, although BITC CR Index participants were less likely than non Index participants to refer to it, rating it below (for example) 'Operational effectiveness' or 'Employees and future workforce'.
- This benefit is seen across different sectors. For instance, in the chemical, metal and paper industries reputation could be bolstered by genuine environmentally friendly strategies, while in service sectors, responsible business strategies could focus on community engagement and investment. In both instances, embracing responsibilities that are clearly linked to business relevance and impact can improve brand value and reputation.<sup>viii</sup>



# Employees and future workforce

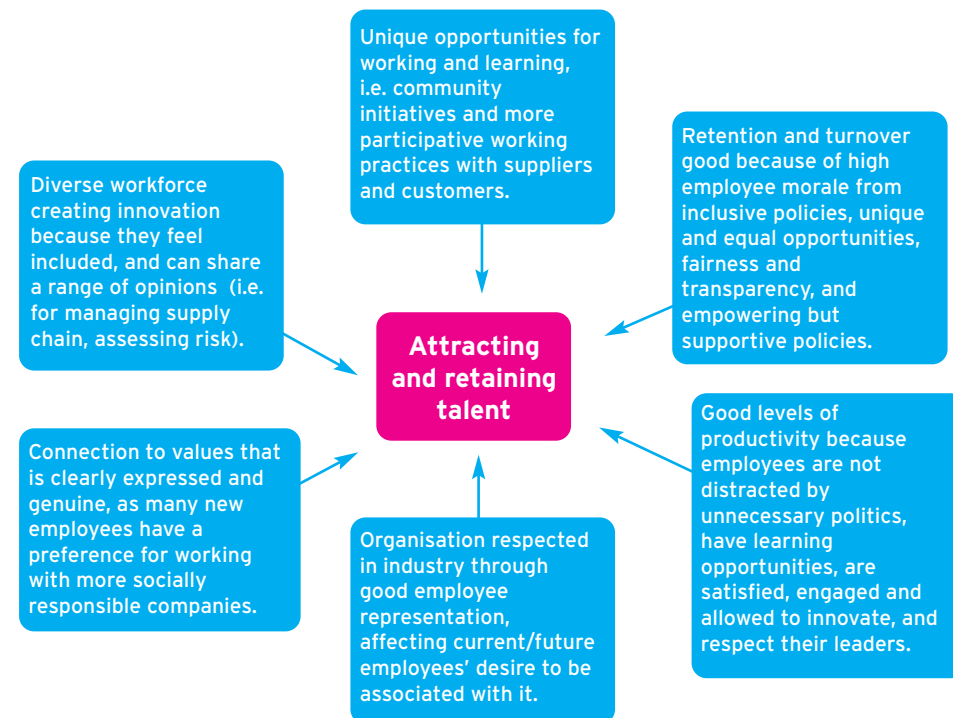
'Employees and future workforce' refers to a variety of benefits from responsible business practice that affect the working life of current employees, and the ability to attract and hold on to talent. This includes employee motivation, productivity, recruitment, satisfaction, retention, engagement, and loyalty.

75% of employees who consider their organisation to be paying enough attention to environmental protection and sustainable development exhibit high levels of commitment. In contrast, 52% of those working for organisations who believe [their organisation] possess inadequate CR policies demonstrate low levels of commitment."ix

"In a study of 40 global companies over three years we found a spread [improvement] of more than 5% in operating margin and more than 3% in net profit margin between the companies with high employee engagement vs. those with low engagement."x

Employees are often considered an organisation's most important stakeholder group because, as well as being a key resource, they represent the company in its actions. What motivates an employee to join, engage, and stay with an organisation is increasingly: the total reward package on offer (including pay); the unique opportunities that come from being a member of that organization; a level of synergy between individual and organisation in values; being a member of a respected and reputable team and the effect this has on self-identity; the existence of fairness and trust in the organisation and its leaders; and opportunities for employees to enact their jobs in a way that is consistent with their personal values and ethics (figure 1).

Figure 1



### Observations

In 2003, 'Employee satisfaction' was identified as a benefit. In comparison, in 2010 far more employee-related benefits are cited and this category now includes recruitment, retention and improving productivity and satisfaction of employees when at work. 'Innovation and learning' (from the 2003 report) is now considered a major aspect of retaining employees and improving their productivity, contribution, and satisfaction.

- This benefit is the second most frequently cited benefit among all companies sampled, across a time period covering both a boom and bust economy.
- As BITC CR Index participants progressed with the Index, so too did this benefit increase in importance. The number of Index companies citing this as a benefit doubled from 2003 to 2009. Again, this suggests that as companies become more sophisticated in their approach to being a responsible business, more benefit is realized from, and for, employees.
- SMEs are more likely to refer to this as the key benefit realised than MNEs/LCs are.



Employees benefit

### Examples

- **Mid-Counties Co-operative:** Its Community Investment programme uses funding, company-led volunteering and project work to make a difference to its community. In colleagues that have participated in volunteering, turnover fell from 31% to 3.4%.
- **Marks & Spencer:** Through the Sustainability Framework and Ethical Model Factories, M&S worked in partnership with factories to improve process efficiency as a means to increase wages, reduce working hours and protect the quality of products. Productivity in the Bangladeshi Ethical Model Factories increased by 42%, while staff turnover reduced from 10% to 2.5%, and absenteeism reduced from 10% to 1.5%.



*"It isn't organisations that change things but the individuals within who can be passionate and energetic. When individuals create momentum, organisations are driven forward by at first small steps but increasingly giant steps"*

Peter Hawes, Managing Director, Norse Commercial Services

# Operational effectiveness

'Operational effectiveness' refers to 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.

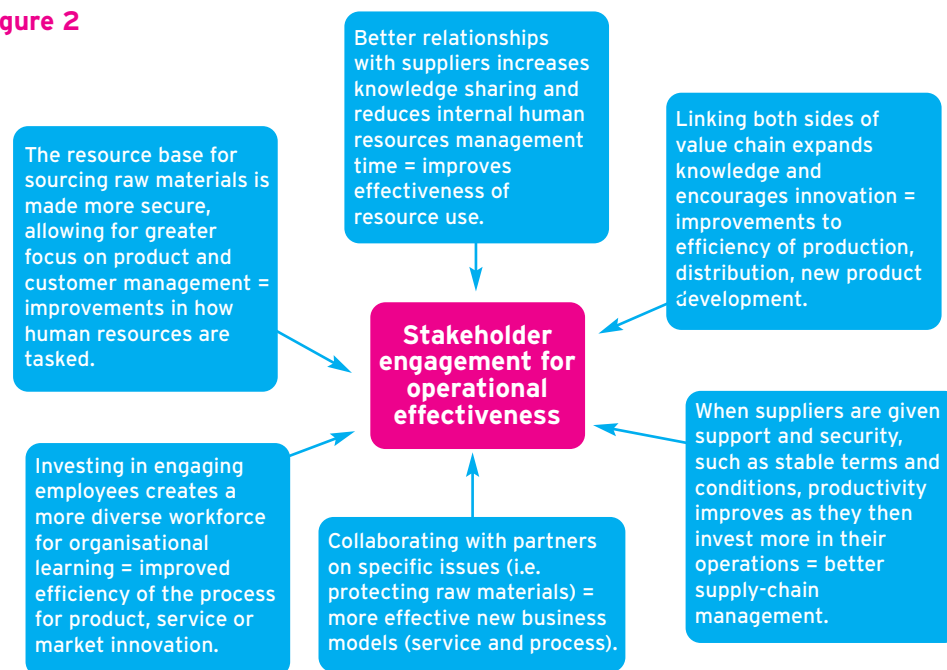
The 2011 MITSloan study<sup>ii</sup> of over 3,000 managers identified operational effectiveness as a business benefit:

- Better innovation of business models and processes (15% agreed)
- Better innovation of product/service offerings (17% agreed)
- Reduced costs due to material or waste efficiencies (25% agreed) - those companies embracing sustainability realised this benefit significantly more than the 'cautious adopters'

"The focus on holding down wage levels, reducing benefits, and offshoring is beginning to give way to the awareness of positive effects a living wage, safety, wellness, training and opportunities for advancement for employees have on productivity...Johnson & Johnson has benefited from a more present and productive workforce."<sup>xi</sup>

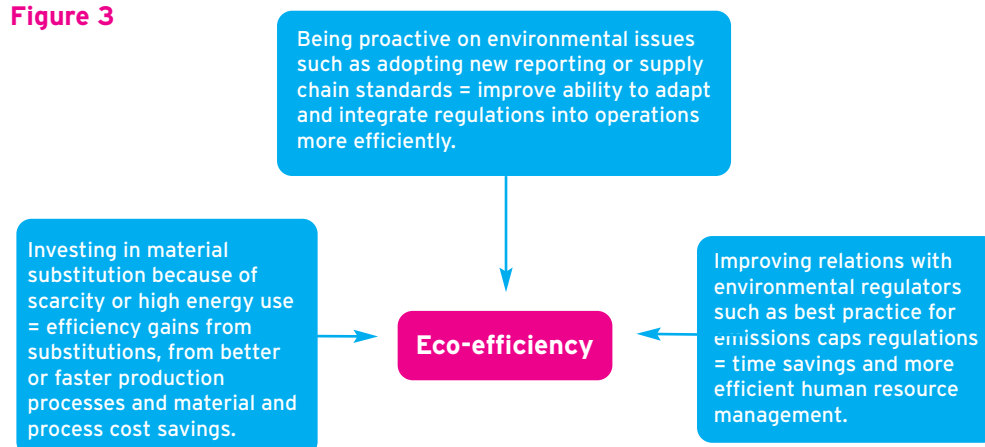
Our research shows that a main cause of operational effectiveness is improving stakeholder relationships - creating opportunities for understanding which, and how, practices and processes can be changed and improved. For example, when an organisation invests time and resources into understanding who their stakeholders are and what they expect, better two-way dialogue and relationships/partnerships are created to provide insight into why a particular product or material use may or may not be supported. This results in insight for innovations. Figure 2 demonstrates how a related CR approach can create the benefit of improved operational effectiveness.

Figure 2



Operational effectiveness also improves when organisations invest in eco-efficiency in ways that are relevant to their business, working to reduce waste, make better use of raw materials, and reducing carbon emissions (figure 3).

Figure 3



## Examples

- **Pachacuti:** Pachacuti's fair trade panama hats are produced by women's co-operatives in the Andes mountains of Ecuador. It is the world's first company to be certified against the Sustainable Fair Trade Management System. As a result, they claim improved relationships with suppliers and increased knowledge of their entire supply chain and production process has resulted in a better understanding of the root cause of delays and a 45% reduction in quality issues.
- **Adnams:** invested in new eco-efficient distribution centre to reduce energy use and improve environmental impact. As a result, the centre uses 58% less gas and 67% less electricity per square metre compared to the old warehouse, and takes 3.2 pints of water to make a pint of Adnams beer compared to the industry average of 8 pints of water. Energy efficiencies save Adnams £50,000 per annum.

## Observations

'Operational effectiveness' is now the most frequently cited benefit from BITC-collated data (mostly MNEs/LCs). Companies cited in the literature review refer to this benefit less often.

- This suggests that those organisations already quantifying and measuring CR are realising this benefit as they become more sophisticated in their practices, perhaps through assessing internal practices and processes, listening to stakeholders, and undertaking performance assessment using criteria not based solely on short term measurable financial return-on-investment.
- Targeted longer-term quantification of CR (such as BITC Index participants do for Index submission) can shed practical and evidential light on the efficiency benefits realised from being a responsible business.

Overall, MNEs/LCs are more likely to refer to 'Operational effectiveness' as the key benefit from being a responsible business than SMEs. SMEs rate this benefit as important but less so than 'Employees and future workforce' and 'Direct financial impact'.

*"The processes and procedures that we have implemented throughout the entire supply chain have led to a quantifiable impact on the wellbeing of our producer groups and their communities, and a dramatic increase in sales."*

Carry Somers: Founder, Pachacuti



# Risk reduction and management

'Risk reduction and management' refers to the 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.

18% of the business leaders surveyed for the 2011 MITSloan survey cited 'Improved regulatory compliance' as one of the greatest business benefits in addressing sustainability, and 14% cited 'Reduced risk'.<sup>ii</sup>

"CSR activities directed at managing community relations may also result in cost and risk reduction... positive community relationships decrease the amount of regulation imposed on the firm, because the firm is perceived as a sanctioned member of society."<sup>iv</sup>

While an increasing number of companies are focussing on the risk management opportunities that responsible business delivers, social and environmental factors are increasingly implicit in materiality assessments.

- Goodwill and enhanced reputations can reduce risk of boycotts and minimise negative press. The Internet has improved access to information and consequently facilitated public pressure on larger organisations especially. Thus, risk management is often linked to reputational management.
- Being proactive with environmental legal compliance can reduce the impact of social concern and negative community impact. Businesses' risk-management concerns should include issues such as biodiversity, health, and climate change.<sup>xii</sup>
- Addressing relevant risk management issues - such as supply chain or corruption and legal risks - can have a positive impact for companies, firstly by identifying risk better and secondly by then reducing exposure to risk (reputational, supply, and customer loyalty risks). "20% of firms viewed environmental or CSR issues as their biggest supply chain risk and 25% of firms required suppliers to adhere to CSR in order to mitigate supply chain risks."<sup>xiii</sup>
- Positive community relations help to decrease exposure to risk and conflict and protect a company's social contract (i.e. its licence to operate in that society).

## Examples

- **Royal Mail:** In the face of government dissatisfaction with the direct mail industry for a lack of progress towards recycling targets, Royal Mail developed an environmentally friendly option to catalyse change across the sector. In doing so, it reports that the £200 million revenue stream was significantly reduced in risk by achieving high recycling targets.
- **British Energy:** has turned around its performance by successfully creating a true culture of learning and excellence. In doing so, between 2006 and 2010 power generation losses caused by human error were reduced (saving £100 million) and nuclear reportable events reduced from 77 in 2004 to just four in 2009.

## Observations

- This benefit is less frequently cited at the end of the study period than the start. We suggest that once processes are in place, this becomes integrated into standard risk protocol.
- 'Risk reduction and management' is seen as an important benefit by MNEs in the BITC-collated data (especially those in the CR Index), who referred to it frequently - whereas SME members (via the BITC awards) do not refer to it at all.



## Direct financial impact

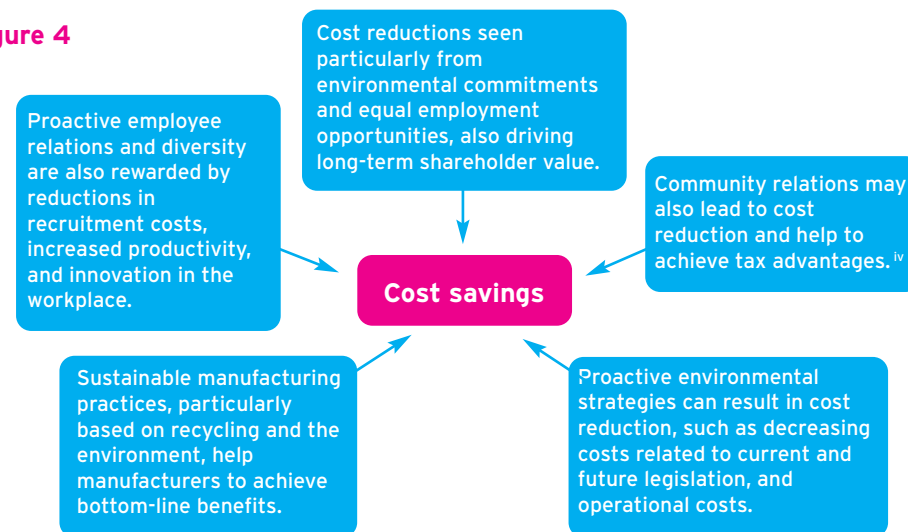
'Direct financial impact' occurs when being responsible has a direct benefit to the financial performance of an organisation - for example improving access to capital, reducing costs, and improving shareholder value.

"There is evidence that mainstream investors and analysts are paying greater attention to CSR-related issues and more generally to intangible assets and intellectual capital. This is likely to increase the profile of CSR issues in the financial valuation of enterprises." <sup>xvi</sup>

'Direct financial impact' refers to cumulative financial impact, where there is better access to capital, lower penalty payments, direct cost savings due to proactive measures, improvements in investors' relations and shareholder value, and also impact on returns and revenues directly attributable to responsible business practice.

However, there are some limitations associated with building the business case from direct financial impact because of the uniqueness and complexity of being a responsible business.<sup>xv</sup> The most notable of these limitations is how to attribute cost savings when there may not be a direct link between them. This is why cost savings from avoiding penalties, environmental cost savings, and access to capital are cited more often - it is easier to identify the link. Increasingly, executives and managers are accepting cost reduction as a significant CR benefit and, according to a PricewaterhouseCoopers 2003 survey, "73% of respondents indicated that 'cost savings' were one of the top three reasons why companies are becoming more socially responsible"<sup>iv</sup> (figure 4).

Figure 4



Socially responsible investment (SRI) is also benefiting organisations through improving access to capital. 881 companies are now signatories of the UN-backed Principles for Responsible Investment (PRI), up 30% in the last year, now representing US \$22 trillion assets under management.<sup>xvi</sup> This growing market indicates that companies with strong CR policies will gain competitive advantage regarding international markets and access to finance.

### Observations

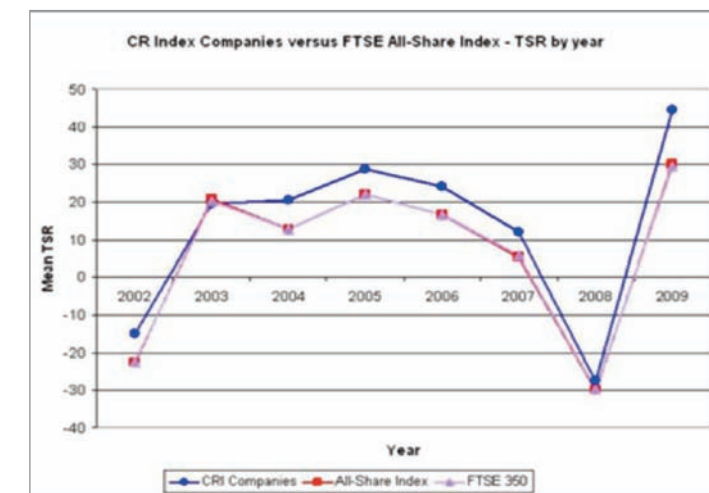
- Companies in the BITC-collated data were more likely to cite 'Direct financial impact' as a benefit and, over the time period studied, the incidences of these companies referring to this benefit increased significantly. This could be an indication that companies who measure and link actions with results can quantify the impact better, and in turn reinvest in activities with a better understanding of their impact on the business.
- Interestingly, SMEs in the BITC-collated data referred to this benefit the most, although across all SMEs (from BITC-collated and literature review data) 'Employees and future workforce' was still the most frequently cited benefit.



### Examples

- **Dow:** After having invested \$1 billion over 10 years to reduce its energy consumption and improve its efficiency, Dow has by now seen savings of \$7 billion from improved energy efficiency and the reduction in waste water produced in its manufacturing processes.
- **Interface FLOR:** To date their Mission Zero initiatives (to tackle climate change) have achieved cumulative avoided costs of \$405 million globally.

"Companies that consistently manage and measure their responsible business activities outperformed their FTSE 350 peers on total shareholder return (TSR) in seven out of the last eight years. The TSR of these companies also recovered more quickly in 2009 compared with that of their FTSE350 and FTSE All-Share peers, with an average 10 percentage points higher shareholder return". <sup>xiv</sup>



## Organisational growth

'Organisational growth' is a business benefit when opportunities for overall organisational growth is created from being a responsible business - whether through new markets, new product development, lateral expansion, new customers, or new partnerships/alliances.

22% of CEOs cited 'Access to new markets' as a business benefit from addressing sustainability.<sup>ii</sup>

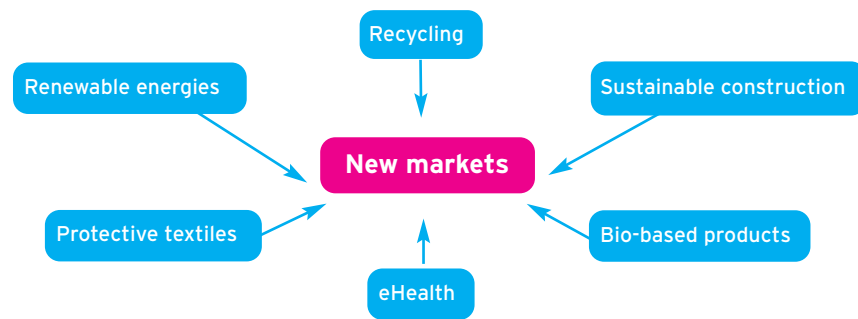
"...total investment in renewables exceeded that in fossil-fuel generation for the second successive year..."<sup>xix</sup>

This benefit is different from 'Business opportunity' in that the result enables the organisation as a whole to grow in size, turnover, portfolio and/or presence. Boston College Center for Corporate Citizenship cite new markets, new products, new customers/market share, and innovation as specific areas where ESG has demonstrable impact on overall organisational growth.<sup>xviii</sup>

Organisational growth can arise when improvements in stakeholder management occur, leading to better relationships and access to rare insights or opportunities for partnering and alliances. Alliances and working collaborations are increasing in frequency, especially partnerships that are formed to address a specific need. Industries linked to these initiatives are emerging. For example, sustainable forestry initiatives such as Programme for the Endorsement of Forest Certification (PEFC) or the Sustainable Forestry Initiative, from which new products are emerging with companies selling only certified timber products and subsequent agencies offering certification services.

The European Commission's 'Lead Markets' report identified the following six leading new markets that grew from efforts to be a responsible member of society (figure 5):<sup>xx</sup>

Figure 5

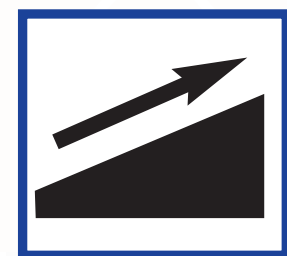


### Examples

- **EDF Energy:** The EDF Energy Toolkit was developed to help its business customers' measure and reduce their energy use. It has brought in over £30 million in new contracts. Over 1,000 businesses have implemented the toolkit, with an average saving of 10%.
- **Tata Consulting Services:** mKRISHI is a mobile-based personalised services solution for rural farmers in India. Through success of the model TCS has secured new large contracts, developed new revenue streams by transferring the model, and is being consulted by the Indian government as it creates IT infrastructure to support farmers and e-governance.

### Observations

- 'Organisational growth' is cited by companies from all data alike, although SMEs are more likely to refer to this benefit than MNEs/LCs.
- Although this benefit is new benefit from the 2003 report, it is now well established and accepted in the research.



Organisational growth

## Business opportunity

'Business opportunity' refers to the 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.

Being a responsible organisation can lead to business opportunities where for the first time stakeholders and organisation work together successfully on an issue to solve it and create win-win situations for all involved. The business may benefit via (for example) entry into a new market or a new product, but key is that a win-win opportunity is found. A win-win opportunity means "connecting stakeholder interests, and creating pluralistic definitions of value for multiple stakeholders simultaneously". In other words, the opportunity satisfies stakeholders' demands while allowing a company to engage in profitable operations.<sup>xxi</sup> 'Business opportunity' is critically distinctive because "Stakeholder demands are seen as opportunities rather than constraints".<sup>xxi</sup>

Responsible business can involve a rethinking process about the role of business in society, leading to a better understanding of impacts on, and from, issues previously seen as outside of their concern. Examples include poverty among a company's customer base, climate change affecting sourcing or an ageing population affecting labour supply. Reconsidering such issues in light of what they mean to the business and how business impacts on these issues has uncovered new opportunities for all parties involved:

- Sourcing from environmentally vulnerable communities leads to joint initiatives for investing in local environment and educating next generations of farmers, creating a more secure future for the community and lowering risk in the organisation's supply chain. This has provided opportunities for sourcing other unique raw materials for new products that were previously deemed too risky a source base.
- Community-based concern, such as impact of operations on neighbours, has led to organisations better understanding disruption caused by their freight movement, noise pollution and the impact on local businesses. Adjustments across the business have led to cost reductions and improved relationships, creating higher levels of goodwill from local communities and opportunities for other initiatives.

### Examples

- **United Biscuits:** To address stakeholder health and nutrition concerns, United Biscuits McVitie's reformulated their biscuits, resulting in significant reduction in salt and saturated fat. As a result they also realised 40% reduction in palm oil use, and 9% increase in sales of HobNobs and Digestives.
- **IBM Community Grid:** To help resource scientific research, a key stakeholder group for IBM, World Community Grid was launched in 2004 to harnesses spare computing capacity of a global community of 500,000 computer users - making it available at no cost to scientists engaged in not-for-profit humanitarian research. While aiding scientists with more than 370,000 years of computer run-time, it has also demonstrating leadership in technology.

### Observations

'Business opportunity' is not a benefit frequently cited by companies across the research. However, more and more companies are citing this as time progresses (although interestingly its peak was in 2007, just before the global recession hit).

- Proportionately, more SMEs refer to this benefit than MNEs/LCs, perhaps because SMEs can be more dependent on locality and therefore focus more on their interaction with close communities and environments.
- Proportionately, more MNEs/LCs in the literature review refer to this benefit than MNEs/LCs in the BITC-collated data.

Vodafone: a social intrapreneur in Vodafone recognised the social need for banking services in rural Kenya. Noting there were more mobile phone subscribers than bank account holders, they launched an innovative banking service (M-PESA) in collaboration with a local microfinance organisation and main Kenyan bank, providing banking services over the mobile phone. M-PESA has grown steadily and profitably since its launch.<sup>xxii</sup>

'Business opportunity' can be seen as a precursor for the future trend 'Macro level sustainable development' because it requires the organisation to truly act as an integrated, responsible business.



Business opportunity

## Future trends

Two business benefits were identified mainly in the later years of the date range and are therefore identified as 'Future trends'.

"63% of business leaders in a BITC leadership survey thought that factoring social and environmental issues into a commercial business model most resonated with them as what responsible leadership means."<sup>xi</sup>

*"Business leaders need to be brave with the approach they take. It's time to move from tactical into strategic leadership."*

Andy Clarke, Chief Operating Officer, ASDA Stores

### Responsible leadership

This business benefit has been described by WBCSD as the *"leadership achieved through helping society, which results from a radical change in the internal corporate values and external market reconstitution"*.<sup>xxiii</sup>

This refers to organisations who want to take a leadership role either in their industry or local area, or on specific issues that are at the core of their business strategy, such as water consumption or potential misuse of company products. This could be a single issue, how a business should conduct itself, an issue the industry as a whole faces, or the operating standards of the industries of which it is a member. Being a responsible business with good CR practices enables them to do this.

Some cite this as a benefit realised because they had understood how to balance achieving the positive societal and environmental impacts they believed to be right with the company doing this in a profitable manner.

Responsible leadership also includes internal and individual leadership. Internal leadership includes individual employees who represent a way of doing business, who for example represent the organisation's values that allow it to be an industry leader. They build stakeholder advocacy, inspire employees, and help drive the organisation in its overall leadership ambitions.

Responsible leadership is about ensuring social and environmental issues are factored into the core business model, taking action on key issues be they people or planet, empowering future leaders, and talking publicly about responsible business issues.

Responsible (both organisational and individual) leadership was initially referred to only very briefly in 2003, but far more often by 2009. It is mentioned by all types of organisations, although more notably by BITC CR Index participants. Organisations referring to this benefit are mainly MNEs/LCs and proactive in their fields - the very nature of entering the BITC CR Index suggests they actively seek ways to position themselves as leaders in CR and their industry.

### Macro-level sustainable development

'Macro-level sustainable development' refers to the somewhat undefined benefits from contributing to sustainable development. This relates to the impact and responsibilities an organisation has in relation to a geographically wide level of economic, social and environmental issues - at a 'macro level'. Here, 'macro level' means society and nature as a whole, encompassing not just an organisation and its immediate interactions, but sustainable development in its industry, country, region and indeed planet.

Many issues may at first not seem to be directly related to the organisation, but for those organisations that address macro-level sustainable development a business connection is always present, if not always in the short term. We can see this in, for example, an organisation investing in improving education, health or poverty in a country where its supply chain is based or where a future market could exist. In the longer term, the link becomes more apparent as the shared destinies of all stakeholders becomes clear (development of customer or employee pool, ability to operate etc) - the benefit will also affect other businesses involved in the region but this is not seen as anti-competitive behaviour, rather it is seen as generating long-term 'shared value'. This also applies at SME level, albeit more likely to be from a local societal issue.

This benefit is an emerging responsible business benefit because of the improvements it brings in managing longer-term concerns (risk and opportunity scanning) and long-term license to operate. We believe it differs from the business benefit 'Business opportunity' because the issues addressed are not at brand or organisational level, but are far more wide-reaching and longer term.

These macro-level issues include poverty (in developing and developed countries); health inequalities or access to healthcare; poor education; ageing populations; lack of investment in sciences or arts and innovation generation; the rights of workers, children and sex/race equality; and environmental issues such as climate change, deforestation, pollution, ocean health, extinction of species, and urbanisation.

This is an emerging business benefit which only recently started to be mentioned - in 2008 and 2009. Perhaps surprisingly, this benefit is referred to more often by SMEs, although it should be noted that their macro-level range is smaller than a typical MNE/LC. The emergence of this benefit could be due to the rising urgency or recognition of environmental and societal issues, the many new crises we are facing, or the rising stakeholder expectation that businesses have a role in addressing these issues - that they have a duty of care to be a good corporate citizen.

The UN Global Compact is a notable platform where corporate citizens engage with macro-level issues, which now has 8,700 businesses signed up to its ten principles.

The Millennium Development Goals are a good example of commitment to sustainable development on a global scale, including for example commitments to ending poverty and hunger and environmental sustainability. Business, governments, civil society and individuals have come together and committed funding, action and pledges for achievement of these global goals. Many businesses use the goals as a framework in which to identify location specific needs-led intervention and as a way to address macro-level sustainable development.



## Under the spotlight

Globally, Unilever products are used by two billion consumers every day.



With sales of €44 billion in 2010, half of which are in developing and emerging markets, Unilever has operations in 100 countries, sells products in over 180 countries and employs 167,000 people.

Defining its vision to create a better future, Unilever launched the Unilever Sustainable Living Plan in November 2010. Ambitious in its scale and holistic approach, the Plan covers all the company's brands and all the countries it operates in; it integrates social, environmental and economic impacts and when it comes to the environment, it covers the whole value chain from sourcing to consumer use to disposal of products. The goal is to decouple growth from environmental impact.

The Unilever Sustainable Living Plan has three major goals to achieve by 2020:

- To help more than **one billion** people take action to improve their health and well-being
- To **halve** the environmental footprint of the making and use of its products
- To source **100%** of its agricultural raw materials sustainably

### Employees & future workforce:

Unilever UK's 'Fit Business' initiative draws on external public health campaigns, the work done by its own brands and expertise in nutrition to create a single programme designed to help its people make healthier lifestyle choices. Its pilot reached 2,000 employees across two of their larger sites in the UK. External measurement showed increased health benefits and weight loss for employees in both factory and office locations and 17% lower absenteeism.

### Operational effectiveness:

Unilever developed a tool in 2005 to help its marketing teams understand the social, economic and environmental impacts of their brands. 'Brand Imprint' was the start of embedding sustainability factors - identifying areas of risk and opportunity, integrating sustainability considerations into the innovation and development of its major brands so that they could be used by consumers in a more energy- and water-efficient way, and developing a set of metrics to measure key environmental impacts across the value chain.

### Organisational growth:

Hindustan Unilever sought to increase market penetration in poor rural areas of India by building an innovative distribution system called Shakti. It is a micro-enterprise programme creating opportunities for women to become door-to-door distributors of Unilever products in remote villages. Currently 45,000 women reach three million households in 100,000 villages. Shakti has accounted for 40% of Hindustan Unilever's growth in some rural markets, doubling the number of rural households it reaches.

*"We are already finding that tackling sustainability challenges provides new opportunities for sustainable growth: it creates preference for our brands, builds business with our retail customers, drives our innovation, grows our markets and, in many cases, generates cost savings."*

Paul Polman, Chief Executive Officer, Unilever

### Risk management:

Over half the raw materials Unilever buys come from agriculture and forestry. Security of supply is a core business issue as unsustainable farming practices present both operational and reputational risks. Sustainable sourcing of raw materials such as palm oil, helps Unilever to manage these risks and offers growth opportunities for its suppliers, many of whom are smallholder farmers and small-scale distributors.

### Direct financial impact:

Unilever has committed to source the tea for all its Lipton tea bags from Rainforest Alliance Certified™ estates by 2015. Since promoting Rainforest Alliance certification on Lipton and PG Tips packs, not only has awareness of the Rainforest Alliance gone up eightfold, but sales of the tea have risen by over 5%.

### Business opportunity:

Lifecycle analysis shows that 68% of Unilever's greenhouse gas impacts, and about half of its water impacts, are created through consumer use of its products. Encouraging consumers to change their behaviour and use its products more sustainably is therefore of importance to Unilever. Working with retailer Walmart to encourage customers to wash laundry at a lower temperature (30°C), while promoting a new environmentally friendly product, led to a significant increase in sales in 2008.

### Macro-level sustainable development:

Promoting good hygiene through handwashing with soap can cut deaths from diarrhoea and acute respiratory infections. Lifebuoy soap leads the company's handwashing campaigns and in India the programme has reached over 120 million people since it began in 2002. A clinical study conducted by Lifebuoy in Mumbai, India over 2007-08 involving 2,000 families showed a reduction of 25% in the incidences of diarrhoea among children aged five, a 19% reduction in respiratory infections and a 46% reduction in eye infections.

## Methodology

Two main data sources are used: *literature search* (across academic literature and business literature reports and articles); and *empirical data* from BITC-collated data, in the form of BITC CR Index and further detailed data from BITC's annual company awards for excellence.

Data from 2003-2010 is used. The year 2003 is the starting point in order to identify potential changes since last the BITC report on the business case was published. In order to see trends across the time period, we looked at papers from 2003-10 and empirical data from 2003, 2006 and 2009.

Via a stakeholder committee a level 1 set of 'Field key words' were identified as search terms to pinpoint being a responsible business (i.e. CSR, corporate citizenship, sustainable business etc). A second set (level 2) of key words were combined with each of the level 1 terms for our searches (terms compiled initially from the 2003 report, some published meta-analysis papers, and the stakeholder committee recommendations) - i.e. business case, business opportunity, reputation, supplier relationships, sourcing etc. After a 2 week period of testing of these terms for quality and repetition via samples of data retrieved, a refined list of 39 level 2 search terms were agreed upon.

From the literature review, 167 papers and reports were assessed as relevant and specific examples were taken from 29 papers covering 57 individual companies. From the empirical data across 265 companies over the time period we identified a total of 127 unique companies clearly stating a business benefit/s.

Although many of the companies included in the research operate across the world, the data set is from companies based in, and literature from, the UK, Europe and USA, across 31 industries.

- 184 unique companies were identified, stating a benefit(s): 127 of these were from the empirical data and 57 from the literature review.
- Of these companies, 143 were identified as multinational enterprises (MNEs) and large companies (LCs) and 16 were identified as small or medium enterprises (SMEs). The rest were unstated.

### Data analysis

The specific 'benefits' observed were listed out in a very long list, first from the literature search and then from the empirical data, and then for each source clustered into groups - a clustering process done with a group of researchers where we identified the end benefit actually stated. [There is a clear difference between a 'benefit' and a 'driver' for being a responsible business, a driver being a reason for doing something and a benefit being a positive result. In many cases these two are aligned, but we discovered instances where the driver was different from the benefit actually realised. For example, 'Competitive advantage' was described as a business benefit in the early years of the research but this reference fell significantly across the years - notably, companies became more sophisticated in understanding the benefit (vs. driver) behind competitive advantage and were citing other, more specific benefits instead.] These clusters were then compared, and matched across both main sources (literature and empirical data). There was a high degree of consistency in what the academic data and business observations were stating as benefits, although variations in frequency of citations. 10 clusters were identified, narrowed down to 9 via statistical significance - 'Competitive advantage' did not make the final nine benefits (7 current, 2 future trends) as in comparison with the other clusters it was not mentioned enough to be statistically significant.

To rate the frequency in which benefits were cited, we counted from the sample size the "number of unique companies stating the said benefit". Finally, in order to make this report equally representative of, and useful to, our primary audience of both BITC member or award winning companies and non-BITC related companies, we have statistically weighted the data so that what you see is made to equally represent BITC CR Index member companies + award winners and companies who are not associated with BITC.

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