

The Future of Corporate Responsibility
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Behaving badly as the Brazilian company Odebrecht did bribing politicians across South America¹; fraudulently evading their responsibilities as auto-maker VW did in the emissions testing scandal²; being negligent about Health & Safety & Environmental responsibilities as BP was in the Deep-Water Horizon/Gulf of Mexico disaster³; being slow to understand how society's expectations of Corporate Responsibility are growing as Facebook has been, over the data-privacy scandal⁴ is bad business! All these are examples of Corporate *irresponsibility*.

Ignoring your responsibilities or being negligent around your corporate responsibility can cost!

Cost in money, in lost reputation, in a reduced license to operate, and in becoming less attractive as an employer, a supplier, and a business partner.

So my first message: Issues that some people used to think of as “soft”: the environment, diversity, human rights are now very hard for business: hard to ignore, hard to manage, and very hard for the businesses that get them wrong.

Corporate Responsibility matters! Big time!

I totally agree with Mechai Viravaidya. Corporate responsibility is not corporate philanthropy or volunteering, or a few “CSR” programmes” run by those “nice people down the corridor in the CSR department” whilst the rest of us get on with running the business! Corporate responsibility is about how we run the business – every aspect of the business: how we treat our people, how we treat our customers, how we treat our suppliers, how we treat our neighbours: how we treat our competitors, how we treat the environment. It is *everybody's* business!

As the European Union Commission defined it in 2011: “Corporate Responsibility is the responsibility a business has for its (social, environmental and economic) impacts.”ⁱ

The distinguished American academic. Emeritus Professor Archie Carroll, has talked about corporate responsibility as “the expectations of business that society has *at a given point in time*”ⁱⁱ. (My emphasis added). I agree and would add “and in different parts of the world, those expectations will have been developing at different speeds.” In Europe today, for example, those expectations now clearly include a fair corporate tax strategy, lobbying responsibly, not aggressively off-shoring jobs to jurisdictions with lower wages and lower standards of health,

ⁱFiaola A., The corruption scandal started in Brazil. Now it's wreaking havoc in Peru. The Washington Post, Jan 23 2018 https://www.washingtonpost.com/world/the_americas/the-corruption-scandal-started-in-brazil-now-its-wreaking-havoc-in-peru/2018/01/23/0f9bc4ca-fad2-11e7-9b5d-bbf0da31214d_story.html?noredirect=on&utm_term=.ae1f5cb854eb

² Riley C., Volkswagen's diesel scandal costs hit \$30 billion, CNN Money, Sept 29 2017 <http://money.cnn.com/2017/09/29/investing/volkswagen-diesel-cost-30-billion/index.html>

³ Busso R., BP Deepwater Horizon costs balloon to \$65 billion, Reuters, Jan 16 2018 <https://www.reuters.com/article/us-bp-deepwaterhorizon/bp-deepwater-horizon-costs-balloon-to-65-billion-idUSKBN1F50NL>

⁴ Dobbs R., Facebook has now lost \$100 billion in value since February, Verdict Mar 28 2018 <https://www.verdict.co.uk/facebook-has-now-lost-100-billion-in-market-cap-since-february/>

safety and employment protection, and getting a reasonable balance between executive pay and the average worker, and increasingly issues of gender pay equality. It includes being great employer for employees juggling their job and caring for a family member or friend. I write about this in my most recent book: "Take Care: How to be a Great Employer for Working Carers."

The reality is, however, that in an era of globalisation and increasing social media connectivity, expectations of how business will behave are converging rapidly. We see it in AFES with discussions about artificial intelligence and the responsibilities of business to manage the ethical implications of artificial intelligence – including how much responsibility to take for the workers whose jobs are automated by AI.

Interestingly, Deep Mind – the UK headquartered business bought by Google in 2014, which specialises in artificial intelligence - has recently established an ethical research unit specifically to explore and advise Deep Mind on the ethical implications of their AI innovations. I regard that as a sign of things to come. If you ask me to predict some of the other issues, which are rapidly adding to the corporate responsibility agenda, here are a few of them:

- Does Blockchain and Big Data give businesses the tools to monitor effectively the Environmental/Social/Governance (ESG) performance of their supply chains?
- Is the concept of "Stranded Assets" going to change fundamentally the market capitalisation & future viability of Oil & Gas companies?
- Should CEOs of big businesses get involved in the public debates about high-profile, controversial public policies e.g. the Trump travel ban?
- Is an aggressive tax minimisation policy a good long-term corporate strategy?
- And ocean plastics and the responsibility that businesses through the supply chain and value chain have for reducing single use plastic, reducing plastic packaging etc. You may have seen recent press stories about a Dutch supermarket chain which is introducing a plastics free aisle in each of their stores.

Meantime, the Edelman Trust Barometer in 2017 made it clear that globally now there are some basics of Corporate Responsibility: to do no harm, just to enjoy a license to operate.

The reality in the face of increasing expectations of society about how business behaves, is that businesses across the world are at different stages of corporate responsibility maturity. A number of different academic writers and practitioners have developed models of stages of corporate responsibility maturity. This includes my good friend and colleague Prof Brad Googins, together with Dr Phil Mirvis. Together with my colleague Ron Ainsbury, I have synthesized and developed these different models of Stages of Maturity, into our own:

DENIAL - it's nothing to do with us!

COMPLIANCE - we'll do only what law requires!

RISK-MITIGATION – it's the business!

OPPORTUNITY-MAXIMISATION - it gives us a competitive edge!

CHAMPION - we need to make sure everybody else does it!⁵

I think where it really gets interesting is where businesses start to move from a defensive, risk mitigation mode of Corporate Responsibility to that of opportunity maximiser. I am a great believer in the words of the father of management guru-dom: the late, great Peter Drucker. Shortly before he died, Drucker declared:

“Every global issue and social problem is a business opportunity in disguise” I agree! At that point, Corporate Responsibility evolves into Corporate Sustainability, namely:

“A business commitment to sustainable development, and an approach that creates long-term shareholder and societal value by embracing the opportunities and managing the risks associated with economic, environmental and social developments.”ⁱⁱⁱ

That is why I think the take up by businesses around the world of the Sustainable Development Goals (SDGs) is so interesting and important. The Business and Sustainable Development Commission, in their Report: “Better Business, Better World,” has estimated a global market of potential \$12 Trillion – yes Trillion not Billion – from businesses taking up the SDGs fully^{iv}.

An Asian supplement to the main ‘Better Business, Better World’ report published last summer, suggests a business market of \$5 Trillion for Asia alone from the SDGs^v.

The latest analysis from the global accounting and consulting firm KPMG of corporate responsibility reporting by the world’s largest companies – the top 250 globally and the top 100 companies in each of 49 major national economies - suggests that more companies are integrating the SDGs^{vi}. It shows the extent to which companies are integrating the SDGs within corporate strategy and are now starting to report on this too. So, I would argue: another dimension of Corporate Responsibility in future is that more businesses will be seeking to create value for themselves through creating value for society through achievement of the SDGs: you might describe them as a more joined up and holistic version of Porter and Kramer’s Creating Shared Value – what earlier writers called Blended Value or Corporate Social Opportunity.

All of this means that businesses will have to take corporate responsibility far more seriously if it wants to re-connect with society. John Browne, The Lord Browne of Madingley, the former CEO of BP when it was for a time the world’s second or third largest company – wrote a fascinating book back in 2015 with Tommy Stadlen and Robin Nuttall called ‘*Connect: How companies succeed by engaging with society*’. In this book Browne and his co-authors say that business needs to do four things in order to re-connect with society; i) Identify the most material, social, environmental and economic impacts, which they have; ii) Articulate a purpose for why they exist, which goes beyond simply making profit; iii) Apply world-class skills to this; iv) Radically engage – their words not mine – with different parts of society.

- (i) Any organisation that wants to identify its most material impacts and develop a materiality matrix can find plenty of practical help to identify their impacts from relevant trade associations, corporate responsibility coalitions dedicated to that particular sector, and studying what sustainability leaders in their sector are talking about in their sustainability reports. We have a

⁵ Ainsbury R & Grayson D., Business Critical: Understanding a Company's Current and Desired Stages of Corporate Responsibility Maturity. Cranfield University, 2014

simple how to guide for identifying impacts, at Cranfield School of Management, which can be downloaded for free.

ii) Organisations need to define their purpose: a deep, authentic definition of who they are and how they create value for themselves and for society. Last month I did a breakfast “In Conversation” with the CEO of Grant Thornton UK who is passionate about businesses having a clear purpose. It is available to watch on YouTube. It is just thirty minutes long, if you want to watch it.^{vii}

iii) World Class Management Skills

This means:

- having a comprehensive strategy which involves the value chain.
- is overseen by the board with a board mindset for corporate sustainability
- has set big hairy audacious goals – BHAGs – science or evidence based goals. We are starting to see more companies set such goals around carbon but this needs to spread to all aspects of corporate responsibility
- encourages employee-led Corporate Social Innovation – what some of us call Social Intrapreneurism.^{viii}

iv) Engage Radically – this includes having multiple, deep collaborations with other businesses, NGOs, governments, international development agencies in order to implement corporate responsibility and sustainability, such as the Sustainability Consortium or the Sustainable Apparel Coalition or Refrigerants Naturally or The Artificial Intelligence Partnership started by companies like Apple, Google, IBM and Microsoft.

Together with Chris Coulter, the CEO of GlobeScan, and Mark Lee, Executive Director of Sustainability, I have a new book coming out, which is being published at the beginning of June called “All in: The future of business leadership.”

This addresses the future of corporate responsibility and what businesses need to do to respond successfully, in more detail. In All In, we examine the twenty years of the annual GlobeScan-SustainAbility Leaders Survey which has asked sustainability experts in businesses, NGOs, media, academia, governments, which are the companies which they believe are the global leaders in sustainability. It is fascinating how perceptions of which are the leading companies, have changed over the two decades. For our book, we interviewed the people running those companies at the time they were seen as the leaders; and we also interviewed some up and coming entrepreneurs from Asia and Africa. We identify from all of this, what we believe are going to be the essential attributes for leading companies in the coming decade. We argue that businesses can no prevaricate or be halfhearted in committing to sustainability: they now have to go All In. But we also argue that it is no longer enough for just a few businesses to be committed: we need all businesses to get engaged if we are to tackle the global sustainability crisis that we face.^{ix}

You can find more details about All In in flyers on the registration desk.

I know that in Asia you have the concept of “Late-comer Advantage.” My message to you today is that you don’t have to go through all the mistakes and false starts that the leaders in Corporate Responsibility and Sustainability have had to go through over the last twenty years. You can leap-frog straight to latest best practice and then innovate and improve from there. You can go All In!

Summary

But for now, five key points to take away about the future of corporate responsibility:

1. Corporate responsibility matters - big time!
2. Corporate Responsibility is about how business behaves: how business is run.
3. Expectations of business are growing all the time and this will not slow anytime soon.
4. Businesses are at different stages of maturity but it really gets interesting in those companies who shift from a risk Mitigator to an opportunity Maximiser mindset.
5. Corporate responsibility is about business re-connecting with society: if you like, becoming an Enterprise for Society! And go, All In!

I have tried to share with you today not just my perspectives on the future of corporate responsibility but also some of the books, reports, websites and organisations that now exist to help businesses embed corporate responsibility.

An annotated version of this talk with hot links will hopefully, be posted on the AFES website after the conference, and can also be found at my personal website: www.davidgrayson.net where I regularly post news and views. And if you are on twitter you can also follow me: @DavidGrayson_

But for now, I would like to leave you with the words of Larry Fink, the CEO of BlackRock and his 2018 letter to the CEOs of companies in which BlackRock invests. It is well worth reading the entire three page letter, which can be found on the BlackRock website, because this is not some left wing activist, some NGO leader or even some corporate responsibility professor – Larry Fink is the CEO of the largest institutional investor in the world with over \$7 trillion of funds under management.^x Larry Fink writes in his letter:

"society increasingly is turning to the private sector and asking that companies respond to broader societal challenges.

Indeed, the public expectations of your company have never been greater.

Society is demanding that companies, both public and private, serve a social purpose.

To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.

Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders."

So, yes, we do need a new model of business leadership.

ⁱ EU commission communication on CSR October 2011

http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/new-csr/act_en.Pdf

ⁱⁱ Carroll, Corporate Social Responsibility: Evolution of a Definitional Construct (1979)

ⁱⁱⁱ Doughty Centre for Corporate Responsibility, Cranfield School of Management: Expanded from PWC - SAM - The Sustainability Yearbook 2008

iv Better Business, Better World: Jan 2017: report.businesscommission.org/uploads/BetterBiz-BetterWorld.pdf

v <http://report.businesscommission.org/reports/better-business-better-world-asia>

vi [KPMG Survey of Corporate Responsibility Reporting 2017](https://home.kpmg.com/XX/en/home/campaigns/2017/10/survey-of-corporate-responsibility-reporting-2017.html)

<https://home.kpmg.com/XX/en/home/campaigns/2017/10/survey-of-corporate-responsibility-reporting-2017.html>

vii // www.youtube.com/watch?v=s3Z57k0nCgY

viii Grayson D., McLaren M., Spitzeck H., Social Intrapreneurism and all that Jazz, Greenleaf Publishing, 2014

ix Grayson D., Coulter C., Lee M., All In: The Future of Business, Routledge, available June 2018 X Fink L., Letter to Companies, BlackRock, January 2018 <https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter>