

In search of a new definition of value

An interview with **David Grayson**, by Katarzyna Pilat

A GROWING NUMBER of global management authorities claim that companies that can demonstrate an ability to create value that is important not only for its shareholders, but also from the point of view of society and natural environment, will become business leaders of the 21st century. According to David Grayson, an international expert on corporate social responsibility (CSR), companies do not have to make a choice between these two goals, and perceiving value only as a short-term profit might be even detrimental, also for shareholders. Katarzyna Pilat discusses with David Grayson about how CSR activities can bring the best advantages to the company and its shareholders.

Excessive focus on short-term performance turned out to be one of the reason which stood behind the last financial crisis. In your opinion, did managers draw conclusions from their errors?

Business leaders begin to understand that success depends more and more on the ability to reconcile the expectations and needs of customers, employees, suppliers, shareholders and society, as well as the capability to balance short-term and long-term goals. They finally begin to see that the value for shareholders is a result of managing their organisations in a sustained and responsible way.

This change of perspective is confirmed by my observations and independent research. For example, the *Tomorrow's Global Company Inquiry*¹ report I was involved in, indicates that for today's managers doing business is about "providing even better goods and services in a profitable, yet ethical way, with respect for natural environment, people and local communities". Global McKinsey research, conducted between 2006 and 2007, indicated that 84% of managing directors and CEOs believed that corporations should generate high returns for investors, but also to balance it with greater commitment to public good. Only 16% agreed with the classical statement of Milton Friedman that companies should "focus solely on providing the highest possible returns to investors whilst obeying all laws and regulations."

Most executives intend to pay more attention to managing the impact of their companies on environment and society in the future. This is optimistic, as excessive focus on improving short-term performance might make them miss interesting growth opportunities, lose customer trust or become unable to develop in an innovative way.

What such a balance and corporate responsibility should be about?

In my opinion, a responsible organisation is an organisation which – in its goals and strategy – takes into account creating value for broadly understood society and shareholders, while being guided in its activities with the policy of honesty and transparency, based on ethical values and respect for employees, community and natural environment.

What is the most important reason for companies to commit to CSR?

I have seen with my own eyes how the way corporations think of CSR was changing. When I have begun to conduct responsible business campaigns thirty years ago, the prevalent opinion was that the goal of responsible companies was to support local communities, for example through projects promoting job creation, educational activities or supporting NGOs. Within time, such questions began to be asked as: Is a company that allows its employees to take part in voluntary activities, but doesn't offer them any opportunities for development a responsible company? Does an organisation which sponsors environmental projects while doing nothing to stop its own production facilities from

¹ Research conducted in 2006 and 2007 by UK-based research company Tomorrow's Company.

polluting operate in a sustainable way? Can an enterprise which funded orphanages for children with AIDS in Africa while discriminating its own HIV-positive employees be called a responsible enterprise? The companies began to realise that the measure of responsible business is not how the companies spend a small portion of their profits on social goals, but rather how they achieve those profits. Organisations understood that responsibility is not only about sharing, but also about minimising their own impact on environment and society and about maximising the positive impact in those two areas. Currently, more and more companies see CSR as an opportunity to achieve competitive advantage. This is another stage in their evolution.

What business benefits can be drawn from a successfully executed CSR strategy?

Corporate social responsibility is a source of opportunities in three areas. First, it gives companies a possibility to create new products and services. For example, GE developed a series of environment-friendly ecomagination products, and UK's Innocent achieved market success with natural fruit drinks. Second, CSR helps enter new markets or to meet the needs of hitherto ignored groups. Such an example could be the market of micro-loans in developing countries or telecommunications services in Africa. Third, it helps create new business models, developed for example together with NGOs. Authentic commitment to sustainable development might also be a source of innovation. This is because for CSR leaders it is something natural and even obvious to motivate employees to constantly seek new, cost-efficient solutions, leading to creating the highest possible value. A culture of out-of-the-box thinking is being created. These organisations are also more open to innovative ideas of its employees, but also of other companies and sectors. An actively conducted dialogue with stakeholders helps count on their ideas as well. As a result, they are more willingly chosen by other companies as potential partners to carry out innovative initiatives. These organisations can also more easily draw the so-called social intrapreneurs with a passion and motivation to seek and take advantage from opportunities brought by social responsibility.

How to make CSR initiatives bring desired results? How to integrate, step by step, the activities of responsible business into the basic activity of an enterprise to make it become a source of advantages for the society, environment and the company?

My experience shows that it is necessary to make seven steps I described together with Adrian Hodges in our book *Corporate Social Opportunity: Seven Steps to make Corporate Social Responsibility work for your business*. First, the company needs some impulse to develop the CSR concept. It might be a new CEO interested in these issues, or the company may be going public on a foreign stock exchange or suffer from pressure of institutional investors. Second, we need to decide about sustainable development priorities in the company. Goals will differ, depending on whether it is an IT company, a bank or a mining company. Third, we need to stop looking at CSR only as a cost and to demonstrate that there is a strong business case for it. Fourth, it is necessary to have strong leadership, committed to the project, and also a guarantee of coherent and credible CSR message both within and outside the organisation. It would be good to have a person or persons within the company responsible for managing this area. This could be a special top management-level commission or an executive. A key issue at this stage is to demonstrate close relationship between CSR activities undertaken by the company with values that the company believes in. Fifth, the company needs to engage adequate resources and ensure that CSR obligations are met by every company department – from marketing to HR. Sixth, stakeholders need to be included. I do not speak here of relationship management, but of conducting a real dialogue and engaging customers, employees, NGOs to develop ideas for a more sustainable and responsible business. And ultimately, seventh, companies should repeatedly measure and report the metrics that could later be used as another impulse to undertake new CSR solutions. Thus, the circle closes.

What kinds of obstacles can be expected by managers willing to implement such a strategy, and how to overcome them?

The most important problem is the lack of knowledge on how sustainable development impacts the company and why it is so important. Many managers have difficulties with choosing priorities for their organisations from among various issues related to environment and communities. They cannot develop business case for sustainable development activities. Sometimes, they are forced to face

opposing priorities and pressures, e.g. related to short-term selling goals or the size of staff. A large problem could lie in lack of support and commitment from top management, and also different understanding of the same concepts by various persons in the organisation. Some functions in the enterprise might demonstrate lower commitment to responsibility issues, which might stem from incorrect system of granting bonuses and awards or from lack of coherence with the culture of a given organisation. In some industries, the problem might be lack of commitment from employees and interest from consumers or investors, which at best makes CSR activities take up a form of crisis management.

In order to tackle those problems, managers should change their hitherto attitude towards sustainable development and introduce it on a permanent basis into objectives and strategy of their organisations. A good example here is a 5-year “A Plan” implemented by the UK company Marks & Spencer. Its goal is to introduce to strategy such ideas as: work-life balance of employees, buying fish only from sustainable fisheries, healthy food. The company has an ambition to become the most sustainable global trading company by 2015.

What new trends will drive the CSR concept in the coming years?

The challenges that will have a major impact on functioning and decisions of socially responsible companies include: climate change, drinkable water deficits, irresponsible consumption and production and demographic changes. They will entail deep restructuring of many companies and sectors. Companies will more and more eagerly seek partnerships with NGOs and other entities which they treated at best like recipients of corporate brochures on social issues and at worst – like enemies of business. A positive example is Danone, which cooperates with Grameen Bank in developing new products for Asian markets.

Do you believe that companies need some universally accepted standard of CSR efficiency and some institutions that could audit and control these activities?

First of all, we need a new definition of “sustainable value”. For many years, attempts were made to prove that activities called as CSR have impact on business performance. These attempts often did not lead to any conclusions. In my opinion, it would be more fruitful to see how better results in Environmental, Social, Governance (ESG) areas can have impact on improvement of particular elements of non-financial results, and thus create value for the future.

Activities in corporate social responsibility might create value for the company and its shareholders. Achieving this goal requires prudence and consistent maintenance of chosen priorities irrespective of volatility of the business climate and changes in company strategy. On what values can commitment in socially responsible activity can bring and what are the most important challenges CSR managers face are discussed in the further part of the publication *Responsible business 2010. The new opening*.

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The companies began to realise that the measure of responsible business is not a profit percentage they spend on social goals, but rather how they achieve those profits.