

The i2a Guide to Good Business in the 2010s

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The logo for i2a, featuring the letters 'i2a' in a stylized white font on a dark blue rounded square background.

Good Business

Good Business in the Tens

Part of the legacy of the last three decades, from the scandals of Bhopal to Madoff, is a lasting mistrust among consumers of the corporate world. Despite the undoubted benefits that business brings in innovation, jobs and efficiency some wonder if it really is a force for good. Indeed the economic rise of China under a communist system, whilst the West deals with a credit crunch that most blame on the banks has shaken the belief in many minds that traditional commerce is the best way forward.

Mistrust, fears and declining deference have given birth to active consumers, whose voices are heard and amplified thanks to another legacy of the last thirty years, mass communication driven by increasingly capable technology.

An unintended consequence of the globalisation of brands has been the active consumer's licence to comment on an organisation's conduct wherever it may be found. 'When in Rome' - or perhaps 'when in China' - is no longer a viable defence in our transparent commercial world.

We believe the current position of business in society, built on the business events of the last thirty years, will lead to a decade where the concept of Good Business will predominate, as three powerful trends emerge: behaviour based on values, compliance with regulation and transparency. Here, we look at how we got here and offer tips on how to prosper in the decade of Good Business.

The Partners of i2a



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i2a helps organisations adapt to a changing world, reduce reputational and operational risk, and achieve sustainable performance through Good Business.

A Good Business creates advantage through its effective response to the increasing ethical, social and regulatory challenges it faces.

i2a uniquely combines specialist functional and industry expertise with deep business consulting skills, enabling us to design, manage and embed change

From the Eighties to the Tens



The 1980s

In the eighties, we idolised the stock market, and stock prices (and house prices) soared. Stock market liberalisation with the 'Big Bang' in 1986 met with a wave of privatisations - four million subscribed for British Gas shares in 1986. Thatcherism and Reaganomics hit a bump on Black Monday on 19th October 1987 with £50 billion wiped off the value of the London Stock Exchange. Global stock markets were down by up to 60% by the end of that month.

Industrial safety and environmental concerns came to the fore in the eighties with innocent-looking aerosol deodorants banned in 1989 as chlorofluorocarbon (CFC) aerosol propellant gas depleted the Ozone layer to produce 'Ozone holes' over Antarctica. The Exxon Valdez spilled nearly nine million gallons of crude oil into Prince William Sound, Alaska on March 24th 1989, wiping out the local fish population and killing a quarter of a million sea birds and mammals. The city of Bhopal in India remains renowned for the disaster at the Union Carbide plant which sprayed poisonous gas at half a million people, killing an estimated twenty five thousand in 1984.

The 1990s

Nineties technology innovations still impact today - Microsoft Windows 3 was launched in 1990, Intel's Pentium processor in 1993; followed by the launch of Microsoft Windows 95 which sold one million copies in four days. Internet browsers such as Netscape Navigator in 1993 and Microsoft Internet Explorer in 1995 encouraged internet users to take their first steps on the Web. Users soared from 8.5 million in 1995 to 315 million in 2000. This explosive growth fuelled the 'dot.com bubble' with successes and infamous failures, concluding with the tech-heavy NASDAQ stock exchange peaking at 5,048 in March 2000 and then plummeting - \$5 trillion of market value was wiped off the index by October 2002.

Companies with a social conscience emerged and grew during the nineties, such as The Body Shop who supported fair trade for its producers, protested against animal testing and promoted in-store recycling. Companies started to address their responsibilities to a wider group of stakeholders and promote the general public interest. Environmental, fair trade and ethical business practices emerged as businesses explored Corporate Social Responsibility (CSR) and included CSR performance measures in their annual reports.

During the mid-90s, calls from Bangalore and Mumbai became more common, as faster telecommunication and IT networks, a large English-speaking population and low wages all meant that India became a favourite for off-shoring customer service call centres. China soared as a manufacturing power - in 1993 the government formed 2,000 special economic zones to encourage foreign investment. It has become the world's main producer of concrete, steel, ships, textiles and cars. Economic growth averaged 8% per year in 1996-2000 and China became the second largest economy (on the basis of total GDP) at the end of this period.

From the Eighties to the Tens



The 00s

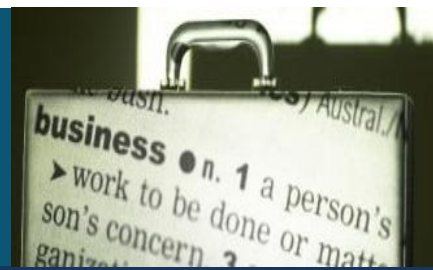
The noughties was a decade of 'cheap money' as interest rates in the US fell after 9/11 in 2001, fuelling an asset price boom. The financial sector found methods of using this cheap money - one such use was mortgages for sub-prime borrowers in the US. This debt was packaged up and sold as a financial instrument called Collateralised Debt Obligations (CDOs) which contained tranches of sub-prime mortgage debt. Banks, businesses and consumers exposed themselves to higher risk, relying too heavily on short-term wholesale money markets. As US house prices peaked in 2006 and interest rates rose, sub-prime borrowers struggled to repay, causing a spiral of falling house prices. By the end of 2008, outstanding US mortgage balances topped \$10 trillion, with nearly one million property foreclosures between August 2007 and October 2008.

The dramatic collapse of two stock market darlings of the 1990s - Enron and WorldCom - cost shareholders billions but also exposed complex financial scandals. The response was tougher regulation. The US government introduced the Sarbanes-Oxley (SOX) Act in 2002, with robust standards for all US company boards, management and public accountancy bodies, and criminal penalties for non-compliance. With the recent collapse of banks and financial institutions, it is argued that SOX provided the transparency for investors to show that many financial companies were overleveraged, but the warnings were ignored.

Climate change became the recurrent theme of the decade, with scientists linking specific human activity and behaviours to rising carbon dioxide, temperature and sea levels - predicting that the Earth's temperature will increase by between one and six degrees Celsius over the 21st Century. Landmark treaties such as the Kyoto Protocol came into force in 2005, pinning signatories to aim for 1990 CO2 emission levels. With calls to reduce carbon emissions by 90% by 2050, demand grew for cleaner energy sources, such as wind power, 'clean coal' and tidal, as well as increasing energy efficiency.

During the noughties, everyone went mobile. By the end of the decade in the UK there were 126 mobile phone connections for every 100 people. Eight million people access the Internet via their mobile and Smartphones (such as Apple's iPhone) sold 50,000 units per week. We sent 85 billion texts per year in the UK, and having powerful applications or 'apps', such as Twitter and Facebook, available on a mobile continues to make spontaneous mass communication possible.

Three Emerging Trends for the Tens: Transparency, Regulation and Values



The Transparency Trend

The twin revolutions of the active consumer and social media over the last ten years, together make it impossible for big business to 'manage the message' in the way it used to. Poor practices and shoddy treatment of customers will be exposed more quickly than ever before and reputation will be damaged that much faster than in any other era. Conversely, companies that are happy to engage with their consumers through social media, and other more instant and informal communications methods, will find this a highly effective route to engendering brand loyalty.

The Regulation Trend

The blame for the 2008-10 recession has been placed firmly at the door of the bankers. It is therefore inevitable that the trend towards tighter regulation, ostensibly to discourage unchecked risk-taking in the quest for short-term gain, will continue unabated over the next ten years. More executives will inevitably be caught out for failing to bring shareholders (and other stakeholders) with them when awarding benefits packages. Companies will also have to get better at measuring, monitoring and managing risk in order to report risk exposures more efficiently and accurately internally and to regulators.

As a counter to this scrutiny, businesses will continue to develop ever more sophisticated and innovative services and products to create value and drive profitability. Regulators will continue to play catch-up to close up anomalies and loop holes.

The Values Trend

Corporate behaviour will have to travel off the mission statements into the headquarters of global firms and live and breathe right through their supply chains. There will be less tolerance of ethical 'blind spots' which will damage the reputations of big businesses faster.

Previous decades have seen firms exploiting looser regulatory, health and safety and employment laws to produce products more cheaply overseas - but at what cost to those workers? This will come under increasing scrutiny this decade as poor practices or exploitation will become visible more quickly and intolerance for misdemeanours will decisively impact both corporate reputations and ultimately sales as customers vote with their wallets.

Prepare for the Age of Transparency



Tips for the Tens

- **No Spin is the New Spin:** Embrace transparency. Put the corporate spin doctor out to pasture. His services are no longer required in a world in which ‘spin’ or obfuscation is detected in the blink of an eye and the cynical recipient of it spreads the word more rapidly and effectively than any corporate PR man ever thought possible just a few years ago.
- **Social Media is the New Punk Rock:** There’s real substance behind the razzmatazz. Be prepared for open, rapid and engaged dialogue with the new generation of communicators. The defensive, corporate rebuttal when an article does not go well will not be enough in the next decade. Social Media offers an opportunity for dialogue with customers and other stakeholders and at the very least you should use it to listen to what people are saying about you in web chat forums, blogs and on Twitter just as you will have monitored press coverage in the past. The only difference now is that you need to be open to more honest, open two-way dialogue than was previously the norm and you will need to do it fast to stop false rumours and to keep up with the pace of conversations.
- **Out of Sight is no Longer Out of Mind:** Apply corporate values throughout your supply chain. There is an increasing intolerance of inconsistencies in attitudes which show that suppliers are less than scrupulous in their employment policies or attitudes to doing business. Consider suppliers as part of your ‘extended enterprise’, their employees need to have the same rights and treatment as your own employees. Outsourced service providers and other suppliers need to live by these same values which should also cover social responsibility, legal compliance, quality standards as well as safety and security policies.

Getting Ahead of Regulation



Tips for the Tens

- **Lead Self Regulation to Competitive Advantage:** Make changes guided by your values proactively and before changes are forced upon you. This way it becomes possible to lead change and call the shots when regulators seek to prod the laggards into action. You are automatically rewarded with a platform to comment on what the industry should be doing because you have taken the moral high ground. The great thing is you don't need to be the market leader to behave like one. Too many companies resist change which they perceive will cost them money. They fail to understand that longer term they will be forced to comply and by the time they have had compliance forced upon them they have suffered damage to their reputation. Better to act decisively and with a view to long-term sustainable business and, in the meantime, by doing the right thing by all the company's stakeholders not just their shareholders.
- **Spreading Risk Does Not Reduce It:** As your interests spread and globalisation continues apace it becomes increasingly imperative that companies find an over-arching methodology for measuring and assessing operational risk. Through a centralised system senior management can properly understand not only the risk levels of the work their own department is doing, but also the departments of other directors, right across the business. Apply 'Root Cause Analysis' thinking to assess measure and prioritise action to mitigate risk. Open the ivory towers of other specialist divisions to measures which everyone understands.
- **Demonstrate Progress Towards 'Good Business' Targets:** Communicate about successful compliance and progress towards compliance to all stakeholders. If there are sticking points, be prepared to enter into dialogue with interested parties about these shortcomings and talk about what remedial action you are taking to ensure compliance in the future. Doing these things in the spirit of openness is the key.

Making Values Work for You

**WILL
GOOD DEEDS
SAVE
YOU?**

Tips for the Tens

- **Engineer Values into Corporate DNA:** Continually reward and reinforce corporate values so that they shine through in everything you do. It is not enough to have a set of values published in some obscure employees' manual that no one reads. You must proactively communicate these values internally. Values articulation needs to extend to a code of conduct which makes it clear how these should work practically for employees and consequently be embedded into behaviours. A senior director should be given the role of championing the code and ensuring no exemptions or deviations from it are encouraged or authorised. The values need to be simple and unambiguous enough to communicate easily and be strong enough to be open to scrutiny by the outside world. Support values communication with training and work with Compliance and Legal departments to ensure they are being enforced.
- **Strike the Right Balance Between Short & Long-term Thinking:** The banking crisis demonstrates that short-term thinking generates rapid returns but may have negative impacts which are only partially understood at the outset. Long-term planning mitigates against any ill effects of actions because routes to market and tactics tend to be more carefully considered and agreed upon as a result. Monitor this balance carefully to keep the natural drift towards short-term, opportunistic decision-making in check and make corrections through routine senior management reporting forums.
- **Act Sustainably:** In an increasingly globalised and connected world, scrutiny of corporate impact on the environment and society, both direct and indirect, will continue to grow. NGOs and pressure groups will tackle low standards by targeting the most high-profile link in any chain. By anticipating and proactively managing sustainability across its supply chain, an organisation can build trust with its customers, business partners and the wider public, improving its reputation and gaining competitive advantage. Environmental impact assessments, target setting and reporting on environmental issues enable businesses, and their detractors, to fully understand the sustainability of their operations and the actions they are taking to improve this.
- **Good Business Benefits All:** Ensure your business provides benefit to the communities in which it operates. By building good relations with the communities in which you operate an organisation is likely to benefit from more business, more successful recruitment, reputation-enhancing media coverage, improved staff morale and a number of other unforeseen business benefits. Ultimately businesses cannot operate without the support of the community in which they operate. In this sense corporate social responsibility adds value to all other areas of your operation and makes for sustainable, Good Business.

Find Out More

Links

- Learn about i2a's approach to creating, improving and sustaining Good Business: http://www.i2a.co.uk/what_we_do/good_business/good_business_context.php
- Read our latest press release on creating sustainable success in the next decade: http://www.i2a.co.uk/what_we_do/good_business/2010s_press_release.php
- See our thoughts on business ethics, laws, regulation and social expectations in our Good Business Blog at <http://doinggoodbiz.wordpress.com/>
- For further information, contact us at: talk@i2a.co.uk or speak to Alan Holroyd / Andy Tomkins on 020 7260 2930