

Social Responsibility: What does it really mean?

Interdependence between business and society has always existed. Society expects business to provide employment, generate wealth and improve living standards. Business expects access to a healthy, well-educated workforce, and to be able to operate in a safe and secure environment. Both benefit from strong government and the rule of law to ensure that competition is fair and employees and consumers are not exploited. Both need to use resources efficiently to protect their joint interests and be successful.

However, this interdependence is becoming increasingly complex. Economic growth and technological innovation create social and environmental changes which in turn lead to shifting expectations of the role of business in society. Technology enables faster and more direct communication between groups, increasing the pace with which public opinion can change.



Unfortunately many companies are only equipped to face these challenges with the tools and techniques they developed a decade ago when the corporate social responsibility (CSR) movement was at its peak. As we near the end of this first decade of the 21st century, a new approach to social responsibility thinking is required.

Engaging in the debate

To respond to and benefit from changing social values businesses must understand the changes and what is driving them. Engagement and collaboration with all stakeholders is key to achieving this but is something which companies often find challenging. Many do not understand and manage their stakeholder relationships efficiently and struggle with collaboration where the conventional command and control management techniques do not apply.

The leading companies manage engagement and collaboration systematically in order to identify risks and opportunities. Leading companies benefit because the information and relationships they create through engagement in the debate creates more opportunities for them. Examples include Toyota's launch of the Prius, in response to the increasing concern over global warming, and Wholefoods' business model, based around organic and natural food in response to growing concern about food safety and security.

Sphere of Control

Businesses must ensure that they effectively manage those activities that lie within their direct control. This means they must meet laws and regulations where they operate. They must ensure they operate safely, protect their people and assets, use resources efficiently and minimise their impacts on the environment. These challenges often lead to internal standards against which a firm's operations should comply. However, compliance with these standards remains a practical challenge for many firms as they fail to translate the standards and policies which they create into the behaviours of their people¹.

Tools such as Environmental and Social Impact Assessments (ESIAs) can help to understand the impacts which an organisation has outside of its internal operations. How this information is evaluated and utilized can be critical to the overall success of projects. There are many examples where inappropriate responses have threatened companies' operations in countries. The key point is that managing social and environmental impacts is as core to the business as financial management.

Sphere of Influence

Operating within their sphere of influence, and using their business competencies, provides the best opportunity for organisations to make a positive impact and in so doing build competitive advantage.

Managing supply chain impacts isn't new, but leading companies are raising the bar through new thinking on conventional concepts. Starbucks has implemented sourcing policies which combine its commercial and ethical aims, recognising the synergies between its operational requirement for a sustainable supply of high quality coffee and its social and environmental responsibility. Firstly, it identified that the sustainability of supply is related to the ability of the farmers to get a fair price and access to technical support and investment. Requiring suppliers to submit *evidence* of payments made throughout the supply chain enables them to demonstrate how much of the price paid by Starbucks actually reaches the farmer. In addition, support is provided to farmers through agricultural and quality experts and a loan programme.



These changes benefit the business and the farmers but also give Starbucks the leverage to make further social changes by, for example, working with suppliers to

¹ i2a writes separately on the topics of compliance, safety and security. Further information is available at www.i2a.co.uk

ensure that they provide safe, fair and humane working conditions. They have also put in place measures to tackle environmental issues such as waste management, water and energy conservation, biodiversity preservation and agrochemical use. To ensure these policies are implemented and suppliers are compliant all measures are evaluated by a third-party against detailed standards.

As a result of this supply chain innovation Starbucks reinforces its 'values in the cup' brand and creates commercial advantage by securing a reliable and sustainable supply of high quality coffee beans.

Other companies demonstrate how collective action can change industry practices to the advantage of both business and the society. In the Extractive Industries, through the Extractive Industries Transparency Initiative, leading companies have collaborated together and agreed to aim for full transparency of the payments they make to governments in countries in order to discourage corruption.

Some businesses find themselves operating in environments where the failure of other stakeholders to meet expectations may limit their opportunity for commercial success. For example, where basic infrastructure is lacking, the ability of a company to find skilled employees, move its product to customers and protect its people and assets may be compromised. If carefully judged such situations offer businesses the opportunity to create new business models where infrastructure is added to build the capacity of local supply chains - this creates a win-win for the local community and business.

A much publicised example is from Nestlé's activity in India. In order to build a local source of milk, it upgraded local transport infrastructure, invested in refrigerated dairies as collection points and sent trucks out to collect the milk from local farms. With the trucks went vets, nutritionists, agronomists and quality assurance experts. Training was provided for local farmers. Financing was available. The result is that now it has a supply chain and infrastructure that allows Nestlé to collect milk from 75,000 farmers each of which has increased production and reduced the calf death rate.

Making a difference

The examples above highlight how business can meet, or exceed, society's expectations and its own commercial imperatives. These examples demonstrate that to succeed a company should:

- *Engage in the debate* so that it understands changes in social values and spots opportunities for innovation
- *Meet legal and regulatory* requirements and its own *internally defined standards* by managing its activities and impacts within its *sphere of control* effectively
- *Meet, or exceed, social expectations* by applying its core capabilities to respond to social values in those activities within its *sphere of influence*

As social responsibility evolves to be judged by results not words, corporations which develop these attitudes, approaches and skills will be increasingly successful. The challenge is no longer centred on social and environmental good deeds, but good business.

About i2a Consulting

i2a consulting helps clients improve performance through good business. Good business means meeting regulatory requirements and making responsible choices. Good business is about developing the right leadership and culture; using processes, metrics and systems to influence how people behave; and being operationally effective in getting the right things done.

We focus on issues related to corporate responsibility, compliance and business ethics. We combine expertise in key risk areas with proven delivery capability to embed effective solutions. Our approach brings people together enabling knowledge, skills and experience to be used effectively to achieve positive results.

We approach social responsibility from a background of business consulting and improving performance. We combine deep expertise in critical areas with a proven ability to deliver behavioural change. Our clients get the right solutions working in the right ways.

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Good Business