Just Values

Beyond the business case for sustainable development

Report

"Business leaders have got to come out fighting for what they believe in."

In association with

Forum for the Future

Contents

Just Values

Just Values consultation

A series of consultative activities were invaluable in shaping the evolution of this paper and the conclusions reached. Over 900 people from at least 23 countries participated, including students, government officials, investors, corporate social responsibility professionals, academics, NGOs and business people. The consultation activities included online debates, e-mail dialogues and a number of face-to-face events.

The paper includes various quotes from the consultation process, selected for their particular relevance to the text. In particular, references have been drawn from a very lively panel debate between Sir Geoffrey Chandler, previously of Amnesty International, Ram Gidoomal, chair of the London Sustainability Exchange, Paul Gilding of Ecos Corporation, the Rt Rev James Jones, Bishop of Liverpool and Professor Keith MacMillan of Henley Management College.

Our thanks go to all those who took part in these consultative activities.

Records of all consultation can be found on the BT Better World site.
http://www.bt.com/Betterworld/Stakeholderdialogue/JustValues/index.htm

Foreword

Beyond the business case for sustainable development

The Rt Hon Patricia Hewitt MP
Secretary of State for Trade and Industry

Sustainable development and corporate social responsibility arouse very different views from many different stakeholders.

I am very pleased to see BT playing an active part in the public dialogue through its series of pamphlets on this challenging and important subject.

I welcome "Just Values" as a stimulating and valuable contribution to the continuing debate on these complex issues.

No more business as usual

2003 dawned with a litany of gloomy projections about the state of the global economy, the threat of international terrorism, and the possibility of war with Iraq. The backdrop was not all that rosy either. Delegates at the World Summit on Sustainable Development in Johannesburg in September 2002 found themselves confronting the following "state of the world" report:[1]

- A third of the world's population lives in countries suffering from moderate to high water stress;
- 80 per cent of all disease in developing countries is caused by consumption of contaminated water;
- 12 per cent of bird species, 25 per cent of mammal species and 34 per cent of fish species are under threat of extinction;
- Air pollution is estimated to cause five per cent of the world's deaths each year;
- 113 million of the world's children do not have access to primary education while 20 per cent of adults are illiterate. Two thirds of these are women;
- Global consumption of minerals, wood, plastic, and other materials increased by 240 per cent between 1960 and 1995.

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As the Summit's Plan of Implementation recognised, addressing challenges such as these will require an unprecedented level of commitment and co-operation from all countries – and all sectors. More than a hundred world leaders recommitted their governments to the principles and practice of sustainable development. Chief executives and leading business people from dozens of global companies reaffirmed their own commitment to generating wealth in more socially and environmentally responsible ways.

Significant though that collective response is, it falls way short of what is required given the empirical reality of what is happening to the Earth and its people. The lack of urgency, the continuing denial, the "mañana" mindsets… for far too many, it's business more or less as usual, rather than sustained transformation.

As far as the business community is concerned, much of this debate has been conducted within the framework of "the business case for sustainable development". But in order to answer the question as to why companies like BT are taking that business case so seriously – where does the primary motivation come from, is it profit or principles, or both? – we need to look first at what the moral case for sustainable development is, not just for business and governments, but for each and every one of us.

The moral case for sustainable development

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Sustainable development has been defined many times. But the definition that has stuck is that of the 1987 Brundtland Report, which famously talked of "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". The definition used by Forum for the Future builds on this, emphasising that sustainable development is ongoing, "a dynamic process which enables all people to realise their potential and to improve their quality of life in ways which simultaneously protect and enhance the Earth's life support systems".[2]

By and large, there are four principal moral foundations that underpin the advocacy of sustainable development.

Equity today

This relates directly to the first part of the Brundtland definition: meeting the needs of the present. There's little dispute about just how far short of achieving that goal we still fall, as manifested in the Millennium Development Goals that emerged from the UN Millennium Summit:[3]

Goals and Targets agreed at the UN Millennium Summit.

- Halve the number of people living on less than US$1 per day, currently 1.2 billion, by 2015;
- Achieve universal primary education, including the 113 million children with no access to primary schools;
- Eliminate all gender disparities by 2015, for example by narrowing the gap between genders in literacy, refugees and employment;
- Reduce by two thirds the number of children dying before their fifth birthday, currently 11 million a year, by 2015;
- Reduce by two thirds the ratio of women dying in childbirth. Today the risk is one in 48 in developing nations;
- Halt and begin to reverse the spread of HIV, combat malaria and other diseases;
- Reverse the loss of environmental resources by 2015, including halving the population without access to safe drinking water by 2015;
- Develop a global partnership for development, including an open trading and financial system that includes a commitment to good governance, development and poverty reduction, tackling debt problems, provision of work for youth, and access to affordable essential drugs in developing countries, and make available the benefits of new technologies – especially information and communications technologies.

It's all too easy to detach ourselves from such huge global challenges and the depths of misery and suffering that lie behind them. The ethicist John Rawls introduced the idea of the "Original Position" to help people relate more personally to the question of moral responsibility: if at the beginning of life you were in complete ignorance of what your own position or location within society would be, what moral principles would you hope would inform that society? Time after time, whichever group of people this exercise is carried out with, it ends up with those people recognising the centrality of equity and social justice.[4]

Environmental justice

Closely related to equity is the idea of environmental justice. This has been defined as "equal access to a clean environment and equal protection from possible environmental harm, irrespective of race, income or class or any other differentiating feature of socio-economic status."[5]

A term coined in the USA, environmental justice has traditionally been confined to the disproportionate impact of pollution on poorer communities. However, the term is now being widened to include less tangible aspects of quality of life, including community confidence, cohesion and safety, freedom from crime and the fear of crime, civic pride, empowerment and environmental education.

Intergenerational equity

This relates directly to the second part of the Brundtland definition: not compromising the ability of future generations to meet their own needs.

This is a simple but enormously powerful obligation, and one which politicians were rarely troubled by when it was taken for granted that doing right by the present would automatically make things better for the future. That is transparently not the case today as we improve our own material standard of living by impairing the "natural capital" (the resources, pollution "sinks", and life support systems) on which future generations will depend just as much as we do, and by standing by as the gaps between the rich world and the poor world get ever wider.

There are all sorts of populist renderings of this moral responsibility. "We do not inherit the Earth from our ancestors; we borrow it from our children", or "Living on planet Earth as if we intended to live here for ever". But will they ever outweigh the cynicism of those who still ask: "What's the future ever done for me?".

Stewardship

None of the above is uncontroversial, but the idea that we have a moral obligation to secure the well-being of other creatures (or protect the rights of other creatures, depending on your philosophical starting point!), regardless of whether or not they bring some benefit to humankind, is the most controversial of all. Yet the concept of stewardship, of taking responsibility for the rest of life on Earth, is a powerful source of moral inspiration to hundreds of millions of people, and an important element in all the world's major religions and faith systems.

There's also a more utilitarian aspect of stewardship. Sustainability depends on recognising that natural systems underpin all human systems. Human society cannot function without them, and there are indisputable limits to the ways in which those natural systems can be exploited. We not only have a moral obligation to do everything in our power not to breach those limits, it's in our own self interest.

Sustainable development also demands a better understanding of the interconnectedness of natural systems and human systems, now and in the future. As Martin Luther King said, "All of life is interrelated. We are all caught in an inescapable network of mutuality, tied to a single garment of destiny. Whatever affects one directly affects all indirectly".[6]

These four principles encapsulate the moral case for everyone. Although we would expect them to underwrite any business case for sustainable development, the connections are rarely made explicitly.

The business case for sustainable development

The challenge of sustainable development is a shared challenge. Governments, NGOs, individual citizens, professional bodies: all have an important role to play. But the role of the business community in addressing that challenge (as the main generator of wealth in society) is seen to be particularly important.

And the response of the business community has been significant. Over the last fifteen years or so, a large number of companies have substantially reduced their negative environmental and social impacts, and have developed strategies for engaging more positively with local communities and other stakeholders. Much of the progress here has been voluntary, not regulated. Corporate social responsibility (the terminology that many companies use to communicate their contribution to the broader concept of sustainable development) is serious business.

But not serious enough, according to many NGOs and individual critics. For them, businesses are still the principal engine of much environmental damage and negative impacts on society, particularly the large multinationals that command such influence in the global economy. At international summits, on the high street and through the media, these campaigners demand that business should be doing far more. But is that right?

The business case for sustainable development is that it makes good financial sense for companies to proactively manage their social, environmental and wider economic impacts. It first emerged in the late 1970s with what the World Business Council for Sustainable Development later called “eco-efficiency”: cutting costs by reducing the resource intensity of a company’s operations. We have come a long way since then: a recent publication by Forum for the Future, “Sustainability Pays”, draws on almost 400 separate research papers dedicated to developing or measuring the business case, and identifies four broad areas where sustainable development policies have brought companies financial benefits:[7]

- Leading companies stand to benefit from first-mover advantage (for example, with eco-efficiency measures);
- Coping with social and environmental issues demonstrates enlightened and effective management, which in turn attracts investment and motivated employees;
- Corporate reputation stands to benefit significantly if the company is seen to act responsibly, adding to the “intangible assets” of the firm;
- Engaging with sustainable development requires innovation across the firm, stimulating new market opportunities.

Research continues to strengthen understanding of the business case, and how it can be used to best effect. For example, BT has shown that its customers’ perceptions of corporate ethics influence their perception of the brand, and that this in turn drives customer satisfaction – thereby relating sustainable development to core value creation in the business.

As a means of promoting sustainable development in a company, the business case has a number of advantages:

- The business case speaks the language of business to make headway in the boardroom;
- It facilitates engagement with a number of important stakeholders in the financial sector;
- It provides a way for business people to express their personal values in a classical business context;
- Perhaps most importantly, the business case is a self-reinforcing system – ratcheting up sustainability performance as it is embedded in the company’s commercial operations.

3

As a report from the consultancy SustainAbility puts it, “The more convincingly companies can demonstrate the anticipated benefits of sustainability activities and/or investments, the more likely these will be recognised by the markets”.[8]

It would be wrong to assume, even at this level, that the business case and the moral case for sustainable development inhabit completely separate zones. After all, today’s business case sits on a body of international conventions and guidance that represents a remarkable international consensus: from the Universal Declaration of Human Rights and a host of ILO conventions, signed up to by the vast majority of governments, all the way through to global environmental treaties and voluntary codes of conduct such as the OECD Guidelines for Multinational Enterprises and the UN’s Global Compact. Those who deny this moral base and advocate a purely pragmatic, amoral approach are simply denying the existence of an overwhelming consensus about what is the “right” thing to do.

In this sense, even the strongest business case for sustainable development is enhanced and underpinned by a powerful moral case. As Sir Geoffrey Chandler put it in his contribution to the “Just Values” debate:

“I believe our train of thought should be this: business is part of society; society has agreed certain international values and principles; business needs to reflect these in its operations if it is to be acceptable. Its social purpose is to provide products and services profitably and responsibly, the boundaries of that responsibility being determined by the extent of its impact on its stakeholders, the nature of that responsibility being determined by society’s values.”[9]

If, as Sir Geoffrey suggests, the purpose of business is to meet customer needs profitably – arguably a good thing in its own right – then the business case for sustainable development is the motivation to do it responsibly. But there are limitations to the conventional business case for sustainable development.

4

Only so far: limits to the business case

To quote from "Sustainability Pays" again: "While assessment of past research rejects the claim that being green and socially responsible always pays, most recent evidence shows that corporate social responsibility (CSR) can create shareholder value for some issues, in some industries, with some firms and for some management strategies…The question is not does CSR pay, but when does it pay."[10]

The experience of those working to accelerate change both inside companies and with companies from the outside, is that the business case for sustainable development in any company can be constrained by a number of factors.

1. The first is corporate myopia – a failure by many companies to even seek out a business case. Whatever shortfalls a business case approach may have, it clearly makes some difference, and those companies that have yet to develop one need to get to first base.
2. The financial benefits from eco-efficiency investments may not be sufficiently "material" to gain either senior management or investor buy-in. For large multinationals, even potential savings of tens of millions may not pass this test of materiality.
3. What works as a "niche product" (for example fair trade coffee in high street coffee shops) may not translate through into mainstream commercial strategies.

How long is a 'long-term' return on investment?

7% said	1 year
24%	3 years
52%	5 years
13%	10 years
4%	20 years

Watson Wyatt poll of fund managers in FT

4 March 2003

4. Even a positive return on a sustainability investment may not be positive enough if the same amount of capital deployed in a different way can generate a much better return on investment. This is very much current reality here in the UK with investments in both energy efficiency and renewables.
5. The scale of what needs to be done to meet the Millennium Development Goals is far greater than can be met by the total benefits generated by today's business case approach.
6. The principal limitation of the business case (or rather of relying exclusively on the business case to drive transformation) is that very often there just isn't a business case – i.e. doing "the right thing" in environmental and social responsibility terms doesn't generate a positive return, but a bottom line cost. What then?

That is the point where moral considerations come back into the frame. If companies are only doing the things that need to be done (by any reasonable standards) because they pay, then this will inevitably impact on people's already jaundiced and mistrustful perceptions of the role of companies in society. Sir Geoffrey Chandler puts this in characteristically robust terms:

"I don't believe ethical behaviour should depend on its paying. To suggest that doing right needs to be justified by its economic reward is amoral, a self-inflicted wound hugely damaging to corporate reputation... Doing right because it is right, not because it pays, needs to be the foundation of business. If we are to preserve the most effective mechanism the world has known for the provision of goods and services – that is the market economy with the public limited company its main instrument – then it has to be underpinned by principle. Financial failure can destroy individual companies. Moral failure will destroy capitalism."[11]

But how can one possibly square that with the prevailing ideological context in which shareholder value and short-term profit maximisation are dominant – for all the talk about more inclusive, "stakeholder" models of capitalism? David Henderson says that:

"Public companies must ultimately ensure that they deliver share price performance before anything else. The increased focus on corporate governance and shareholder activism has sharpened this imperative. They cannot afford to take action which might seriously impair share price performance."[12]

It is this rationale for shareholder-focused business leadership that has persuaded some people that a further limitation of the business case for sustainable development (as it is currently articulated) is that it just isn't serious enough about shareholder-focused value creation.

This is certainly the view of Paul Gilding, CEO of Ecos Corporation, who deliberately set out to challenge participants at a "Just Values" debate by declaring:

"I would like to ban the words 'corporate social responsibility'. If you think about the language of CSR, it's about focusing not only on profits but on the 'right thing to do'. As soon as you have that conversation, you are saying that sustainability is bad for business. As soon as you say that, you are effectively saying to the corporate world that this whole agenda is about things that you should do and are morally obligated to do, but not that you want to do or that are good for business. That mindset, whatever you think of it morally, will fail in business."[13]

In "Single Bottom Line Sustainability", Paul Gilding and Don Reed take that theme forward by arguing that responsible business behaviour will be delivered faster by business if the profit motive is the dominant driver, and that the moral overlay of many campaigning organisations is actually weakening the real business case.[14]

There are huge risks in this approach, which effectively undoes more than a decade of effort to get business to adopt a more ethical line. The problem with some businesses is that short-term profit maximisation is already such an overwhelming imperative, that all else can easily fall by the wayside. That will not be resolved by focusing further on value creation, even if in the short term the effect is sometimes positive for sustainable development. Delivering sustainable development requires a sea-change in thinking across society and a paradigm shift for the majority of companies. The value-first approach is just more of the same. To quote Einstein: "You can't solve a problem with the same kind of thinking that created it".

4

Cautionary voices

Milton Friedman famously wrote that, “there is only one social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in free and open competition, without deception or fraud”.[15] This is what business is set up to do, and what it is best at. If business stops focusing on the pursuit of profit, will society be disadvantaged? David Henderson draws heavily on this point of view in his book “Misguided Virtue”.[16]

His argument goes that if business starts to concentrate on corporate social responsibility, then companies’ profitability may be compromised. In turn, society would suffer. Henderson writes that, “It is largely because meeting ‘society’s expectations’ by implementing CSR will reduce the extent of economic freedom, and with it the scope and effectiveness of markets, that it is likely to make people worse off”.

Wielding this dubious hypothesis (for which he adduces no empirical evidence), he attacks companies that embrace corporate social responsibility as displaying “non-resistance, gratuitous apologetics and appeasement” in the face of overwhelming pressure from NGOs. In fact, in many cases, companies have chosen to adopt certain practices and processes for themselves, without so much as a whiff of external or NGO pressure.

At the same time, he argues that “it is neither necessary nor wise for corporations to accept, still less to argue...that grave environmental damage has been done, and is being done, as a result of economic activity in general and the profit-directed operations of companies in particular”, stressing that profitable business returns greater value to society than it extracts, using a traditional model which sees the value returned to society as measured by profits generated, jobs created, and taxes and dividends paid. But what is needed is a broader definition of what is meant by value and cost, not least because companies continue to operate in markets that allow environmental and social costs to be externalised. In this respect, he misrepresents sustainable development, the aim of which is not (as he implies) to assert social and environmental goals above economic goals, but to achieve an optimal balance between them.

5

In short, Henderson maintains that the reason for the existence of corporations is to maximise shareholder value. He is opposed to the idea that companies need to satisfy the requirements of a range of stakeholders, because of the risk that these stakeholders could make unreasonable demands. But this shareholder model of capitalism is only one interpretation of the obligation of companies to society, and has evolved over a relatively short period of time with no associated changes in the law.

In English law, the original idea of incorporation was a concession given to a group of people allowing them to pursue their own interests, within parameters defined by the crown; that is, companies were awarded rights in return for obligations. The nature of rights and obligations has evolved over time, but UK companies remain, as Will Hutton puts it, "organisations whose licence to trade comes with reciprocal public responsibilities to the communities within which they do business".[17]

This is well understood by a very large number of companies, both large and small. Despite the temporary dominance of the shareholder model of capitalism with its focus on short-term profit maximisation, it is not as powerful a financial monoculture as some people make out. Many companies are able to reconcile short-term pressures with the need to build long-term value for shareholders, and to provide a compelling case for investors as to the long-term benefits of, for example, increasing goodwill or protecting reputation.

There is now a growing recognition that shareholder value is inextricably linked to meeting stakeholder expectations. This is why the City attempts to place a value on intangibles such as reputation, goodwill and brand equity, why the success of a company's CSR activity is often seen as a proxy indicator of management quality, and why profit is not the only financial measure of success used by investors.

I think the primary value for a business is that it should be there to generate goodwill amongst its stakeholders. I also believe that can be measured; I also believe that in the next five to ten years investors will demand that it is reported on.

Keith MacMillan, Director of CORR, Henley Management College

It can be dangerous to generalise too much about this. Different conceptions of the relationship between business and society prevail in different parts of the world. In the Anglo-American model of business, companies are expected to make rapid returns on investments, whereas the German or Japanese models are characterised more by "patient capital" and longer term expectations of returns on investment.

Henry Mintzberg observed that "Corporations are economic entities to be sure, but they are also social institutions that justify their existence by their overall contribution to society. Specifically, they must serve a balanced set of stakeholders. That, at least, was the prevalent view until perhaps ten years ago. Now one group of these stakeholders, the shareholders, have muscled out all the others."[18] His interpretation sees the rise of shareholder capitalism and the narrow view of fiduciary duty as a cultural phenomenon, based on prevailing cultural norms.

It is impossible to reduce complex systems to one dominant measure of success, and absurd to try. The Henderson/Friedman model of capitalism effectively does this, by making short-term financial performance and profit maximisation a priority before anything else. When argued in its crudest form, even the business case for sustainable development becomes entrapped by this flawed analysis, implying that the financial bottom line is the only one that really matters.

Extending the business case

The following diagram illustrates where the business case for sustainable development has come from and where it might be leading. There's clearly a continuum here in terms of companies introducing more environmentally and socially responsible practices for different reasons, and driven by different agents of change. That said, it's never quite as cut and dried as the table makes out, in that any one company can be at different points on the continuum depending on the issue or even the market in which it is operating.

Outlaws

It would be wrong to assume this is no longer an issue in these days of more enlightened business practice. It's worth remembering that the majority of small and medium-sized companies in the UK are still not in compliance with core environmental regulations, according to the Environment Agency. And even the best of best-behaviour companies often find that compliance in less sophisticated markets (particularly in the developing world) can be outside the local norms.

Compliers

The body of international and local laws or regulated standards that exist in any country represent the minimum required of any company as part of its "licence to operate" in society. In effect, no business case is needed here, as there isn't a choice. Evidence of commercial benefits flowing from compliance acts as a positive inducement to companies to remain in compliance as standards tighten, though the debate about the macroeconomic effects of tougher regulation (in terms of competitive advantage or disadvantage) rumbles on within the context of an ever increasing regulatory bureaucracy.

Case-makers

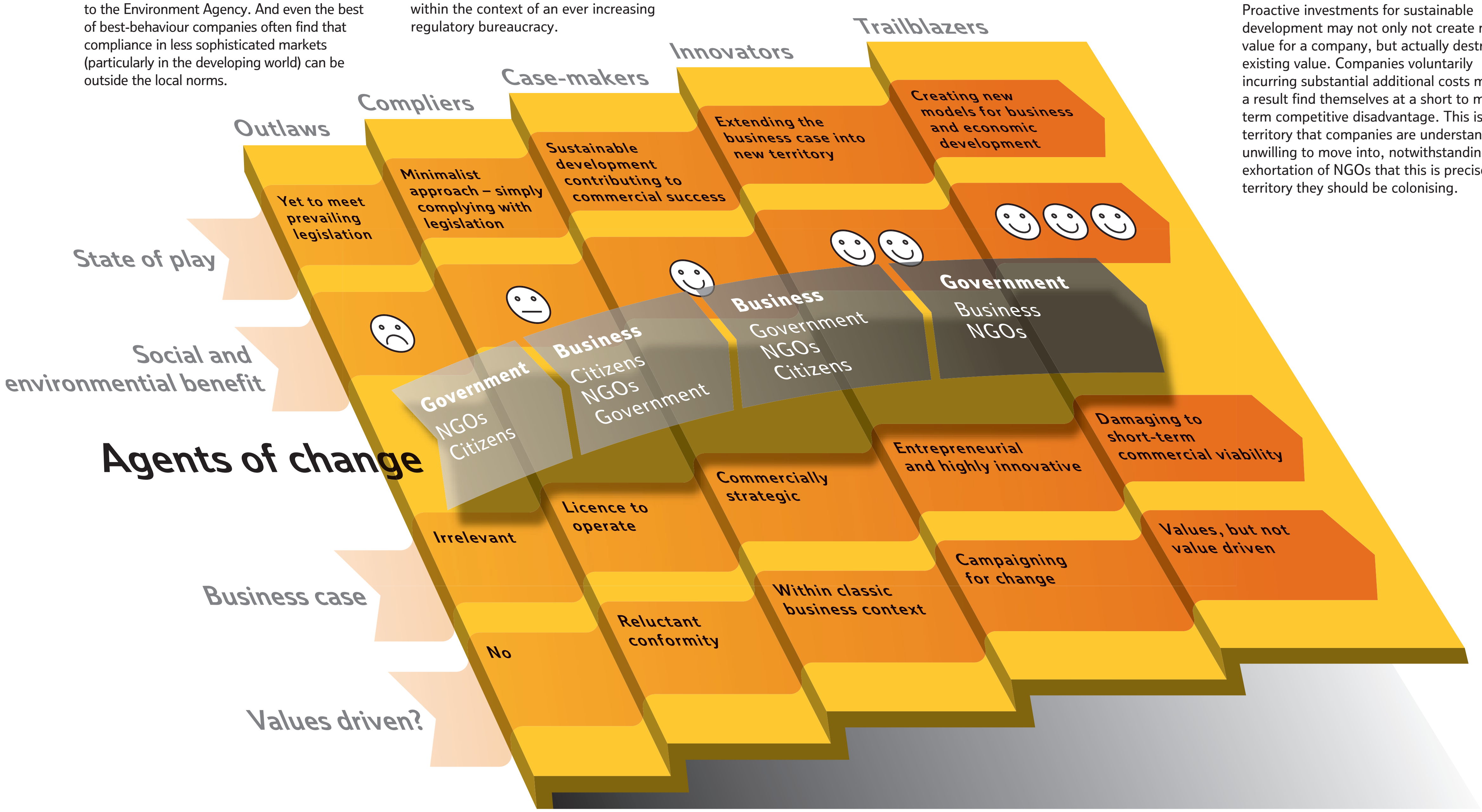
In many instances, there is total convergence between improved environmental and social performance and commercial self-interest. On the surface, this is a real "no-brainer", though it remains a source of astonishment to officials in the DTI running the Government's "Envirowise" and energy efficiency programmes that so many companies in the UK would indeed appear not to have a brain! But there are always multiple "business cases" under review in a company, competing with each other for both investment capital and management time.

Innovators

Convergence here is only partial: the business case for taking additional measures is harder to make, and the excuses for not doing so easier to deploy. This is the territory that we explore in the final part of this paper. For if it can be demonstrated through such an analysis that the business case only extends so far - and not far enough compared to the scale of urgency of the environmental and social challenges we face – then the obvious solution is to extend the business case, to make it work harder, to give companies scope to do more than prevailing conditions in today's capital markets allow.

Trailblazers

Proactive investments for sustainable development may not only not create new value for a company, but actually destroy existing value. Companies voluntarily incurring substantial additional costs may as a result find themselves at a short to medium term competitive disadvantage. This is the territory that companies are understandably unwilling to move into, notwithstanding the exhortation of NGOs that this is precisely the territory they should be colonising.



7

Leave it to the market?

The principal concern of those who oppose deeper corporate engagement on social and environmental issues is that companies have no legitimacy in making value judgements on behalf of society. Market mechanisms may not be perfect, but they do permit consumers to either punish or reward companies through the use of their purchasing power. What grounds are there for company directors to make those judgements on their behalf?

Ever since the frothy days of the "green consumer revolution" in the late 80s, there's been a divergence of views about the role of citizens (acting in the market either as consumers or investors) in promoting more sustainable business behaviour. After all, if enough citizens demonstrated their preference for more environmentally and socially responsible products and services (through the purchases they make or the investment products they opt for), then companies would respond, and the world would be a greener and kinder place.

But they don't. Most commentators agree that the percentage of consumers pro-actively committed to using their purchasing power consistently in this way is no more than about 5 per cent of the population. (It's important to point out, however, that the UK is not typical of other European countries here; that percentage would be much higher in Germany, Scandinavia and the Benelux countries.)

This is confirmed by the latest Ethical Purchasing Index from the Co-operative Bank. In 2001,

> **"Total sales in the year grew by £1.1 billion, taking the total value of ethical consumption in the UK to £6.8 billion. A further £3.4 billion, an increase of 29 per cent, is deposited with ethical banks and £3.8 billion in ethical investments, taking the total value of the ethical wallet to £13.9 billion."[19]**

This represents about 1.7 per cent of total sales in the key sectors tested – food, fuel and light, housing, household goods and so on.

At one level, both consumers and businesses should indeed be encouraged by this kind of progress – worth so much more than all those surveys that tell us theoretically how socially and environmentally responsible consumers are! But at another level, these are still pitifully small percentages of overall market share – after decades of NGOs, government ministers, and ethical businesses themselves banging on about it.

There are all sorts of potential reasons for this: confusion as to who to believe, lack of clear labelling, a sense of disempowerment in the face of such huge problems, disillusionment with products or initiatives that haven't delivered what they said they would, and so on. But the unpalatable truth – especially for campaigners who would like to lay the blame for slow progress on the companies who serve these consumers – is that ignorance, inertia and indifference are the principal reasons for consumer power being such a muted force.

Fortunately, this is not a static situation. Things can change very quickly, especially when it's a question of consumers saying "no" to things – such as GM foods for instance. And government can clearly do a lot here, as argued by Forum for the Future in its recent pamphlet, "Government's Business: Enabling Corporate Sustainability":

"Government should transform the quality and availability of consumer information on product sustainability, building on the frameworks used by the SRI community for judging corporate performance on sustainable development, and government should develop a common label for the main products that cause climate change: homes, cars and domestic equipment".[20]

The idea that …consumer demand precedes company decision and action is a fallacy, as the existence of the Public Relations and Advertising professions demonstrates. …Although we have a belief in the consumer being king, this has never really been how business behaves in any case. If business collectively (or through regulation) changes the playing field to incorporate sustainability into the product and service provision, then the consumer will adjust to this.

Just Values online debate participant

Even in such improved circumstances, it seems foolish to suppose that the required transformation will be brought about as a result of consumer activism in the market.

8

Leave it to government?

There are many people who believe that after more than ten years the notional "business case" has demonstrably failed to deliver the required changes. They point to UNEP's 2002 report on Industry and the Environment which concludes that for the vast majority of companies, it's still very much "business as usual".[21] There's no time, they argue, for company-by-company incremental change: the sustainability gap is just too big, and getting bigger all the time. Governments alone must bridge that gap.

After all, social values and priorities are embodied in the laws governments adopt to shape the market framework. When governments are democratically elected, they have a mandate to "interpret" the values of the majority in the laws they pass and other measures they use. This is one of the principal means by which society as a whole manifests its values. If the market framework is shaped in such a way as to represent the values and goals of society, and a company makes a profit within that framework and abides by the law, then surely the company is making a perfectly adequate contribution to society?

As a result of this, the idea of extending the business case invariably involves considering the role of government in bringing in new regulations, fiscal measures and financial incentives for promoting more sustainable business practices. This implies a need to push further than the familiar calls to introduce mandatory sustainability reporting, for example, to exploring ways in which governments can deliver the more profound changes to the current legal and fiscal framework that are needed to enable business to survive and flourish from sustainable business practice. It's to governments that the moral case must be principally addressed, not so much to the business community.

Few CEOs will …be able to sustain significant investment in sustainability, however willing, against the pressure to deliver shareholder value…in lightly regulated capitalism. The only way to get around this is to add to the market forces, regulatory forces that encourage sustainability and discourage resource waste.

Just Values online debate participant

For example, BT said to Government back in 1998: "In BT we acknowledge that government has essentially two methods of stimulating changes in behavioural patterns that will lead society towards more sustainable lifestyles. These are regulation and the use of economic instruments. We believe there is a role for both and support reasonable moves to improve the environment and quality of life through their application."[22]

As explored in "Government's Business," governments can adopt a wide range of measures, from soft measures such as changing the political environment, to hard action such as laws, economic instruments and regulations.[23] First and foremost, it is government's job to translate society's moral values into a legal framework.

But there will always be limits to how much can be achieved through such intervention. Some things governments simply can't legislate for – micro-management issues or unpredictable risks or crises, for example. There are also limits to what governments can do to force companies to come into line. Well-designed incentives should work in most cases, but clearly there is still room in an incentivised market for business to take an approach that runs counter to sustainable development. As Stephen Timms, the UK Minister responsible for CSR, said in a recent speech, "We cannot compel companies to be virtuous".[24]

True enough, but governments can compel them to meet higher standards, and there's no doubt that governments could do more to influence the overall macro-economic context in which companies are operating. There's a disturbing fatalism in ministers' protestations of impotence ("well, that's the way the global economy works, and you certainly can't buck that market") which sits ill with their enthusiasm for corporate social responsibility. It's surely significant that practically every debate in this area, regardless of the sector or political interests of the participants involved, ends in the same place, bemoaning the stranglehold that "short-term profit maximisation in the name of the narrowest interpretation of shareholder value" exercises over anyone seeking to make a difference.

> The difficulty we have here, it seems to me, is that you can pass laws broadly to tell people to stop doing bad things; it is hard to pass laws telling people to do good things. You can outlaw murder; you cannot mandate love.
>
> *Just Values debate participant*

Even when governments do wish to take more action, business associations often oppose it. We cannot pretend that this has no effect on legislatures keen to stay on good terms with the captains of industry. We even observe cases where the company department responsible for the environment or social responsibility advocates government action – which is not all that common an occurrence anyway – while other departments of the same company might be lobbying for something quite different, publicly or otherwise.

Margaret Beckett, UK Secretary of State for the Environment, recently recognised the critical role government must play when she said, “Business is unlikely wantonly to act against its own interests, and a constructive partnership is unlikely to be founded on asking it to do so. So here we find a boundary to CSR and the limits to voluntary corporate action. And moving beyond that boundary is where government leadership and intervention is essential and where wider market systems play a crucial role.”[25]

However, simply asserting that government intervention is the only way to extend the business case for sustainable development is clearly inadequate. Don’t companies need the moral room to express their own values, within a sensible market framework, harnessing the business case where possible? Relying exclusively on government absolves business of its moral responsibility to society, and absolves business leaders of the need to take up the challenge of sustainable development far more creatively and purposefully.

Corporate values

At the very heart of the idea of making more of the business case for sustainable development lies the whole question of corporate values.

Companies do not operate in a moral vacuum. All decisions are value-laden, whether the driving value is respect for the natural world, creating delighted customers, providing a service to society, caring for employees, or making a profit.

Values are embodied in corporate structures and cultures, in the relationships with other companies and stakeholders, and in the business models the company employs.

Crucially, values come from the people that make up the company, who make the decisions and create the culture. As Simon Zadek writes in "The Civil Corporation", "Businesses are run by people for people. They are no more or less than a human intervention for making things out of other things and getting them into use; using and making money; and for making people variously happy, satisfied or simply able to survive."[26]

The Concise Oxford English dictionary defines values as "one's principles or standards; one's judgement of what is valuable or important in life". This is a good start, but in practical terms values are more than this. Values have a social and political function, are aligned to agreed goals, and provide a framework within which behaviour is generally thought to be acceptable.

There is of course a school of thought which argues that companies are fundamentally amoral entities. Employees within a company will have their own values, as individuals, which will chime with their own moral take on the world. But public companies have no other object than to maximise shareholder value, reducing any values they might have to a set of amoral behavioural aspirations.

We do not subscribe to that view. The financial markets by which they are valued may be amoral, but companies themselves are clearly moral entities, and as such are capable of articulating a set of collective values to which employees are invited (often implicitly) to subscribe. And that can have a powerful bearing on the business case for sustainable development.

Reverting to section two ("The moral case for sustainable development"), it's not difficult to derive a set of generic values (regardless of cultural diversity, different norms and lifestyles) that would be conducive to establishing a genuinely sustainable way of life.

Promoting equity and social justice requires awareness of the difficulties of others and compassion for the disadvantaged. Recognition of the value of difference, tolerance and freedom is critical. Living within environmental limits calls for a much deeper understanding of nature. Intergenerational equity rests on the simple notion that no one generation should promote its own material interests at the expense of succeeding generations. Putting these together, we come to a list of values that might look something like this:

- Self-determination;
- Diversity and tolerance;
- Compassion for others;
- Respect for the principle of equity;
- Recognition of the rights and interests of non-humans;
- Respect for the integrity of natural systems;
- Respect for the interests of future generations.

How do we get there? Through the cultivation of empathy: empathy for other humans and non-humans, now and in the future. If that holds true for an individual, there's no reason, by extension, why it should not hold true for a company. Indeed, a values-led company surely has a critical role in developing the awareness and practice around such a set of values. To quote from BT's second occasional paper:

“As more companies look inwards and ask themselves ‘why are we here?’ it is important to ensure that the objectives of sustainable development, in its very widest sense, are built into the answer.”[27]

Most companies already have some form of statement that describes their underlying purpose and way of doing business. We are not suggesting that the values above are the only values a company should adopt. They would sit alongside traditional values such as customer satisfaction, fair competition, transparency, innovation and so on. For many, these speak of appropriate behaviour rather than core values, but what really matters is to get the balance right. And it matters little whether they are called business principles, company ethics or just “values”.

Values can be thought of as a system of implicitly agreed rules that enable the smooth running of society; they aren’t agreed by committee or imposed on societies from above. They emerge from the collective behaviour of individuals and respond to the needs of societies as a whole. For this system to function, a feedback mechanism needs to be in place; people need to be able to see the effects of their actions on others. In a small community, this is a straightforward process. But sustainable development is a global problem and the effects of our actions are often indirect, taking place thousands of miles away. For values to develop that are aligned to sustainable development, adequate feedback mechanisms are required – mechanisms that nurture empathy, that allow us to witness global problems and connect them to their cause.

One thing is for sure: values-led companies find it much easier to motivate staff than those that are driven (amorally) by the imperative of short-term profit maximisation.

The better the debate, the more informed people are, the more likely [sustainable development] is to happen…you cannot solely rely on individuals just as you cannot solely rely on government or business and you certainly cannot rely on the pressure groups to make your decisions. This is something that requires the whole of society to act.

Just Values online debate participant

Continuous engagement

However, let's be cautious of placing too much faith in corporate values statements, however uplifting they may be. It's not so much what's said, but rather the extent of implementation that should be examined.

This paper suggests that there is enormous scope for sustained leadership in making more of the business case for sustainable development in the five states laid out in the diagram on pages 16 and 17. It's all about policy, practice and culture, with chief executives and other business leaders not just dipping in and out with a one-off initiative here and a flashy publication there, but systematically and personally engaged.

Building a business case

For "compliers", building a convincing business case provides the most effective way forward.

In section three, we listed the usual business case components of resource efficiency, reputational benefit, new revenue streams and so on. But even when these address objectives listed in a company's values statement, if they remain qualitative, very long term and "immaterial" from a financial perspective, then they will have little impact. This will be the case, not only within the company, but more especially for the critical investor audience.

Quantification is key because it demonstrates how sustainable development can contribute to the financial bottom line of the company. For example, if doing something helps build corporate reputation, companies must be able to show the benefit in increased customer loyalty or sales. Where eco-efficiency delivers cost savings, then we need to show that these measures are just as significant and effective as other measures designed to achieve financial discipline.

> You would end up with a business that looks beyond short term profit and loss to consider strategy in the long term. Such a firm would internalise all its externalities including the use, abuse and disposal of its products; it would maximise the efficiency with which it uses resources…it would ensure that its stakeholders had influence in the decisions it made, and it would provide long term returns for its shareholders.
>
> *Just Values online debate participant*

For anyone wanting to produce a convincing business case, a good starting point will be the company's existing commercial strategy. At this stage of development, any sustainable development business case that is out of kilter with the commercial objectives of the business is likely to be dismissed as ideological wishful thinking, taking the ECOS Corporation's view that "value creation" will be the most effective way to accelerate change.[28] In other words, sustainability will be delivered faster by businesses if it can be linked to commercial success.

Extending the business case

This doesn't happen easily and as we've already seen, relying on government intervention to make it happen is also misplaced. Indeed, we would argue that it's part of the moral obligation of business to support moves that create this capacity to change.

In practical terms, this means:

- Making sure that the company talks with one consistent voice in its interactions with government, promoting governance frameworks that enable the business community to accelerate an inevitable transformation. This includes influencing trade associations to be much more positive advocates for moves that build sustainable development throughout the market place;
- Thinking out of the standard corporate box by finding new market opportunities such as the "bottom of the pyramid" approach advocated by C.K. Prahalad;[29]
- Working in partnership with like-minded companies, and with non-business partners, to influence government thinking;
- Encouraging a longer term perspective, publicly questioning the wisdom of today's excessive emphasis on short-term profit maximisation;
- Communicating and marketing sustainability concepts relevant to their industry.

> True leadership of any sort towards sustainable development in business requires integration with policy makers and the public, courage to challenge existing paradigms, and a global view…packed with action on business cases, examples, "doing it because it's right, as if no-one were looking", lobbying and persuasiveness.
>
> *Just Values online debate participant*

As Simon Zadek puts it: "Leading civil corporates will be those that go beyond getting their own house in order, and actively engage in promoting governance frameworks that enable, and if necessary enforce, the wider business community to address, effectively and without contradiction, the aspirations underpinning sustainable development".[30]

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Who leads the business contribution?

Whilst it's always tempting to put the onus for action on the chief executive, we must never underestimate the capacity for individuals within companies to be the catalysts for change. When it comes to building a business case, this does not need to be initiated and developed at board level.

However, the executive board will be the true litmus test of whether or not there is real commitment to make things change. Provided the chief executive creates the space for innovation, new ideas and new ways of incorporating company and individual values into commercial reality, much can be achieved.

In practical terms, this means:

- Giving CSR and sustainable development champions a proper licence to operate within the company;
- Making sure that human resources departments have this agenda well and truly on their radar screen;
- Looking at ways of incentivising improved performance in these areas, and building success criteria or key performance indicators into performance management processes.

None of which eliminates the reality that there will come a point (occupied by the "trailblazers" in our diagram on pages 16 and 17) where even the most dynamic of business cases provides an insufficient rationale for doing what needs to be done – for doing "the right thing" – when it doesn't pay its way. Until now measures that have fallen under the auspices of CSR have either led to financial benefit or have been financially neutral; rarely has CSR cost companies any serious money. But it is likely that more fundamental shifts in business behaviour will cost money, at least in the short to medium term.

Businesses that take this route will have to reconcile this with all of their stakeholders, and in particular their shareholders. Any that can do it whilst remaining competitive and financially viable will be seen as courageous and visionary. It's here that people will need to look beyond their traditional ways of getting things done.

"The right thing to do"

We seem to have come to two important conclusions: firstly, the business case for sustainable development and the moral case for sustainable development are not one and the same thing. At their extremes, they represent wholly divergent world views. But there is a point at which they overlap, as expressed by Jörgen Randers, a member of BT's Stakeholder Advisory Panel:

"Do the profitable thing now, and do it as responsibly as possible. At the same time, press hard, on a moral basis, for making more of those responsible things more profitable in the future".

It is certainly the experience of both authors (one working at the heart of business and one working with business from the outside) that the best of company-specific business cases are developed by people who are in themselves informed and inspired, personally, by the moral case for sustainable development. In an extreme Friedmanite world, it is of course possible to develop a business case for sustainable development that is entirely amoral, driven exclusively by the contribution it might make to maximizing short-term shareholder value, but it's hard to imagine a more hollow and ultimately self-defeating exercise.

Our second conclusion is therefore as follows: to work properly, any company's business case must be one that is driven by the kind of moral values that we raised in section two. If it isn't morally-based it will fail.

And it will fail primarily for lack of trust. Companies today have very little if any legitimacy on moral issues. People may still trust what most companies do, but not their motives for doing what they do. This applies to every aspect of a company's performance, but most particularly to any claims that may be made on sustainable development and corporate social responsibility.

So here's the rub. The business case for sustainable development won't work unless it generates real, lasting trust with all a company's principal stakeholders. And a company can't build trust on an amoral basis. Acting in more socially and environmentally responsible ways for purely instrumental, profit-maximizing reasons threatens to undermine rather than build trust. You can't add value without values.

We made it clear at the outset that the challenge of learning how to live and create wealth sustainably is certainly not one that falls uniquely to business. Indeed, with their democratic mandates, it's clear that governments should be driving this agenda. But by virtue of their role in society, businesses will continue to carry an equally onerous part of that overall burden.

In that respect, there's still something strange going on in the world of corporate social responsibility. It works at two levels: on the ground or in the workplace, in terms of the tangible benefits it brings to all the beneficiary stakeholders; and much more virtually, in terms of perception, brand value and other intangibles. At that level, it is indeed all about "reputation, reputation, reputation", particularly as far as the investment community is concerned – which still isn't quite there in terms of understanding what sustainability really means.

For many companies that reputation agenda is still mainly driven by the fear of loss of reputation, usually at the hands of campaigning NGOs. We have listened to both government ministers and business leaders exhorting NGOs to "go on giving companies a hard time", to make it easier for them to justify what needs to be done anyway on the grounds of protecting reputation.

If that's where most business cases remain then it's a damning indictment of contemporary business leadership – where leadership is actually "followership", placating the gadflies of media-savvy NGOs.

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This all implies a new business leaders' agenda. An agenda proactively developed and promoted, not a response to somebody else's.

Business leaders have got to come out fighting for what they believe in, to be far more forthright in their critique of today's inherently unsustainable economic paradigm, to be much more up front in terms of their own personal values and moral responsibilities. In short, to practice the "just values" they are now much more adept at preaching.

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This publication is the sixth in a series of occasional papers from BT which addresses some of the complex inter-relationships between companies and the societies in which they operate. The other papers are available in the publications section of Better World, BT's online social and environmental report:

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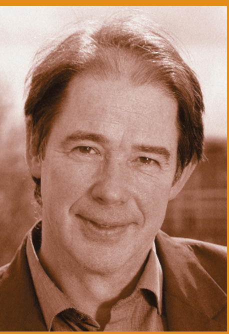

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