

Poverty's case for business

The evidence, misconceptions, conceits and deceit surrounding the business case for corporate responsibility

Presentation for DSA meeting

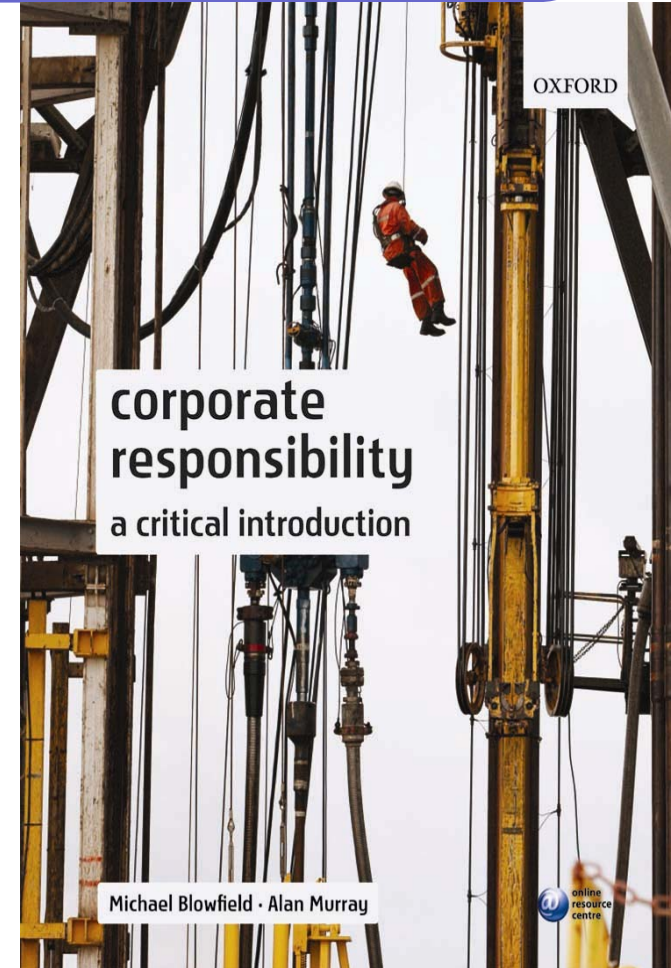
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**UNIVERSITY OF
CAMBRIDGE**

PROGRAMME FOR INDUSTRY





Corporate Social Responsibility: the business case - A seminar for employers and senior managers with Bob Willard

Winning with integrity: the business case for CSR

The key issue for investors is the business case for corporate social responsibility (CSR) and how social, environmental and ethical risks and opportunities are managed to preserve and develop shareholder value. BT

Porritt provides good advice on how to update the business case for sustainable development and adapt the balanced scorecards companies use to assess and incentivise employee action. Elkington review of Capitalism as if the World Matters

Harvard Exec Ed programme in Corporate Social Responsibility: Strategies to Create Business and Social Value - Making the business case by calculating benefits and costs


City of London statement on CSR: "...it became clear that a number of areas could be focused on in drafting a policy statement including the business case for CSR"



In this presentation ...

- What is meant by the business case
- Evidence for a business case
- Poverty and the business case
- Consequences of a business case

The business case for poverty firmament



Bottom of
the
pyramid

Social
enterprise

“Avon
calling”

Corporate
Social
Opportunity

Underserv
ed markets

Fairtrade



Fitting the business case into corporate responsibility

- Moral case – companies are citizens with obligations to society
- Rational case – steps to minimise society's restrictions on business
- **Economic case – adding financial value to the company**



Examples of a business case

- **Ford** – 18% improvement in energy efficiency at its US → water use cut by 5bn gallons; a saving of millions of dollars.
- **Dow Chemical** – new technology → 60% cut in energy used for aluminium cans.
- **DuPont** – \$2bn savings from reduced energy consumption.
- **Gap** – purchasing decisions that negatively impact working conditions also undermine quality, on-time delivery and cost.
- **Timberland** – Fortune list of best companies to work for; Forbes platinum list of best-managed companies.



The business case

- **Fonebak** – \$120m business built on recycling and reusing mobile phones.
- **Vodafone M-Pesa** – new services for the poor and disadvantaged.
- **Microfinance** – from Grameen Bank to Citibank.
- **Becton Dickinson** – new business models to make medical equipment available to the poor.



Complications with the business case

- Case differs from audience to audience (e.g. shareholders, managers, public, government)
- Case differs from industry to industry (e.g. mining vs. retail)
- Case differs from company to company (e.g. Premier vs. Shell)
- Case differs from country to country (e.g. strong vs. weak regulatory regimes)



Measures of the business case

- **Shareholder value**
- **Revenue**
- **Operational efficiency**
- **Access to capital**
- **Customer attraction**
- **Brand value and reputation**
- **Human capital**
- **Risk management**
- **Innovation**
- **Licence to operate**



Dimensions to corporate responsibility

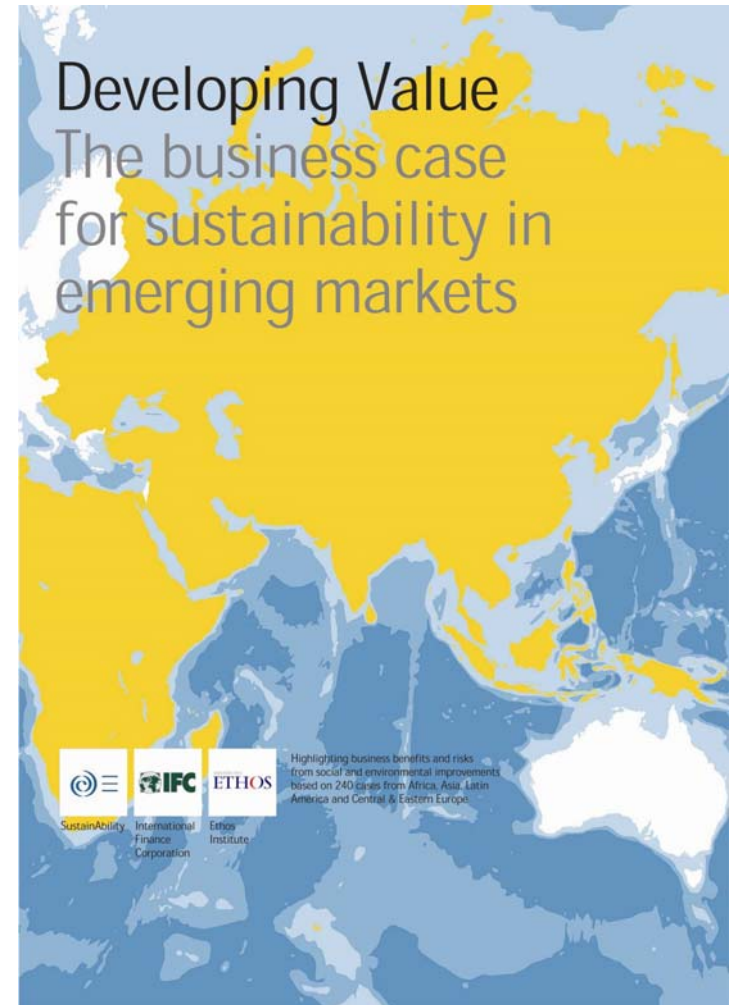
- values and principles
- accountability & transparency
- social, economic and environmental commitment and performance
- eco-efficiency
- socially and environmentally beneficial products
- community social and economic development initiatives
- human rights
- working conditions
- role of suppliers in corporate responsibility strategy
- role of external stakeholders in corporate responsibility strategy



Business measures	Dimensions of corporate responsibility									
	Non-business stakeholders	Business stakeholders	Working conditions	Human rights	Social development	Environmental products	Eco-efficiency	Adoption of triple bottom-line	Accountability & transparency	Ethics, values, principles
Shareholder value										
Revenue										
Operational efficiency										
Access to capital										
Customer attraction										
Brand value & reputation										
Human capital										
Risk management										
Innovation										
Licence to operate										

Features of the matrix

- Framework for analysis
- Data from around the world, including developing countries
- Findings largely support other work (e.g. IMD)
- 1-way correlation – CSR to business performance





Business measures	Dimensions of corporate responsibility									
	Ethics, values, principles	Accountability & transparency	Adoption of triple bottom-line	Eco-efficiency	Environmental products	Social development	Human rights	Working conditions	Business stakeholders	Non-business stakeholders
Shareholder value				■						
Revenue								■		
Operational efficiency				■				■		
Access to capital				■						
Customer attraction										
Brand value & reputation	■	■		■		■	■			■
Human capital								■		
Risk management	■			■	■		■			
Innovation				■	■					
Licence to operate						■	■			■

Areas of strong positive correlation

Source: analysis of data in Sustainability et al 2001, 2002

Findings (1)

19 areas of strong positive correlation.

Most noticeable in **eco-efficiency** – affects 6 measures of business performance.

	Ethics, values, principles	Adoption of triple bottom line	Adoption of "eco-efficiency"	Environmental products	Social development	Human rights	Working conditions	Business ethics	Non-business ethics
			■						
						■			
			■						
	■	■	■		■				■
						■	■		
	■		■	■					
				■	■				
									■



Only **seven** areas of strong correlation in developing countries

Business measures	Dimensions of corporate responsibility									
	Ethics, values, principles	Accountability & transparency	Adoption of triple bottom-line	Eco-efficiency	Environmental products	Social development	Human rights	Working conditions	Business stakeholders	Non-business stakeholders
Shareholder value										
Revenue										
Operational efficiency										
Access to capital										
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Licence to operate										



Business measures	Dimensions of corporate responsibility									
	Ethics, values, principles	Accountability & transparency	Adoption of triple bottom-line	Eco-efficiency	Environmental products	Social development	Human rights	Working conditions	Business stakeholders	Non-business stakeholders
Shareholder value	Orange	Orange	Orange	Black	Orange	Orange	Orange	Orange	Grey	Grey
Revenue	Grey	Orange	Orange	Orange	Orange	Orange	Orange	Black	Orange	Orange
Operational efficiency	Orange	Orange	Orange	Black	Orange	Grey	Grey	Black	Orange	Grey
Access to capital	Grey	Orange	Orange	Black	Orange	Orange	Orange	Orange	Grey	Grey
Customer attraction	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Grey	Orange
Brand value & reputation	Black	Black	Orange	Black	Orange	Black	Black	Orange	Orange	Black
Human capital	Orange	Orange	Orange	Orange	Orange	Orange	Orange	Black	Grey	Orange
Risk management	Black	Orange	Orange	Black	Black	Orange	Black	Grey	Orange	Orange
Innovation	Grey	Orange	Grey	Black	Black	Orange	Grey	Orange	Orange	Orange
Licence to operate	Orange	Orange	Orange	Orange	Grey	Black	Black	Grey	Orange	Black

Areas of **weak positive correlation**

Source: analysis of data in Sustainability et al 2001, 2002



Business measures	Dimensions of corporate responsibility									
	Ethics, values, principles	Accountability & transparency	Adoption of triple bottom-line	Eco-efficiency	Environmental products	Social development	Human rights	Working conditions	Business stakeholders	Non-business stakeholders
Shareholder value										
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Innovation										
Licence to operate										

Areas of neutral and negative correlation

Source: analysis of data in Sustainability et al 2001, 2002



**Corporate responsibility
dimensions with greatest
impact on business
performance**

**Eco-efficiency (weighted
score 25)**

Working conditions (38)

Environmental products (39)

Adoption of triple bottom-line (42)

Accountability and transparency (43)

**Corporate responsibility
dimensions with least impact
on business performance**

Engaging business stakeholders (weighted
score 52)

Ethics, principles, and values (49)

Social development (49)

Human rights (48)

**Engagement with non-
business stakeholders
(46)**

NB lower number = higher rank



Analysis of business case

- 19 areas of strong positive correlation.
- Most noticeable in **eco-efficiency** – affects 6 measures of business performance.
- Human rights, working conditions, relationships with external stakeholders, and transparency and accountability also affect business performance.
- But limited to 2 measures – brand **value/reputation** and **risk management**.



Analysis of business case

- 62 areas of weak positive correlation.
- 17 areas of neutral or negative correlation.
- Case weakest in relation to **access to capital, operational efficiency** and **innovation**.
- All areas where corporate responsibility has claimed success!

What to conclude

- Business case is very pervasive

“The business case debate is still raging, and the current state of research supplies only partial answers ... The biggest research gap plaguing the business case question as a whole is the lack of robust, generally accepted measures of corporate sustainable development performance.”

SustainAbility et al 2001

“Many businesses are gaining valuable business benefits from initiatives which help progress towards sustainable development.”

SustainAbility et al 2002

“[The 2002 study] was a landmark: the first to make a compelling case as to why [ESG] factors are relevant for emerging-market competitiveness.”

Launch of *Developing Values*
Phase 2



What to conclude

- For all the talk, not enough proof.
- Data sets inconsistent and difficult to compare.
- Difficult to put figure on corporate responsibility added-value (e.g. cost of lawsuit avoided; reputation).
- Difficulty of linking cause and effect.
- Pushing companies to adopt poor negative or neutral approaches ...?



Consequences

- Dream of business case → enormous emphasis on poverty as opportunity
- Minimal incentive to look beyond the silver bullet (e.g. gender, ethnicity, other forms of marginalisation)
- Blinkered view of business's relationship to poverty



Need to ask smarter questions

- **Don't ask**, “Does CR pay?” **Ask**, “Under what conditions does CR pay?”
- Distinguish between 4 types of business case ...
 - CR as a means of **avoiding financial loss** (e.g. by defending a company's reputation);
 - CR as a **driver of tangible financial gains** (e.g. by improving the quality of the workforce, by driving product innovation);
 - CR as integral element of the company's strategic **approach to long-term business performance** (e.g. prompting a move away from dependence on non-renewable natural resources); and
 - CR as essential part of **how companies learn, innovate, and manage risk** in complex, dynamic environments.



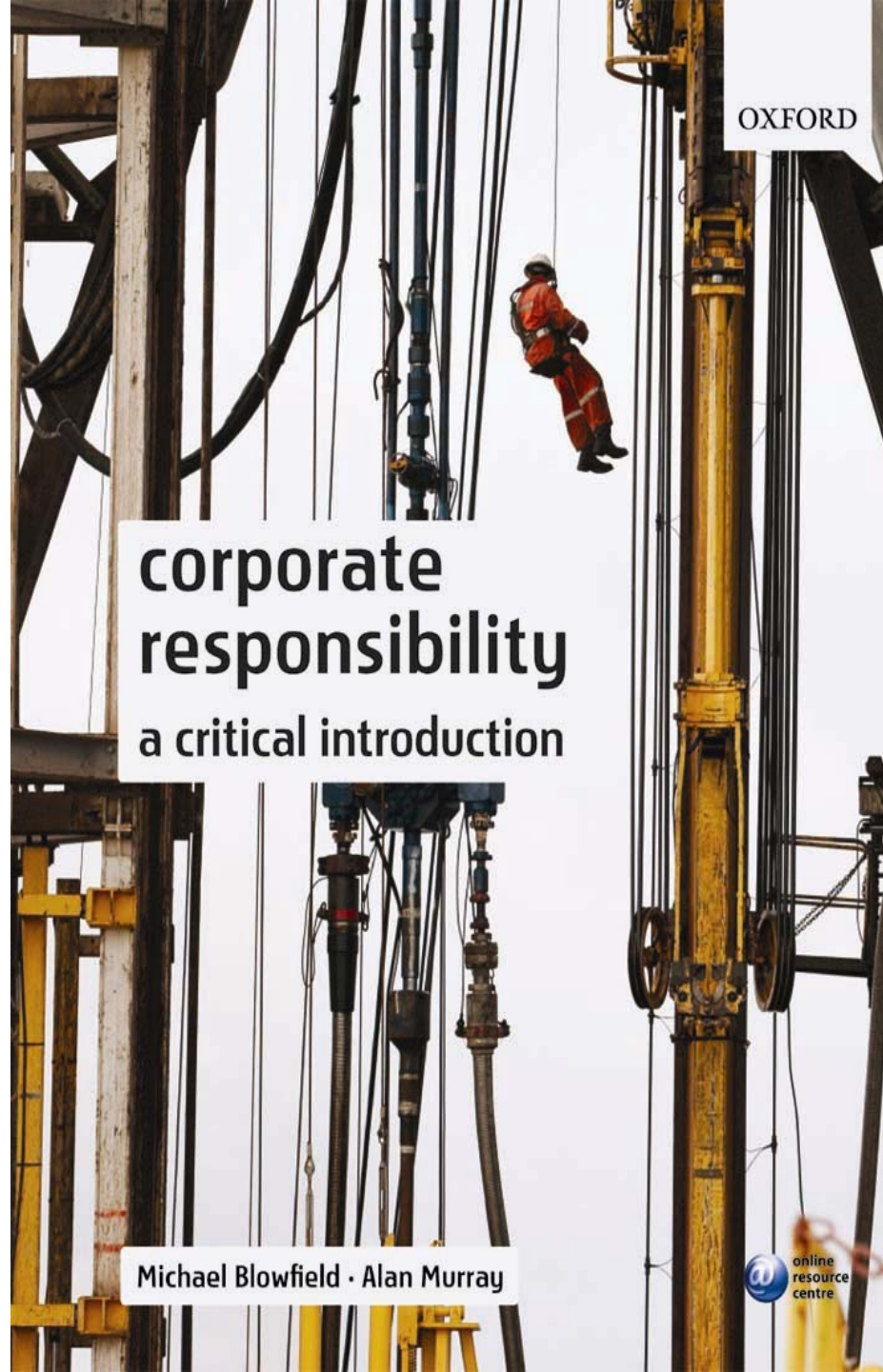
Are these the right questions to ask in a development context?

If not, what are?



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OXFORD

**corporate
responsibility**
a critical introduction

Michael Blowfield · Alan Murray

