INSTITUTE OF DIRECTORS
SOUTHERN AFRICA

Finding Business Value In Social Sustainability

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Purpose

The purpose of this paper is to provide leaders with a deeper understanding of the broader role of business in society, with specific emphasis on how social responsibility and social sustainability can create value for the business. The intent is to help leaders move beyond mere compliance to integrating social responsibility into the heart of business strategy and operations.

The paper aims to:

- introduce the concept of social sustainability and why it is essential for business to play a proactive role in society; and
- provide an overview of the various dimensions of social involvement. This would include some of the current debates and possible business approaches that would enable a business to decide on the most appropriate investment portfolio to best meet its specific needs.

What is the role of business in society?

The nexus between business and morality or ethics is not historically well established. Until the 17th century, Aristotle's view, that trading for profit was devoid of virtue and engaged in only by parasites, prevailed. Thereafter, the attitude towards business changed fairly quickly as economics were recognised as a central structure of society.

During 1970 Milton Friedman, a Nobel Prize-winning economist wrote an article in the New York times, entitled "The Social Responsibility of Business is to Maximise Profits", a view that dominated the 1970s and 1980s. He implied that social issues were peripheral to the challenges of corporate management. The sole legitimate purpose of business was to create shareholder value.

Because of this many companies have, in the past, purposefully excluded social and environmental considerations from their strategic economic thinking. They assumed the broader context in which they do business as a given and ceded to government and NGOs the role of solving social problems.

In this paper we take the position that business does indeed have both moral and ethical roles in addition to its economical role. However, we emphasise that the moral and ethical dimensions are not in conflict with economic realities. Social and environmental factors should be viewed through the lens of risk management. At the same time, businesses should see addressing critical social issues as an opportunity to create business value.

In recent years, business has been increasingly viewed as a major cause of social, environmental and economic problems while communities have often categorised themselves as its victims, not its beneficiaries. While business has not alone caused the waves of unrest that have swept the world recently, it has invariably suffered the effects of social discontent. Whether it was the "Occupy Wall Street" movement in the US; campaigns against companies closing down branches or funding controversial projects in the UK; the Arab Spring uprisings; and, the many strikes and even deadly mining protests in South Africa, business, national economies and, by extension, employees, customers and value chains have all suffered.

Companies are widely perceived to be prospering at the expense of broader society. In this light, their social responsibility programmes are seen as making payments to mitigate or distract from their impact on society, rather than interrogating and addressing their contribution to the cause of their negative impact.

Despite many significant and thoughtful contributions, corporate social responsibility (CSR) programmes are frequently viewed as vehicles, not to invest in the social structure and capital of society, but as a narrow ways of improving firms' reputations, providing a licence-to-operate, complying with regulation or as a "necessary" expense.

Increasingly, this approach to business' role in society is falling short of expectations. Stakeholders want businesses to have ethics and checks and balances in place. The argument is that core ethical norms are universally applicable and should apply to all human activities; business is simply one category of human activity. For this reason, the argument is that businesses should pay no less regard to their impact on society than individuals do.

A trend that's been seen in the USA is the emergence of the so-called "B Corp", where 12 states have legalised a form of corporation which is mandated to use business means to help solve environmental and social problems. A growing number of companies, which had strong environmental and social programmes, are now opting to be classified as "B Corps".

The giant Indian conglomerate, TATA, has for a long time contributed a significant amount of its annual profits to social upliftment programmes, such as investing in management education, research and a host of other initiatives. In these cases, the operating procedures are aligned both to the social intent and the goal of making long-term profits.

The business imperative

This paper's core argument is that business must function as an integral part of society, rather than something apart from it. As the World Business Council for Sustainable Development stated many years ago: Business cannot succeed over the longer term in a society that fails.

For many business leaders there is a real need to develop a strategic perspective on how society constrains or enables their businesses. What kind of behaviour is expected of their companies? How do they operate and make profits in this new environment? And, how do they balance seemingly contradictory expectations?

Businesses' huge and critical contribution to modern society is often insufficiently articulated, acknowledged, or understood. Among its contributions are employment, productivity gains, innovation and research, large-scale investments, human-capital development, and setting minimum standards for human rights. All of these are, and will continue to be, essential for future national and global economic and social welfare.

It is essential that business' engagement with society goes beyond slogans, PR campaigns and a few well-meaning social investments. Its relationship with other parts of society should be mapped, understood and monitored. An organisation's performance, in relation to the society in which it operates, has become a critical part of measuring its overall performance and its ability to continue operating sustainably and effectively in the long term.

A symbiotic relationship exists between corporations and communities. Therefore, the success of future business, market opportunities and workforces are clearly dependant on both social and economic well-being and prosperity.

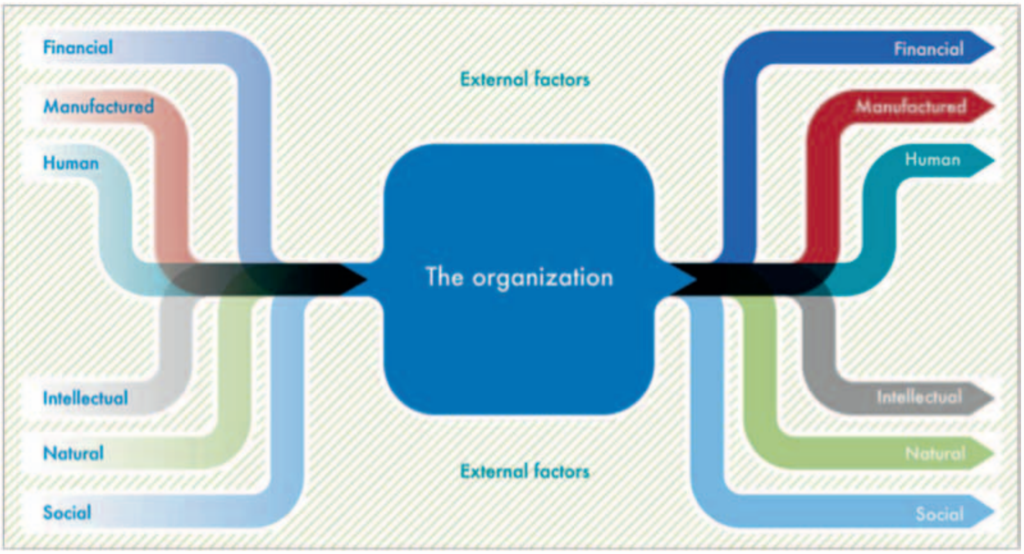
It is not just about the contributions that corporations make to society. The corporate role in resolving social issues and ensuring a more stable and prosperous social environment is a business imperative for any organisation that wants to perform well in the long run.

The notion that businesses merely exist to create value for shareholders is an oversimplification of the realm within which modern companies operate. Increasingly, a company's sources of long-term value (for example, its brand, talent and relationships) are affected by a rising tide of expectations among stakeholders regarding the social role of business.

Social Capital As A Key Element To Achieving Long Term Value

Another way of viewing this issue is as follows.
Any organisation relies on six types of capital to deliver its products or services:

- Financial Capital
- Manufactured Capital
- Natural Capital
- Human Capital
- Social Capital
- Intellectual Capital



Excerpt from International Integrated Reporting Committee, draft protocol for reporting 2012

The six capital model provides a basis for understanding sustainability in terms of the economic concept of wealth creation or 'capital'. A truly sustainable organisation will maintain and where possible enhance these stocks of capital assets, rather than deplete or degrade them as it is not in its business interest to do so. This model allows business to broaden its understanding of financial sustainability by allowing it to consider how wider environmental and social issues can affect long-term profitability.

Financial Capital is the traditional primary measure of business performance and success ("single bottom line") in terms of reporting performance to shareholders, investors, regulators and government. Sustainable organisations need a clear understanding of how financial value is created and, in particular, how this is dependent on other forms of capital.

Like Financial Capital, Social Capital also needs to be managed and optimised in order to ensure long-term profitability. Investments in and management of Social Capital should be seen as strengthening the resilience of society by creating stronger, more capable individuals, more prosperous markets and bolstering society's important underlying structures, such as democratic institutions.

Creating social capital through social sustainability

There is no single accepted definition of social sustainability, which leads to confusion regarding what constitutes socially sustainable activities. However, we can begin to develop a working definition of social sustainability by thinking about its dual objectives of benefiting business and society, as well as the range of potential benefits in each case. For society, increasing social capital builds its resilience to the inevitable changes it will experience over time. Societies with greater stocks of social capital in terms of their institutions, support structures, education and welfare are able to fare better and assist themselves during times of change.

The continuum of business' engagement with society ranges from 'pet projects', which reflect the personal interests of individual senior executives, to issues that make for good marketing collateral. While these activities may be presented with much noise and fanfare, they don't always offer long term, enduring benefits to either the business or society.

Next are efforts that can make both sides feel good but that generate limited, short term and often one-sided benefits. With philanthropy, for example, corporate donations confer the majority of benefits on society (with potential and often questionable reputational benefits to the business). Similarly, in what's best referred to as "propaganda", social involvement activities are focused primarily on building a company's reputation, with little real sustainable benefit to society. These campaigns can expose a gap between the company's words and actions.

None of these approaches realise the opportunities for significant shared value creation that have been achieved through strategic partnering between corporations and communities.

In order to build the social capital and create the social sustainability that the company relies on, the focus of the business moves beyond philanthropy or enhancing reputation and towards improving its core value creation ability, by addressing major strategic issues or challenges. For society, the focus shifts from maintaining minimum standards or seeking funding to improving employment, the overall quality of life and living standards. The key is for each party to tap into the resources and expertise of the other; finding creative solutions to critical social and business challenges.

It may very well be that the company's social sustainability activities involve both philanthropy and brand building - and some may argue that these are indeed essential. However, these should merely serve the larger objective of social value creation and sustainability. To build on the notion of shared value it is essential for business to engage a full range of its stakeholders, including its local communities, at a meaningful level.

Stakeholder engagement needs to be an ongoing, managed and monitored activity.

Understanding what is right for your business

Each business's objectives for social involvement will differ depending on its needs, the industry, context, maturity and its exposure to risk. There is no magic formula.
What is important is for the business to understand its key drivers and what social impact it could have, and then identify the most appropriate initiatives to deliver on these sustainably.

Here are some examples of how business drivers and social benefits interrelate:

- Companies that are attuned to societal expectations are in the optimal position to innovate products or create new markets.
- Businesses that operate with an awareness of their social context are better able to anticipate and manage risks, and formulate successful strategies.
- Where companies have good relationships with stakeholders, trust is fostered which sustains them when corporate reputations are under threat. Trust enables stakeholders to forgive more easily and renders a company's reputation more resilient.

- Companies that invest in their communities create economic opportunities and shape the competitive environment in which they operate.
- Recruiting young talent is easier for companies that are attuned to environmental and social norms.

The following are examples are business initiatives that help build social sustainability:

- Integrated reporting that provides a meaningful presentation of the company's ability to create value in the broader sense, while reflecting its material and programmatic activity.
- Employee volunteering or matching schemes (linked to personal development journeys)
- Supporting customer causes
- Responsible investment decisions
- Procurement decisions to empower sectors of the community
- Infrastructure development
- Building scarce skills
- Small and medium enterprise (SME) support
- Impact assessment
- Identifying new products, innovations or markets
- Talent secondments into government or onto non governmental organisation (NGO) boards
- Social involvement as an item measured in annual performance reviews.

Issues for directors to consider

- Where has the organisation focused CSR activities in the past? What are the one or two critical areas where the business interfaces with or has an impact on society, and where significant opportunities exist for both parties?
- Does the company have a clear understanding of the risks it could face if it misunderstands the needs and expectations of its social partners? Also, do these needs and expectations drive opportunities?
- What long term benefits for both business and society could be created through closer engagement?
- Does the organisation contribute fairly as a tax-payer to building national infrastructure and developing skills?
- Does the organisation take measures to reduce corruption and white-collar crime which undermine social value?
- Do the Corporate Sustainability, Sustainable Development or CSR activities focus on fundamental social value creation opportunities?
- Are there sufficient policies, processes and management tools in place to measure the quality and value of engagement and the social capital that is built?
- Are social sustainability opportunities significant, scalable and supportive of the company's overall strategic priorities?
- Can the organisation build the necessary commitment throughout itself to make this happen? And, do leaders lead by example in that social impacts are considered in key decisions?
- Have employees been engaged regarding the social sustainability of the organisation?
- Has the organisation considered using the National Development Plan, the UN's Millennium Development Goals and/or other frameworks such as the UN Global Compact as guiding references for its internal processes?

Guidelines for directors to consider

Ensure that the company's CSR efforts are focused. All organisations have to balance limited resources and effort, so the greatest opportunities will be in areas where the business is likely to have the greatest impact.

Start by mapping your current portfolio of initiatives and ask: What are our objectives? What benefits are being created and who realises these? Which of these initiatives help us to address our key strategic challenges and opportunities? Determine hard measures of value creation and track progress. The business maxim: 'what gets measured gets managed' holds true in the social realm too.

Make a long-term commitment. Having a positive impact on societal issues such as living standards is not a "quick fix" project. Therefore, leaders who want to partner with others need to have a long-term mind-set, backed up by solid promises and measurable commitments and actions. Initiatives should demonstrate added value to both shareholders and stakeholders over time.

Build a deep understanding of the benefits. Even after selecting your chosen areas of opportunity, finding the potential for mutual value creation is not always straightforward. The key is finding symmetry between the two sides and being open enough to understand issues from both a business and societal perspective.

Benefits should be assessed across the following three dimensions:

Time frame - Be clear on both the short-term immediate objectives and the long-term benefits. In smart partnering, the time frame is important, as initiatives can be complex and take time to realise their full potential.

Nature of benefits - Some benefits will be tangible, such as revenue from gaining access to a new market. Others will be equally significant, but intangible, such as developing a new capability or enhancing employee morale.

Benefit split - Be clear about how benefits are to be shared between the business and society. If they are one-sided, be careful you are not moving into the philanthropy or propaganda arena. Remember that if the aim is to create more value from partnering than you could do apart, then benefits must be shared appropriately.

Ensure that management engages the entire workforce and lead by example. Your workforce can be one of your greatest assets and beneficiaries when it comes to CSR activities. Increasingly, employees are choosing to work for organisations whose values resonate with their own. Attracting and retaining talent will be a growing challenge in the future, so activities that build on core values and inspire employees are of key importance. Unilever, along with other leaders in smart partnering, actively engages its employees in such initiatives. The results include improved motivation, loyalty and ability to attract and retain talent. Engaging the workforce starts at the top. Leaders must be prepared to make a personal commitment if the activities are to realise their full potential.

Develop reliable radar: Socio-political issues and regulatory shifts may appear to come out of the blue. But, the success of savvy newcomers such as Whole Foods Market confirms the fact that companies can indeed spot new trends and that early-warning signs of imminent change are plentiful. Naturally, not all issues evolve in a way that changes the social contract. Nonetheless, an early awareness of the concerns of NGOs and stakeholders enables companies to join and shape the debate before it turns against them—or at least to prepare themselves for turbulence ahead. Businesses that end up publicly fighting their stakeholders can significantly damage the brand or destroy the morale of their employees; it would be better to engage in a minor strategic foray than to be forced into a full-scale war.

Ensure that the company collaborates and cooperates. Many socio-political issues are intractable and can't be resolved by a single company or even an industry. The most successful companies see beyond competitive rivalries and look for collaborative ways both to meet social concerns and to find new ways for industries to create value. The difficulty is in knowing when to work with others and when to go it alone.

Partnering is difficult, but when both sides see win-win potential there is greater motivation to realise the substantial benefits. Relationships—particularly long-term ones that are built on a realistic understanding of the true strengths on both sides—have a greater opportunity of being successful and sustainable.

Oversee an integrated approach to CSR. Most business executives expect CEOs to take the lead in managing the corporate socio-political agenda. What's more important, however, is how well companies integrate such issues not just into the making of strategy but also across all dimensions of the business. A piecemeal approach runs the risk of misalignment— a CEO saying one thing and the rest of the company failing to translate these fine intentions into practical action.

Conclusion:

Businesses must reconnect company success with social progress. A holistic solution includes charity, philanthropy, corporate social investment and other similar concepts but is not ultimately limited to any or all of these. It is about expanding the total pool of economic and social value - a whole new way to achieve economic success. It is not on the margin of what companies do but at the centre. We believe that it can give rise to the next major transformation of business thinking.

The moment for a new, wider conception of capitalism is now. Society's needs are many and growing, while customers, employees, and a new generation of young people are demanding that business to play its role in contributing to meeting these needs. The purpose of the corporation must be redefined as creating shared value, not just profit. This will drive the next wave of innovation and productivity growth in the global economy.

Appendix

SIMPLIFYING THE DEBATE WITH SOME KEY DEFINITIONS: There are a number of types of social initiatives that companies can embark upon in order to become socially involved. They range from old-fashioned 'charity' through to corporate philanthropy and proactive corporate responsibility.

Charitable donations, regarded as unconditional, short-term relief that supports organised efforts intended for defined beneficial social purposes, are still needed. Many companies set aside a portion of their profit for charitable donations. A differentiation can be made between philanthropy and charity. Philanthropy attempts to investigate and address the underlying causes to make a tangible positive change in the conditions that cause the social problems. In both cases, the resources donated can be money, goods, time, training, and use of facilities or services usually over an extended period of time and with regard to a defined objective. However, these donations cannot be at the expense of broader social investment. In emerging economies such as South Africa, a larger proportion of corporate social spend should be invested in advancing the collective prosperity and wellbeing of society. Investment denotes cooperation towards a mutual objective. Investment carries with it the expectation of a return – in this case social and economic progress leading to increased social equity and development.

This is where Corporate Social Investment or CSI comes in. CSI refers to what takes place when organisations invest their resources in initiatives and programmes aimed at improving social aspects of community life. It includes any social development activity that is not undertaken for the purpose of generating business income.

Some say that philanthropy is just the term used by international media for CSI; others argue that CSI is a type of philanthropy, while others believe that CSI is a subset of CSR (Corporate Social Responsibility).

Corporate Social Responsibility can be described as the manner in which a company manages its business processes to generate shareholder value while having a positive impact on communities and the environment.

CSR reflects transparent and ethical behaviour that:

- contributes to sustainable development, including health and welfare of society;
- takes into account the expectations of stakeholders;
- complies with applicable law and is consistent with international behavioural norms; and
- is integrated throughout the organisation and practiced in its relationships.

Finally, corporate citizenship is the development of mutually beneficial, interactive and trusting relationships between the organisation and its many stakeholders - employees, customers, communities, suppliers, governments, investors and even non-governmental organisations (NGOs) and activists - through the implementation of the company's strategies and operating practices. In this sense, being a good corporate citizen means treating all of a company's stakeholders, as well as the natural environment, with dignity and respect, being aware of the company's impacts on stakeholders and working collaboratively with them, when appropriate, to achieve mutually desired results.

There is, however, no single universally agreed definition for all of these terms and many experts have different views and opinions about their hierarchies and classifications. Much of this is a semantic debate.

Given that South African corporations spent an estimated R6,2 billion on Corporate Social Investment (CSI) during the 2010/11 financial year, it is worth working to ensure that this and other substantial social investment provides optimum benefit for both business and society. While CSI spend is easily quantified in Rand terms, its actual impact is largely unknown: in most cases neither the business value nor the social return on investment (SROI) is properly evaluated.

There is a risk that this spend is either wasted or used in a manner which is not optimally effective, where this activity is not structurally and culturally integrated with core business.

Michael Porter, renowned Harvard corporate strategy authority, has in recent years stressed the importance of CSI or 'corporate philanthropy' as a potentially valuable aspect of business strategy:

'Today's companies ought to invest in corporate social responsibility as part of their business strategy to become more competitive. Corporate success depends on the local environment: an appropriate infrastructure, the right types and quality of education to future employees, co-operation with local suppliers, quality of institutions, local legislation, and so on. In this corporate competitive context, the company's social initiatives – or its philanthropy – can have great impact. Not only for the company but also for the local society'.

Porter recommends that companies 'integrate a social perspective' into the core frameworks already used to understand competition and formulate business strategy. By this he means identification of the points of inter-dependence between the company and society, so that strategy is formulated in support of these. This new approach, called 'Shared Value', moves beyond the previous 'business do no harm' model towards proactive demonstration of positive societal benefit.

The concept of **'Shared Value'** may be described as policies and operating practices that enhance the competitiveness of a company, while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress. It recognises that societal needs, not just conventional economic needs, define markets. It also recognises that social harms or weaknesses frequently create internal costs for organisations, such as wasted energy, costly accidents, the need for on-the-job training to compensate for inadequate education etc.

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