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How Can Companies Do More Good for Society and Turn a Profit?

In this series, Palladium asks expert strategy practitioners to share their experiences and opinions. We asked:

Corporate Social Responsibility (CSR) has been around for some time, but it is framed as an expense – a cost of being a good corporate citizen and not as a profit-making channel. In contrast, concepts such as Porter and Kramer's Shared Value model maintain that delivering financial and other sustainable benefits to local communities can actually help deliver positive financial outcomes for the organization.

Many stakeholder groups, in particular younger generations, are pressuring organizations to consider societal impact alongside financial concerns. As commercial and social value commingles, how will organizations change how they do business? How must preexisting business frameworks and models adapt – or do we need to create new ones?

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As an organization, we've historically considered CSR somewhat skeptically, perhaps in some ways to our own detriment. I guess we took a view that we will be judged by our deeds, rather than our words. Accordingly we focused on building our business through "doing good," not through talking about doing good, and this has worked tremendously well for us to date. It does require patience, though, and a long-term view. But in the end it's authentic and it's a strategy that we are very comfortable with.

There is always a balance here however, and sometimes we're rightly accused of not communicating enough. It was only last month that our CEO sat on a panel hosted by a national TV presenter, who afterwards approached him and said, "I didn't know you guys did all of that … you've got to tell more people!" It's a good reminder to us to keep the balance right.

As you say, though, I think we are seeing a changing conversation regarding CSR. There's a growing recognition that business has a broader role in community (beyond a narrow transactional role), and that this can sit comfortably at the core of a business. We welcome it, and are contributing what we can based on our own experience.

In terms of business models, it's probably digital that will have the biggest disruptive impact, far beyond discussions around "creating shared value." Digital is increasing transparency and in that sense is amplifying the benefits of operating business authentically.

I'm not sure that business frameworks and models need to adapt too much in themselves, but I think that to be successful in operating in a way that is good for business and good for communities, business needs to fundamentally believe in that. Only then can it look to address social issues as part of its core business. Having said that, in 1998 we fundamentally changed the way we engaged with the communities in which we operated our bank branches, essentially formalizing our relationship with them and operating the branches in partnership with a community enterprise. This was bold and required courage, but it was a strong demonstration of our commitment to the communities in which we operated our business and a recognition of our intrinsic understanding of the role that business plays in society: feeding into prosperity, not off it.

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Robert Johanson,
Bendigo And Adelaide Bank

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Chairman,
Bendigo and Adelaide Bank

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To fully harness the unique resources and capabilities of a global corporation to make the world a better place, one thing must happen: visions of social transformation have to be translated and embedded into core business operations—that is, into the Profit and Loss (P&L) side of the company responsible for innovating, making, and selling products on a daily basis.

Products are the primary medium by which corporations bring value into the world. Whereas discount retailer Wal-Mart creates tremendous social impact as the world's largest employer, with 2.1 million people globally on its payroll, that impact pales in comparison with the more than 200 million weekly customers who can stretch their dollar and do more for their families because of Wal-Mart's lower prices.

To embed social impact into core business, top management needs to first "reconnect the company to its core." That means communicating out across the organization a pride and passion for the company's products and re-affirming how those products make the world a better place. Because all products create shared value for customers, and are socially beneficial: toothpaste, laundry detergent, and carbonated drinks improve people's quality of life just the same as micro-loans, medicines, and water purifiers.

Second, top management needs to activate the sense of social purpose that already resides in the managers, the product developers, the shop floor employees, and the sales people that make up the core business. The goal is to surface ideas that address societal issues that inspire individuals to action, and where the functionality of the company's products can play a hand in solving it. Banking giant Barclays, for example, launched an internal £25m "Social Innovation Facility" that funds precisely such proposals by its employees.

Lastly, an internal accelerator or corporate-level business development support team can provide valuable direction to employees in translating visions into pragmatic investment opportunities that align with the strategic priorities and investment horizon of a given department or business unit. Global cement manufacturer Lafarge's Affordable Housing program, for example, works closely with country office managers to innovate and launch profitable ventures that get the company's high-quality cement into the homes of the poor.

Importantly, these "social" ventures must demonstrate the potential for value creation equal to or greater than alternative uses of the department's capital and be held to the same rigorous performance standards as any other investment. Lacking that discipline, they will surely backslide into one-off sustainability projects dependent on internal donations.

Ultimately, it's only by making social impact about business as usual that corporations will align impact with profits and fully harness the potential of their people, their resources, their routines, and their capabilities to make the world a better place.

"Visions of social transformation have to be translated and embedded into core business operations."

Erik Simanis,
Cornell University

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Head, Frontier Markets Initiative
Cornell University

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The famous economist Milton Friedman postulated that the responsibility of business is merely to increase its profits. Today, assumptions and theories about business are experiencing tectonic shifts. Pursuit of profits is no longer the solitary goal of business organizations. They are not mercenaries. Organizations operate in communities of people from which they draw resources and attract and employ available talent; these communities are also the source of the customers they serve with products and services. Societies would refuse to collaborate with organizations that display apathy and indifference to their concerns and needs. Sustainable profits and longevity of organizations mandate that organizations operate a shared value model and enjoy symbiotic relationships.

Indian business organizations often reflect their positive intent to contribute to building social value in their vision and purpose statements. Playing out the intent needs longterm, focused, and sustained initiatives as a part of conscious strategy. Otherwise, noble intent can be held captive in the furious race to post attractive quarterly results.

The government of India legislated that companies must invest 2% of profits in CSR activities. These include promoting education, empowering women, reducing child mortality, improving maternal health, investing in vocational skill development, and investing in environmental sustainability, amongst other positive social development activities.

Hindustan Petroleum Corporation Limited, an Indian Fortune 500 company where I work as Deputy General Manager of Capability Building, has invested in CSR in a big way. Over 10,000 students have benefitted from our initiative to educate the girls. Thousands of children benefit from our support of the midday meal program in schools run by the Akshaya Patra Foundation. Children with disabilities have benefitted from our programs for inclusive education, therapeutic treatments, and vocational training. HPCL has provided and supported medical services to segments that cannot afford it.

A major focus has been the Prime Minister's and government exemplary Swachh Bharat (Clean India) initiative. We have been working as an organization with zeal, enthusiasm, and purpose to create the Clean India of our dreams. Every employee experiences pride while contributing to this initiative.

In the last few years, HPCL has achieved year-over-year increases in profits and enhanced our focus on CSR activitiesin a conscious and voluntary manner. Sustainable profitsare a product of engaged employees and happy stakeholders.We have indeed come a long way from Milton Friedman's doctrine.

"Pursuit of profits is no longer the solitary goal of business organizations. They are not mercenaries. Organizations operate in communities of people."

Ashis Sen,
Hindustan Petroleum Corporation Ltd.

Ashis Sen,
Deputy General Manager,
Capability Building,
Hindustan Petroleum
Corporation Ltd.

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This is a great question to be discussing. It is heartening to see the discourse moving away from talk about the costs of social responsibility, towards discussions around the opportunities that social responsibility and the pursuit of social impact offer business. Maybe one day we might reach that "imperative nirvana" where businesses will have to pursue shared financial, social, and environmental value in order to survive. However, it will likely be a while until those "younger generations pressuring organizations to consider societal impact alongside financial concerns" become the majority of the purchasing and voting public.

It is frustrating to observe that whilst discussion of business opportunities that explicitly create social impact is increasingly widespread in the media, the majority of corporate "efforts" in this regard still, perhaps surprisingly, remain in that sometimes neglected and pitiful corner known as the CSR department. Even some of the most apparently progressive businesses that have seen CSR projects evolve into profit-making ventures directly or generate unexpected wider benefits to the bottom line still have not changed. They still do not appear to have connected the dots and made the vital shift to integrate these projects, and the thinking and thinkers around them, into core areas of the business. Others aptly describe this as the "corporate immune system" – a seemingly prevalent corporate intransigence or inability to reflect this new reality into a refreshed corporate structure and modus operandi. Perhaps that is because these profit-making social projects remain the exception and only eventuate through the dedication, vision, and tenacity of "intrapreneurs" – those able and willing to take some personal and professional risks within their corporate hierarchy to drive a socially motivated project to profitability.

We need to find ways to challenge and cajole the corporate world to move more systematically and consistently towards profitable and socially impactful business that does not rely solely on the drive and risk-taking of this intrapreneur class. Maybe providing structured support and mentoring to these intrapreneurs – funded out of CSR budgets – could add momentum here. But that is probably going to have marginal influence. Businesses and their boards need to get better at understanding the Base of the Pyramid (BoP) – the opportunities that lie there, their potential scale, and most importantly how existing business ventures can be modified at the margin to seize them. This needs to become a core part of corporate strategy thinking and refreshment. Finding ways to generate research and insights into opportunitiesat the BoP that incentivize business to either reach down into those echelons of society in a profitable manner or explore the linkages at the base of a supply chain with existing profitable opportunities is imperative.

The challenge is how. The question presupposes that new business models and frameworks can be changed, but without some kind of external intervention or creation of incentives, it may not be anytime soon.

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> Alwyn Chilver,
> GRM Futures Group

Alwyn Chilver
Director,
Growth & Livelihoods,
GRM Futures Group

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The problem with CSR is built into its name. "Responsibility" suggests that CSR is a tax on companies, something they should do altruistically or to keep their stakeholder groups at bay. Viewed this way, CSR becomes a cost of doing business. The Shared Value concept, in contrast, encourages companies to think creatively to find new ways of doing business that not only generate financial returns for them but also enable them to be environmentally sustainable and to contribute to communities in which they source, produce, distribute, market, and sell.

If it is possible for shareholders, communities, and the environment to all benefit from a shared value strategy, it is natural to ask why companies haven't been doing this during the last 200 years – why is this an innovative idea today? There are several strands to the answer. Historically, companies have not had to pay for many of the adverse outputs from its operations such as polluted water and air, solid waste, and local congestion and noise. We now know that society bears high costs when private companies adversely affect the environment and local communities, and they are increasingly being asked to factor such externalities into the cost of doing business.

With the growth of democracy around the globe during the past 50 years, more people want their voices to be heard. They voice their concerns as to the adverse social and environmental impacts from companies working within their local communities. Even in a dictatorship, such as China, people are rebelling against the massive pollution being created by power generation and industrial operations. After not paying attention to these externalities for 200 years, companies should be able to find many opportunities ("lowhanging fruit") to respond to these concerns without having an adverse effect on their bottom line.

Beyond the spread of democracy, the Internet and social media have given people much more knowledge about standards of living and working practices in various parts of the world. This information causes them to question the practices of companies in their communities and nations. As people in developed nations move up the Maslovian scale of needs, they no longer worry about basic needs such as food and shelter. Many look for more fulfilling and meaningful lives. They want to work for organizations that can help deliver that higher "sense of purpose," work that they feel good about and whose mission they believe in and is aligned to their own.

Shared Value helps companies meet employees' expectations for work that not only provides employment and income but also delivers value to all a company's stakeholders – including, of course, its shareholders. A company creates meaningful employment when it delivers on its mission, defined by how it creates value for customers. The mission statement of the pharmaceutical company Merck, for example, says that medicine is for people, not profits. But Merck also notes that the better they have gotten at delivering medicine for people, the more profits have followed. Profit is a score of how well a company delivers value to its customers. Dave Norton and I developed the Balanced Scorecard because we recognized that quarterly and annual profit are not a complete metric of whether a company created or destroyed shareholder value in a given period. The way to maximize long-term value is to continue to be innovative in delivering value to customers. Innovation is also central to a good Shared Value strategy. Companies must search for new and better ways to create value, sustainably, for shareholders, customers, suppliers, employees, and communities throughout their value chain.

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Over the past 20 years, we have interacted with many companies that want to quantify their performance in making positive social and environmental impacts. Several have created environmental and community performance strategic objectives on their maps, and several have introduced a fifth perspective for environmental and social performance. This made such performance a core part of the strategy for which the entire executive team would be accountable. In contrast, the CSR approach was often delegated to a separate function or the corporate foundation.

I would like to see many more strategy maps and scorecards reflecting environmental and community objectives. But we can take the Shared Value philosophy even further. The best Shared Value strategies should be co-created by companies, NGOs, community representatives, and other key stakeholders. The co-creation creates a consensus as to the value that must be delivered for each group and who will be responsible and accountable for the various objectives. The co-creation process also creates trust and understanding among the groups. The non-corporate stakeholders will recognize that a corporate commitment to the shared value strategy can only be sustained if the company earns adequate financial returns from the strategy. Even after the shared value strategy map and scorecard have been cocreated, the collaboration process continues by inviting the stakeholders to participate in strategy review meetings to discuss performance, accomplishments, shortfalls, and new improvement opportunities. A good measurement system will be critical and all parties will need to build robust metrics for environmental, social, and community impacts.

In his Gettysburg Address, President Lincoln spoke about democracy as "government of the people, by the people and for the people." Corporate Social Responsibility and much of Shared Value strategies today are about delivering value for citizens. A collaborative and co-created Shared Value strategy can channel Abraham Lincoln by having the shared value created "of the people, by the people, and for the people."

Innovation is central to a good Shared Value strategy. Companies must search for new and better ways to create value, sustainably."

Robert Kaplan
Harvard Business School

Robert Kaplan

Marvin Bower Professor of Leadership Development, Emeritus, Harvard Business School

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Palladium believes in the impact economy, an ecosystem of commercial, government and social interests that fundamentally re-define sustainable value. With our world-class intellectual property, purposeful innovation and proven, time-tested know-how, clients in more than 90 countries have dramatically improved stakeholder engagement to create enduring positive outcomes, both financial and social.

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- *Strategy Execution Consulting* to enable order-of-magnitude improvements in both private and public sectors through a framework that translates strategy into action;
- *Research, Professional Development and Training* to encourage boundary-breaking thought leadership buttressed by a powerful knowledge transfer engine that equips clients and partners with necessary skills; and
- *Impact Investing* to re-imagine innovative ways to finance impact economy initiatives for optimum financial and social results.

With our collective expertise and abiding commitment to exceeding clients' objectives, Palladium transforms lives, businesses, governments and societies around the world.

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