Corporate responsibility failings

A how-not-to guide

Michael Blok, Vernon Jennings, Deborah Leipziger and Nigel Roome outline the ten most frequent areas where companies make corporate responsibility mistakes

Today many business leaders claim that corporate responsibility is a make-or-break issue for their companies. In response to mounting social and environmental pressures, a fast-increasing number of companies throughout the world have unveiled corporate responsibility programmes. US conglomerate General Electric has launched its ecomagination project and Wal-Mart has taken very visible steps in response to criticisms of its retail business. In Europe, companies including ABB, ABN AMRO, ENI, Shell and Unilever are developing often very extensive programmes.

These commitments imply that business leaders are waking up to the demands for responsible behaviour as the private sector contribution to sustainable development and, in Europe, to the shared governance of more cohesive societies with devolved responsibilities.

In our experience, however, not a single sizeable company can credibly claim to be responsible or "sustainable" across the spectrum of its activities. While many companies have made grandiose statements, the reality is that change is slow, even among the leaders. Most often, we see a series of experiments as companies address these demands.

Over the course of the next five to ten years, we believe that many companies will recognise that their corporate responsibility projects were undertaken without a firm idea of what corporate responsibility really implied for business. We fear that many of the present activities that pass for corporate responsibility will have to be unlearned as it becomes clear they destroy value or do not live up to the scrutiny of stakeholders. To help prevent such value destruction, we offer a top-ten list of the most common mistakes in corporate responsibility.

1 Lacking vision

Most companies begin their corporate responsibility journey by asking questions such as "where are we now and what might we do about CR?" This approach focuses too much on current activities and strategy.

An alternative, and more creative, approach is to ask: "What does this company want to be in ten years' time?" Through this approach companies will develop a vision of the role of the company in its industry and community. Only after having a compelling vision in place of what a company wants to be can the company address: "Where are we now?" and "What and how do we need to change to bring about our vision?"

Where are we going?

2 Oblivious to the scale of required change

Public statements about corporate responsibility by senior executives in all parts of the business world underscore our view that corporate responsibility-related demands and pressures on business are having enormous impact on the bottom line. There is a clear need to consider organisational change and development based on completely new managerial perspectives.

Few companies appear to recognise from the outset the magnitude of change, thinking instead that by selectively modifying existing business practices or undertaking one-sided showcase initiatives they will address the corporate responsibility challenge. This change does not require that business loses sight of its main purpose of creating wealth, but it does require the identification of new, more responsible and smarter ways to create wealth.

Best-practice examples are few but we suggest this is found at Carillion, the UK construction company, which is no longer paid to build but to provide the services of a finished building, including maintenance.

Rohner, the Swiss textile firm, is moving toward closed-loop production and closed-loop consumption of its textile services.

3 Sub-strategic

Corporate responsibility practice is often managed as a staff function, at a sub-strategic level, with little connection to the strategy of the business, its core technologies or management know-how. Companies often “muddle through” with this sub-strategic approach until they discover that what they have been doing is applying a surface treatment without addressing the underlying causes of the social and environmental pressures they face.

Companies fail, for example, to address the possibility of changing the structure of incentive systems, the focus of decision-making, and management systems in the core of their business while implementing corporate responsibility projects in specific business units. This is often caused by a lack of understanding among executives and strategists of the (potential) significance of the range of issues that contribute to CR and the ways that they may affect the business. It can be resolved by a clearer appreciation of the nature of the pressures and the real possibility they will mount rather than go away.

4 Unsophisticated view of corporate responsibility

In the absence of a strategic vision, many companies do not separate the two roles of corporate responsibility: protecting the assets of the firm and providing a basis for the creation of new value. Protecting the value of existing assets requires managerial control (management systems, performance indicators, reporting, adherence to codes and standards). Value creation requires a capacity for innovation and change, which takes place not just in the research and development department but across the whole company.

One aspect of a strategic view of corporate responsibility is to select those activities that need to be protected through more responsible practices, and those activities where corporate responsibility might help create new value for the future.

5 Inability to hear outside voices

Corporate responsibility demands new views of how a company’s activities affect a range of stakeholders. Experience shows that with no clear distinction between value protection and value creation it is not easy to engage stakeholders in appropriate ways, to ask them appropriate questions and to listen and understand their suggestions.

For example, stakeholders might be invited to comment on a sustainability report without a clear idea of whether this serves to improve the report, strengthen relationships, reveal negative effects on stakeholders, or identify opportunities for innovation. This lack of focus often leads to pressures and responses not being identified and relationships languishing in misunderstanding.

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Tried and tested, but never works

6 Sticking with old managerial competencies

Few companies have recognised that the competencies they have regarded as central to performance in the past may not meet the needs of the future. For example, the skill of successfully interacting with stakeholders in strategic planning or product development is not widespread. The lack of such skills in the typical manager, and the traditional focus on “hard” analytical tools, reflects current business culture and education, not necessarily future requirements.

One solution doesn't fit all

7 One worldwide approach

Most corporate responsibility programmes, even for multinational companies with wide experience of international business, still operate according to one worldwide approach to corporate responsibility, often based on the agenda and practices of the company's home country. This does not do justice to the real differences between the corporate responsibility agendas across countries, even within well-defined regions such as northern Europe.

For example, in Germany high value is placed on environmental sustainability and good community relations, whereas in Nordic countries the role of companies in developing economies is critically watched. Excessive uniformity is an almost universal mistake in corporate responsibility.

8 Uneven approach

A number of companies make substantial commitments and achieve good corporate responsibility performance in some divisions, localities or functional areas, while behaviour continues in other parts of the company that many might view as irresponsible.

For example, many companies have made carbon-neutrality pledges without tackling some of the other big corporate responsibility issues they face, which could include child labour or unsafe working conditions in their upstream supply chain. In so doing, these companies often create the impression that their corporate responsibility programmes are driven by image considerations rather than a deep-seated conviction that corporate responsibility is a core business asset.

9 Non-participative management

Many recently unveiled corporate responsibility programmes have been formulated and implemented through top-down directives, not matched by the devolved freedoms and responsibilities required within the company that help to make corporate responsibility a part of company culture and procedures.

In the same way that many companies do not have adequate skills to engage and listen to external stakeholders, they often have similar difficulties in drawing on ideas, energy and commitment of their workers and closest suppliers. Best practice requires companies to help manage corporate responsibility through a network of "change champions", but this is rarely practised.

10 Failure to see corporate responsibility as innovation

This list of ten common failures began with the suggestion that many corporate responsibility programmes lack a well-founded vision of the company in the future and the place of corporate responsibility. The tenth common failure points the way to a more responsible future and underscores many of the mistakes outlined above: failure to see that corporate responsibility practice is best based on a continuous innovation process that links corporate responsibility to a company's business model.

Indeed, many companies are currently seeking to be more innovative for competitive reasons, yet experience difficulties achieving their goals. It is therefore not surprising that few regard their corporate responsibility programmes, whether directed to value protection or value creation, as innovation processes in their own right.

By avoiding these common mistakes, management can go a long way towards managing corporate responsibility in a way that fits the company's changing needs while maximising the potential for value creation. The reason these mistakes continue to be made is principally that it is easier to get it wrong than it is to get it right.

Businesses, and business leaders, will have to show the courage to recognise and respond to the fact that many parts of their activities may be going in the wrong direction and will need to be put right if value is to be created in the longer term. ■

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