



**SUSTAINABILITY AND
BUSINESS COMPETITIVENESS
EXECUTIVE SUMMARY**

Measuring the benefit
for business competitive
advantage from social
responsibility and
sustainability

IN ASSOCIATION WITH

FORUM FOR THE FUTURE

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Sustainability and Business Competitiveness: Executive Summary

Measuring the benefit
for business competitive advantage from
social responsibility and sustainability

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Sustainability and business competitiveness

A business with strong corporate social responsibility will often be more successful in generating Economic Value Added, for reasons rooted in business strategy.

This was the key finding of a workshop commissioned by the Department of Trade and Industry and organised by Forum for the Future in May 2003. It was attended by 70 senior business researchers and practitioners from the Chief Economists of Shell and BA to the Senior Corporate Responsibility Adviser at Vodafone.

The finding that corporate social responsibility (CSR) is not necessarily a cost of doing business was revealed by the significant overlaps between stakeholder and environmental management concerns and what modern resource-based business strategy sees as the source of business competitive success.

The workshop also found that parallel research on business intangibles and intellectual capital, including the contribution stakeholder management could make to a company's competitive advantage, has direct application. Many of the tools developed to measure business intangibles could be applied to measure the shareholder value of a company's CSR policies and performance, offering for the first time robust evidence of the business value of corporate sustainability and responsibility.

Past attempts to measure the business case have mostly concentrated on eco-efficiency cost savings and green or ethical price premiums. With some notable exceptions¹ the resulting numbers have been small and relatively insignificant compared with other pressing issues for business. However, most previous studies have omitted a major contribution to business success from stakeholder and environmental management: their contribution to a company's competitive advantage in its main markets.

So a wider group of delegates was assembled than is usual when viewing CSR and sustainability. Researchers and practitioners from business strategy, intangible value and businesses themselves were brought together to discuss how sustainability performance could contribute to competitive advantage and business success, and how it could be measured.

Economic Value Added by CSR and sustainability

- The priority placed by the DTI on identifying transparent and quantifiable links between sustainability/CSR and business competitiveness was emphasised by the Minister of State for Energy, e-Commerce and Postal Services, Stephen Timms MP.
- Company success depends on balancing multiple priorities and stakeholder interests, and an exclusive focus on shareholder value often fails in its own terms. These were themes illustrated strongly by John Kay, a leading economist and commentator in this area.
- Understanding and measurement tools have been developed to assess how intangibles drive value creation in modern business. Richard Youngman of the PRISM project, an EC-funded research initiative on the intangible economy, described their obvious applications for sustainability and CSR.

¹ See the Co-operative Bank www.co-operativebank.co.uk, BT www.bt.com and 'Sustainability Pays' www.forumforthefuture.org.uk/redirect/csi.html.

- A new project, 'Sustainability and Business Competitiveness', is developing tools to measure the contribution of business sustainability to business competitive advantage, by applying resource-based business strategy to link sustainability performance to the key sources of competitive advantage. Brian Pearce, of Forum for the Future, illustrated the importance of those sources: key internal and external relationships, reputation, capacity to innovate and strategic assets.
- Clustering of responsible business and research groups has been found to maximise innovation and competitiveness in a recent project described by John Sabapathy, of AccountAbility.
- Measurement and modelling of business intangibles is possible in practice, as Jonathan Low, from Cap Gemini Ernst & Young, demonstrated with his Value Creation Index model linking various indicators of intangible assets to market valuation.

Measuring the contribution of CSR to competitive advantage

Businesses shared their experience in measuring the contribution of their CSR and sustainability policies to business success.

- Capacity to innovate can be enhanced by both sustainability and corporate social responsibility. Vodafone has developed both niche products and overall brand, while Interface has been able to develop a best selling carpet based on how nature designs a good ground cover.
- Reputation and the importance of CSR and sustainability are clearly linked, particularly in developed, higher-income, markets. BT collects reliable attitude data every month from thousands of UK customers through an independent research agency. Based on eighteen months tracking, BT has identified that CSR attitude accounts for at least 25% of the dimensions that drive BT's corporate reputation. Corporate reputation is directly linked as a driver of customer satisfaction thus establishing a direct link between CSR and customer satisfaction;
- Key internal and external relationships are widely accepted as a source of competitive advantage that could be enhanced through stakeholder management. Carillion found significant business benefits in a recent mapping exercise that quantified the effect links with key stakeholders had upon value creation. Statistical modelling by The Work Foundation showed how important high performance workplaces are for UK productivity growth.
- Strategic assets are an obvious source of competitive advantage as their owner has an important but very scarce resource. Several businesses demonstrated the value of stakeholder and environmental management to maintaining the licence to operate that asset with regulators and local communities (eg British Airway's hub airport slots at Heathrow).

Conclusions

The workshop directly addressed the question of whether CSR and sustainability made a positive contribution to business success, and came to the qualified conclusion that they do.

This was an important conclusion in view of the views to the contrary expressed by some influential commentators². The delegates believed that the mistake made by these commentators and the shareholder value movement was to regard the cost of CSR and sustainability programmes as an expense rather than, potentially, an investment in a strategic asset or distinctive capability.

The theory and practical experience of business in enhancing their competitive advantage through such policies seems to be increasingly well established. There is considerable scope for developing tools to help manage these assets through a balanced scorecard approach and to help investors value CSR spending on these assets. Many of these tools are either already available or being developed for other purposes in the field of business intangibles and intellectual capital.

Next step

A major 'Sustainability and Business Competitiveness' project is underway with a number of corporations to develop a balanced scorecard to manage the sources of competitive advantage, and apply valuation tools such as real options analysis to develop the information sought by mainstream investors. The aim is to provide companies and investors with the means to manage and assess the contributions of investments in CSR to the creation of Economic Value Added and competitive advantage.

For the full report of the workshop described in this Executive Summary, or for details of the new project being undertaken by Forum for the Future, please contact:

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² See for example Henderson, D. 2002 *Misguided Virtue: False Notions of Corporate Social Responsibility*. Institute for Economic Affairs, London.



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