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Returns on investment in responsible business practice: higher in a downturn?

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'Companies that stick firmly to their responsible business commitments, and find innovative ways to meet them in the downturn, will emerge further ahead of the field'

'Good business' – or investing and operating commercially in ways that include the poor and boost development – has already proven a valuable investment for companies across the sectors. Bill Gates calls it 'creative capitalism', others 'responsible' or 'inclusive' business. But how will the downturn affect the capacity of companies to invest in this kind of business, and the returns reaped from such investment?

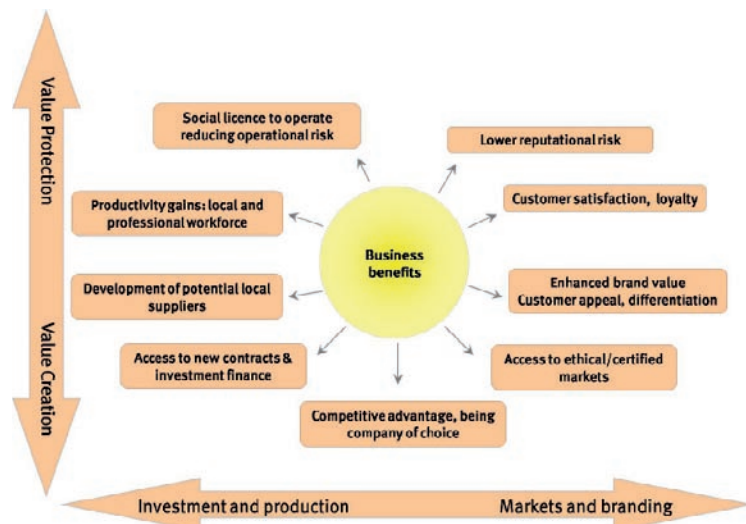
At times of financial difficulty, some businesses may simply not be able to afford to invest in responsible business. However, suppliers, customers, governments and workers need companies that not only maintain their commitments to responsible business, but are willing to innovate, helping developing economies adapt to the crisis. International companies that can invest and innovate now will be able to differentiate themselves even more effectively from the rest, reaping higher returns in the long-term.

The experience of companies so far shows that there is not one single 'business case' for responsible business practice but many, as illustrated in Figure 1. Business benefits can be reaped in production and investment, or in markets and branding (the horizontal spectrum shown in Figure 1). The benefits may protect existing shareholder value or create new value (the vertical spectrum). Responsible practice protects value by reducing operational and reputational risk or building the loyalty and productivity of staff. It creates value by building competitive advantage that helps to win the next bid or licence, expand access to ethical markets and finance, attract high-flying new recruits, or mark out leaders of the sector who set the standards for competitors to pursue.

Many of these benefits rest on competitive differentiation – standing out from competitors as a business that delivers high social value in the eyes of licencing ministries, financiers, workers and consumers. The downturn provides a chance to increase that difference, while also making it more important to many stakeholders.

As trade credit and investment dry up and demand for exports falls, the economies of developing countries are already feeling the effects. In this context, they desperately need – and will notice – big business that keeps its commitments. So companies with production sites, supply chains or emerging markets in the

Figure 1: Business benefits from investment in responsible business



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developing world face a changing context. In the short-term, they must, of course, remain price competitive during the squeeze. But they can also make their mark as market leaders in inclusive business, or steal a march on the companies that are currently positioned at the head of the curve in their sector.

This is not just hopeful speculation. It has happened before.

In Tunisia, research for the United Nations quizzed tourism businesses about the value of foreign investment and foreign management in the hotel sector. The research was looking to confirm or challenge traditional theory about technology transfer, higher wages, or market access related to foreign investment. For Tunisian hoteliers theory was trivial. What mattered was having foreign companies as partners when the next downturn in tourism came. They knew exactly which tour operators had pulled out after bombs went off in Djerba in 2002, and which had stayed. Commitment in a bad time was the marker. The same lesson emerged when interviewing Gambian policy makers about tourism – many mentioned the one tour operator that kept its presence during and after Gambia's coup in 1994.

The Oxfam-Unilever assessment of the impact of Unilever Indonesia (UI) on the country's economy gives more detail on what companies can do in a downturn, and how much it matters. Through the financial crisis of 1997-98, UI adapted its business model to ensure that products remained affordable, renegotiated contracts with suppliers to maintain business for all parties, prioritised the retention of employees, and expanded local operations through joint ventures and acquisitions. The long term business benefit is self-evident. What is striking from the report is the added value it delivered: Unilever is praised as an 'embedded' company, contrasted clearly with those seen as extracting what they need and moving on.

The distinctions between good and bad responses to the crisis are not black and white. It is not simply a question of whether or not to shed jobs. Innovation lies in harnessing the grey – if new investments are delayed, what small-scale training or supplier development is a useful preparation of the ground in the meantime? If jobs or suppliers are cut, how can cuts be shared out, and assets redeployed so they do not waste away? As more households fall below the poverty line, how can cheaper products, new technology or micro-finance help them adapt? As the Treasury's take from royalties or taxes falls, how else can business contribute to long term national priorities? Strategies that work need to be shared and developed.

Competitive differentiation works in northern markets too, though again opposing pressures are at work. On the one hand, northern consumers may be more influenced by price than they were before the current financial crisis. But on the other, when price-cutting is the norm and competition for market share is intense, consumer businesses also need to compete vigorously on non-price factors. Until now, it was easy to hear 'we don't need to invest in this sustainable business make-over, we're doing just fine'. As market shares come under increasing pressure, so does the business case to show consumers a company that is willing to make a difference to development.

Practical constraints to investment in responsible business are a reality and cannot be avoided. While firms are cutting their investment plans, production volumes, travel budgets, or staffing, they will also search for savings in resources applied to responsible business.

The demands on staff resources may not be the crunch issue – indeed staff who are freed up from core business delivery may find themselves temporarily deployed to Corporate Social Responsibility (CSR) teams. The sharper trade-off is in competition for management attention. Adapting business models requires management leadership and corporate change processes. Liaising with new smaller suppliers or with governmental or non-governmental partners is time-consuming. The shift from a single mid-level CSR manager with a budget to spend, to a Sustainable Development Team with a senior level champion to spearhead business change, has been a welcome shift in recent years. Now the need to focus top management time on business survival and finance makes it harder to continue expanding the agenda for action, and roll-out through all levels of the organisation.

Responsible business investments are not protected from the corporate squeeze. Investments need to generate a return and those that perform poorly will be cut. We cannot ask business to drop commercial principles in relation to their own investment in good business practice. What we can ask is that businesses recognise their potential added value: building resilience in a crisis, for the least resilient in the chain, is a high-value use of business competence for development. And that they recognise their own potential for higher return: companies that stick firmly to their responsible business commitments, and find innovative ways to meet them in the downturn, will emerge further ahead of the field.

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