

New Collectivism

Building Better Business



GRAYLING
creating advantage

Grayling believes that to Create Advantage, the leading businesses of tomorrow will have to think, operate and act differently.

Historically, the drive for profit has propelled innovation and benefited billions of people through providing employment; this has been the starting point and, for too many businesses, the end point. This is still true, but there is more, so much more, that businesses can do, and in most cases are doing, but not enough is known about it. In addition, we have reached a critical point, as we emerge from a global pandemic that has rocked societies and has required unprecedented government interventions in everyone's life, when there is an acknowledged need to build back better – we cannot just go back to how things were before.

It is our belief that now is the time for business to stake its claim as the positive force for progress in societies throughout the world. A time to be confident in that role and to tell those that matter for your success the value that you deliver. This is set against the backdrop of engaged and inquisitive consumers, governments searching for answers to the toughest questions and a desire, especially from younger generations, to make a positive impact. At times this minefield appears too complicated to navigate, too dangerous to engage with and too risky to deliver progress.

Our position is that this is a huge missed opportunity and that the best organisations will seize the chance, while the others will be left behind.

Grayling's own study finds that nearly half (45%) of large UK & European organisations (with 250+ employees) expect Environmental, Social and Corporate Governance (ESG) to be more important in 2021 than the previous year, well above the average of 29%. It is therefore the perfect time to make the changes that societies are eager to embrace.

And the prize is significant; a more engaged and diverse workforce, a more efficient business, greater investment opportunities and a raised profile as an organisation that can help define the 21st Century. We want to start a global conversation about what this looks like and how you can take part. This report is our starting point and we want you to join us on the journey.



Tom Nutt
Head of Corporate
UK & Europe

Our starting point

The past decade has seen a growing debate around the 'role' of business, through the growth of Corporate Social Responsibility (CSR) as part of accepted (and necessary) practice. The past 12 months, though, have raised the profile of questions of business and behaviour as never before. With business leaders such as Marc Andreessen increasingly arguing that "the role of capitalism is to improve the lives of people we don't know," and consumers taking an increasing interest in the impact business has beyond its own operations, are we moving towards a new vision of corporate function and import, one based around 'a new collectivism'? And what does this mean for your business?

Why We Need Business For Good

In the 1970s, Milton Friedman famously stated that "The social responsibility of business is to increase its profits," and that it would be inefficient to expect corporate entities to invest time and effort into social amelioration, instead believing that investment of profits by shareholders would pick up the social slack; this line of thinking was visible throughout the 1980s.

Of course, it's now widely accepted that the idea that 'rising markets benefit all' is perhaps not quite as simple as all that, and that the flow of 'trickle down' economics is too small to make a difference. Not only that, but the twin societal and economic pressures of widening income inequality and increasing environmental pressure (and the role of business in contributing to both) mean society is ever more aware of problems of which it perceives business to be a significant contributing cause - and it increasingly expects business to act.

One of the key areas that many European boardrooms still struggle with is diversity and inclusion. In the UK, a February 2021 report found that women's presence on the boards of the UK's biggest companies had increased by 50% over the last five years¹. An even bigger challenge comes with Black, Asian and Minority Ethnic (BAME) representation in the boardroom. Some FTSE 100 do not have any BAME representation at board level. Businesses must make steps to create diverse boards and create environments where women, BAME representatives and LGBTQ+ staff can fulfil their potential.



*Study conducted of 500 senior business decision makers in international businesses across micro (1-9 employees), small (10-49 employees), medium (50-249 employees) and large corporations (250+ employees). Field study conducted 3-8 Feb 2021 by Opinium Research.

Why We Need It Now

We identify ten drivers for this being the era in which 'business for good' can and should become reality - from the impact of the coronavirus on social structures, to the shift in consumer attitudes engendered by Millennials' rise from classroom to boardroom and the growing economic clout of Generation Z.

Perhaps most important is the growing realisation, even from unexpected quarters such as McKinsey, that profit and purpose need no longer be separate - and that, in fact, the greatest benefits may come from their being indistinguishable.

What Today's Business Leaders are thinking

Grayling research from early 2021 finds that a third (32%) of executives at large UK & European corporations believe that businesses' only responsibility is to maximise their profits without breaking the law. This is nearly twice the figure of those that run micro businesses (17%).

However, more than six in ten large organisation executives (63%) say that, alongside making a profit, businesses also have a collective responsibility to the societies they

operate in. The smaller the company, Grayling finds, the higher the sense of societal responsibility.

Will we see this mindset change in the coming years?

Nearly three in ten (29%) UK & European business decision makers expect the continued communication around COVID-19 to limit conversations around sustainability during 2021, while 14% feel the pressure from customers, consumers or governments to move quickly is more than is possible at present.

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Some Models For New Collectivism

We explore potential ways of thinking about, and approaches to, this revised view of capitalism, examining the broad concept of Triple Bottom Line accounting - that is, Social Equity, Environmental and Economic factors as equal measurable vectors of success in a modern business context, and how those can be delivered through models such as CSR, philanthropic capitalism, partnership programmes or Environmental, Social and Governance (ESG) investing.

Business Case For Good

An examination of the business case for a reappraisal of 'business for good', with specific focus on the positive impact this approach can have on a business' relationship with consumers, employees and investors; witness Starbucks CEO Howard Schulz:

"We wish to be an economic, intellectual and social asset in communities where we operate. We would do this not at the expense of profits, but to grow them."

As the war for talent becomes more intense, as younger consumers increasingly define brand affinity as being about a shared set of values and aspirations, and as investors and governments pay closer attention to the long-term, wide-vision impact of a business and its operations, it feels like the time is now.

Where Next?

Bold businesses can create advantage through smart repositioning of their existing activities, and the creation of a vision for good to inform their future. Through the creation of a strong brand story and subsequent work to tell that story through equally-strong and well-communicated actions, businesses have the opportunity to refine, and in some cases redefine, their relationships with consumers, government and other stakeholders; conversely, those that do not may well find themselves struggling to find positive mindshare in the decade to come.





1. Introduction

In April 2020, renowned investor Marc Andreessen called on America to build. To set about solving the country's great challenges in healthcare, housing, education, transportation and manufacturing. Why was the West taken by surprise by coronavirus, when we had warning of the pandemic threat? Why are we not already living in the future of "gleaming skyscrapers" and a Harvard-standard education for all? The American dream, the simple "opportunity to have a home of your own, and a family you can provide for," has become inaccessible to too many, Andreessen believed. He demanded that Americans in business and the public sector fight to innovate and bring it back.

We live at a time of precipitous social and political change, unequalled in a century. America's leadership of the international order is faltering, with China likely to surpass it as the world's largest economy in about a decade, and making strong geopolitical plays (such as the Belt And Road Initiative) in the meantime. Faith in democracy is shaken as authoritarian populists command power in Brazil, Turkey, Hungary, India, and - until recently - the United States. In the West, the first generation are

growing up who will never be as wealthy as their parents. Most crucially of all, these years now shape the future livability of our planet.

- What is the role of business in such a world, Andreessen is asking?
- What is the meaning of innovation?
- What if that word meant more than inventing a new mango-flavoured seltzer water or mildly diverting mobile app?
- Can companies rise to meet these challenges?

Here at Grayling, we believe they can. We think they already are. In this report, we set out a vision of a new collectivism, a new compact between business and society. A new vision of economic and social good, by all of us, for all of us.

“I’m with Nicholas Stern when he says that capitalism is how we take care of people we don’t know.”

- Marc Andreessen

“I’m with Nicholas Stern when he says that capitalism is how we take care of people we don’t know,” Andreessen wrote. From investors’ support of a new generation of ‘moonshot’ innovators, to B-Corps and employee-owned cooperatives, this new moment of business-for-good takes many forms. It has a long history in British business since the 1800s - and London is presently leading the way as the #1 producer of impact startups globally.

We believe that this collective responsibility is one of the most important trends in business right now, and an essential message for companies to integrate into their public communications and messaging.

In this white paper, we outline what the new collectivism means, what’s new about it - and what this means for businesses in 2021 and beyond.





2. Why do we need Business For Good?

The history and context of this innovation.

2.1 Free-Market Friedman

The story begins precisely fifty years ago, in 1970, with ten words in the pages of the New York Times: “The social responsibility of business is to increase its profits”.²

The article was an op-ed by Nobel Prize-winning economist Milton Friedman, in which he argued that the role of business was, simply, business: to make money for its shareholders, plain and simple. Any further goals towards “promoting desirable ‘social’ ends”, or claiming “that business has a ‘social conscience’ and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else” - this was “pure and unadulterated socialism” and “undermining the basis of a free society”.

Worse, it also revealed “analytical looseness and lack of rigor”. As an individual the corporate executive can of course have all kinds of responsibilities to his family, community and principles, Friedman writes: but, “What does it mean to say that the corporate executive has a ‘social responsibility’ in his

capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers,” viz, the company’s shareholders.³ Actions such as controlling pollution beyond the regulatory minimum, or hiring socially-disadvantaged staff, was to “be spending someone else’s money for a general social interest”. This was not the corporate executive’s decision to make, Friedman believed. Besides, it was probably inefficient: do businesses really know where best to do good? No, let them get on with the straightforward business of maximising profits, and let shareholders and executives donate to charity out of their investment returns.

The New York Times has called this “arguably the most consequential economic idea of the latter half of the 20th century.”⁴ Milton Friedman went on to advise both Ronald Reagan and Margaret Thatcher, and extol the virtues of free-market economics with minimal government intervention. The ‘greed is good’ mantra of 1980s capitalism and predatory private-equity asset-stripping⁵ rests in substantial part on his shoulders.

2.2 Failure of Free-Market Economics

Since 1970 this argument that rising markets will produce prosperity for all has been proven false.

Marianne Bertrand, professor of economics at the University of Chicago Booth School of Business, notes its roots in “the naïve belief, dominant in the Chicago school at the time, that what is good for shareholders is good for society — a belief that rested on the assumption of perfectly functioning markets. Unfortunately, such perfect markets exist only in economics textbooks.”

Compared to 1970, we now live in a more complex world, that is both substantially richer and more unequal.

Some - such as Stephen Pinker, in his 2018 book *Enlightenment Now*⁶ - argue that the world is getting better every day. The statistics he marshals show that extreme absolute poverty has fallen, as has hunger, child labour, and violent homicide. Life expectancy and education levels are rising, and we are no longer working the 65-hour weeks of our Victorian ancestors. Solar energy is getting so much cheaper, faster, that it renders carbon-intensive fuels uneconomic. We should be optimistic, Pinker says: progress is real. We face a green and sunlit future.

Many disagree, offering two main areas of disagreement: inequality and environment.

2.2.1 Inequality as a by-product

The world is getting richer, but this wealth is increasingly unequally distributed. The world's 2,153 billionaires have more wealth than the 4.6 billion people who make up 60% of the planet's population, Oxfam revealed in January 2020.⁷ In August 2020, Jeff Bezos became the first person ever with a net wealth of \$200 billion, an amount of money that is genuinely challenging to fathom - one man's assets are about the same size as the economies of Greece or New Zealand.⁸ By contrast, that bottom 64% of the world's population, those with assets under \$10,000, own just 1.9% of global wealth.⁹





Economist Thomas Picketty has shown that as the world has gotten richer, these profits have not been evenly shared. The share of income allocated to wages (that is, to regular workers) has declined, as the share of income taken by capital (shareholders, i.e. the wealthy) has increased. In the United States, the average wage has been stagnant in real terms (after inflation) since the 1970s - that is, people have no more purchasing power than they did 40 or more years ago.¹⁰ In the UK and Europe, we have faced a lost decade-and-a-bit with wage stagnation since 2007.¹¹ Wages have failed to rise because productivity is stagnant, the result of decreasing corporate investment in training, skills and efficiency-boosting technology. “You can see the computer age everywhere but in the productivity statistics,” says Nobel laureate Robert Solow. Businesses have taken profits, as free-market Friedman counselled, while a whole tier of low-wage jobs have been transformed into precarious, low-skill and low-security ‘gig economy roles. A new social class has been invented: the “precariat”.¹²

So much for Friedman's profit focus producing prosperity for all.

Inequality has a steep social cost. More than half of people around the world (56%) believe that capitalism as it exists today is doing more harm than good in the world, finds one survey

published in January 2020.¹³ This distrust is being driven by a growing sense that the system as it stands is unfair and unjust, with a widespread perception that institutions serve the interests of only a narrow few, not the populace as a whole.

“You can see the computer age everywhere but in the productivity statistics.”

In the UK, this is a matter for particular concern. Throughout the twentieth century, income inequality was mitigated by the promise of social mobility: the chance for someone born into a low-income family to rise to the ranks of the middle class or the wealthy. Yet research has found this has stagnated for those born after 1975.¹⁴ Social mobility is so low that it will take a British child born into a poor family five generations to move up to earning the average wage - compared to just two generations in Denmark. For the first time, parents struggle to imagine their children will enjoy a better future.

Hope is not just an abstract matter, but deep in the core of societal wellbeing. In two books, 2011's *The Spirit Level* and 2018's *The Inner Level*, social epidemiologists Kate Pickett and Richard Wilkinson have mapped the social consequences of inequality, from crime rates and children's cognitive development, to profound physical and mental health costs.

The authors write: "The reality is that inequality causes real suffering, regardless of how we choose to label such distress. Greater inequality heightens social threat and status anxiety, evoking feelings of shame which feed into our instincts for withdrawal, submission and subordination: when the social pyramid gets higher and steeper and status insecurity increases, there are widespread psychological costs."¹⁵

Little surprise, perhaps, that fewer than one in five Britons (18%) think the country is headed in the right direction.¹⁶

2.2.2 Climate change shaping thinking

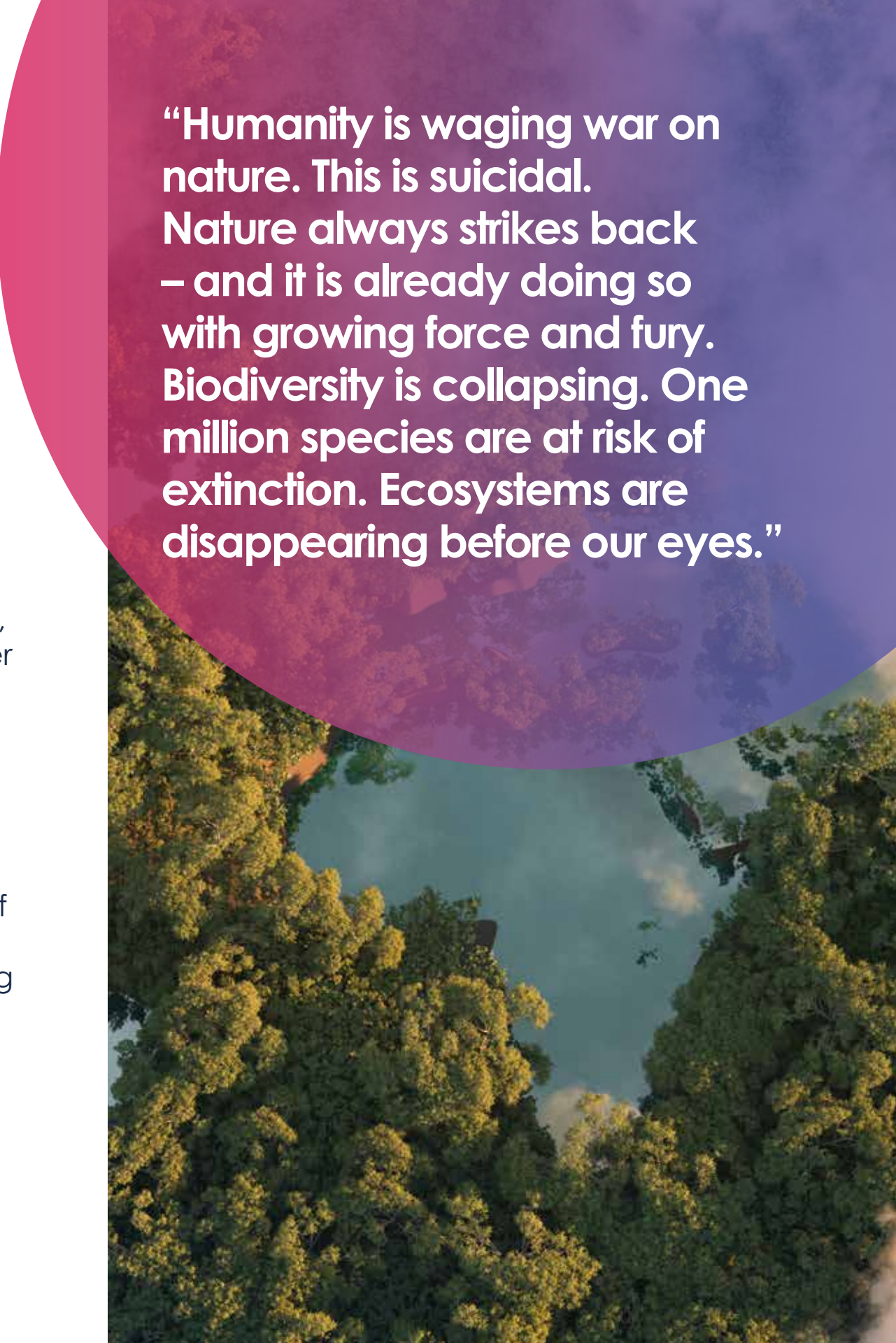
Fifty years of free-market economics has also failed the world by accelerating the climate crisis. We face a condition of 'ecological overshoot': the fact that, in the pursuit of material progress, our civilization is consuming the earth's resources faster than they can be replenished.

This month, the secretary-general of the United Nations, António Guterres, uttered a stark warning: "*Humanity is waging war on nature. This is suicidal. Nature always strikes back – and it is already doing so with growing force and fury. Biodiversity is collapsing. One million species are at risk of extinction. Ecosystems are disappearing before our eyes.*"

Every ecosystem has been affected by human action, from deforestation in the Amazon to dying coral reefs in the Pacific. The ocean is acidifying, overfished and filled with microplastics; the air is increasingly toxic, with air pollution killing nine million people per year. With animal habitats under pressure, novel infectious diseases are emerging at an accelerating rate - giving us Ebola, SARS, Covid-19, and surely more.

By the end of this century, on current trajectories we face a world that is likely 3°C warmer than it should have been - a world of drought, massive crop failures, unsurvivable heat in equatorial regions, floods and farming land submerged. A world of famine, mass migration, and resource wars.

Is this really the best we can bequeath our children, and generations beyond?



"Humanity is waging war on nature. This is suicidal. Nature always strikes back – and it is already doing so with growing force and fury. Biodiversity is collapsing. One million species are at risk of extinction. Ecosystems are disappearing before our eyes."



3. Now is the moment for business-for-good

“Human activities are at the root of our descent toward chaos,” the UN’s António Guterres said on 2 December 2020 in an address to Columbia University. “But that means human action can help to solve it.”¹⁷

“I firmly believe that 2021 can be a new kind of leap year,” he continued: *“the year of a quantum leap towards carbon neutrality.”* Investors and governments must seize the opportunity to “flick the green switch” and make a difference while there is still time, he implored.

A number of trends have come together in the last few years to make the notion of business-for-good more urgent, more relevant - and more ambitious. Here, we outline ten drivers:

1 The pace of change

2020 was a year in which decades happened, with the coronavirus reshaping working patterns, healthcare services, government policy and the overall patterns of daily life in the biggest and fastest shift the UK has seen since the Second World War. In eleven months, the pharmaceutical sector has designed, fabricated and tested multiple never-before-

seen vaccine technologies creating almost unmeasurable economic and social value. This changes the scale of ambitions for firms in many sectors.

2 Collective Responsibility

Coronavirus has revealed that we’re all in this together, and that companies have responsibilities to protect the health of their own workforces in order to limit the progression of the pandemic in their communities overall. It’s demonstrated how swiftly businesses can act, opening up new possibilities for collective action and corporate citizenship in future.

3 Crisis On The Horizon

The coronavirus crisis also makes us more aware of big environmental challenges on the horizon, particularly climate change and its knock-on effects. The COP26 UN Climate Change Conference, to be held in Glasgow in November 2021, will intensify this focus.

4 Radical Youth

In January 2019, Greta Thunberg was unknown. By the end of the year she was one of the most recognisable women in the world, inspiring a generation to rethink their use of air travel and to commit to more radical protest through the Extinction Rebellion movement. The police killing of George Floyd also sparked a global resurgence in Black Lives Matter activism, forcing corporations to take a stance on racial justice issues, from advertising representation to pay and promotions.

5 A New Generation of Leaders

Across the West, Millennials are the most diverse and best educated generation in history - and with the eldest in this generation in their late thirties, they are taking senior leadership roles and executive positions in companies around the world. Gender and ethnic equality have shot up the agenda as priorities this generation won't let go of - a trend that will only entrench as Generation Z start to reach the workplace, a generation who assume equality as their default.

6 Global Visibility

The Internet revolution continues to increase public information and transparency. Once thought of as a song-and-dance platform, TikTok has transformed into a platform for political and cultural activism too. People use social media to connect to their food suppliers in particular, as the coronavirus crisis made supply chains more fragile and thus visible. Retail clothing brands saw their poor treatment of suppliers during this shutdown become a public, consumer-facing brand reputation issue.

7 Activist Employees

Tech company workers have led a trend towards 'activist employees'. A firm's civic responsibilities - for example in Artificial Intelligence (AI) technologies and discrimination, customer base (e.g. selling to the military) and treatment of other workers (i.e. less skilled warehouse employees) become push/pull factors for talent, a trend we may see spread internationally.

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8 The Return of the 'Moonshot'

Software has become simply the medium of business today. 'Tech startups' are increasingly not simply making smartphones or enterprise computing technologies, but returning back into the world to solve tangible, real-world problems. Companies such as Google and Tesla are seeking to tackle real 'moonshot' challenges, from neural computing to space - and the outsize valuations attached to these firms demonstrates this vision for transforming the world is something the investment market rewards.

9 The Growth of B-Corp Brands

The B-Corp or 'Benefit Corporation' movement has expanded rapidly in the last five years, providing a new and attractive brand name for socially-responsible companies that are less 'crunchy hemp' and more startup glossy. Alongside obviously ethical brands such as Innocent and Patagonia, this business model is being taken up by design, advertising and media agencies - even private equity firms such as TowerBrook and Helios.

10 The End of Either/Or

The coronavirus pandemic makes it clear that purpose and profit are not necessarily at loggerheads. Pfizer and the other pharmaceutical firms who have created vaccines and covid treatments will be handsomely rewarded - they will also have done historic amounts of good. Even McKinsey is making the case for stakeholder capitalism¹⁸ these days. Things are changing.

Software has become simply the medium of business today.

4. Defining socially-responsible business

The “rules” of CSR were codified in 2010 in the ISO 26000 standard for Social Responsibility, a global standard for CSR across countries, industries and business sizes.¹⁹

In these guidelines, ISO defines CSR as:

“The responsibility of an organization for the impacts of its decisions and activities on society and the environment, resulting in ethical behavior and transparency which contributes to sustainable development, including the health and well-being of society; takes into account the expectations of stakeholders; complies with current laws and is consistent with international standards of behavior; and is integrated throughout the organization and implemented in its relations.”

Much as it has the advantage of being an international standard, this epic sentence is perhaps a little indigestible.

The concept of Triple Bottom Line (3BL) accounting can provide an easier model to get to grips with. The metaphor is a powerful one: expanding the traditional financial bottom line of accounting, profit or loss, into two more dimensions - people and planet - to reflect the wider accountability that business-for-good entails.

“The responsibility of an organization for the impacts of its decisions and activities on society and the environment, resulting in ethical behavior and transparency which contributes to sustainable development”





People: the Social Equity bottom line.

Fair and beneficial business practices toward employees, suppliers, and the communities and regions in which a corporation conducts its business. The enterprise should seek to benefit the constituencies it interacts with, and not to exploit or endanger any group of them.

For example, the purchase of Fair Trade food materials, ensuring a fair wage and greater proportion of profits are directed to primary agricultural producers in developing markets.

Planet: the Environmental bottom line

The corporation should have a sustainable environmental impact that does no net harm or actively benefits the landscapes and ecosystems in places that it works. This should entail an end-to-end (or “field-to-fork”) life cycle assessment of products to determine the true environmental cost, from the growth and harvesting of raw materials to manufacture, distribution, and eventual disposal by the end user.

For example, electronics companies offering end-of-life schemes and taking responsibility for device disposal and recycling.

Profit: the Economic bottom line

Starting from - but expanding on - traditional accounting definitions of profit, to incorporate the total value created. A measurement of the holistic economic impact on the host society as a consequence of the company’s operations.

For example, research and development partnerships with universities, or training and development of disadvantaged worker groups deliver substantial economic benefits into wider society.

Some CSR definitions may also mention market responsibility: treating suppliers fairly and developing sustainable, long-term relationships that enable a healthy ecosystem of supplier businesses. And financial and legal responsibility including full legal tax compliance.

This movement is broad-based, and we see it happening under a variety of different names.

4.1 Corporate Social Responsibility as a starting point

The familiar term is “**Corporate Social Responsibility**”, or CSR for short. The concept was first defined in the 1950s by American economist Howard Bowen, who taught and published on “the social responsibility of the businessman”. The McCarthyism of the times meant he had been forced to resign from the University of Illinois as ‘anti-business’ (i.e. dangerously socialist) - but his 1953 book has stood the test of time as the first comprehensive discussion of business ethics and social responsibility. In it, he explains why companies should be interested in being more socially and environmentally accountable and gave the first “recognized” definition of CSR:

“The obligations of business to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society.”

Through this work, Bowen created the foundation by which business executives and academics could consider wider social needs as part of strategic planning and managerial decision-making.

This principle was developed by the founder of modern management thinking, consultant and author Peter Drucker. Central to his work is the focus on business as a matter of relationships, not just number-crunching and spreadsheets. For Drucker, “Leaders in every single institution and in every single sector ... have two responsibilities. They are responsible and accountable for the performance of their institutions... [and] They are responsible also, however, for the community as a whole.”

His remarkable 39 books - spanning almost seventy years between 1939 and 2008 - are filled with lessons on how organizations can bring out the best in people. He was among the first to make the case that employees are a company's primary assets - particularly knowledge workers in the modern economy - and a manager's job is to facilitate their team to succeed. Drucker saw the workplace as a source of community and dignity in a modern society organized around large institutions. For a time this may have seemed slightly old hat - but this last year of working from home has revealed the true value of these interpersonal ties. Post-coronavirus, corporate responsibility must entail maintaining employee wellbeing and finding new ways to bring organisations together in a structurally very different working world.





4.2 Philanthropic capitalism as a historical comparison

From a British perspective, though, we might argue that the concept of business-for-good has a much longer history in the 'paternalist philanthropy' of nineteenth century industrialists.

Victorian Britain had no 'welfare state' or government safety net - these were innovations of the early 1900s. Consequently, lives for millions in the city slums of England and Scotland were very hard. Working hours were brutally long by modern standards (six days and 70 hours a week were the norm) - but workforces were unreliable, ill-educated, and frequently hit hard by infectious diseases spread by slum housing conditions and lack of clean water. For the industrialists and factory owners seeking to run an efficient factory, recruitment and productivity were continual challenges - and for those of Christian faith, the squalor of their workers posed a profound ethical and spiritual discomfort too.

As such, a number of large employers - many notably Quakers - considered that it would be to their benefit both moral and corporate to expend resources in looking after their workers, in pursuit of the greater good. In 1879 George Cadbury moved his eponymous chocolate

factory out of the Birmingham slums to the new-build village of Bourneville, a company town of Arts & Crafts cottages. Children attended the Cadbury-funded school, and workers received Cadbury-funded healthcare and pensions on retirement. Due to the Cadbury family's strong Quaker beliefs, alcohol was banned -- and remained so until 2015. Port Sunlight in the Wirral was built by the Lever brothers in 1888 for workers in their soap factory - and Unilever continues to mow the verges of their houses today.

From a British perspective, though, we might argue that the concept of business-for-good has a much longer history.

This model continued in the twentieth century with 'jobs for life' employers such as British Telecoms in the UK and IBM in the US, companies who provided not only stable, solid employment for their workers but saw a responsibility for the families and communities of their employees, too. Business philanthropy continues today through figures such as Warren Buffet and Bill Gates, who see the profits their business activities have made as resources be given back to the benefit of the world.

4.3 Looking at the co-operative movement

The Victorian era saw another innovation in socially-responsible business, too: that of the cooperative movement and employee-owned businesses. Robert Owen was the first to introduce this, in the cotton mills of New Lanarkshire, Scotland - and many of these Victorian cooperatives continue to this day under the aegis of The Co-operative Group (trading as the Co-op) across a diverse range of retail businesses from food to pharmacy, insurance, legal services and funeralcare.

Employee-owned companies currently contribute some £25bn to the British economy, equivalent to 2% of UK GDP. They are a small but flourishing sector, with research from the Cass Business School in London indicating that they outperform regular businesses on multiple dimensions:

- Creating jobs faster
- Greater resilience in economic downturns
- Higher customer satisfaction
- Greater value-add per employee
- Depending on the sector and size of the business, can deliver markedly higher profits

How?

“The advantage for EOBs comes from taking a stakeholder rather than a shareholder view of management,” says the Cass researchers.²⁰ “Employees who have a stake in the company they work for are more committed to delivering quality and more flexible in the face of the needs of business.”

Your author was grocery shopping in Crouch End Waitrose last Saturday when the cashier started talking, quite unprompted, about how she thought the John Lewis Partnership - the UK’s largest employee-owned business, with a workforce of over 80,000 - was a good place to work. “They believe that if they take care of their employees, then we’ll take care of their customers,” she said. “They do good by us, and we do good for them. It’s just common sense.” It really is.

“They believe that if they take care of their employees, then we’ll take care of their customers.”



4.4 ESG investing on the rise

Sustainable ESG (Environmental, Social and Governance) investing refers to a class of investments that seek positive returns alongside long-term impact on society, environment and the performance of the business.

It has its roots in the 1950s and 60s when US trade unions recognised the opportunity offered by their vast pension funds to affect the wider social environment and deliver on their missions. The International Brotherhood of Electrical Workers invested their fund in developing affordable housing projects, whilst the United Mine Workers invested in healthcare facilities. In the 1970s, global abhorrence at apartheid in South Africa led to a campaign for boycotts and disinvestment - bringing ethical considerations into investment-making for the first time.

Now, a new wave of 'Long Term Private Capital' funds - such as those from BlackRock - are explicitly building ESG into their investment strategies as a sign of stability and sustained performance. "Because of the long-term nature of its investments," the BlackRock prospectus says, "the LTPC strategy places an emphasis on Environmental, Social & Governance (ESG) factors as part of its due diligence and value creation."

In his latest annual letter to Berkshire Hathaway's shareholders, legendary investor Warren Buffet wrote "In representing your interests, 'business-savvy directors' will 'seek managers whose goals include delighting their customers, cherishing their associates and acting as good citizens of both their communities and our country.'" He continues: "Those objectives are not new. Who would have it otherwise?"

"In representing your interests, 'business-savvy directors' will 'seek managers whose goals include delighting their customers, cherishing their associates and acting as good citizens.'"

CASE STUDY

Impact investment in London

Britain as a centre of the new business-for-good

The city has produced 241 impact startups since 2006, compared to 95 companies founded in San Francisco, 132 in Berlin and 129 in Stockholm.

London has added three new impact unicorns to its list this year: Octopus Energy, Arrival, and Gousto, which takes London's impact unicorns total up to four, including Babylon Health.

According to research produced by Dealroom.co, VC investment into impact tech startups in London has grown by almost 800 percent [7.8x] since 2015, compared to 3.1 times in Europe as a whole.

2020 is set to be a record year for London's impact tech companies, who have received USD 1.2 billion in VC investment from January to October, already matching 2019 levels. "London is a global hub for tech and innovation – these findings show that our city has quickly become a global leader for start-ups aimed at tackling some of the most pressing challenges we face as a city and as a country," deputy mayor for business Rajesh Agrawal said.²¹

241

impact startups
since 2006

3

new impact
unicorns



5. The Business Case For Good

The drive towards a new model of business value comes from every direction. The argument is not solely that it is the right thing to do, but also that is the desirable thing to do - making the firm more attractive to the full suite of stakeholders: from consumers and customers to employees and investors alike. As such, it can deliver increased profits. Let's look at the case for each in turn.

5.1 Consumer Incentives for Business Good

In 2019 the actions of one young woman, Greta Thunberg, rocketed environmental issues to the top of the news agenda - and to many consumers' minds. Suddenly we were introduced to new concepts, such as flygskam (the Swedish word for 'flight shame') - and the rapid growth of green energy firms such as Bulb and Octopus made millions realise that it was easy and possible to decarbonise their homes. Meanwhile Generation Z is driving a boom in second-hand and vintage clothes shopping, with apps such as Depop (on the affordable end) and Vestiare (for designer fashion) headed towards unicorn valuations. Last year, UK consumers spent a record £41bn

on goods and services that were billed as ethical or environmentally friendly, according to a Co-op report '20 Years of Ethical Consumerism'. The average spend on ethical purchases per household has grown from £202 a year in 1999 to £1,278 in 2018, or fourfold in real terms after inflation. Over the same 20-year period, total general household expenditure has been broadly flat, edging up by just 2% in real terms - making this a significant shift in preferences. Twenty years ago the retail Fairtrade market was worth just £21.8m; today it is estimated that UK consumers spend £290m a year on Fairtrade bananas alone.

The Black Lives Matter reckoning in the summer of 2020 also demonstrated a shift: young consumers now expect brands to hold positions on social justice issues as a matter of course. Brands scrambled to respond: Nike, who had taken a bold stand sponsoring the anti-racism athlete Colin Kaepernick, came out strongly. Workers' rights have also been in the headlines, with the exposure of sweatshop labour in Leicester's fashion sector during the course of lockdown, and fashion brands refusing to pay their suppliers overseas for orders already produced.

Overwhelming majorities of consumers believe that it is the duty of business to pay decent wages (83%) and provide retraining for workers whose jobs are threatened by automation (79%).²² Yet less than a third of people trust that business will do these things.

Price and value remain at the heart of consumer purchase decisions - but that notion of value is expanding. A quality product is now one with ethical production as a norm. As consumer trends move to a preference of 'experiences' over 'things', the product purchases people do make need to be rich in stories and expressions of personal value to justify the spend. This produces real demand for products and services from businesses that do good.

5.2 Employee Incentives for Business Good

A survey in January 2020 found that “92% of employees said CEOs should speak out on the social and ethical issues of the day.”²³

Knowledge-sector employers in particular face a ‘war for talent’, with measurable skills shortages in crucial business capabilities such as data science, machine learning, specialist engineering professions, and even designers and marketers experienced in the media and communications landscape of today. Talented candidates are able to cherry pick their roles, and recruiters consistently report that they are looking for more than a pay packet: they want meaning from their work. To attract today’s talent, business success is no longer enough. Companies now need to focus on ethics and spotlight their corporate social responsibility practices as an integral part of the business.

A 2019 survey from Aerotek found that “Business practices in line with my values” was the number one most important benefit for employees - but only 12th-ranked for what they felt they were receiving.²⁴ Previous research has found that 53% of workers say that “a job where they can make an impact” is important to their happiness, and fully 72% of students

about to enter the workforce agree.²⁵ For graduates, “having an impact on important issues through their work” ranks behind only financial security as a priority - it’s more important to them than prestige, becoming wealthy, or attaining leadership.

In fact, for younger workers today we might say that having a meaningful job that makes an impact is prestige. High-salary professions such as banking and law are rarely seen as “cool” any more, and are struggling to attract graduate talent compared to technology companies and startups, who can offer a vision of building the future.

“92% of employees said CEOs should speak out on the social and ethical issues of the day.”



5.3 Investor Incentives for Business Good

Given Milton Friedman's dictum that "the social responsibility of business is to increase its profits", we might expect that investors at least were the one group who remained wedded to the traditional bottom line. Yet corporate citizenship issues are growing in importance even to this audience, as investors recognise that a business that takes corporate responsibility seriously is one that is competently managed, more accountable to its stakeholders, and better positioned for the years ahead.

In 2016, research by American insurance company Aflac found that "61 percent of investment professionals view CSR programs as a marker for ethical corporate behavior, which reduces investment risk."²⁶ A vast majority viewed investments in community action and philanthropy not as a waste of money that could be returned to shareholders, but rather as an indicator of a corporate culture less likely to produce expensive missteps like financial fraud.

In their 2020 Global 100 report on sustainable business, Corporate Knights note that that "Investors are increasingly aware of the importance of the climate crisis, water shortages, health and safety in the supply

chain, modern slavery, and corruption to their bottom lines." They highlight Volkswagen's Dieselgate and Boeing's 737 Max scandals as "just two incidents that reveal that ESG issues are not only material to a company's financial performance – they can have a huge effect on it."²⁷

"61% of investment professionals view CSR programs as a marker for ethical corporate behavior, which reduces investment risk."

Corporate Knights release an annual ranking of the Global 100 most sustainable large companies, and track the financial performance of these businesses against the MSCI ACWI (All Country World Index). Since its beginnings in 2005, these firms have outperformed their peers, returning 7.3% on an annualized basis against the ACWI's 7.0% - demonstrating how a diverse range of ESG criteria, from CEO pay ratios to gender diversity and to setting targets related to the UN Sustainable Development Goals, produces measurable business benefits.

This 'responsibility' thesis is backed up by real investment returns. Morgan Stanley analysed more than 1,800 U.S. mutual funds and exchange-traded funds (ETFs) to find that sustainable equity funds outperformed their traditional peers by a median of 3.9% in the first six months of 2020, during the crisis point of the coronavirus pandemic. During the same period, sustainable bond funds beat their non-ESG counterparts by 2.3%.²⁸

Growth in the sustainable investment sector is consequently enormous. According to Morningstar, the first half of 2020 saw a record \$20.9 billion net flow into sustainable funds, almost as much as all of 2019. As Mark Andreessen says in his 'It's Time To Build' paper we opened this whitepaper with: tackling big social and economic challenges means big opportunities for profit. Valuations attached to firms such as Tesla (whose CEO Elon Musk is the second richest person in the world, after Amazon's Jeff Bezos) indicates the size of the prize simply in batteries and low-carbon transportation. Investors recognise this and are directing funds accordingly.

5.4 When Profit and Good Align

It is difficult to identify examples of businesses leaving money on the table in order to pursue environmental and social good. Rather, the competitive environment has changed to make it more rewarding:

- 'War for talent' makes employee concerns more important
- Environmental regulation growing
- Increasing consumer demand for ethical and environmental products / ability to charge a premium for 'traceable' goods
- Increasing investor focus on long-term holdings

Free marketeer Milton Friedman may seem the antithesis of CSR - but he actually also wrote in his 1970 editorial that there was a case for it. "In the present climate of opinion, with its widespread aversion to 'capitalism,' 'profits,' the 'soulless corporation' and so on, [spending on CSR measures] is one way for a corporation to generate good will as a byproduct of expenditures that are entirely justified in its own self-interest." The cultural climate has changed surprisingly little in fifty years, and the statement only holds more true today.

Responding to Friedman's work 50 years on, Howard Schultz, CEO of Starbucks, meditated on this question of "What does it mean to say that 'business' has responsibilities?". He told the New York Times that:

"I've asked this question since opening my first coffee shop in 1986. My answer, a rebuke of Friedman's single-minded focus on profits, appeared in our company's original mission statement: "We wish to be an economic, intellectual and social asset in communities where we operate." We would do this not at the expense of profits, but to grow them."

Even the U.S. Business Roundtable, a non-profit membership organisation for the country's top CEOs which did much to champion the supremacy of shareholder rights, has changed its position. In 2019 it rewrote its definition of the purpose of a corporation, declaring that the function of a business is not just to serve shareholders but "to create value for all our stakeholders," placing the interests of employees, customers, suppliers and communities on par with shareholders.

Profit and purpose are mutually reinforcing principles.



7. Conclusions: The new rules of Business For Good.

Anticipate Change

Businesses anticipate continual developments in social and ethical norms, and behave in ways that anticipate and afford resilience. Planning for environmental and ethical shocks is integrated into regular business practice. A 'good' business in 2021 is one which appreciates the potential for, and impact of, 'Black Swan' events, and factors them into their business planning and strategy, as well as ensuring that their communications is adequately set-up to cope. This isn't about meticulously workshopping every scenario; it's about making sure a business is flexible, agile and adaptable - and that its communications are too.

Think Holistically

Businesses understand that they are only as resilient as their customers, employees and suppliers, and that they are responsible for their wellbeing as much as their shareholders'. Working towards mutual benefit will benefit all. An appreciation and understanding of business' place in wider society - both economically and socially - is an essential component of modern business ethics, from

the complexities and interdependencies of supply chains to the shifting demands and opportunities created by consumer technologies. Brands and businesses that understand that they operate at the intersection of economics, culture and society, and that their actions impact all three, will be those that succeed.

Take Responsibility

Businesses are aware of their role in the function and flourishing of society, and behave in a way that supports the health of the communities in which they are based, locally, nationally and internationally. Consumers no longer accept the viewpoint that business is distinct from society, and are more mindful than ever of the impacts the former can have on all aspects of the latter - and businesses will be judged on their approach to these intersectional effects, their mindfulness in acknowledging, minimising and mitigating their impacts.

Prioritise The Long-term

Businesses should prioritise collective outcomes over short-term stock performance, recognising that delivering broad-based environmental and social value will deliver more sound and sustainable performance in the long run. The Venture Capital (VC)-led model of the past two decades, prioritising the pursuit of accelerated growth in pursuit of short-term 10x returns, now seems at best misguided and at worst destructive; instead, businesses that understand, acknowledge and reflect the fact that their long-term success and those of their customers (and society) are interlinked will be those that reap the benefits.

**Businesses should
prioritise collective
outcomes over short-
term stock performance**

8. Recommendations: what does this mean for you?

Here are nine principles to help your company absorb the implications of this new, collective movement in business thinking:

Planning & strategy

Leadership Through Vision

The role of leadership now more than ever is to set an expansive vision for the company. Investors seek more than quarterly revenue targets but a much bigger ambition for how companies can create impact and transform industries in innovative and future-facing ways - which necessarily means environmentally sustainable ones.

- What is your business' vision? Is it fit for purpose? Is it understood, upheld and embodied by your workforce? What does it even mean? As we await the (limited) return to normality ushered in by widespread COVID-19 vaccination programmes, now is a time to take stock of your corporate vision - and to revisit and refine it for the decades to come

Focus on the impact your organisation can make.

Decentralised Decision-Making

The new collectivism is about business as part of multiple, interdependent communities - local communities, the employee community, the supplier ecosystem and ecologically. Successfully and sensitively interfacing with each is not a matter that can be wholly determined from the centre. Instead, business leaders must empower regional offices and local teams to embody the company's values in their smaller decisions and daily actions.

- How is information and innovation shared within your organisation?
- What tools, systems and structures are in place to ensure that the intellectual and human capital you can access is being best used?
- How can your internal communications processes be optimised to ensure that you are making the most of the breadth and depth of talent and perspective at your disposal?

Ensure that all are heard and can play their role.





Environmental Scenario Planning

Prepare for the unexpected by using futures and foresight techniques to scope and plan for how the climate crisis may impact your business, from direct impacts (e.g. extreme weather events) to second and third-order consequences for your customers, suppliers and markets.

- How resilient are you in the face of potential crises? How will your payroll, supply chain, customers and staff be affected?
- How will you communicate your actions and response to media, stakeholders and staff in the event of unexpected events outside your control?
- Even crises not of your own making can and will impact how your business deals with the wider world - the world expects a modern business to address this impact and to guard against negative effects on customers, suppliers and the wider market - and society.

Understand how your business interacts with the environment.

Taking The Long-Term View

This may sound counter-intuitive in a time of rapid change. But it's only through looking ahead to the world in ten, twenty and a hundred years that business leaders can steer socially responsible decision-making now.

Businesses with a clear vision on their constructive role in the next five, ten or fifty years of social progress and development are increasingly attractive to consumers and investors alike.

- Is your business able to articulate a long-term vision and path through the coming changes in society, economics and technology?
- Do you have a view on how you fit in, and how you help make things better (however specific or small your focus)?

Plan for a better tomorrow and employ strategies that will keep you ahead.

Information and analysis

Cultural Monitoring

The social and environmental justice movement is evolving rapidly, and consumers may demand corporations hold positions on issues they had not to date considered. A programme of continual monitoring of media, cultural trends and consumer feedback is essential in order to identify emerging issues and opportunities as they arise.

- Does your business understand the wider cultural context within which you and your customers operate? Do you have the tools and expertise at your disposal to make sense of the intersectional-yet-fragmented landscape that is popular culture in the online age? Do you feel confident that your monitoring and analysis of trends and mores is equipping you to act with confidence in the short or medium term? As the past 12 months have shown, everything from memetics to videogames, visual semiotics to contemporary ethics, can shape the discourse and offer opportunities to act and threats to avoid

Employee Panels

Huge amounts of expertise in social good already exists in your business. Who knows better how to attract and motivate the star performers of tomorrow than your star performers today? Providing channels for younger employees to speak to senior executives can introduce fresh ideas and create a sense of transparency, involvement and accountability that benefits the company as a whole.

- Ensuring cultural fit between the actions and ambitions of a business and those of its staff is vital, never more so than in an age in which we know that younger generations are increasingly seeking an affinity between their values and those of their paymasters. How are you harnessing the voices and opinions of your most important asset - your talent - to ensure that they feel invested in, and supported by, the vision of your business? And how should your communications be tailored to best resonate with the sociocultural makeup of your staff?

Improved Accountability

We can't improve what we don't measure. Monitoring CSR provides a means of effectively managing performance - and clear evidence of success that can be played back to employees, investors and wider stakeholders.

- How are you measuring the value and impact of your CSR activity? How is it benchmarked? How are you working to improve its effectiveness and the value that you can bring as a business through CSR? And how are you communicating the why as much as the what of your CSR policy to stakeholders and staff?



Narrative development

Tell Bigger, Bolder Stories

Vision applies to marketing communications and public relations as well as product development and market positioning. Situate your company within this changing world and explain how you are creating a better future. Millennials and Generation Z seek brands that reflect their values, as both consumers and as the employees and leaders of the future.

- What is your role in the present and future?
- What is your business doing to make society work better?
- The stories that brands can tell about the way in which they and their products and services fit into society and improve it are those which will find traction with the most engaged audiences, if told with narrative flair and creative expression.

Demonstrate through communication that you know how to play your part.

Partner With New Leaders

Use the company's marketing budgets to support the world you want to see, by partnering with visionary creators, sportspeople and community organisations to support and spread a wider message of social and environmental good than the company can alone.

- Who are the organisations and individuals who best represent your business' values and those of your staff, suppliers and stakeholders?
- How can you work alongside them to deliver common benefit towards aligned goals - and how can this be maximised for reputational and commercial gain?

Choose carefully who you both advocate for and support closely – partnerships that can better prepare you for the future.

How Grayling can help you

If your business is looking to take advantage of change, Grayling can help. We provide a wide range of expert communications services across Europe, including public affairs, public relations and digital communications. Crucially, we have bespoke methodologies like Metis, our global risk analysis process and have harnessed tools like Linkfluence to give a comprehensive view of digital influence in Europe's politicians and policy makers.

If what you have read resonates with you, please get in touch.

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