

BRUNEL UNIVERSITY

CORPORATE SOCIAL RESPONSIBILITY

*The Integration of a Crucial  
New Business Variable into  
the Mainstream of Corporate Activity*

Ph.D.

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## AUTHOR'S NOTE

In developing and writing this thesis, I draw heavily from my direct experience in the field within industry, as a consultant to major European and American companies and as a lecturer in academic and professional institutions on both sides of the Atlantic.

Many of my ideas were originally conceived and developed at IBM United Kingdom Limited and I owe much to a business environment that encouraged original thinking in an uncharted field and supported the practical experiments that I was able to carry out to support my theories. In particular, I am deeply indebted to John Hargreaves, then Director of Public Affairs at IBM, and the co-author of my book "Business Survival and Social Change" for his vision and commitment, for the freshness of his ideas and his ability to communicate them, for his timeless work in persuading other senior executives in British industry to participate in new, often controversial, programs, and for his support, as Chairman of my consulting firm, while I was trying to get the firm off the ground.

The consulting firm, originally Matrix now called InterMatrix, has provided the principal vehicle for the continuing development and implementation of my ideas. The firm could not have been successful without the immense contribution of my senior partners, Geoffrey Morris and Richard van den Bergh, each of whom has also helped me a great deal in the development of new and creative solutions to some of the complex problems involved in the field. Geoffrey Morris in particular, with whom I have worked closely since 1968, first at IBM and since at InterMatrix, has acted as my friend, mentor and kindly devil's advocate throughout and has contributed significantly to my research. I am also indebted to those client companies who made an act of faith and gave me the kind of assignment which permitted in-depth, practical application to my theories. In particular, I have to mention National Westminster Bank, with whom I have been working since 1974 on all aspects of their national and international corporate responsibility policies, plans and programmes.

I need to mention, too, all those involved in helping to start up and maintain the Corporate Responsibility Centre. Trying to establish a new non-profit organization, in what was considered an esoteric field of management, at a time of recurring recessions following the Arab-Israeli War of 1973, was difficult and time-consuming. Without the individuals who accepted my invitation to join the Steering Committee and the companies putting in seed money, the project would have failed. Professor John Stopford, now Academic Dean at London Business School, made a major contribution as Chairman of the Centre. And the work of my assistants at the Centre, first Nancy Treverton and then Katherine Baughman, was very valuable in the compilation of my bibliography.

Thanks are also due to Dr. Alden Lank at the Centre d'Etudes Industrielles in Geneva, Sir James Lindsay (formerly) at the Administrative Staff College in Henley, Dr. John Stopford at London Business School, Dr. Klaus Schwab at the European Management Forum in Davos, Ray Hoewing at the Public Affairs Council in Washington and numerous Directors of company management development programmes, for giving me the opportunity to present my ideas to some excellent graduates, mid-career managers and senior executives.

Not least of the acknowledgements go to John Gooch, my supervisor at Brunel whose understanding, guidance and patience over the years have provided the essential motivation for me to carry out the required work; to Mrs. Penny Reid who patiently typed and retyped the first draft of the thesis; and to my wife, Mary Dauman, who has consistently pressured me to complete the thesis and has patiently spent many invaluable hours reading and correcting proofs.

## A. INTRODUCTION

This thesis marks the culmination of research work started in 1969. The bulk of the work was completed in 1974 and a first draft of the thesis was submitted in November 1974. A significant part of the material, plus some additions, was published in 1975 in a book entitled "Business Survival and Social Change" (co-authored with John Hargreaves - then a Director of IBM United Kingdom Limited).

Then followed a major piece of work to compile a comprehensive bibliography which involved, inter alia, developing a new classification system for the whole subject area of corporate social responsibility. The classification was carried out in conjunction with the Librarian at London Business School and the newly-formed Corporate Responsibility Centre which I founded, established and of which I was Director at the time.

At the time of its completion and submission, in June 1978, the bibliography represented, I believe, the most comprehensive work of its kind in the world. It consisted of two volumes listing the key books, articles, speeches and company documents on all aspects of corporate social responsibility, spanning over 10 years. Although many of the articles may have been classified before under various functional headings, I believe this was the first time the whole subject had been pulled together under an integrated classification system. In addition to its contribution to knowledge in an academic sense, the bibliography has been used extensively by staff in companies and researchers wishing, through the Corporate Responsibility Centre, to enhance their knowledge of the history of and current thinking on corporate social responsibility.

The third aspect of the thesis, which has taken several years, has been the start-up and development of several organizations and programs, the continued survival and success of which have provided the visible support for the basic hypothesis underlying my work of the past 12 years.

This basic hypothesis is that the role of business as an institution and of individual companies has to be extended to include and understanding of, commitment to, and involvement in solving the problems facing the community as a whole, as local, national and international level, not as an act of altruism or social conscience, but as an integral part of meeting the traditional business goal of profitable survival. An important corollary of the hypothesis is that only by integrating corporate social responsibility into the mainstream of its thinking and behaviour (as opposed to leaving it as a "nice-to-have" activity carried out separately on the side) will programs be developed which are effective from the viewpoints of both the company and the wider society.

One of the crucial implications of this hypothesis is that in order to integrate corporate social responsibility into the mainstream, companies have to develop internal systems that treat this new dimension with the same professionalism as more traditional functions such as marketing or finance.

Ideas on how such systems might be developed form an important part of the thesis.

When I first started developing these ideas, there were very few operative systems and programmes in companies which coincided with my thesis. A few companies had started thinking about these matters in the United States but not to the point of developing the systematic approach required. On the Continent and in Britain, there was next to nothing\*.

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\* I am not saying there was no corporate social responsibility activity. Indeed there was a lot in the US following the 1968 urban riots; but most of this was unplanned and responsive without any real philosophy behind it, which is why so many of the programs failed. And, in the UK, most of the activity, e.g. in local communities, was based on the 'paternalistic' model or from the viewpoint of 'giving something back to society'; there is nothing wrong with this, but it is only a very small aspect of what I am trying to prove is necessary and it very rarely resulted in programs which were part of mainline corporate activity.

It seemed to me, therefore, that in order to push the ideas forward and to test their validity, action was required on several fronts. In particular, I saw the need for four main initiatives:

- (1) Companies developing their own internal objectives, strategies and systems and implementing programmes, consistent with the basic hypothesis.
- (2) An independent consulting capability, in order to help companies do this in what, after all, was a new field with little history and proven experience.
- (3) Companies getting together to develop and fund jointly new corporate responsibility programmes consistent with the basic hypothesis.
- (4) Companies getting together to develop the beginnings of a professional association for people involved in corporate social responsibility which, like similar associations for marketing, finance, etc., could provide information, a forum to exchange ideas, general advice and could start developing certain professional standards.

On the basis that my hypothesis could only be tested through the detailed study of their practical application rather than in an artificial "laboratory" experiment, I spent most of my professional and spare time during the 1970's on the four initiatives described above. It has taken the best part of a decade to assess the success or otherwise of this work. In many cases, a project has taken three, four or even five years to go from the concept stage to maturity.

Thus, whereas the core of the thesis, the development of the essential concepts, was completed in 1974, I have needed the time since to develop and implement the four initiatives.

In line with the above, the thesis consists of three main sections, namely Section I - A description of my work on the four initiatives; Section II - the basic thesis, which is essentially unchanged from the first draft submitted in November 1974; Section III - the bibliography, which has already been submitted (and which, therefore, I have not considered necessary to re-submit at this time).

I should point out that (1) quite a lot of work has been done in academic institutions and companies (particularly in the USA) since 1974, although not as much as I would have expected or hoped for; and (2) there have been many developments in the external environment which, although forecasted in the early 1970's, have only made an impact recently. Nevertheless, in going through the core thesis in detail, I find that, apart from some details which would need updating, everything I said in 1973/74 is as valid in 1981. Indeed, in the light of the Conservative Government's declared principles in the UK and the similar but more emphatically declared principles of the Reagan Administration in the US, I would argue that my rationale and conclusions are even more valid in 1981.



## B. OBJECTIVES AND CONTENTS OF RESEARCH

The subject of social responsibility is not just contemporary: it is insistent. "Social accountability", "the responsibilities of business", "the unacceptable face of capitalism", these and many other expressions have become in-phrases that are used widely in speeches by businessmen, politicians, trade union leaders and by other people in our society who are looking for evidence of change. Not a day goes by without a number of specific allusions to the topic now generally referred to as "social responsibility". Alongside mounting attacks on many of the leading institutions in our society, there is a growing awareness within these institutions that a response is needed - a response not just to criticisms, some of which are ill-founded and inaccurate, but also to the genuine demands of a rapidly changing social, political and economic environment.

This thesis is about corporate social responsibility. Its ideas are aimed at senior executives of all organisations engaged in some way in the provision of goods and services, whether they are in the public or private sector, in top management or in the leadership of trades unions.

My objective is to define social responsibility in a way that has meaning and relevance for those who are running our institutions. In no way do I attempt to dispute accepted business objectives: rather I am concerned with exploring a new dimension of business. I aim to introduce activities that are new to business and, by reason and example, place them within the context of marketing, thus making marketing and business strategy in general more relevant to the contemporary scene. I seek to show a means whereby organisations can divert attention from exhortation and channel their energies into practical programmes for action. My belief is that the changing environment

demands such action and demands it now.

I have spoken of criticisms and clearly a large proportion of these are aimed at business - not only at individual companies but at business in general. Surveys in the USA\* in recent years have demonstrated that, without doubt, the image of business has deteriorated rapidly and continue to deteriorate. A survey in Britain (1) shows that a large number of top business leaders feel strongly that similar trends exist here also. Other surveys have confirmed these feelings are prevalent all over the western world(2) And, while in the 1960's the criticisms tended to be limited to a small number of articulate minorities, often with a political bias, this is no longer the case. Attacks come from all quarters, including groups which may previously have been considered as "friends" of business and large sections of moderate public opinion.

In addition to this change for the worse, there is a second trend which is of growing concern to businessmen everywhere. They are less and less able to influence those variables which are of increasing importance to their success or even survival. It is a truism to say that business is dependent on the external social, economic and political environment of which it is part. This has always been true. What is changing is the strength of these environmental variables in determining a business's ability to meet its objectives. I see an evident tendency for objectives not to be met, not necessarily because of any particular internal deficiencies, but more because of problems in the external environment itself. The global monetary situation; national labour disputes; energy shortages; major difficulties in urban management; the growing alienation of large sectors of the community; inefficient government; these are only a few examples of variables having an important effect on business, without business itself having too much to say in the matter. And, of course, the number of variables and their effects increase with the size of the company.

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\* To 1973/74, when the core thesis was completed, but also since

(1) "The Director" November 1973

(2) Management Centre Europe, European Survey on Social Responsibility (1974)  
PRCA Survey on Social Responsibility, 1974.

Thus I see not only a climate of opinion, but also a general external environment becoming increasingly hostile to business and making the prospect of many companies meeting their objectives more and more bleak.

This hostility is not limited to business. We are now witnessing attacks on public sector institutions in both local and central government, on the trades unions and on the universities and, indeed, on the existing order everywhere. For non-business institutions, even though the manifest criticisms may be somewhat different, the overall problem is essentially the same. Today, all institutions are finding it more difficult to meet the changing expectations and growing needs of the people they serve.

I believe that, unless the fundamental problems behind these criticisms are resolved, the institutional framework as we know it today will be in real danger of breaking down without the time to evolve viable alternate forms.

For individual companies and private enterprise in general, the dangers are twofold. First, under mounting pressure, governments will continue to introduce and enforce, as they are currently doing, even more constraining legislation which will make it increasingly difficult for companies to conduct their business effectively and profitably. The second danger is that the social infrastructure, on which business depends, will continue to deteriorate. This, too, will constrain companies' ability to meet objectives.

For the public sector, the dangers are again twofold. The first is that, as governments take further responsibilities upon themselves, the resulting organisational structures will be top-heavy bureaucracies unable to manage the complexity of ever-multiplying problems. The second danger is that pressures, already apparent in some sectors, will mount to by-pass the democratic

process, perceived to be unresponsive, and to attempt unilateral solutions - a situation that can only lead to instability and, ultimately, to anarchy.

For the trades unions, the dangers are, first, that the members they are designed to serve will grow restless with inadequate response to their real needs and will also seek unilateral and unofficial solutions, a situation we are already witnessing. Secondly, the wider community, by whose mandate unions exist at all, will become impatient and will demand action in the short-term which is likely to be detrimental to longer-term interests.

In summary, we have reached the situation in industrialised countries when debate and statements of intent, however, worthwhile, are simply not enough. The only route that can be followed is a carefully planned series of action programmes, based on realistic assessments of current and future environmental trends and directed at carefully defined objectives. Only concerted and relevant action will help improve the overall environment. Only by being seen to be relevant and active can business, government, the unions as well as other major institutions hope to improve their images.

There were many books published in the early 1970's, principally in the USA but also some in Europe, discussing the principles of corporate responsibility. In the main, these books have concentrated on theory, asking the questions "should business become involved in matters of social and community concern?" "Would not such involvement run counter to traditional profit objectives?" There is no shortage of analyses of the role of business, changes in distribution of power and the growing interdependence between business and other sectors in society.

Now, after years of questioning, conferences, seminars and articles, all continuing the analysis, re-examining, reassessing and raising similar questions,

an important aspect of my basic hypothesis is that the debate is over. To many businessmen, a whole sequence of events, the energy crisis probably being the most persuasive, have provided conclusive evidence that business has no choice but to become involved, not because of a sudden change in business values, but rather because traditional objectives, indeed survival itself, are threatened.

And so, for all companies, social responsibility must cease to be a fringe activity entered into as an altruistic or public relations gesture, and become an integral part of mainstream, corporate strategy assuming equal importance with other key activities such as marketing, personnel, finance, Research and Development and manufacturing. Attention in this area is part of a company's survival kit. The materialist may ignore what he calls altruism; the cynic may refer to conscience money; sanity may just recognise that the indirect costs of running a business today have changed and that their payment is neither impractical nor made from guilt but is simply a sensible way to secure a reasonable expectancy from the future.

Thus the focus of the debate has changed from the theoretical question of "why social responsibility" to practical considerations of how business should respond to the new demands upon it and what precisely needs to be done both by individual companies and by business as a whole.

There is an urgent need, therefore, for research leading to a framework of definitions, concepts, systems and programmes which translates theory into practice and offers to businessmen, first, a sound "business" case, based on the concepts to which they are accustomed; second, practical guides to the planning, management and measurement of social responsibility programmes and, third, case studies demonstrating what has already been done and the validity of the theory.

The aim of this thesis is to contribute to the satisfaction of this need. It focusses, in the main, not on those areas of social responsibility which are already well accepted and practised by leading companies, such as personnel and communications policies, and on which there already exists a large volume of academic and practical research, but on the area of greatest controversy and least clarity.

This area concerns business dependence on and involvement with those contemporary problems affecting society as a whole. I call this area "public and social affairs". It is not a substitute for, nor separate from, those practices which are already accepted; rather are they all interdependent and must be practiced together.

The Core Thesis (Section II) is planned in five parts. After a synopsis describing the main elements, Part I is a summary of the debate so far\* and translates general theories of social responsibility into a "business" case. In particular, I focus on public and social affairs and relate this directly to marketing and corporate strategy. I examine the implications of corporate involvement in public and social affairs and suggest principles and criteria for such involvement.

In Part 2 I examine, again in summary, the social, economic, political, ecological and technological trends and changes which make up the overall environmental context within which any organisation must operate\*. I specify the need for continuous monitoring and evaluation of the total environment and suggest techniques by which this can be carried out. This must be the necessary first step before embarking on any programme of public and social affairs. Without it, we are working in the dark.

In Part 3, I look in detail at the objectives, planning and management of public and social affairs, within the context of a company's whole interface with the environment, including its traditional external relations. Leaning heavily on experience and proven techniques, I suggest various structures depending on the size and nature of the organisation. I describe a project planning system and discuss the allocation of financial and human resources.

\* to 1973/74 when this Section was completed

In Part 4 I take up the whole question of social audit. This is a relatively new term for business organisations and one that is still open to many interpretations. By social audit, I mean the measurement and evaluation of an organisation's social performance. I see a real need for this new discipline to take its place alongside the existing audits of technological, financial and management performance. I suggest in this chapter, a structure for measuring social performance and develop criteria for its evaluation and validation.

Finally, in Part 5, I examine public and social affairs programmes in an effort to answer the question, "What practically can and should be done?" I also assess "who does what", identifying the need for action by industry, government, unions, the universities, and schools, individual employees, and so on. I include a special section with case histories of successful public and social affairs projects.

Throughout the core thesis, I try to relate the principles of what I discuss to the activities of two specimen organisations which I have called the XY' and Z companies, and which represent (1) a medium-size multinational public company and (2) a small private company respectively.

My hope and a key objective of the research is that those responsible for decisions in our society will be able to take the book deriving from my thesis and use it in the formulation of ideas and the development of structures, management systems and programmes. A second hope is that those organisations, particularly in business, who have rejected involvement in public and social affairs on the grounds that the concepts were too theoretical and confused, will be influenced to take action by my practical approach. My third hope is that students of the subject will be able to use this thesis as a bridge between theory and the realities of business life

Again, let us be clear that profound changes are taking place which are challenging cherished ideas in business and other sections of the community. These changes will come, whether by reform from within or by more forcible pressure from without. The race is between those who seek revolutionary change in the world and those who, seeing the same things that need to be put right, nevertheless believe that the safer and better way is to develop new concepts from within existing structures. History offers little evidence that forcible change has ever resulted in greater happiness and prosperity. But one thing is certain and that is that, if reform does not come, then the alternative will be inevitable and uncomfortable. The underlying motivation behind my research is to provide principles which, when put into practice, will increase the chances of success of the reformist route.



## C. RESEARCH METHODOLOGY

This thesis is about corporate responsibility. In particular, it is about the formulation of (a) a philosophy of corporate responsibility applicable to contemporary business in the conditions of the last quarter of this century; (b) a consistent set of principles on which companies can base their policies; (c) a consistent set of systematic procedures for determining, implementing and measuring corporate responsibility strategies, plans and programmes.

The research for the core thesis consisted of two principal components, namely:

- (1) Research leading to the formulation of the underlying philosophy, principles and hypotheses.
- (2) Research leading to the formulation of practical procedures for the application of the philosophy and principles by corporate management.

There was then some additional work following the submission of the core thesis:

- (3) Research leading to the demonstration of the practical applicability of the philosophy, principles and procedures.

### (1) Research leading to hypotheses

The research was carried out, over some three years, in a number of steps:

- 1.1 Analysis of business environment: In order to develop a philosophy relevant to the current and future business

environment, rather than to a historical situation, I used a series of analyses from the "futures" work in which I was involved at IBM. This work involved a variety of long-range forecasting techniques, including Delphi and scenario building, to determine the most likely external environment for business from 1970 to the year 2000 and alternative paths to these future pictures from today's situation. It included technological forecasts, socio-political forecasts, socio-economic forecasts and tried to deal with most of the key issues likely to face business in the period. This led to a series of seminars and discussions with various groups in Britain, including politicians, academics, civil servants, church leaders, trade unionists and other "opinion leaders", as well as other businessmen, about these key issues and their implications for business and society. A distillation of these studies and discussions provided the basic overall context for institutional development to the end of the century and a set of needs for the development of new relationships between business and society, if social and political disintegration was to be avoided, both nationally and internationally. I made the value judgement that such disintegration was undesirable and that progressive, evolutionary change was preferable.

- 1.2 Review of literature: A fairly exhaustive review of the published literature on corporate responsibility, in both Europe and the U.S., unfortunately brought limited insights. Most of the books, seminar proceedings and articles available, even those written comparatively recently (1965-72), dealt with (a) business and society relations in terms of principles applicable to the 1960s and before, not to the 1970s and beyond; and (b) business and society issues - analysis of the questions and problems but not coming up with any answers sustainable in practice. There were a few exceptions, notably the work of the late Professor Ray Bauer at Harvard and of Dr. Clark Abt. But,

for the most part, the exceptions were American and directed at a somewhat different business environment. In the period of my review, British contributions were in fact conspicuous by their absence, a state of affairs no doubt compounded by the fact that there was virtually no major academic research programme of any kind on the subject in this country at the time except for some related work by Dr. Beesley at London Business School and the beginnings of Dr. McMillan's work at Henley. This situation was confirmed by the Social Science Research Council in the early 1970s as part of a detailed report by an SSRC Committee chaired by Professor Charles Carter.

The literature of maximum use came in fact from two very different sources. The first was a series of articles and speeches written by senior executives in a few major international companies, such as IBM, Shell, General Electric, Xerox - who were beginning to see the need for change. The second were the basic texts of leading economic philosophers, ranging from Adam Smith to Milton Friedman, whose comprehensive analyses, while originally formulated for different times, provide some of the foundations for an adaptive theory for the 1970s.

- 1.3 Observation of corporate results: Detailed reading of the annual reports of major companies over several years, coupled with discussions with senior executives made it increasingly clear that corporate results, share prices and, in some cases, survival itself were more and more subject to external environmental factors which company after company claimed were "factors beyond our control". Everything and everybody - strikes, inflation, government policies, education, politicians - were blamed for poor results; everybody, that is, except management itself. This did not seem to be a tenable philosophy, particularly when my forecasts showed clearly that changes in the external environment would be greater and more frequent.

1.4 Interviews, seminars, discussions: As the philosophy and derivative principles developed, I tested out their viability and consistency through a wide range of meetings with business managers, civil servants, politicians, academics, friends and philosophers. This included some individual interviews but, more often, I discussed the ideas at seminars and informal discussion groups. Meetings held in St. George's House and sponsored by the Anglo-German Foundation in Britain, seminars at the Centre d'Etudes Industrielles in Geneva and workshops held by the Public Affairs Council in Washington and the Committee for Economic Development in New York, were among the most useful. My purpose was not to achieve consensus; indeed this was never likely, nor did it happen; but rather to ensure that my ideas were tested against a variety of ideas and arguments current at the time.

The distillation of these inputs and discussions led to the basic "three circle" philosophy of corporate responsibility and the resultant principles for the "third circle", i.e. public and social affairs, the main theme of the thesis.

(2) Research leading to procedures

2.1 Review of literature: Finding literature on relevant theoretical principles was difficult enough. Finding published material on systematic procedures for managing corporate responsibility proved to be almost impossible. Indeed, the only directly relevant material I found related to planning corporate involvement in urban affairs programmes in the U.S.

One of the main problems was that most private sector planning and management procedures dealt with inputs and outputs

which were directly quantifiable. In addition, corporate responsibility, as I had defined it, was concerned with the long-term environment while, in reality, most detailed procedures were developed for short-term planning horizons. And finally, of course, since corporate responsibility had not been accepted as an integral part of management, the necessary procedures for its planning and systemic integration into decision-making simply had not been developed, either by companies or the business schools, although some schools in the U.S., such as at Harvard and Berkeley, were starting.

It occurred to me, however, that other activities had some similar features - i.e. they were long-term and dealt with non-quantifiable input and output variables. In particular, I looked at (a) public sector planning and (b) scientific research planning and project selection, on both of which subjects the literature of the late 1960s and early 1970s was very valuable.

2.2 Adapting other techniques: The project planning and measurement techniques which I developed as part of this thesis are an adaptation of several techniques. In particular, they combine elements of the MBO system in the private sector with the Planning, Programming and Budgeting System (PPBS) used widely in the public sector.

As described in Chapter 12 of the core thesis, PPBS is concerned with how to choose between a range of projects, each of which has different characteristics, each of which has benefits which are not directly quantifiable, within a total budget which is fixed annually. In government, the budget is determined by the level of taxation. In corporate responsibility, the budget reflects the level of investment agreed for this activity by top management.

The parallel with the public sector is also appropriate because both are concerned with the overall social, economic and political environments. Both are concerned with creating a climate in which existing systems and organisations can continue to meet long-term objectives, despite conflicting short-term demands.

By talking in detail with a number of government bodies that had adopted PPBS, including the GLC and the Ministry of Education in the U.K. and several Departments of the U.S. Federal Government, I was able to obtain a good idea of the strengths and weaknesses of PPBS and what aspects might be most applicable in the private sector.

Other emerging public and private sector techniques, particularly qualitative, long-term strategic planning, had direct applicability. I obtained most of my information on these from the companies starting to use them, e.g. G.E. in the U.S. and Shell in this country.

- 2.3 Pilot test: While developing the procedures, I was particularly fortunate to be in a position to try them out in real time in a real situation. (As Corporate Affairs Planning Manager for IBM UK, I was indeed responsible for implementing such procedures). Thus for three years, the procedures for strategic planning, project planning, implementation, organisation, measurement and control, as developed in the thesis, were tried, tested, refined and tested again until, by the end of the third year, the system - while still needing a lot of improvement - was generally agreed to be working satisfactorily.

(3) Research demonstrating applicability

The research described in (1) and (2) above led to the development of the core thesis, which is the major part of my work. It also led to the publication of a book "Business Survival and Social Change", which was published in 1975 and which I co-authored with John Hargreaves, then Director of Public Affairs at IBM. My own contribution was to take the general philosophy we developed together and relate it to the mainstream of business theory, and then develop the detailed principles and procedures and the theoretical and applied research behind them, i.e. all the basic elements of the core thesis. In fact, the write-up of the core thesis in Volume 2 includes also a number of the general and descriptive chapters written by John Hargreaves and myself; they are left in as complements to the thesis material, thereby, I believe, making the core thesis more readable.

It is perhaps relevant, in evaluating the contribution of this thesis, to note that my book was "Book of the Month" in Spring 1976 at the Harvard Business School library and was recommended reading for several years at a number of Business Schools, including London, Harvard and Berkeley.

Since the submission of the core thesis in 1975, my research has been based on personal involvement in applying the principles and procedures in a variety of ways, described in Section I. This direct practical experience, while not in the form of a formal research programme, has, I hope, demonstrated, with a wide range of varied examples, the validity and applicability of the core thesis.

### Bibliography

It is also worth mentioning the bibliography in Volumes 3 and 4. This was gathered during eight years of research from 1969. A major task and perhaps a unique contribution in its own right was the development of the classification system. This I did in conjunction with the Corporate Responsibility Centre of which I was then Director and Dr. Vernon, Librarian at London Business School. In addition, the bibliography is selective in that only those items which I felt would be of greatest potential interest to a student of corporate responsibility were included.



#### D. SECTION I - ACTIVITIES IN SUPPORT OF HYPOTHESES

In the Introduction, I suggested that, in order for the concepts developed in this thesis to be widely accepted and converted into practical reality, a number of parallel initiatives needed to take place. One was the development by companies of their own management systems and action programmes. Another was the evolution of research and consulting services to assist companies and extend the concepts. Others were some significant multi-company projects demonstrating my public and social affairs principles in action. And another was a professional organization to act as a focal point for this new dimension in management.

Since 1969, while developing this thesis and in the years since, I have been deeply involved in a wide range of activities under each of these categories. This Section of the thesis summarizes some of the more significant...

Under single-company systems and programmes, I describe briefly some of the projects I helped design and implement first while working for IBM in the United Kingdom in 1969-73, and then as a consultant to National Westminster Bank (1974-81 and continuing).

Under research and consulting services, I describe the evolution of my own consulting companies, The InterMatrix Group, which is the activity on which I have spent most of my professional time since 1973.

Under company multi-company projects, I mention:

- ..... ARC (Action Resource Centre)
- ..... ABSA (Association for Business Sponsorship of Arts)
- ..... RPO (Royal Philharmonic Orchestra)
- ..... LEA (London Enterprise Agency)
- ..... Trident
- ..... Cavendish Leisure Research
- ..... European Architectural Heritage Year

I also mentioned a major Europe-wide research project, involving some 25 major companies, to develop the "social audit".

And under the category of a professional organization I mention the Corporate Responsibility Centre, which I founded personally and of which I was the first Director (part-time).

(A) COMPANY SYSTEMS AND PROGRAMMES

1. IBM

In 1968, I joined IBM United Kingdom Limited as Assistant to the Director of Public Affairs. The Director, who was on the IBM UK Board, was responsible for all aspects of "public policy" and I believe his was the first Board appointment of its kind (in 1966) in Europe and one of the first in the world. One of the main responsibilities in my job was to develop corporate responsibility policies and programmes. Then, in January 1970, I was made Manager of Planning for a new Division, External Affairs, which has responsibility for all IBM UK's relationships with the external environment, except for sales.

As Manager of Planning, my responsibilities included:

- formulating a sustainable long-term corporate responsibility philosophy, consistent with overall corporate objectives, and developing related objectives, policies, operational strategies and programmes
- developing a management system, for external affairs, including planning and control mechanisms
- developing a system for environmental analysis, relating particularly to social and political issues
- integrating social and political issues into the company's strategic plan
- developing specific corporate responsibility projects

I was also given direct responsibility for implementing many of the projects which I developed, including several international projects, which I implemented on behalf of the whole corporation.

The projects were of two types. The first, described here, were projects IBM implemented by itself. The second type, described in Section C, were projects which, although created by my colleagues and myself at IBM, were implemented by several companies in a cooperative effort.

In the period 1969 - 1973, I was involved in company projects relating to science, education, privacy, voluntary organizations, central government, local government, sport, impact of technology on society, physical environment, industrial policy, Britain and EEC, refugees, art, urban problems, youth, handicapped -- indeed nearly every major aspect of "public and social affairs" as I have defined it in this thesis. In each case, the principal goal was a contribution to the overall environment of which the company was part in an effort to help create external conditions consistent with the long-term interests of the company. The four projects described below are good examples of the application of the concepts in my thesis.

#### 1.1 Research Park at Peterlee

In 1968, in a detailed analysis of some of major issues facing Britain, two of the problems I identified were (1) the separation of business, government and academia in the world of science and technology, with the result that (a) there was duplication of effort, (b) there was no synergy and (c) the trend in academic research was toward less rather than more relevance to the needs of society; this in turn led to great waste in a major resource, which Britain needed badly to restructure itself for the world of the 1970s and beyond; and (2) the growing gap between the rich and poor parts of the country and the difficulty development regions were having in attracting new industry. This resulted not only in misery and social malaise but, again, a waste of national resources.

Borrowing from the experience in the US, where the North Carolina Research Triangle was started by IBM and was a major success, my colleagues and I proposed the formation of a Research Park in one of the development areas. The concept was a simple one -- (1) persuade a handful of high technology companies each to set up a small research centre in a Research Park close to a major university; (2) bring a government research facility; (3) create common services, e.g. computing; (4) create the educational and cultural infrastructure to service the scientists. The result would be (1) a critical mass of scientists, from business, academia and government, working close together in a creative environment encouraging cooperation and synergy; and (2) a focal point in later years for industrial development as companies became willing to locate factories near their research facilities because of the new environment.

The idea required an imaginative local government Chief Executive and were found one in the then new Chairman of the Peterlee Development Corporation, who agreed to an experiment and provided the Corporation's full support. IBM UK was the first company to locate a research centre in Peterlee and was leading promoter of the Research Park to other companies.

In choosing what research mission to put into our research centre, we responded to a third major problem in Britain, which was the inadequate use of computers in social applications, such as health, education and local government. We, therefore, decided that the development of such applications would be the centre's primary mission and that each project would be done on a joint-project basis with the relevant government authority and with academic researchers on fellowships.

The planning and funding for the project was justified directly by the project evaluation system I developed and which is described in Chapters 9, 11 and 12 of the thesis.

It was unusual, to put it mildly, for research centre to be developed and managed by a company's External Affairs Division. But according to the project selection criteria I had developed, the centre represented the best way for the company to meet its public and social affairs objectives; and so we cut other, more traditional external affairs programmes to fund the centre. Interestingly, there was no chance, at the time, that such a centre would have been funded by any other part of the company, e.g. the Research Division or the Marketing Division.

It is difficult to measure the results of the Research Park exercise. But there are indicators of success that can be used. (1) As a result of several creative initiatives, of which the Park was a major one in the early years, the Peterlee Development Corporation has been one of the most successful in Britain in attracting investment and developing the town; (2) hundreds of academic and government scientists passed through the IBM research centre, working on projects and creating dialogue; (3) most of the applications developed at the centre we put to use by local and central government, with direct benefit to the community. The education, health, transportation and local government management applications, in particular, made major contributions. From IBM's point of view, it is impossible to quantify the benefits, but it is clear that the project created enormous goodwill (not the primary objective but a welcome spin-off) and, in later years, led to increased IBM sales in areas not previously considered as targets (another welcome spin-off). And in terms of contributing to (1) increasing cooperation in research, (2) helping with industrial development and (3) using the computer to help solve social problems, I believe we achieved all three for a relatively low cost.

What is equally interesting and important to one of the points in my thesis is that, in other countries where IBM started research centres but with marketing or research objectives rather than public and social affairs objectives, the centres generally proved to be less successful.

## 1.2 IBM/LTA Club of the Year

On a much smaller scale, I developed a project in 1970 to try to contribute to the solution of the growing problem of lack of facilities for young people to use in their leisure time. At the same time, in assessing the declining standards of sport in the country, relative to other countries, it was clear that there was a very high drop out rate of young people at school-learning age, again mainly because of the lack of facilities.

Using my contacts in the tennis world, I designed a project with the Lawn Tennis Association to encourage the more than 2,500 clubs throughout the country to improve their facilities, particularly for teenagers. The project was an annual competition, sponsored by IBM and run by me and a representative of the LTA, to find the clubs which had done most in a year to improve their facilities. Although only 13 clubs won cash prizes, the idea was to provide an incentive for hundreds of clubs to make the effort. The criteria for judging were derived directly from the issues outlined above.

One result was that over the 5 years the competition was run, hundreds of clubs did enter the competition and many had indeed made major improvements in terms of providing leisure-time opportunities to teenagers. More important, perhaps, in that it demonstrates the catalytic effect of a well-designed public and social affairs project, was that the competition led to two long-term LTA initiatives which are now having a sustained effect on British tennis clubs. The first was the publication of

a Club's manual, which is now updated annually, and is invaluable to Club managers in running their Clubs. But, more important was the formation, for the first time in the LTA's history, of an LTA Clubs Committee, which now the permanent official Committee responsible for the health of clubs and promotion of improved facilities. To me, these are significant indicators of success.

### 1.3 UN Environment Programme

The first major world environmental conference, organized by the newly formed United Nations Environmental agency, was held in Stockholm in 1972. It brought together all the world's governments to discuss hundreds of proposals and come up with a major global programme aimed at protecting and improving the physical environment.

Using the arguments in the thesis, I persuaded IBM corporate headquarters that (1) it was in IBM's long-term interest to support the objectives of the programme and (2) as a company, we should contribute in any way we could. As a result, I was asked to take a small IBM team to the Conference.

There were several major problems at the Conference which I tried to tackle, albeit in a limited way. The first was that although many of the issues and proposals related directly to the activities of multinational companies, there was very little understanding among delegates of the objectives, structure and activities of these companies - with a result that a lot of the debate made little sense. The second was that most of the proposals to help solve the world's environmental problems involved the use of computers; this was fine except that many of the specific recommendations called for computer applications that had not yet been invented!



I set myself the task, therefore, was to talk with as many delegations as would listen, and trying to create greater awareness of the realities of multinational companies and of computer applications. The goal was to get these delegations to change the wording of the various proposals and resolutions to reflect what was reasonable and feasible.

There were two main results of this initiative. The first was that three of the more important delegations did introduce, and successfully, new wording I had helped draft. The second was that, after making my report, I persuaded IBM to investigate in depth the possibility of developing some of the new applications the Environmental Programme required to be successful.

One could argue that these were not significant successes. The point here is that no one company can solve the world's social problems. But an effort by hundreds of companies, each making their own small contribution, can make a major impact. And, further, the catalytic effect of a small project cannot be underestimated. From those small beginnings, IBM, and many other companies, now have major programmes of cooperation with the UN and other international agencies.

#### 1.4 Management in Voluntary Organizations

Another major problem my group at IBM identified was that the non-profit voluntary organizations, which are such an important element in filling the gap in social need provision left by the government, were being run by people who were more concerned with the problems of the needy than with good management. We were concerned, therefore, that (1) such organizations were not being as effective as society needed them to be and (2) money we might contribute would not be effectively spent.

My proposed solution was, again, the provision of a catalyst for long-term benefit. Instead of giving money, we would make a bigger contribution by providing one of the resources we had which was really very good, i.e. management training. And so, my colleagues and I devised a programme with two components. The first was to develop a management course for heads of voluntary organizations, run by our management training specialists. The first such course attracted some 20 participants and was considered very successful. The programme has been repeated several times since, again very successfully. The second component was to encourage skilled managers, financial experts and project managers from inside the company to spend a few hours per week working with voluntary organizations and lending their expertise and practical experience. The important element here was the development of a company policy which allowed individuals to carry out such activities in company time. This policy has proved popular with both company personnel and the receiving organizations and works well in most cases.

Again, an important aspect is the catalytic effect. Not only is IBM doing a lot more along these lines, many other companies are now following suit.

I am convinced that one of the main reasons these projects, and there are other examples, have been successful is the philosophy behind them. They are seen as important to the long-term of the business. They, therefore, command top management commitment, use good people and are subject to rigorous planning and control. This is the essence of the argument in this thesis.

The management system for external affairs, later called "corporate affairs", which I developed for IBM UK was essentially as described in the thesis. It was tried and implemented and it worked. To the best of my knowledge, IBM UK was the first company in Europe, if

not the world, to have a workable system, by which I mean a comprehensive system through which all corporate affairs strategic and operating plans were formulated, projects evaluated and selected and the division's performance measured against agreed objectives and targets.

A small indicator of success was that IBM companies in other countries started to introduce the system and, indeed, my colleagues and I were asked to prepare the corporate affairs planning guidelines for the whole of IBM World Trade Corporation, then responsible for all IBM activities outside the USA.

## 2. NATIONAL WESTMINSTER BANK

In 1973, by forming a Board Social Policy Committee, chaired by the Chairman of the Bank, National Westminster took the first step in institutionalizing its commitment to corporate responsibility. At the same time, I was asked by the Bank to advise them on setting up a systematic approach to deal with the social and political environment and to develop effective corporate responsibility policies, plans and programmes. I am still retained by the Bank in this capacity and, over the last 8 years, my colleagues and I have been involved in gradually introducing to National Westminster most of the ideas described in this thesis. These include:

- a social and political intelligence system, working alongside the major economic intelligence system, providing early warning on issues and trends and their implications for the Bank. This is now institutionalized as a regular part of Bank routine.
- a corporate affairs planning system, relating corporate affairs goals to overall Bank goals
- a programme of community audits, leading to carefully planned local community projects throughout the country (see below)

- an international code of conduct used by top management in determining Bank behaviour overseas
- a Bank corporate responsibility policy, approved by the Board
- criteria for evaluation and selection of corporate responsibility projects
- public and social affairs projects aimed at improving many different aspects of the social, political and economic environment in Britain, at national and local level.

In developing its public and social affairs projects, the Social Policy Committee has accepted the principles described in this thesis and, with my help, has developed appropriate planning, evaluation, selection and measurement criteria. A few of the initiatives in which I have been involved serve as good examples.

The first, and in a sense most important, is the Bank's corporate responsibility policy which I developed and was approved in late 1975. As can be seen from the text in Appendix A.1, it is a far reaching statement deriving directly from the concepts in this thesis.

The second is the development of the community audit - using many of the ideas introduced in Part 4 of the thesis, on social auditing, I carried out pilot community audits for the Bank in three cities, Nottingham, Norwich and Sheffield. The results, shown in Appendix A.2, led to a proposed action plan, many aspects of which were implemented successfully by the Bank in subsequent years. An important derivative was the production of a community audit manual (see Appendix A.3) which the Bank has been using ever since to carry out its own audits in other cities.

The long-term impact on local communities of the Bank's projects cannot be measured. What is clear is that, through systematic

planning and procedures, Bank resources are being deployed more cost-effectively and the projects selected are aimed at priorities in the communities involved.

The third is a programme aimed at helping small businesses. I was discussing with the Bank the importance of the small business sector, and the rationale for a public and social affairs effort to help small businesses as far back as 1975, a long time before the current debate. As can be seen in Appendix A.4, my arguments derived directly from those in this thesis. A number of my ideas in Appendix A.4 formed the basis of the Bank's small business programme.

And the fourth is a project, which has now been running successfully for over 5 years, called Project Respond which, as can be seen in Appendix A.5, is a project for schools designed to assist in developing the awareness of pupils of the environment, social needs and community living within their immediate surroundings and their own ability to resolve problems. The objective, clearly, is to help to grow a generation sensitive to these issues and with ideas on what needs to be done.

These projects, all from one company, and representing only a few examples from a major programme of the Bank's activities (see also Chapter 21 of Section II), demonstrate what can be done providing there is commitment and the rationale coincides with overall corporate goals.

### 3. OTHER COMPANIES

Since completing the core thesis, there have been numerous examples of corporate involvement in public and social affairs all over the world. Most, still today, involve American companies since the philosophy I describe in this thesis is considerably more prevalent in the US than in Europe.

What is encouraging is the number of public and social affairs projects being carried out by multinational companies in host countries. Some examples of this international corporate citizenship are shown in Appendix A.6.

(B) RESEARCH AND CONSULTING SERVICES

I believe that the best supporting evidence for the validity of my hypothesis and the related management principles and techniques described in this thesis is represented by the evolution of the research and consulting organization which I founded in 1973 and have been running ever since as its Chief Executive.

The original operation, Matrix, was started in 1973 as a Division of Young & Rubicam, the huge international communications company, specializing in advertising and public relations. Matrix's mission, which has remained unchanged, was to help companies understand their relationship with the external environment and adopt appropriate policies, plans, practices, programmes and management systems to respond effectively to that environment. My internal developmental goal was to develop all the techniques required, expanding on those described in the thesis, to ensure that this new dimension of management was treated with the same professionalism as other crucial functions.

I set three important tests, both for the hypothesis and the business. These were (1) could my business survive as a commercial enterprise, thereby confirming the emerging market need which I saw as one key indicator in confirming the validity of the analysis? (2) would our services be used by Boards of Directors, line managers and planners, thereby confirming the acceptance of corporate social responsibility in general and public and social affairs in particular as integral to the mainstream of corporate activity? (3) would our recommendations on policies, plans and programmes be acted on, and with what results? This was really a corollary of (2).

In 1973, there were only very few companies taking a professional approach to corporate responsibility. (That is not to say that companies did not have programmes. Many, of course, did. But the great majority of these programmes were carried out either as

gestures of altruism or as extensions of public relations programmes with the objective of improving the company's "image". There is nothing wrong with altruism or PR as reasons for certain activities. But this is not what this thesis or Matrix is all about). As a result, in the early years, most of my work was with staff groups, mainly in "public affairs" departments -- doing interesting work in line with Matrix's goals, but with people who were usually on the periphery of the company and without the internal mechanisms to relate this work to the mainstream. There was a shortage of resources, too, since whatever the philosophy of the staff group, management judged it according to traditional criteria i.e. an important but non-essential operating expense rather than an essential investment in the future.

The first significant development in Matrix's evolution was when I took the decision to take Matrix out of Y & R and set it up as an independent private company, with its own shareholders, etc. There were several reasons but one of the most important was that my clients and prospects were beginning to recognize the basic distinctions between "public and social affairs", as defined in this thesis, and traditional communications activities represented by Y & R and told me that it was confusing and even detrimental to be operating under the same roof. The Matrix concept was seen as new and different.

And so, in November 1975 my co-founder and I set up Matrix Corporate Affairs Consultants Ltd., the first company in what is now the InterMatrix Group.

When this new company started, it had four clients and a committed fee income of only some £1500 per month. Three years later, it had over 30 clients and managed a fee income in excess of £10,000 per month.



At this stage, the international character of Matrix's business and its growth rate led to geographic diversification. In 1978, 1979 and 1980 my partners and I set up companies in Switzerland, the United States and Italy, bringing in new capital and new partners with numerous associates and, in other companies, forming the InterMatrix Group.

Then in March 1981, we formed InterMatrix Regional Services to deal specifically with an emerging market for InterMatrix's services in Japan and the Middle East.

The group achieved gross revenues of (US dollars) \$300,000 in 1978, \$450,000 in 1979, \$620,000 in 1980. 1981 revenue will be about \$800,000 and, in 1982 we plan to pass the \$1 million mark.

### The Three Tests

- (1) The business has stood the test of time, has survived commercially and has grown. The main constraint on growth and profitability has not been competition from other consultants but creating the acceptance that something new and different needs to be done. However, whereas in the early years, Matrix was one of the very few consulting companies specializing in public and social affairs (as defined in this thesis), indeed I believe we were for some time the only such company in Europe, the last 2-3 years has seen a rapid increase in the number of competitors, particularly in the USA. This increasing demand for services is an additional indicator of growing acceptance of the concepts.
- (2) In some ways, the second test is the most crucial. Are the concepts not only being accepted but integrated into mainstream corporate activity?

The biggest change in InterMatrix's business over the last 3-4 years and accelerating rapidly in the last two has been in the management function with which we work within client organizations. Whereas, as mentioned above, at the beginning my colleagues and I worked mostly with public affairs staffs on the periphery of the organization, nearly all our recent work is with senior line management, corporate planners and staff functions, such as marketing, personnel, finance, which have the resources and authority to instigate real change in the organization. This development, of course, grows the market enormously and is the main reason for the surge in the number of competitors.

The result is that I am now seeing, in a growing number of companies, (see client list in Table 2 of Appendix I-B), the direct application of the concepts in this thesis to corporate strategy and management decisions. Just a few recent examples will justify this crucial conclusion:

- (a) For several major multinational companies, InterMatrix is helping build into their strategic plans, the impacts of social and political trends worldwide -- not as an interesting "academic" exercise, but tied into every other aspect of the plant with corresponding strategies. Thus, the crucial links between public and social affairs and the more traditional economic, market and competitive analyses are recognized and being acted on. For most of these companies, despite their widely-recognized sophistication in strategic planning, this is the first time these new variables are being incorporated in a systematic and professional fashion -- and directly using many of the concepts developed in the thesis.

- (b) For several companies planning new investments in developing countries (specifically Nigeria, Indonesia, Mexico and Brazil), in addition to more traditional country assessment, at my suggestion we have worked on incorporating public and social affairs analysis into the investment decisions and operational recommendations. In all cases, this analysis has altered the nature of the decision -- not whether or not to invest -- but how the investment should be made, related costs, staffing, relationships with the host country, etc.
- (c) With one very large company we are working on developing criteria for assessing country managers in terms of how effective they are in planning for and managing public and social affairs in the country for which they are responsible. In a real sense, this is the ultimate test of how seriously the company is taking public and social affairs. In considering overall rating, this company assigns as much as 25% to "dealing with the external social and political environment", within which public and social affairs is a major component.
- (d) As a result of our advice on the social and political impact of alternative strategies, a large American firm radically changed its planned approach to closing one of its factories in Belgium. This was the first time this company had considered many crucial social factors and, in previous shutdowns, it had experienced serious problems which were avoided this time.
- (e) Through the use of fairly sophisticated early warning systems on social and political trends, which I helped set up, a major company has managed, through involving itself in the public policy process in several countries and in the EEC in Brussels, to help several governments achieve their

policy objectives without constraining legislation, which would certainly have been implemented without the company's intervention and would have cost the company millions of pounds.

Several points used to be made about these examples. The first is that, in each case, they represented the first time the company had added the public and social affairs dimension to a major business decision. The second is that top management has been involved in each case. And the third is that the techniques elaborated in my thesis have been applied and seem to work.

- (3) The examples above lead directly into my third test, i.e. whether real action is taken and with what results.

As described in the rest of this Section I, I have been involved since 1969 in a wide variety of public and social programmes, resulting directly from my analyses and recommendations, and involving a single company, or groups of companies. What is significant, however, as for test (2), is the acceleration in the last 2-3 years in the use of my recommendations leading to specific programmes -- this is obviously clearly related to senior management acceptance of the importance of the changing external environment and their direct involvement in the programmes.

There are two main types of programme which apply here. The first is the internal system setup to deal continuously with social and political issues. The second are the specific strategies and projects designed to deal with specific issues. With systems, the number of which is increasing rapidly, particularly in American companies, results so far have been mixed, in that they have been adopted much more easily and

are used much more effectively in some companies than in others. In every case, (a) the degree of Chief Executive or Managing Director commitment and (b) how extremely all key line and staff functions are involved right from the start, are the crucial variables. In every case, too, it is far too early to judge the effectiveness or long-term viability of the system. From my own experience (which stretches back to 1969), I judge that it takes anywhere between 5 and 7 years for a new management system to be fully institutionalized. Only a very few of the ones I know have been going for more than three years. For many of the specific projects, it is also too early to evaluate the results, since they are designed as long-term investments and have only recently been started. For projects such as (b), (d) and (e) described above, although in each case there seems to be all-round satisfaction with the result, it is difficult to be specific; one of the main effects of actions taken was to prevent a constraining change in the environment and, as with insurance or a lawyer's advice, it is impossible to prove a negative. On the other hand, several projects, such as those described in other parts of this Section, have been going enough time to be evaluated.

(C) MULTI-COMPANY PROJECTS

One of the core arguments throughout my thesis is that a vital element of a company's responsibilities is its need to contribute to the health of society as a whole. Since a change in the external environment in a community affects all the companies who form part of that community, it is not only reasonable but desirable that companies band together in joint public and social affairs efforts to address the problems, rather than acting alone. This rationale and its implications are described in Chapter 5 of the core thesis.

In addition, since I am concerned with shared responsibility in a total community effort, the partnership has to involve the public or voluntary sectors, which have the mandate to deal with these problems. The criteria for business involvement in public and social affairs are described in Chapter 19 of the core thesis.

Two key tests of the validity of the argument and derivative criteria are (1) their acceptance among the various institutions; and (2), closely related, the formation and successful implementation of specific projects directly applying the criteria and involving the institutions.

In Chapter 21 of the core thesis are described a few case histories illustrating public and social affairs activities at the time of core thesis completion i.e. 1974/75. Most were in the U.S. A few in Britain were new initiatives.

I believe it fair to say that, with only one or two exceptions, every significant multi-company public affairs project in Britain, started in the period 1969-73, was initiated by or had the heavy involvement of a small group of executives at IBM, including myself.

By and large, progress has been slow. Some of the projects took several years to reach the point where they could be considered a success. Some project ideas, initially formulated in 1969-71, were not converted into practical reality until 5-10 years later. And some still remain as proposals. The main reason, it seems, is that, in Britain, the concept of public and social affairs flew in the face of several traditional behaviour patterns. The first was that public policy and social problems have been seen as the exclusive preserve of public sector and voluntary organisations; the view in these organisations was that business should pay, through taxes and donations, but should not be directly involved. Indeed, any attempt at involvement was seen with intense suspicion by politicians, civil servants, local authorities and voluntary organisations. This was particularly true in the early years, when, after all, there was virtually no experience of cooperation.

The second tradition broken by public and social affairs proposals was the corollary of the first, in that business had no history or experience in the proposed involvement, had little understanding of the public and voluntary sector and, indeed, viewed the sector with distrust.

Nor was there any tradition among companies towards working together in a common effort aimed at a community goal.

One of the most difficult barriers to overcome, and this remains true today, was resistance to the argument that public and social affairs is a long-term investment in the company's own future. Actually, it is not resistance to the argument per se that is the main problem but persuading British management, with its very short-term orientation in terms of goals and rewards, to do anything at all.

Nevertheless, despite these barriers and despite the negative economic climate which has generally reduced corporate resources

available for investment, numerous projects have started and are successful. And the success of projects, such as the Action Resource Centre and Trident (see below), has done a great deal to change attitudes and provide the catalyst and inspiration for a range of new projects started more recently.

A few examples follow of projects in existence today, the original idea for which was conceived by a few colleagues and myself. Some I helped translate into reality; others were born later.

1. Action Resource Centre (ARC)

ARC was developed in the early 1970s by John Hargreaves (Director of Public Affairs at IBM UK) and myself, drawing directly from the theory developed in this thesis. Indeed, one initial objective of ARC was to prove that the theory was viable in practice.

I was heavily involved in every aspect of ARC's creation, its experimental phase and subsequent development as a viable, independent organisation. Indeed, ARC's logo, which I developed, is derived directly from the "third circle" theory described in Chapters 3 and 4 of the core thesis. ARC's way of working and criteria for project selection derive directly from Chapters 5, 19 and 20. It has been "sold" to companies, from the start, using public and social affairs arguments.

The basic structure of ARC is described in Chapter 21 but it has gone a long way since that description was written for the core thesis. When it started, in 1973, it had taken a year or more to obtain the support of no more than one dozen companies. Now (see Appendix C.1.1), over 150 companies provide ARC with financial support and over 100 are currently involved in ARC projects. Starting in London, there are now regional ARC centres all over the country, bringing



together local business, local government and local voluntary organisations. The concept of secondment, i.e. providing the resource of experienced company personnel to work on community problems, has been accepted - by all sectors of society - as a valid and valuable corporate contribution. Companies have also noted the other benefits of secondment, e.g. to the seconded employees themselves. (see Appendix C.1.2).

In the last few years, ARC has concentrated its efforts on one of Britain's greatest problems, i.e. creating permanent jobs in local communities. Some examples of its activities are described in three recent Newsletters, included as Appendix C.1.3.

I believe that the durability, growth and success of ARC, including the effective countering of a lot of opposition in the early years, is one of the more important pieces of evidence in support of my hypothesis.

## 2. Project Trident

Trident is another project initiated by IBM UK and a handful of other companies in 1972, and its early experience is also described in Chapter 21 of the core thesis.

Again, as with ARC, Trident was set up using the principles and criteria of public and social affairs. Again, it was first set up as an experiment and, in the early years, found limited support. Again, the principles won though and, with a major effort from its staff and advisors, Trident is now fully established and successful.

While ARC was set up, deliberately, with a broad mandate in terms of the project areas it tackled - the focus being on secondment - Trident was set up to tackle a very specific national problem - the ill-preparedness of children leaving school for the "real" world of work

and community. Its aim, therefore, was and remains - "the advancement of the education of young people aged fourteen and upwards by helping them discover and develop their individual potential, and to foster their maturity, by providing opportunities for self-development, personal service and work experience".

After a small beginning in Hampshire, involving half-a-dozen schools and a handful of companies, Trident has grown to the point that, in 1980, 17,000 pupils from 460 schools in 22 towns all over the country were involved in job opportunities with 3,600 employers (See Appendix C.2.1 - Trident Annual Report).

Further details of Trident projects are described in Appendix C.2.2.

Trident, like ARC, has long since outgrown its original creators. IBM, although heavily involved in the first few years of each project, became just one of dozens of participating companies once the projects were off the ground. And, very deliberately, my colleagues and I dropped out of the limelight; because, in order really to prove our point, the projects had to succeed as true multi-company projects without any single firm dominating. This they have clearly done.

### 3. Business Sponsorship of the Arts

In the early 1970s, it became clear that the arts in Britain were severely underfinanced compared with arts in other major Western countries. Using the public and social affairs principles, I argued the need for business to become the new patron of the arts, taking over from the wealthy individual patron, in order to maintain and expand the cultural heritage on which the growth of society depends. I argued further that this required companies to act not only individually but collectively.

- 3.1 Royal Philharmonic Orchestra. As a member of the Executive Committee of the RPO Association, I was asked, in 1972, to run the Development Committee with the objective to raise money for the Orchestra from industry and commerce. As a first step, with the help of the Orchestra Board, I wrote a book "Developing a partnership between Business and the Arts - The Case for Sponsorship", which was distributed widely. (Appendix C.3.1 is a summary of the book). The book, which argues the case for sponsorship along public and social affairs principles, formed the basis of our approach to companies. In the first year of our development drive, our approach found five major sponsors for the Orchestra, plus many others providing limited but very valuable support.
- 3.2 ABSA. My first attempts in 1971, to set up a central clearinghouse for corporate sponsorship of the arts, failed. Too few companies at the time recognised the value of working together. Generally speaking, nearly all arts sponsorship was for publicity reasons and companies feared that collective efforts would dilute their visibility. The public and social affairs argument was not accepted, except by a small handful of companies.

My second attempt, in 1973, also failed but, by this time, there was growing support, and a couple of years later came the beginnings of the Association for Business Sponsorship of the Arts, formed by a group of companies, with IBM UK playing a major role.

Again, as with ARC and Trident, the initial period was characterised by some resistance and suspicion. Again, as with ARC and Trident, ASBA is now an established feature of the British arts scene, playing an invaluable role in providing support. (See Appendix C.3.2). Again, from small beginnings

with a handful of companies, today several hundred companies are involved.

4. London Enterprise Agency (LEA)

A group of nine major British companies combined in April 1979 to launch the LEA with the aim of (1) helping to promote the growth of small businesses; (2) contributing to inner city regeneration; and (3) acting as a focal point for providing assistance from large companies to small businesses. The LEA's first annual report is shown as Appendix C.4.

One of the leading companies from the beginning was IBM UK and, while I can take no credit at all for the LEA as it is currently set up, it is worth mentioning, because the original idea was formulated in 1971-72, at the time my colleagues and I were developing public and social affairs priorities for IBM. We argued that, in a competitive economy, big business needed a healthy small business sector to provide necessary services, innovation and new jobs. We argued further (see Appendix A.4) that the environment in Britain for small businesses was poor and deteriorating and that big business had a vested long-term interest in contributing to the improvement of this environment. My first proposal was that IBM should be involved on three fronts, namely (a) setting up a small venture capital fund, for high-technology entrepreneurial projects; (b) acting as an "uncle" to selected small businesses in IBM locations, providing managerial and other support; and (c) taking the initiative to set up a multi-company effort to do (a) and (b) on a national scale. At the time, the company was reluctant to go it alone - it was already the main catalyst for several projects; and the concept of big business supporting the small seemed totally alien to most other British companies, although it was increasingly accepted in the USA.

It took another seven years for politicians and businessmen to realise the role of small business. With this realisation have come a rush of initiatives, of which the LEA was one of the first. It seems to be successful but, after two years only, it is too early to judge.

#### 5. Cavendish Leisure Research

In the summer of 1978, I discussed with Sir Anthony Burney (then Chairman of Debenhams) the application of the principles of public and social affairs to the provision of leisure facilities in Britain. We agreed that there was a sustained and growing demand for active leisure. At the same time, nearly all facilities, apart from non-profit private clubs, were provided by local authorities. The result was subsidised leisure, poorly delivered, with the private sector barely involved. We therefore agreed that business had a responsibility to become involved and, in a cooperative effort with local communities, help satisfy the growing need. We also agreed that, if our ideas were valid, the effort should succeed on a commercial basis.

Accordingly, we initiated a new multi-company concept - Cavendish Leisure Research Ltd. - which is described in Appendix C.5.

Bringing together several disparate companies, plus the local authorities, architects and bankers that need to be involved in any major project, has proved time-consuming. The current status is that four major projects are being negotiated, each involving private sector-public sector cooperation. Although it is too early to judge the success of the venture, what is encouraging is the widespread acceptance and support for the principles on which it is based.

## 6. European Architectural Heritage Year (EAHY)

As described in Chapter 21 of the core thesis, in 1974/75 EAHY was initiated by the Council of Europe to awaken interest in and preserve and enhance the common architectural heritage. At first, only governmental and voluntary organisations were involved in the programme of activities. However, at the initiative of Rank Xerox, an International Business Committee was formed to coordinate the role of business and commerce in the campaign. My role, as advisor to the Chairman of Rank Xerox, was to write the terms of reference, develop the arguments to encourage business involvement and to prepare the plans.

As a result of the initiative, Business Committees were formed in every major country in Europe and hundreds of companies became involved. One of the most active and successful national committees was that in the UK, chaired by Peter Parker, and whose objectives derive directly from my public and social affairs principles. One major indicator of its success is that the British Committee continued after EAHY and now is a permanent feature of business' contribution to the enhancement of the physical environment in Britain.

## 7. Social Audit

In Part 4 of the core thesis, I introduce the concept of the social audit and argue that, in order for real progress to be made in the development of this vital management tool, a lot of in-company experimentation was required. These chapters were written in 1974 and, at the same time, I formulated a multi-company research project to provide this experimentation (see Appendix C.7.1).

It was difficult to obtain the support either of British business or British academic circles. Fortunately, however, I was able to develop a joint project with the Battelle Institute in Frankfurt which was also on the point of launching a multi-company project with similar objectives. The result was a two-year programme, which cost in excess of £200,000 and which was sponsored by twenty-five major companies in Europe, covering most industrial and service sectors.

It is not the role of this thesis to go into the results of this research programme, since it covered all aspects of non-financial measurement and reporting and is complex enough for a thesis in itself. A summary of some of the highlights is shown in Appendix C.7.2. This focusses on the "state of the art" and I include it to show the very high level of social audit activity in Europe, most of which started around 1976. It is also interesting that companies, although initially resistant to the idea of cooperation, realised that not only was the project valuable to them, they had a corporate responsibility to develop this field further.

**(D) TOWARDS A PROFESSIONAL ORGANISATION**

I have argued that if corporate responsibility is as important a function to the profitable survival of companies as is marketing or finance, then it needs to be institutionalised, not just inside companies but also in terms of developing a "profession". The first step, it seemed to me, was to set up a central organisation which could act as a focal point for all aspects of corporate responsibility.

And so, after several months of preparation, November 1976 saw the launch of a pilot project called the Corporate Responsibility Clearinghouse, of which I was the founder and part-time Director. As a result of this experiment, backed by a handful of companies, I then took the project further and, with an eminent Council, set up a fully operational organisation, called the Corporate Responsibility Centre (CRC). (see Appendix D.1)

The CRC is based on the definition and principles of corporate responsibility as described in this thesis. Its objectives, which have remained the same till today, are:

- (1) To encourage and facilitate the exchange of information on all aspects of corporate responsibility;
- (2) To provide a focal point for discussion on key issues relating to corporate responsibility;
- (3) To assist companies in reviewing their present and future efforts in corporate responsibility;
- (4) To assist academics, researchers, government officials and others not in the business sector in their appreciation of and work in corporate responsibility.



After a slow start, the Centre has developed step-by-step to meet each of these objectives. Appendix D.2, the report of the current Development Director, describes the progress that has been made. There are now twenty five permanent corporate members and many more companies that participate in specific events. The CRC's continually expanding data base and its seminar programme are being used by more and more companies as an integral part of professional training and there are now proposals to produce a professional journal.

There is still a long way to go before the CRC can call itself a professional organisation; but I believe a good start has been made.

## SUMMARY OF APPENDICES

<u>No.</u>	<u>Name of Document</u>	<u>Source</u>
A.1	Developing a Group Corporate Responsibility Policy - Oct.75	National Westminster Bank 41 Lothbury, London EC2P 2BP
A.2	Local Community Audit Phase 3 Report - Feb.76	National Westminster Bank
A.3	Community Audit Manual - Nov.76	National Westminster Bank
A.4	Corporate Responsibility - Small Businesses A Discussion Paper - Dec.75	National Westminster Bank
A.5	Project Respond - 1981	National Westminster Bank
A.6	Case Histories of International Corporate Citizenship Projects	International Management & Development Institute, Washington, DC, 1979
B	Research and Consulting Services July 1981	Matrix Corporate Affairs Ltd. 4 Cromwell Place, London SW7 2JJ
C.1.1	Business Skills in Community Action	Action Resource Centre, Henrietta House, 9 Henrietta Place, London W1M 9AG
C.1.2	Promote your Employees Aspects of Secondment	Action Resource Centre
C.1.3	ARC News - July 1981	Action Resource Centre
C.2.1	Project Trident - 8th Annual Report 1979-80	Trident Trust, Robert Hyde House, 48 Bryanston Square, London W1H 1BQ
C.2.2	Project Trident - an explanation	Trident Trust
C.3.1	The Case for Sponsorship - Management Summary	The Royal Philharmonic Orchestra 97 New Bond Street, London W1Y 9LF
C.3.2	Business arts sponsorship given Royal seal of approval - November 12, 1980	The Daily Telegraph
C.4	First Annual Report 1979-90	London Enterprise Agency 69 Cannon Street, London EC4N 5AB
C.5	Cavendish Leisure Research - explanation of aims	Cavendish Leisure Research Ltd. 1 Montague Street, London WC1B 5BP

<u>No.</u>	<u>Name of Document</u>	<u>Source</u>
C.7.1	Proposals for an Action Research Programme	Matrix Corporate Affairs Ltd. 4 Cromwell Place, London SW7 2JJ
C.7.2	Developing the Corporate Social Report - The European Experience Dec.77	Matrix Corporate Affairs Ltd.
D.1	Proposal for a Corporate Responsibility Centre - July.78	Corporate Responsibility Clearinghouse 359 The Strand, London WC2
D.2	Development Director's Presentation Annual General Meeting 3 June 1981	Corporate Responsibility Centre 359 The Strand, London WC2
D.3	Newsletter No. 10, Spring 1981	Corporate Responsibility Centre

VOLUME 2

E. SECTION II  
THE CORE THESIS

NOTE: Most of the research for this thesis was carried out in 1969-74, and the first draft was submitted in November 1974. This submission contains few changes to that first draft.

## S Y N O P S I S

### PART 1 - THE BUSINESS CASE FOR SOCIAL RESPONSIBILITY

#### 1. An Historical Perspective

The Protestant Ethic and Laissez-faire; the second generation and enlightened self-interest; the post World War II period; interdependence and involvement; new indirect costs of business; social goals and business management; the changing balance of power; the new social contract.

#### 2. The Debate

A survey of the polarisation of thinking between those who see social responsibility to be a deflection from the prime role of business and those who feel company giving and social service to be correct but who have not related this activity to marketing objectives. The resolution of the debate.

#### 3. Definition and Classification of Social Responsibility

The need for definition; classification; Level 1: basic

responsibilities; level 2: organisational responsibilities; criteria for Level 2 action; Level 3: societal responsibilities; distinctions between Levels 1, 2 and 3; defining social responsibility; social responsibility: an integral part of corporate strategy; total responsibility; public and social affairs.

4. Public and Social Affairs: the Business Case

The circles of government concern; the profit motive; corporate strategy, marketing and control; the changing nature of the market place; partnership or else ....; explosion of knowledge; changed value systems; the marketing cycle; revenue minus costs equals profits; company demand; response to change; industry demand; share price; business demand, review of the investment mix; features of Stage 1 response; a new allocation of resources; self-determination or abdication?;

5. The Implications of Corporate Involvement in Public and Social Affairs

Business and the statutory authorities; implications of social involvement; the feasibility of business effort

PART 2 - THE BUSINESS ENVIRONMENT

6. The Backcloth - underlying trends

The acceleration of change; an age of technology; total "revolution"; a distribution society; the ecological crisis; the shrinking world; the multinational corporation; conservation and waste; inflation; limits to growth; interdependence; the implications for business

7. Environmental Analysis

The need and difficulty; the need to manage change; difficulties of the qualitative approach; the credibility of the analysis; the authorship and structure of the analysis; an intelligence desk; sensitivity analysis; the technique in practice; supporting material; a typical report; the effect of the report; tables for the XY Company

PART 3 - THE MANAGEMENT SYSTEM FOR PUBLIC AND SOCIAL AFFAIRS

Foreword: The XY Company Chairman's statement; profile of the XY and Z companies; introduction to the management system

8. Strategic Planning for Corporate Affairs

The importance of the plan; Time-frame; Flexibility; Contingency; Commitment; Planning Responsibility; The Strategic Plan; Mission; Environment; Objectives; Key Strategies; Resources; Key Issues; XY Company Corporate Affairs Strategic Plan.

9. Objectives for Corporate Affairs

Relation to corporate goals; principles in the strategic plan; primary objectives; the XY company objectives; the Z Company objectives.

## 10. The Organisation

Requirements for the organisational structure; staff and line responsibilities; the small, medium and large company; the international company; differing needs in different countries; the use of non-executive directors; advisory councils; consultants, corporate affairs organisation; specimen job descriptions.

## 11. Resource Allocation

Guidelines to investment; which budget?; small and big companies

## 12. Corporate Affairs Project Planning

Introduction; the planning problem; the planning system; introduction to CAPERS; CAPERS; primary objectives; secondary objectives; rating of secondary objectives or indicators; project nominations; limitations on project selection; scoring the projects; resource constraints; project listing; cut-off point; management judgements; re-running the model; conclusions

## 13. People Requirements

What skills are necessary?; what sort of people to choose?; training for public and social affairs; professional training; project management; the industrial statesman; the traditional picture; the need for industrial statesmen; the incomplete manager; appraisal.

## 14. Corporate Affairs: Hints for a Successful Operation

Ingredients for success and failure in corporate affairs.



PART 4 - SOCIAL MEASUREMENT AND SOCIAL AUDIT

Foreword

15. An Introduction to Social Audit

- Why social audit? The need for new management tools; external audits; institutional investors; government legislation; the responsibility of public disclosure; the current state of social audit; what is involved in social audit? a framework for selecting the approach; the nature of the business; the real reason for wanting social audit; what can be afforded? How will the audit be used?

16. A New Approach to the Measurement and Evaluation of Performance

The measurement issue; problems with profit as a measurement; profit is more than you think! ; fundamental requirements of a social audit system; motivation; what is for real? a new business ethic; using waste for performance measurement; the case for a waste-free society; relating the reduction of waste to other needs.

17. The "Matrix" Method: Total Responsibility Accounting/Audit

The current situation; the future requirement; what are our real assets? the importance of balance; balancing growth; the "Matrix" programme; identifying and classifying assets; describing assets; evaluating/setting priorities; accounting for assets; relating the accounts to key activities/functions; accounting for waste; criteria for auditing the account; Level 1 - basic responsibilities; Level 2 -

audit validation; implementing the programme; who implements the programme? how to start? Conclusion

18. The XY Approach to Social Audit

The XY situation; the approach of the consultancy; preliminary identification of problems; Peerless Plastics Ltd; structuring the audit; the audits; the pollution audit; the XY Midlands Plant - smoke and noise; noise pollution; odour nuisance and water pollution; moving Peerless South Wales plant; labour relations; community relations; business relations and merger policy; community relations; audit at Otscrip; the audit on employees being moved; housing, transport, cost of living, quality of life; the cost

PART 5 - PUBLIC AND SOCIAL AFFAIRS PROGRAMMES

19. The Basic Elements of a Public and Social Affairs Programme

The criteria; political affairs; national affairs; youth and education; business management; the community; voluntary organisations; international affairs; sponsorship; summary; the XY and Z Companies' programmes

20. Shared Responsibility

The Role of the Business Manager; questions affecting business; the size of the organisation; the international company; private and public enterprise; responsibility for products.

The Role of Organised Labour; the role of the unions; elected leadership; the right to strike; political alliances; inter-dependence; the circles of responsibility.

The Role of Government; government and the management of change; towards an incomes policy; government responsibility and business representation; the carrot and the stick; The Responsibility of the Institutions; Responsibility of Higher Education; A Joint Approach.

21. Case Studies

Public and social affairs in the USA; in the UK - Trident Trust, Action Resource Centre, National Westminster Enterprises; in Europe - International Business Committee for European Architectural Heritage Year.

## PART 1

# THE BUSINESS CASE FOR SOCIAL RESPONSIBILITY

## CHAPTER 1

### AN HISTORICAL PERSPECTIVE

The purpose of this chapter is not to repeat the work, contained in an immense bibliography, that has already been carried out, much of which is included in Section III of this thesis.

For the moment, the need is simply to sketch some of the developments in thinking and behaviour that have led to the position in which we find ourselves today.

During recent years, a number of activities have appeared particularly in large corporations, with names that suggest some enlargement of traditional tasks. Some of these names are "external relations", "urban affairs", "corporate affairs" and "public affairs". Their definition varies from one organisation to another but they all have similar reasoning behind them and, in many organisations, Board members have been appointed to assume responsibility for these activities.

The new titles represent a further stage in the evolution of industrial thinking since the Industrial Revolution began to transform the Western world. They come at a time when the problems of society have become so complex, yet so relevant to the conduct of business, that no organisation can afford to ignore them but must join with other forces in society in order to find solutions.

#### The Protestant Ethic and Laissez Faire

At the start of the nineteenth century, in those countries becoming industrialised, the activities of the business community were mainly separated from the remainder of society. A laissez-faire doctrine, often backed by the Protestant ethic of self-help, paid little attention to the needs of the community. Leadership tended to stay within the traditional areas of government, the church and the land-owning-aristocracy.

A gap in the quality of perception existed between the captains of industry and leadership in other fields which has by no means disappeared. The drive for profit and growth was unrestrained and the legacy of social inequity, marred industrial relations, human indignity and the spoliation of the countryside are not only well known but their effects linger today. Although John Donne had written more than a century earlier that "no man is an Island Intire of Itselfe", there was little evidence of this thinking in our "dark satanic mills". Not least of the pressures today come from the descendants of those who were exploited and who feel that just recompense is due from the descendants of those who, they claim, established a hierarchy of authority which still exists.

#### The Second Generation and Enlightened Self-Interest

As the nineteenth century developed, so did a closer relationship between business and the community in Britain. The precursor of the movement for social justice was probably Robert Owen. Disraeli's book "Two Nations"; the first herald of the Welfare State which came with the legislation by Disraeli's government on factory hours and housing; and the activities of Sidney and Beatrice Webb; and also the Liberal Party's insurance programme in the first decade of the twentieth century; all these were signs that there were people, both industrialists and in government, who were concerned with the result of the workings of the Protestant ethic.

By the beginning of the twentieth century, many industrialists were now second and third generation and had the time, power and even the necessary quantum of guilt to act. Many of these industrialists had been absorbed into the ranks of the traditional ruling classes. There was some awakening to human rights and a growing recognition that people and land were assets to be preserved rather than just commodities to be used. There were signs of a more enlightened, even paternalist, attitude which bore fruit in new amenities at work and recreation and the use of company money for buildings, trusts, foundations

and scholarships. On the whole, this phase of thinking was centred around the relationship between employer and employee but it extended also to the immediate community around a factory and included the patronage of welfare or charitable activities in neighbouring districts.

The impetus for these improvements which may well have sprung from conscience, veered later unquestionably towards enlightened self-interest. The opinion of local people began to matter and so it was more natural for industries to support community activities. Future recruits were to be found in universities and so encouragement was given to the education of those who might one day serve the interests of the corporation. If the product of a firm was potentially harmful, there was an added reason for presenting another face to the world. Then, as power and money began to reside more in industry than in the hands of private philanthropists, there was even some sense of business adopting the role that had been the province of other patrons in the past. The growth of the public relations industry and the concern of business to influence and promote an acceptable image were coincident with this era.

It is fashionable to decry paternalism. Certainly it brought with it the feeling that employees could belong body and soul to those that employed them; a feeling that, as people became better educated, produced an inevitable reaction. Nevertheless, where it existed, and where a keen sense of responsibility for the welfare and dignity of one's employees exists today, it seems vastly preferable to the unconcern on the part of management that is still all too apparent.

A further opportunity to advance thinking in this field came at the end of the first World War. In the event, it was not taken. Paradoxically, this has put the clock of progress both forward and backward. Forward, because government and business had come to recognise the dependence of the national economy on the active cooperation of the factory worker.

commitment to the Left after the Bolshevik Revolution, management became afraid of the enhanced role that could now be played by the worker and clamped down on any extension of his responsibilities. It was an age that turned, curiously, towards an admiration of national socialism and to gestures that smacked more of "bread and circuses" than of any deep felt concern for the worker and his conditions. To the motivations mentioned earlier, was the new and patent one of fear and the problems of society which might have been tackled then were left until later.

#### The Post World War II Period

Many of the problems now facing Britain have, in a sense, been postponed from the time just prior to the Second World War and are being faced now. Britain, the leader in the Industrial Revolution is now leading in the experience of industrial civil war. Others may have to face this experience as well, and behind the depressing and sometimes inexplicable driftings of the British nation, a new relationship is being worked out, so far with little violence, between the different sections of society. The possibility is of a bridge between nineteenth century capitalism and the State Capitalism of the USSR; of a social democracy that all parts of the nation have helped to create.

The reconstruction needs after the end of the last war left little time for social experiment. Industrial growth had pride of place and social responsibility came second, if at all. The worker and society were protected by social legislation rather than by enlightened business management.

Now, while legislation continues without interruption, the demand for reform in business practice is such that, if only to preempt the more foolish and maladroit essays of government in areas where it has little competence, the onus is on business to make the first move.

### Interdependence and Involvement

Today another phase of thinking has become evident and it occurs as a more educated and better led generation begins to react against the authority and power structures of the past. The new phase may be described by the current term "involvement". On both sides of the Atlantic events have occurred which are causing business leaders to recognise the interdependence of the system of which they are part.

In America, after the Detroit riots, hasty steps were taken by many large corporations to prevent a further deterioration in the environment. Some of them, though well meaning, were not necessarily the best steps because business still had to learn the lesson that it does not have the mandate or skill to define problems and courses of action in the social field. All it can do, as I explain in detail in Chapter 5, is to help in the identification and analysis of problems and alternate solutions and then to define the expertise that it can put at the disposal of those whose job it is to take action. Nevertheless, though the immediate and urgent concern with social responsibility may have been self-generated, defensive, reactive or even out of good will, the concern has come to stay. The motives are being examined; there is some reappraisal being undertaken by those who led the first moves, but all this is related more to method than to principle.

In Britain as well as elsewhere in Europe, the approach is more cautious. It has also taken longer to gain momentum. This is perhaps characteristic of much that is happening today for, in contrast to 200 years ago, when the Industrial Revolution spread westwards across the Atlantic, the current phase seems to involve an eastward move, with the crossing taking from three to five years. Nevertheless, pressures are mounting in Europe from government, workers and community groups for business to fulfil its wider obligations. The post World War II convalescence period through the 1950's and then the next decade, which saw the revolution of science and technology and the growth of giant industry, have led, in the 1970's, to a new



For this reason, it is misleading to talk about "business" and society". Business is part of society and a major force within it. The aims and standards of business cannot be allowed to diverge from those of the society as a whole.

#### New Indirect Costs of Business

The legal obligations and responsibilities of business, whether to its shareholders and creditors or to its employees, are limited though they are likely to be enlarged through legislation. The popular, though not generally accurate picture of the purpose of business, namely, to maximise short term profits, is one to which few serious business managers would subscribe without considerable reservation. On the other hand, the measures that have to be taken to remain in business, and remain profitable in the long term, have clearly changed.

Let there be no doubt that any business can only survive in the long-term if it is providing a real service, satisfying a need or want, providing satisfactory employment and creating wealth. This must be its prime purpose. In order to meet this purpose, it must satisfy the interests of all who have a stake in the business and these interests will include those of the community at all levels. Within this context, profit becomes simply a measurement or a reward for successfully achieving the prime purpose.

If an enterprise sets out to make a profit and then fails to survive an appreciable length of time, it is of little use to anyone. It cannot even be taxed. The failure of, for example, Penn Central Railroad was a failure to satisfy either economic or social responsibility. The result was not only distressing to the shareholders: it was thoroughly anti-social all round and business management certainly shared in the blame. An enterprise must do well in order that it can do good: otherwise discussion on further responsibility becomes irrelevant.

On the other hand, the goal of remaining in business and thus of long term profitability, as opposed to the "fast buck", will not be achieved unless management takes into account the social and other pressures that have to be considered before an optimum use of resources can be made. This is a subject to which I return in Chapter 4 but, just as business organisations have failed in the past because they did not accept the costs of good personnel policies, adequate management development and competent budgetary control, so it is my contention that failure to accept the need to invest in corporate responsibility to the community will likewise lead to failure. The only thing to add here is that, as with the other examples, it will by then be too late.

#### Social Goals and Business Management

Many business leaders have made statements in recent years which indicate their awareness of the new responsibilities. Here are a few. "In the future, a corporation will be judged as much by its social usefulness as by its ability to make a profit". (1) "The time may well be at hand when a business that hopes to survive and prosper will have no less a need for social and environmental research and planning than it has in the past for technical insights and expanding technical efficiency". (2) The chairman of the Board of the Xerox Corporation has doubted whether business can "realise its full promise in the future without making social goals as essential to its decisions as economic ones" and Professor Kenneth Andrews of the Harvard Business School refers to the corporation today as "a social system".

These voices are American but they are echoed in other lands.

"The tendency is for the pressure to increase. And I think it's our job, and our duty as citizens, to forestall and prevent, and to warn. I don't think we can, in fairness to the community, just let things go until we get caught". (3)

"With the political and social environment changing faster now, it is no longer enough for a company to do what is immediately profitable, expedient or usual: a policy or particular action must also be right, in the sense that it can be convincingly defended before reasonable men". (4)

"It is only by complete integration of responsibilities towards society in the management of affairs and enterprise and by responsibility towards personnel, added to responsibility for production, that enterprises can guarantee that they will not find themselves confined in a ghetto". (5)

The thinking is thus clearly spreading that management today must include in its objectives its discharge of responsibility to the community just as, in the past, it has accepted its responsibilities to its shareholders, customers and employees.

#### The Changing Balance of Power

The pressure for business to conform to new standards comes at a time when power is moving visibly, not only to the Left, but also away from the elected bodies to the institutions. The prevalence of minority governments, the rise in power and sometimes militancy, of the trades unions and the emergence of consumer spokesmen like Ralph Nader in the States all indicate that governments respond increasingly to articulate private interests rather than govern in the loosely described and inaccurately stated 'public interest'. The mood that business should be more open, more "democratic" and operating in step with the real needs of society is apparent.

Many of the criticisms of business by external groups who should know better are confused and based often on wilful ignorance of how and why business operates. Certainly there is a failure to realise that, in business as elsewhere, people are people and that there is no monopoly of charity, conscience or honesty to be found on the street corner and in the behaviour of those who have chosen to opt out of the system.

Nevertheless, if business is to survive in anything like the form we know it today, it has to do three things. First, it must take far more conscious steps to be sensitive to the new ideas that are forming around it. Second, it must act, and be seen to act, in ways that will prove that the criticisms levelled at it are without basis. Third, it must learn to articulate its message with a clarity and a cohesion at least equal to that of the voices of those who criticise it.

#### The New Social Contract

There is nothing final about private enterprise nor even the mixed economy of the West. The success of each generation throws up the challenge of the next. Public permission for business to continue has to be earned and constantly renewed.

The rationale for <sup>corporate</sup> social responsibility still needs to be developed. While the current mood to give and accept social responsibility is still right and necessary, there is a debate on motives. And this is the point for, so long as social responsibility is thought of in the narrow terms of company giving and outside normal business objectives, a conflict ensues and, as a result, in a difficult year, it is company giving that is postponed. The conflict leads, in turn, to suggestions for action that, at the best, appear ahead of their time and, at the worst, lead to a hardening of attitudes on the part of those who firmly believe that their role is simply to make profit rather than undertake tasks that are apparently outside their terms of reference. Only by a rationale that can reconcile this conflict can the latter category be shown that their role remains the same but the terms of reference have changed and so their conclusions are wrong.

Business today has to move side by side with the rest of society. Free enterprise has to add the dimension of social enterprise in which the long term interests of all are also the long term interests of each section. This is the form of the new social contract in which business has to play a leading part.

## Notes

- (1) Mr. V. Learson, then President, IBM Corporation
- (2) Mr. Ben S. Oliver, then President, AT&T
- (3) Mr. Gerrit Wagner, then Managing Director, Royal Dutch Shell
- (4) Sir Reay Geddes, then Chairman, Dunlop Holdings Ltd.
- (5) Dr. Ernst H. Plessner, Director, Deutsche Bank

## CHAPTER 2

### THE DEBATE

The main theme of this thesis is that a new and prominent place must be found within the activities of business for involvement in public and social affairs. These can be defined as "activities contributing to the development of the community as a whole at local, national, and international level, depending on the size of the organisation".

Already we are witnessing a rapid increase in such involvement. Several organisations, particularly in the USA, although less so in Europe, have already introduced extensive and ambitious programmes. What causes concern, however, is that, without a body of theory that relates this involvement to the mainstream of business and which includes techniques for evaluation and measurement, this new activity may well go in the wrong direction, against the best interests of business itself and against those of society.

Until now, thinking on this subject has been neither clear nor uniform. Attitudes tend to polarise: right decisions are being made for the wrong reasons and, at the same time, right reasoning is leading to questionable conclusions. There are those who believe sincerely that the interests of their companies and their country are best served by removing from their concentration on figures and facts any element of morality, ethics and social responsibility. Others, believing that the one task of a corporation is to make a profit, consider the cost of corporate, social goals amounts, in effect, to a hidden tax on workers, customers and shareholders.

At the other extreme, there are equally sincere people who believe that, if anyone can solve society's problems, it is business. A Fortune survey carried out a few years ago of three hundred top American executives from among the country's

leading five hundred industries and principal banks found that only ten per cent of respondents clung to the historically orthodox view that the sole business of business is to maximise profits.

Additional confusion is caused in defining social responsibility because conditions vary in different countries. Much of the debate on social responsibility in the UK centres round industrial relations, even though this is but one facet of the subject. In Germany, attention is focussed on workers participation. In Sweden, it is widely assumed that the responsibility of the state for social and welfare matters is all-embracing while, in France, the main charitable, or voluntary, organisation is the Catholic Church.

Different questions are raised in the private and public sectors. The measurement of efficiency in terms of profit applies, in the main, to private enterprise and will only apply to the public sector where it is not a subsidised service and where the efficiency factor is separated from the social factor. The yardstick of service, on the other hand, applies to both sectors though, in the case of the public sector, (for example, the provision of a medical service) service will be demanded irrespective of whether it is profitable.

For a number of reasons, therefore, the debate leads to irrelevancy and, indeed, the fashionable term "social responsibility", even though it is used in this book, is incomplete. An article in an issue of "International Management" (1) asks the question, "What is the purpose of a public company? Should it make an effort to become involved in projects that are desirable on social grounds, irrespective of the financial pay off?" Such a question is an utter deflection of thinking on this matter.

The total responsibility of a public company must include its involvement in all activities that are germane to its long-term purpose. In a sense, the arguments for or against



conscience as a factor are irrelevant. Conscience is the quality and not the objective of what is done. It may turn out, and probably will, that what is moral is also good business and thus a conclusion is reached which those with conscience may have come to by a shorter route. But "management by conscience", although pleasing to the ears of moralists, does little to help decide precisely what needs to be done and in what priority order. The important point is that it is always the mainstream and not the periphery of business with which management has to be concerned. There can be no question of social objectives replacing business ones but rather of their taking their place legitimately within the business equation. Without a rationale for company involvement which is beyond mere company giving, patronage and the enhancement of the company image are not enough.

Two statements give a clue to a possible rationale - a theme which anyhow will be expanded later. The first is by Mr T J Watson Jr (2) who writes prophetically in his book, "A Business and its Beliefs": "more and more there seems to be entering into relationships between government, industry and labour a fourth force - the force of the public. Anyone particularly interested in some segment of the economy must increasingly recognise the force of public, or national, interest. Ultimately we are all held accountable to it. We exist at its tolerance. We are bound by its laws. In planning for the future of our own particular interest, we must recognise the rights and requirements of the public and the millions of individuals who make it up."

The second is by the economist, Milton Friedman, writing in the New York Times Sunday Magazine, "In a free enterprise, private property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires which generally will be to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom". (3)

Though, at first sight, this latter quotation might imply a narrower view of the role of business than others, including perhaps Mr Watson, might wish, and although there is the added implication that the owners of the business know what is good for them in the long term, Friedman's statement is correct. Those who have a stake in the business, not only the shareholders but others as well, have as their first expectancy that it should remain in business and be profitable. It could be argued that Friedman then reaches the wrong conclusions. In fact, the maximisation of profits in the short-term is unlikely to be the way in which this objective is achieved but what is important is that any activity conducted by the business should be in line with this objective. Indeed, Watson's rationale is today a necessary pre-requisite for the results demanded by Friedman.

The following episode illustrates the point. In 1974, training scheme was being proposed in London for a number of teenage West Indians. A key point in this social exercise was that business management and instruction should be included in a cooperative effort. Some insurance executives were approached to enlist their help in providing some part-time instructors in white-collar skills. They expressed a personal interest but did not at once see how it affected their companies. They were then asked, "If, in five years time, we have a Detroit situation in London because of the alienation of many thousands of people like this, and there is loss of life and property, who pays? You do! So what about some preventive medicine?" They got the message! It was a case of insurance for insurance. (4)

The concept that business must "conform to the basic rules of society" is an obvious one today, and the appearance of a double value system is one of the causes of alienation. Society's ethical customs change and are open to misinterpretation. Practices which were acceptable in the climate of two hundred years ago are intolerable by today's standards. Three factors, in particular, are bringing new pressures on business to conform to these rules of society and thus earn the right to stay in business.

The first is the rise of militancy by consumers and other pressure groups. Second, and directly connected to the first, is the challenge to the free enterprise system. The third, reflecting the mood of the first two, is the changing direction of institutional shareholders.

Britain has not yet produced a publicist of the stature of Ralph Nader, but the magazine "Which", founded in 1967, now (5) has a circulation of over 650,000 - far more than that of The Times. The consumer militant, whether his cause is food, appliances or housing is regarded with apprehension by those who might appear to be disregarding the rules of failing to satisfy a genuine public need. Businessmen cannot, and should not want to, ignore the drift of public opinion.

Pressure groups are a feature of an age of new technology where it becomes possible for a small group, through the weapons of war or the communication of ideas, to wield a power out of all proportion to its numbers. The voices of organisations like Amnesty, the World Council of Churches and Friends of the Earth echo feelings that are held by millions. The more extreme forms of pressure group, such as the IMG and International Socialists, or those who produce, through their Counter Information Services organisation scurrilous and tendentious masquerades of the annual reports of large corporations, may tend to impose their own sectional feelings but are none the less effective. On the whole, these pressure groups are not only a factor to be lived with: they can also often be constructive. The only intolerable situation arises when some such group defines its own, subjective set of values and

then presumes to impose these on others of whose activities and motives it has but a scant knowledge.

The free enterprise system therefore faces new challenges. The techniques and methods of production, pioneered by free enterprise, have revolutionised the world. It has proved to be an efficient system for decentralised resource allocation and for liberating the resources of the individual, certainly in contrast to the results achieved by centralised planning. But its very success has tended to blunt the radicalism of the men who operate the system and make it harder both to accept that future success will depend on continuing to do what they did before and that, in some great industries, the future may be one of zero growth anyhow, where growth is defined solely in current, material terms.

The institutional shareholder is moving in interesting ways, though still within fairly narrow limits. The belated reaction to the plight of the thalidomide children - a reaction fanned by the press - led to forms of pressure that no firm could resist, even to the boycotting of its products and the drop in the value of its shares. Institutions like the Church Commissioners in England and Yale University in America have examined their portfolios with a view to placing their holdings only in socially responsible companies. Business organisations operating in South Africa similarly have institutional watchdogs for their activities. These moves, described in more detail in Part IV, are acts of pressure; but it is also good business to accept that a firm's social awareness is as much a factor in its continuing success as its financial and sales policies.

In face of all these pressures, business on both sides of the Atlantic is reassessing its responsibilities. As employees of those who own a business, but also as employers of people and providers for customers, managers can only exercise their proper duties by ensuring that their activities do not lose their company the franchise to continue in business. If

external factors of a new kind are now of immediate importance to the future of a business, then management has a mandate to extend its horizons and invest in new fields of activity. And not only has it a responsibility to preserve the ability of its own firm to continue; it also has a duty to help preserve the system on which it depends.

There is a growing recognition that this is so and that not only must business become involved in the affairs of the community for the sake of its own future but it also becomes, inevitably, one of the bastions of liberal democracy which, with all its faults, seems to many to be better than the many alternate systems with which they are being presented. But charity is not enough nor can business involvement in public and social affairs be relegated to a charities committee. The philosophy of, so to speak, giving on Monday and firing people on Tuesday, because Monday is the day for charity and Tuesday is business as usual, is untenable. Total responsibility means the discharge of responsibilities towards all stakeholders in the business (6), as part of the business of business.

The debate is, to a great degree, resolved. It is how corporate responsibility can be discharged and how it can be placed as an integral part of business that is the main subject for attention now. The resolution of these questions will determine not only the future of business, but also the whole institutional framework in our Western society.

## Notes

- (1) "International Management", April 1972
- (2) Then Chairman, IBM Corporation, 1963
- (3) New York Times Magazine, 13 September 1971
- (4) Unfortunately, of course, despite the activities of organisations such as Action Resource Centre (see Chapter 21), too little was done, too late. The resulting riots, which are increasing in intensity, are the inevitable result.
- (5) In 1973/74
- (6) The notion of the "stakeholder" used here is defined as any individual, group, organisation or community having an interest in, or affected by, any activity of the company. For most companies, stakeholders include employees, shareholders, customers, suppliers, creditors, trades unions, governments and the communities in which they operate.

## CHAPTER 3

### DEFINITION AND CLASSIFICATION OF SOCIAL RESPONSIBILITY

#### The Need for Definition

One of the greatest problems for the students and proponents of social responsibility is the definition of the term itself. In numerous discussions with business executives, politicians and pressmen around the world, it almost seems as if there exists a situation of one man:one definition. This confusion is confirmed by recent studies and opinion surveys in Britain and North America. For some businessmen social responsibility means "delivering the goods and making a profit". For others, the term simply implies sticking rigidly to the letter of the law. For others, and this seems to be particularly true in the UK, social responsibility is equated directly with good industrial relations. Still others look at social responsibility as "doing good" or making charitable donations. "Responsibility to the community", "cleaning up pollution", "behaving like a good citizen", are just a few examples of what the term social responsibility conjures up in people's minds.

Businessmen still tend to look at social responsibility as a fringe activity; something they feel they have to engage in because it is in vogue rather than because it is serious or important to the business. What is equally alarming is that a great many politicians, journalists, academics and other opinion forming groups regard the subject with a similar degree of cynicism and phrases such as "gilding the unacceptable face of capitalism" are not uncommon.

This is why a major cause for this cynicism and resulting inaction is the definition problem. A woolly, ill-defined appeal to the heart and conscience of a busy chief executive burdened with weighty decisions is hardly likely to enlist his sympathies for long.

What is required, therefore, is a much closer look at the business organisation, its objectives, needs, relationships and impacts and the development of a definition of social responsibility which is directly relevant to this analysis.

### Classification

One approach to this problem is to start by classifying social responsibility into three distinct, though interrelated, levels.

In deriving this classification, it is useful to think in terms of what might be termed "environmental impact", an unfortunate bit of jargon which is best explained with an analogy.

The impact of a business organisation in the total environment is similar to that of a stone dropped in a pond. The ripples go outward. The number and the size of the ripples which can be represented diagrammatically by a series of concentric circles, (See Table 1 on page 3 - 13) depend on the size of the stone, how hard it has been thrown and the interaction with other ripples from other stones thrown into the same pond.

### Level 1 - Basic Responsibilities

The first ripple or circle, corresponds to the first level in the suggested classification. This level relates to the basic responsibilities of any company generated by the very fact of that company's existence. The company has to pay its taxes, obey the letter of the law, observe basic legal standards for employees and satisfy its shareholders. It must also have honourable dealings with its suppliers, customers and creditors. If these responsibilities are not fulfilled then, clearly, it will not take long for the company to be in serious trouble - either from the law, or from the disciplines of the market place. In fact, it could well be argued that activity at this first level should not be looked at as 'social responsibility' at all. Not to observe a first level rule is merely irresponsible.

### Level 2 - Organisational Responsibility

Most companies today, however, either through their size or



more widely and have to look further in both scope and time than is suggested at Level 1. In terms of the stone in the pond analogy, there is a second ripple, or circle which corresponds to the second level in the classification. This level relates to the organisational responsibilities of the company to meet the changing needs of all its stakeholders \* and to minimise the negative effects on those stakeholders of all activities of the organisation. It is at this second level where the bulk of thinking on social responsibility is concentrated today.

Quite obviously, pollution from a chemical plant, for example, may well affect a wide range of people in the community, outside the plant, most of whom are in no way associated with the company. If there exists good legislation, the community is protected. But if legislation is inadequate, and it does not stop people being harmed, then social responsibility and indeed sound business practice demand that the company goes beyond the law.

Or, in the case of computers, there is the danger of the invasion of privacy of individuals on a large scale through the misuse of data banks. Even without legislation, the computer manufacturer has a responsibility to understand the matter and act to minimise the impact of product misuse.

At the second level, the company's organisational responsibilities are principally to

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\* The notion of the 'stakeholder' used here is, again, defined as any individual, group, organisation or community who has an interest in, or may be affected by, any activity of the company. For most companies stakeholders include employees, shareholders, customers, suppliers, creditors, trades unions, governments and the communities in which they operate.

(a) : pay heed to the spirit , rather than just the letter, and act in anticipation of impending legislation, new regulations and higher standards

(b) respond to current attitudes, needs and values of all stakeholders and anticipate and respond to expected changes.

And so, enlightened second level action in, say, the case of oil pollution from tankers, might well be for tanker owners to set up a fund to clear up oil slicks from beaches, in addition to spending more money on safer tankers. In the privacy example, second level action might be to conduct extensive additional research and development on data security and to fund educational programmes for data bank users and the general public. Mining companies will act to ensure they do not spoil the countryside. Chemical companies will not dump waste in a river. Pharmaceutical companies will spend more on pretesting drugs. Advertising agencies will examine the social side-effects of their campaigns. Merchant banks will take into account the protection of employees in a merger situation. And companies will introduce more effective employee participation schemes, not for defensive reasons reacting to political pressures, but because the values and needs of their employees have changed and it is simply a better way of doing business.

In today's world, all these are necessary actions; not just for altruistic reasons but because not to meet these responsibilities is short-sighted. The current interest in the second level is therefore healthy but, although this interest is an indicator that such actions should be the norm, they are in fact not so. There are many unconverted to whom the message must be preached.

#### Criteria for Level 2 action

Whereas criteria for responsible action at the first level are relatively easy to determine, this is more difficult at the second level, since the degree of responsibility is a function of the values and attitudes of society

at any given time. These values and attitudes are constantly changing. A suggested method for determining the second level criteria is included in the Chapters on Social Audit.

If, however, the longer-term view is taken, business history from the ancient Greeks to today has demonstrated that any company can only survive if it conforms to the value system in which it operates. In most cases, the successful companies have been those who have successfully anticipated changes in values and have adjusted to them.

Action or inaction at the second level creates the attitudes, legislation and conditions in which the company has to operate in the medium and long-term. Therefore, the case for second level responsibility is quite clearly a sound business one.

### Level 3 - Societal Responsibilities

Finally, there is the third level in the classification, corresponding to the third and outer circles arising from the stone thrown in the pond. This level relates to the societal responsibilities of the company and represents the stage when the interaction between business and other forces in society is so strong, that individual companies are inevitably involved in what is happening in society as a whole.

Societal responsibilities are therefore defined as those investments in, and contributions to, the wider community designed to help create the healthy overall environment the company requires in order to survive and operate effectively.

The rationale and business case for responsibility at the third level are explained in detail in Chapter 4. In brief summary, any company today is dependent on the

total environment in which it operates. The healthier this environment, the better the chances of success for the company. The company must be aware of the effect of the wider community on its organisation and activities and needs to consider the political, social, economic, technological, ecological and cultural foundations on which the whole of society is built and their inter-relationships. Thus a company might be concerned with financial contributions to certain community organisations, or the education not only of its employees but of the wider population. Or it may be concerned with loaning skilled manpower to help improve the effectiveness of local government. Business becomes involved, in essence, in removing the ills and wastage constraining the healthy development of society as a whole.

Although it may appear at first that the area between the second and third levels is blurred, there is a fundamental distinction. Actions taken at the first and second levels are company oriented. They relate to the direct impact of the company on individuals and groups in society. Actions taken at the third level are society oriented and relate to the impact of external societal issues on the company. The larger, the more international, the company, the more of these issues it has to take into account and the greater is their impact. Understanding this distinction is crucial; it is so important that it is repeated on several occasions in other chapters.

The example of noise pollution in a factory is a simple case which illustrates the difference in the three levels.

#### Distinctions between Levels 1, 2 and 3

Suppose that the legal requirement for noise in the factory is that noise should not exceed 90 decibals at 100 ft from the source of noise. Then, according to the classification, level 1 responsibility is to meet this legal limit, and no more.

However, suppose further that scientific and medical tests in recent years have demonstrated to the satisfaction of most experts that 90 db is too high a limit and that the maximum safe level is in fact 80 db. In the classification, level 2 responsibility for the company is to move towards this lower limit and the ultimate level 2 criterion would be 80 db. Why? For two main reasons. The first is simply that one is wasting valuable human assets if employees work in an environment in which they are slowly growing deaf - whatever the law says. But second, although the law is always behind, equally it nearly always catches up. If 90 db is unsafe, then it is highly likely that new legislation will reduce the level below 90 db, perhaps even down to 80 db. To wait until legislation is actually passed and then have to convert all equipment in large scale revamps is usually a very expensive operation to do all at once. Indeed there are examples in the US of companies having to close down factories simply because they could not afford to meet the demands of new pollution legislation. Much better, surely, is to anticipate future legislation and change the equipment in a planned way so that, on the day the legislation is passed, the conversion is complete - at a lower cost and without any upheavals.

Now suppose that the factory is in an industrial complex surrounded by other factories which make a large amount of noise and suppose also that this noise affects the whole community including, of course, factory employees at home and on their way to and from work. One could say "due to factors beyond our control, our factory workers are coming to work with their hearing impaired and are therefore less productive - what a shame." Or, one could say that according to level 3 in the classification, the company does have a responsibility to contribute to the improvement of the overall environment, in its own interests, and that it should seek to work with the local authority and the other factories in reducing noise levels throughout the industrial complex.

In summary, at level 1 a company sticks to the letter of the law on pollution. At level 2, it takes steps to reduce all its own pollution to scientifically safe levels. And at level 3 it takes steps to reduce other people's pollution. In general terms, these levels correspond respectively to responsibilities associated with short, medium and long-term success even though it is difficult to make completely rigid rules, since there are always interactions between activities at all three levels.

This example serves as an illustration of the proposed classification for social responsibility. A summary is shown in Table 1 on page 3.13. I have used this classification in my work for several years and have found it helpful in clarifying what is often a muddy area of debate. Indeed, reference to the classification is made throughout the thesis.

This classification and the analysis behind it lead to certain important conclusions.

The first is that it is now possible to define social responsibility in a practical way which relates directly to the issues and problems facing the company of today and to the classification discussed above.

Two definitions are suggested, both closely interrelated.

#### Defining social responsibility

The first is that any organisation has a responsibility for planning and managing its relationships with all those involved or affected by its activities.

or with those who, in turn, can affect the ability of the organisation to operate effectively and achieve objectives. For a company with extensive operations at home and overseas, these relationships refer of course to those with shareholders, customers, employees, suppliers, creditors, trades union, local communities, national governments and their agencies, opinion formers, international bodies, etc. Although to some this definition may appear to say nothing new, it is important to note that reference is made to all stakeholders, not just some of them. Recent evidence seems to make it clear that, whatever many companies say they do, responsibilities to all stakeholders have not been discharged effectively.

For relationships to be meaningful, this demands response and the response must be dynamic, sensitive to changing trends and attitudes. And so a second definition of social responsibility is simply that the social responsibility of any organisation is the planned and managed response of that organisation to social and political change. Indeed this theme of the management of change is fundamental to any practical discussion on social responsibility.

In defining social responsibility in this way, I am not, running away from moral or ethical considerations. It is just that, if the discussion centres around social conscience and morality, which is quite often the case, this does not really help management decide precisely what needs to be done. The management of social change has implicitly to deal with questions of changing values and standards, but there is a need to marry these questions with other issues and relate them to the specific needs of each individual company.

In considering responsibilities in the third circle in particular, there is a tendency to talk in terms of 'social duty', 'moral obligation' and 'corporate conscience'. The description given above demonstrates that societal responsibilities need

to be analysed as part of any company's survival kit. Looked at in this way, a company is much more likely actually to make the necessary investments and to optimise the use of resources. If management starts off with the notion that it should engage in 'good deeds', for moral or conscience reasons, then any social programme it chooses is acceptable. If, however it starts off with the notion that it needs to promote a healthy external environment in order to survive, then it still has to engage in 'good deeds' but the ones chosen are more likely to conform to the priority needs of society. This makes them better for everyone concerned.

The justification to the shareholders or the unions or the inland revenue is quite clear. It is in the interests of the company to make these investments.

Again, if one looks at external pressures on a company, the suggested approach should encourage a less emotional or reactive and more business-like response to external groups with a much clearer and closer identification of the messages communicated with the real long-term needs of the company.

#### Societal responsibility - an integral part of corporate strategy

This leads directly to the second conclusion from the classification. Social responsibility, defined and classified as above, is not a fringe activity touching on one or two functions in an organisation. It is a whole new way of thinking and acting which has to be built into every single thing the organisation does. Whether it is in the R & D function, manufacturing, finance, marketing, personnel, distribution or in public relations, a company today must look closely at the effect of all its activities and decisions on all its relationships with all its stakeholders and it must at least try to manage change.

#### Total responsibility

From this analysis it would appear that the term 'social' responsibility is not altogether adequate in describing what



is involved. 'Total' responsibility would in fact be a more accurate description. Since, however, 'social responsibility' is the term in current common use, it has been used throughout the thesis to mean the total responsibility of an organisation at all three levels - basic, organisational and societal.

In looking at priorities, it might seem that necessary action at the three levels is in ascending order of urgency. Indeed, it is often argued that level 1 responsibilities must be fully discharged before level 2 is considered and then that level 2 responsibilities must be fully discharged before acting on level 3. There is of course some truth in this argument. Organisational responsibility is not going to be significant if a company is repeatedly breaking the law! But most companies do fulfill their basic responsibilities and the main argument is about whether a company attempts third circle, societal responsibilities when performance at the second level is still inadequate.

An attempt to settle this argument is made in Chapter 4. The point is made that this is not an "either-or" situation. A company needs to balance its allocation of resources between levels 2 and 3 according to the constraints and opportunities generated by its analysis of the situation. As this situation changes, so must the company's priorities. In fact, the analysis in Chapter 4 demonstrates that the external factors affecting the company, the ones to which a level 3 response is appropriate, are assuming a far greater urgency than ever before. Therefore, most companies today must invest in their societal responsibilities at the same time as they work towards discharging their organisational ones.

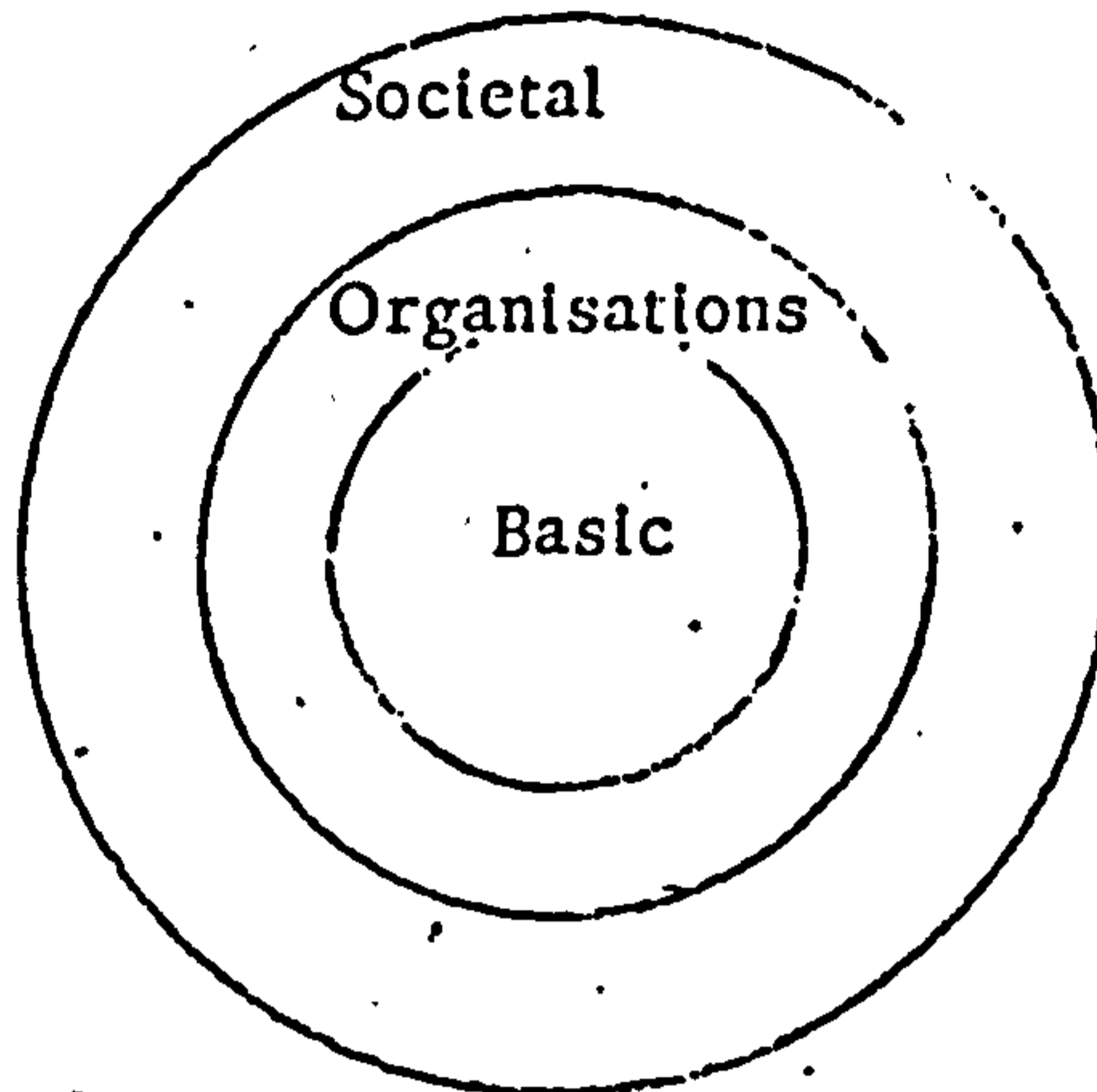
In any case, a further important point is that levels 2 and 3 are in no way mutually exclusive. Experience has shown that a carefully planned action programme can contribute effectively to objectives at both these levels.

As I have mentioned, this thesis concentrates mainly as mainly on societal responsibilities because of their growing importance. In so doing, I do not imply that responsibilities at the first and second levels are less important. But much more has been written about them; more data can be found and expert advice is available. On the other hand, at level 3, there exists only a lot of theoretical analyses, debate and controversy. Very little has been researched or written up on level 3 which is of a practical nature and so of direct use to businessmen in the management of their companies. In addition, it is a complex and unfamiliar area to most businessmen and fraught with difficulties. By concentrating my efforts on level 3, therefore, I hope that hope that my thesis can help fill the gap.

### Public and Social Affairs

In looking in detail at level 3, the term 'public and social affairs' is used to describe those activities performed by an organisation in order to meet its societal responsibilities. It is important that the difference between 'public and social affairs' and 'social responsibility' is clearly delineated and understood. The term 'social responsibility' as used throughout this thesis, refers to the total responsibility of the organisation at all three levels. Public and social affairs, on the other hand, refers solely to responsibility at the third level.

The business case for public and social affairs is spelled out in detail in the next chapter.

Table 1Classification of Social Responsibility

First circle corresponds to Level 1 responsibilities:

- \* the basic responsibilities generated by any organisation's very existence, principally to keep within the letter of the law with respect to current legislation, official regulations and formal codes of conduct, safeguard basic shareholder and employee interests, and have honourable dealings with customers, suppliers and creditors.

Second circle corresponds to Level 2 responsibilities:

- \* the organisational responsibilities designed to meet the changing needs of all stakeholders associated with the organisation and to minimise the negative impact on those stakeholders of all the activities of the organisation; principally to (a) pay heed to the spirit of the law, over and above the letter of the law, and act in anticipation of impending legislation, new regulations and higher standards and (b) respond to current and anticipated attitudes, needs and values of all stakeholders.

Third circle corresponds to Level 3 responsibilities:

- \* the societal responsibilities designed to help create the healthy overall external environment the organisation requires to survive and meet objectives, principally to anticipate the full range of social, political, economic technological and ecological trends and changes in the total community which can affect the future of the organisation and to take steps to minimise the constraints or to benefit from the opportunities generated by these trends and changes. Closely linked to "survival planning", meeting societal responsibilities results in a contribution to the solution of key social problems which, if left unsolved, would reduce the chances of successful survival.

## CHAPTER FOUR

### PUBLIC AND SOCIAL AFFAIRS - THE BUSINESS CASE

The preceding chapter, in its analysis of the three levels of social responsibility, introduces the basic argument of this thesis, namely, that an allocation of resources to public and social affairs activities should not be looked on merely as a key to the conscience of executives nor as a reply to the accusations of politicians and students. Rather is it an investment in the business, based on the need to incorporate new variables into the strategic and tactical thinking of business organisations.

In this chapter, we concentrate on the 'third circle' and build the business case for public and social affairs in greater detail by relating societal responsibilities directly to corporate strategy and, in particular, to the marketing process.

#### The Circles of Government Concern

As an introduction to the business case, I need to extend my 'stone in the pond' analogy and examine the effect of two or more stones, representing other sectors of society, being dropped, so to speak, into the same pond.

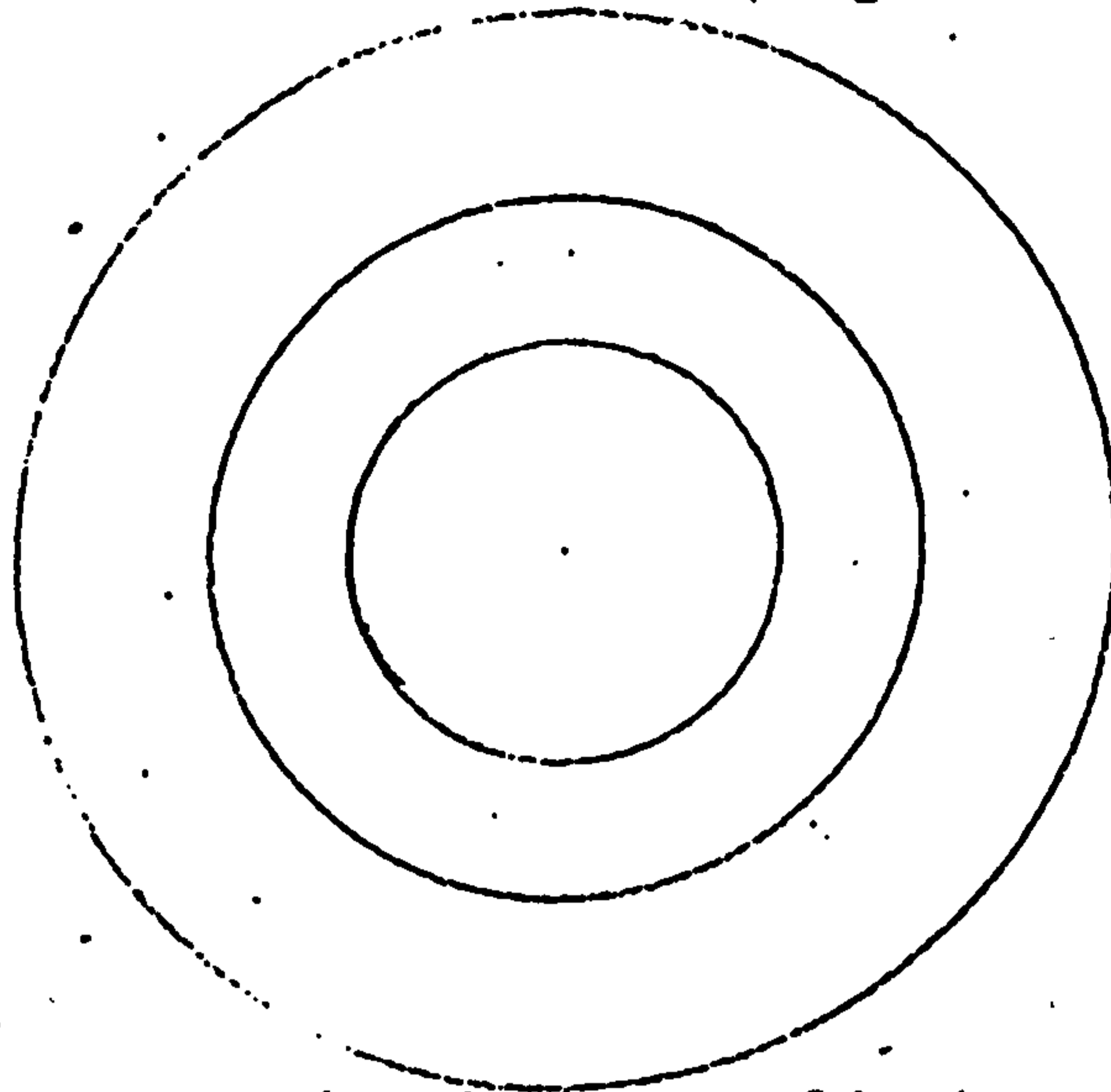


Figure 1.  
Circles of Business  
Responsibility

The first stone, representing the impact of business on the total community, is shown in Figure 1 in which the circles represent the three levels of business responsibility.

Let us suppose that a second stone, representing government, is dropped into the same pond. Again we see the ripples going outward as shown by the circles in Figure 2. Again each circle corresponds to a different level of responsibility.

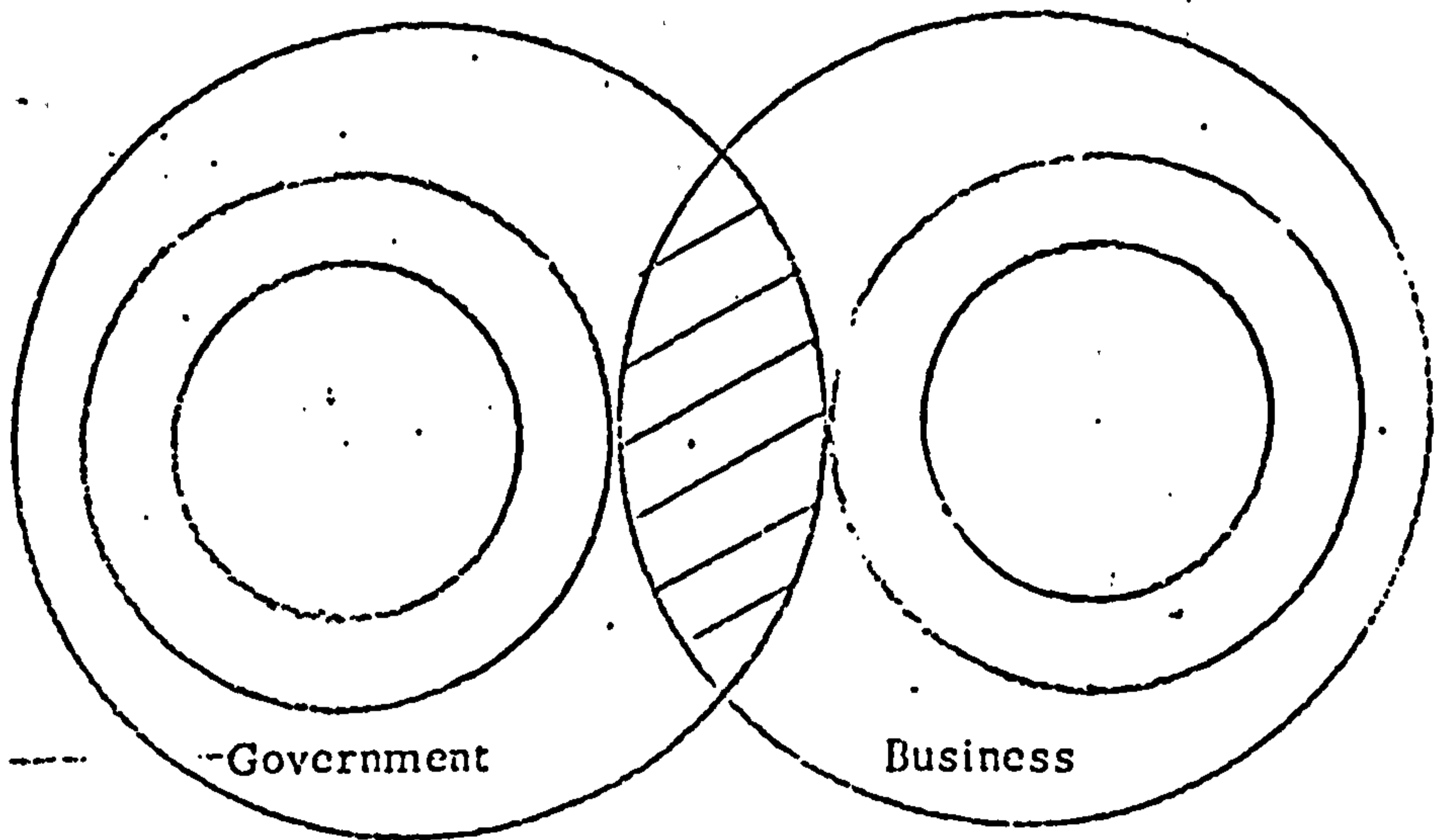


Figure 2.

Overlap of Business &  
Government responsi-  
bility

At the first level, the traditional responsibility of government is the defence of the realm and maintenance of law and order.

In the last hundred years, however, government involvement in national affairs has extended and, at the second level, we see government increasingly concerned with the management of the economy and with industry. We see government intervening in the private sector in many ways but principally through legislation on items such as employee protection, working conditions, and pollution and also through fiscal, monetary and regional policies.

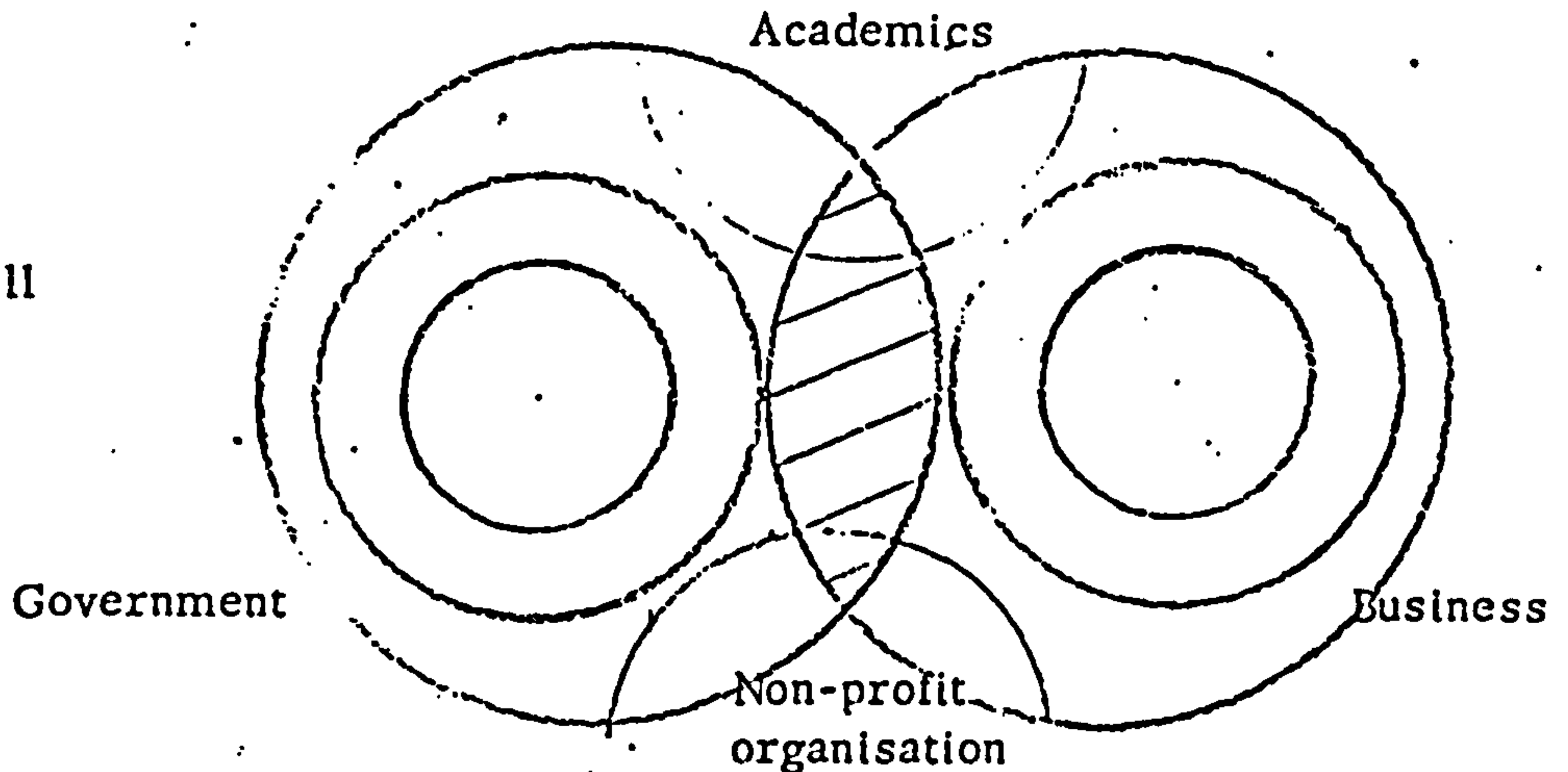
At the third level within the third government circle, the government takes on even further responsibility through the direct provision of goods and services such as, in many countries, education, medicine and public utilities.

Although government responsibilities at the first two levels obviously and necessarily impinge on business, they do so in a regulatory manner. Action at the third level, however, often coincides with third circle business needs and there exists a significant area of common interest. As government plays an increasingly dominant role in many aspects of daily life, the overlap area, represented by the shaded area in Figure 2 also increases for reasons which are explained later in this chapter.

The actual size of the overlap area varies from country to country and Figure 2 represents the kind of mixed economy existing in most industrialised countries.

The picture becomes even more complicated when still more stones are thrown into the pond. It must be remembered that, in most countries, other sectors are involved such as the voluntary and non-profit organisations, academic institutions and the churches. Again, there is an overlap area at the third level, as shown in Figure 3 where interests merge.

Figure 3.  
Overlap of all  
Interests



This overlap area contains the majority of major problems that society faces today be it at local, regional, national or international level.

The lessons we can draw at this stage from the above analysis are, first, that there are areas in our national life where interests are mutual and where the different elements of society have therefore to work together. Second, that the alternative to business involvement and cooperation is the abdication by business of the whole of the overlap area and the allowing of all non-business ripples to grow and grow, thereby resigning business to an ever-decreasing part of the whole.



### The Profit Motive

Considerable misunderstanding arises because the pursuit of short-term profit (the 'quick quid' or 'fast buck') is equated by many with general industrial motives. Of course, companies still exist where the whole motive of top management is to make as much money as quickly as possible whatever the long-term consequences. But the major proportion of goods and services produced in industrialised societies today is through companies whose management, often separated from the actual owners, is concerned as much with long-term survival and success as with short-term returns.

It is therefore far more helpful and realistic in understanding corporate decision-making to use the approach advocated by most professional bodies in business, which can be summarised as follows:

- 1 The role or overall objective of business is to service the present and future needs of the community. This, and this alone, provides the justification for business' use of people, materials, land and all other resources it requires. Unless business provides for genuine needs it is unlikely in the long-term to be acceptable, remain profitable or even survive.
- 2 The method by which it achieves this objective is to satisfy the needs and interests of its stakeholders. In the past, the main focus was simply on the shareholders; then customers, and later employees were added to the list of vital stakeholders. More recently, there has been a growing acceptance that the community as a whole is a stakeholder of

vital importance. This addition represented a major change in enlightened business thinking in the United States in the mid-1960s. In Europe, it has taken a little longer, but seems, at last, to have arrived. Indeed, the long-awaited document of the Company Affairs Committee of the Confederation Of British Industry states (1).

"The company being an artificial creation of law owing its existence to the will of the community, it is the duty of Parliament to ensure, so far as possible, that the operations of companies do not conflict with the public interest.....That is the starting point for consideration of the obligations of a company to society at large but it is far from being the end of the matter....."

"A company should behave like a good citizen in business. The law does not (and cannot) contain or prescribe the whole duty of a citizen. A good citizen takes account of the interests of others besides himself, and tries to exercise an informed and imaginative ethical judgement in deciding what he should and should not do. This, it is suggested, is how companies should seek to behave".

The satisfaction of the needs and interests of stakeholders are not ends in themselves. Nor do I believe, as some would have me believe, that there is an irreconcilable conflict between them. Naturally, some conflicts of interest will exist in the short-term but these will often be no greater than the conflict between needs within a single stakeholder group. As an example, one could point to demands from

employees for higher pay and greater participation in decision-making since, in the short-term, participation often has a price that must be paid in terms of increased costs or reduced efficiency. But, in the long-term, interests merge and the fundamental skill of management is in the constant adjustment of the investment mix to satisfy all the stakeholders.

3. The measurement or reward for the successful achievement of business' goal is profit. There are now some very real questions concerning the adequacy of this measurement. These are discussed in detail in Part 4 on Social Audit. However, we believe that the principal problem lies in using the short-term profits as a yardstick. If the objective is long-term, I am convinced that there is still no better measurement of how well a business has satisfied the needs and interests of its stakeholders. Nor is it likely that any other measurement will be developed and agreed in the foreseeable future.

Within this framework, profit is a neutral and inert term, a measurement and nothing more. "Profit is a surplus fund that remains after all proper commitments have been met. It is neither a magic word nor a dirty one but should be regarded (over the long-term) as the principal yardstick by which to judge the success or failure of a company". (2)

It is a matter of concern that many people outside (and) even some within!) are attacking the notion of profit and that so many are willing to bite, or even cut off, the hand that feeds them. For without business making a profit, (or even a surplus - for they are one and the same), there is no money for growth, investment or taxes.

But profit is only a necessary consequent to the successful pursuit of the major role of business and is not an end in itself.

Although this analysis is neither new nor original, I thought it worthy of repetition, particularly in the current climate of confusion and concern over the profit motive.

#### Corporate Strategy, Marketing and Control

The essence of the business case for public and social affairs is, as I have mentioned, to place this 'new activity' firmly within the mainstream of the business by relating it directly to corporate strategy and marketing.

In analysing the marketing process, there are of course numerous definitions. One of the best is included in a booklet produced by the Confederation of British Industry as far back as 1968 (3) and uses as its base the overall objective of business discussed earlier in this chapter. The booklet, entitled 'Marketing - the Concept and Application', supports the basic proposition that 'the essential role of industry and commerce is designed to meet needs' and explains that this should be seen as a service to the community as a whole. "Marketing", it states, "is the key to the profitable performance of this role."

The document continues, "the philosophy of marketing is a concept of business management which focuses the activities of all departments on the needs of the customer and organises the total resources of the company to the difficult task of identifying and satisfying these needs profitably. It stems from the recognition of the fact that business can only survive by providing profitably the goods or services which the customers want to buy."

Another, more recent, definition of marketing comes in an article by Professor Gordon Wills of Cranfield Institute of Technology entitled "Marketing's Social Dilemma", Professor Wills suggests that....

"marketing is a social process. It brings goods and services to the market place where you and I can purchase them at prices which encourage the producer to carry on making them, and which you and I can afford."

"Neither marketing nor company profit", Wills continues, "must be elevated to the status of ends in themselves. Marketing's cardinal error over the past fifteen years.....has been that it has allowed itself to be perceived not as a tool of economic growth, but as the tool of materialism in society....." "The efficacy and worth of marketing must be judged by what it does for society as a whole and not simply in some traditionally segregated parts of that society....."

There is a clear implication in these quotations. It is that, in focusing on the needs of the customer, marketing must look not just at the product needs, but at all the constraints and opportunities which may impact the growth and success of the customer and society as a whole. The customer and supplier stand or fall together and both, in turn, are dependent on the health of the total society. Both customer and supplier must be concerned with more than the product itself. They must help to create a total climate in which the product can be developed and used in which it is able to serve an acceptable purpose. Marketing, in this sense, must obviously mean much more than selling.

Sound corporate strategy and marketing practice in particular are concerned with trying to control, so far as possible, the variables that affect an organisation's ability to do business. In reducing business risk, these functions do something to ensure survival against the forces not only of competition but of all change. It is self evident that the best way to reduce risk is to increase control and that the best way to ensure survival in the presence of change is to understand and, if possible, control the forces of change.

To quote the CBI yet again, "in the tough world marketing of today, no forward looking company can remain in control of its future unless it adopts and applies the marketing concept." The message of the marketing concept is clear: in order that a company can survive and succeed, it must invest its resources in such a way as to maximise control over its own future destiny.

Control is the central theme in a marketing effort that is total and not just confined to the efforts of sales and sales development. The same applies to other elements of corporate strategy. Nor is it other than obvious that many organisations are, to an increasing degree, losing any element of control which they may have once had. The theme of this chapter, therefore, is that there is a need now to look anew at all resources within a company, reallocating these where necessary, so that the company may continue to achieve its long-term purpose. The activities of public and social affairs are an integral part of this new allocation and a means by which the business organisation can continue to be effective and profitable.

External factors have always had an impact on the ability of the company to do business. In the past, however, these have tended to be particular to individual companies and have been amenable to some measure of influence or control. What is important now is that a whole set of new factors has

has emerged, many within the overlap area of the third circle, which are having an increasing and often dominant effect.

Three such factors stand out in importance as one examines the common interest in the overlap area.

#### The changing nature of the market place

The first factor is the size and nature of the market place itself. The rapid shift of demand in western industrialised economies from private goods and services to so called public goods and services is well documented and requires no further evidence here. In nearly all industrialised economies, it is often left to government, acting as procuring agents, to meet most of the demand for such public goods and services. A new relationship has developed between government and the manufacturer, sometimes adding to but often replacing the earlier relationship between manufacturer and the customer. Thus the increased demand for public goods and services now finds government acting as the agent for the suppliers on behalf of society. In our scheme, the government third circle is growing fast.

In addition, for a wide range of these goods and services, government has become increasingly involved not only as the agent but also as the direct supplier and, with the explosion in demand for education, health, housing,

transport, etc, one has witnessed an equivalent extension in direct supply by government and its agencies, not only in absolute terms but calculated as a proportion of total production.

In some countries, government has expanded still further with direct involvement in what has traditionally been the province of the private sector. Although the precise patterns and proportions of direct government involvement vary from country to country, one characteristic is common to all. The government share of the total cake is increasing and increasing rapidly.

'Partnership or else .....

There are two implications. The first is that it must be in the interests of business to find some way of participating in partnership with other sectors in the production and distribution of goods and services in the third circle. Otherwise, with the decline in the role of private goods and services in the economic activity of society, business will have to resign itself to a decreasing part of the whole. And, in some countries; the rate of decrease is as much as half to one percent per annum.

The implication is that it is also in the interests of government that such a partnership should exist. In modern mixed economies, a strong private sector is essential not only to business but also to government.



whether or not it knows it or admits it. The way has to be found for the two to work together in the third circle. The alternative is an assumption of even greater government powers to be financed by personal and corporate taxation. Yet, not only can a point be reached where taxation itself may produce diminishing returns, but the assumption of administrative burdens by the State, without the help of the management skills which still reside largely in the private sector, is unlikely to be productive.

And so a new partnership between business and the public sector is crucial. This will never, however, be achieved by spurious planning agreements based on a doctrine of greater direct state intervention and clouded by an atmosphere of hostility and mistrust. But, in many countries, when government and business understand each others' roles, planning agreements can and do work and are invaluable to a harmonious partnership. The conditions for this partnership are to happen are first, that government uses and works with business and respects it and, second, that business, on its side, does not reject its corporate responsibility nor depart from the value system of the community it ultimately serves, thereby making its presence in its existing form unacceptable to society.

#### Explosion of Knowledge

The second, important factor which affects business along with other sections of society, is the generation of knowledge. The information explosion continues and knowledge is being generated, for the most part independently, by government, business and the academic world. The result is waste and duplication of effort. Yet much of what is generated is not proprietary and, to a great extent, each section of the community is dependent on the knowledge generated by others. If these different institutions fail to become involved with each other in this process, and thereby to establish some common data base, then there is a danger of their becoming starved of the information they need and thus of contributing to the collapse of the society in which they operate.

Again, therefore, a new partnership is required; one that recognises the interdependence between all sectors in society.

### Changed Value Systems

The third factor, which has been touched on in the historical review of the first chapter, is that the value systems, and thus in particular the expectancy from business, have changed. There is a demand for quality rather than just quantity, for technology to work in the service of mankind and for large organisations to be socially useful and publicly accountable. Because business operates within the value system of the time, its activities must reflect the goals of more than just its own section of society.

So there are compelling reasons for business, together with other influential streams in national life, to be in harmony and in partnership.

It is significant that at events of major importance such as, for example, the recent\* United Nations Conference on the Environment in Stockholm, whereas there was general agreement that intergovernmental action is needed to solve the problems facing mankind, there was little or no mention of the positive part that business can and must play if practical, effective and timely solutions are to be reached. Although business may be pilloried for the adverse effect it is thought to have upon the environment, the invitation to join with governments and other institutions in a new and necessary partnership does not appear to be forthcoming.

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\* 1972

### The Marketing Cycle

These three trends, namely, the shift to the public sector, the unprecedented generation of knowledge and the change in value systems, are all part of a new situation facing business. This situation introduces a set of variables into the business equation which have a fundamental effect on business but which have, traditionally, been given low, if any, priority by business management and have been classified as matters outside its control.

Indeed, one cannot help but notice the number of times that company chairmen have used the following or similar words in their annual reports of recent years: 'This has been a difficult trading year; we have been unable to achieve ..... due to circumstances beyond our control'.

It is useful to explore just what a chairman means by these words and whether his declared inability to do something about variables vital to his business is in fact valid. What I wish to demonstrate, and this is the fundamental contention of my thesis, is that not only is it possible for business to make intelligent efforts if not to control, then at least to influence, many of these new variables; it is also essential that business does so if its basic objectives are to be met in the future.

The essence of my business case for public and social affairs is described in the Business Model shown in Figure 4. The Model summarises, in simple form, the five stages in the Marketing Cycle of any company and the external and internal influencing factors which constitute the inputs to each of these stages.

The basic Model is equally relevant to all companies, large and small, national and international, except that, for nationalised firms and certain privately-owned firms, stage five (the share price level) is not usually applicable. What distinguishes various types and sizes of company is the nature, priority and intensity of the various external, influencing factors.

Returning to Figure 4, however, the assumption is that management is interested in profits, profitability and share price and that it wishes to achieve, over the long-term, a sustained optimisation of these traditional variables. I repeat that this interest in profit optimisation is created by management's desire to measure its success in meeting the basic objective of satisfying community needs. In this sense, profit is a neutral term, neither good nor bad, and simply a measure of sustained effectiveness.

Stages 1 to 5 are the steps in the Marketing Cycle required to achieve this optimisation.

First, in stage 1, before anything can happen, it is obviously necessary that there exists a healthy total demand for the goods and services supplied by business as a whole and not just a particular company or industry. This I have called 'business demand'.

Within this, comes the next stage, stage 2. This is the creation of what I have called 'industry demand' and this denotes the overall demand for goods and services supplied by a particular industry, such as computers, energy, aviation or textiles.

The creation of total industry demand allows individual companies to compete for a share of this total in stage 3 and this represents the creation of what I have called 'company demand'.

Company demand is reflected in sales, and thus in revenue and the exercise of sound management enables the company to generate profits through the minimisation of costs. This constitutes stage 4.

Finally, in stage 5, we see that the level of profits, together with declared dividends, is one of the factors influencing the company's share price.

There is nothing new in this. It represents the classical course of the Marketing Cycle. What is new is the strength of the external factors influencing stages 1 and 5 and that management, concentrating in the main on stages 2, 3 and 4, has been caught off-balance by these new forces.

Revenue minus costs equals profits

If we look at each stage in the cycle in what has traditionally been the order of management priority, we start with stage 4. We see that management is concerned with optimising the use of internal resources, human and material, to convert company demand into sales and revenue and, through greater efficiency and cost reductions, to increase profits.

Company demand

The next step is that, in moving from stage 4 to stage 3, management exercises a traditional concern with external factors. It has always had to do this and successful managements have changed their responses according to changes in external circumstances. The image that the company is able to project to its customers often determines the degree to which its products and services, as opposed to those of a competitor, are expressed. Management will show an interest in certain kinds of education because it needs recruits. It will avoid alienating external groups and will take steps in word and deed to represent the company as a good, humane, efficient and responsible organisation; as a leader in its field and a worthy object of approval. Such activities are of course necessary and wholly legitimate and come under many headings including sales promotion and public relations.

Response to Change

When a new external constraint or opportunity comes along, good management anticipates the change and responds early. Less good management merely responds; often late. But response it is. It may be through research and development if the competition advances its own product technology. Or it may be through a change in prices if the market so demands.

Recently, the effect that selective government policies have had on certain individual companies have caused the management of those companies to invest significantly in new activities such as parliamentary and EEC monitoring and government liaison.

The reason for this investment, as with other examples, was the impact of a new variable which required a new allocation of resources. At any time, corporate management will organise the company and allocate resources in priority order to those factors which are perceived as most likely to have the greatest influence on the ability of the company to achieve its objectives. Changes in organisation and the allocation of resources then take place either when priorities change or when new factors come into existence. This balancing and allocation to change is the essence of the decision-making process in the Marketing Cycle.

Industry demand

Returning once more to the Business Model in Figure 4, the need for companies to influence, not only company demand, but also industry demand, has long been recognised. External factors, such as the size of the total market, the state of the industry technology and customer awareness and acceptance of the industry product are all factors which are being addressed by enlightened management in the application of what has come to be known as the 'marketing concept'. The history of computer development in the 1960s provides a classic example in which IBM's research, development and marketing created the demand not just for IBM products but, equally significantly, for all computers.

In stage two, management will often find occasions when it is advantageous to join with competitors in the same industry, subject of course to the limitations of anti-trust and monopoly legislation, to promote the image of the industry as a whole. Trade fairs, joint statements, combined advertising of an educational nature, government representation through industrial bodies all come under this heading. Given the climate that is friendly to the industry, it is then possible to compete within it.



As in stage 3 good management will change its organisation and allocation of resources to meet the demands of the external factors in stage 2 as those demands themselves change.

Again, there is nothing new in this process. It lies at the very heart of decision-making.

#### Share Price

The next focus of management's attention is on the share price and this is represented by stage 5 in the Business Model. Here we see that the traditional management response has been to try and optimise this variable by doing as well as possible at stages 2, 3 and 4.

#### Business demand

Let me summarise at this point. Management has traditionally focused its time, priorities, efforts and resources on stages 2, 3 and 4 in the Model.

There is now another level of interest and essential activity that has become urgent and which represents a new factor in marketing decision-making in its broadest sense.

The very best internal management, directed only at stages 2, 3 and 4

demand at stage 1 is not healthy. And it is my contention that it is to stage 1 factors that business now has to turn its attention.

The external pressures and variables at this level are outside the historic experience and competence of business management. They are factors like government policies, activities of minority and pressure groups, the quality and quantity of education, industrial unrest of a political nature, urban and ecological problems and many others. These factors, discussed in detail in Chapter 6, are the ingredients of the climate in which business has to operate today. These are the variables which make or mar the whole marketing cycle and, increasingly, determine share price levels. If the climate for business is wrong, then each subsequent stage obviously suffers. If the ship sinks, all sink. The societal problems of the country therefore become the relevant issues facing business.

#### Need to review the investment mix

If these new pressures are the key to business success or failure, then the investment of business resources and the application of management techniques to help solve some of these broad environmental problems is a straightforward business proposition in the interests of all stakeholders. Long-term, the interests of all parts of the community must coincide. Investment in society is therefore no matter simply of conscience. It implies an alteration of the investment mix to cater for new variables. In a sense, this investment can be equated with that which is made in research and development or in good personnel

policies. Although these other investments often require an initial act of faith, it can be seen retrospectively that firms that have failed to invest in these areas have ceased to be profitable. The trouble is that this realisation usually comes too late. It is my belief that failure to invest in the solution of societal problems, will, long-term, contribute to the ineffectiveness of business organisations. Why? Because the fabric of society on which business, as well as all other sectors, depends will have itself failed.

#### Features of stage 1 response

There are, however, certain important distinctions to be made between the three stages, 2, 3 and 4 and stage 1. These are discussed in some more detail in chapter 5. It is, however, worthwhile to outline the principle differences at this point. At stages 2, 3 and 4, business defines the problem and determines what it is going to do about it. It will either 'go it alone' or act in consort with other business partners, generally from its own field of activity. It will charge its activities to marketing expenses. And, if it is unsuccessful, someone will know the reason why!

At stage 1, however, there are elected statutory authorities who have a mandate to look after society's problems. It is therefore they, and not business, that must define problems and control solutions. Business may help in the definition but it has no mandate whatsoever to act outside

its own areas of jurisdiction. At this stage, too, the problems will tend to be too complex to be amenable to solution by any one group of people. Partners from other sections of the community will normally be essential. Business investment in stage 1 should be considered according to criteria similar to those for any other long-term investment that is made to protect the future, rather than as marketing expenses. Finally, though failure in any endeavour may not be attributable to the refusal of any one firm to become involved, that firm and all others will be vulnerable. Bread on the waters does not return only to those that cast it.

In terms of the classification of social responsibility spelled out in chapter 3, activities in stages 2, 3 and 4 correspond to the first two levels of responsibility and activities in stage 1, correspond to level 3 and therefore fall within the 'third circle'.

#### A new allocation of resources

The pressures will tend to vary according to the scale of firm's operations, though the penalty of failing to meet these pressures will be paid by all. The important thing in the reasoning process at stage 1 of my Model is to start with the community, rather than the corporate, need. The question is not 'what are the constraints that affect my own company's operations or those of my industry?' even though, at other levels, this question must certainly still be asked. Instead, we must ask, 'what are the problems that are going to affect the community in which I live and

on which my company depends for its long-term future, and what skills and resources can I offer into the pool?'

The effect of this second question will be to reallocate resources. As I have said, the organisation of a company and its resources will reflect the priority order of all those factors that, at any given time, are perceived to have the greatest influence on its long-term objectives. When new variables come into existence and priorities change, this allocation is amended. Whether to invest in societal problem-solving or not is part of the risk-management process. The decision tree which relates to this process is shown in a similar context in chapter 6 on page 6.6.

When a company is small and particularly in an industry of high demand, it may grow quickly and profitably, looking only to its own competitive position and internal control system without too much concern with industry or business demand. As it grows, new constraints emerge and so new programmes are developed and resources allocated in order to reduce the pressures. As long as the total industry demand continues to grow, the individual company will grow also, even in the face of constraints. But industry demand presupposes a healthy business demand and what is happening now is that it is the growth of business demand itself that has become the main constraining force. This is not because companies have become large and some saturation point has been reached but because of the new variables described in stage 1.

As we have seen in stages 2, 3 and 4, the traditional way of facing the problems created by external variables has been through new developments in technology, the creation of new products and the wider acceptance of a company's products and services. The new problem is the strength and

intensity of factors which these traditional responses do not and cannot address. It is these new pressures which belong to stage 1 which determine the ability to generate business demand and to increase share price levels. These are external pressures which have nominally nothing to do with the company in any direct sense.

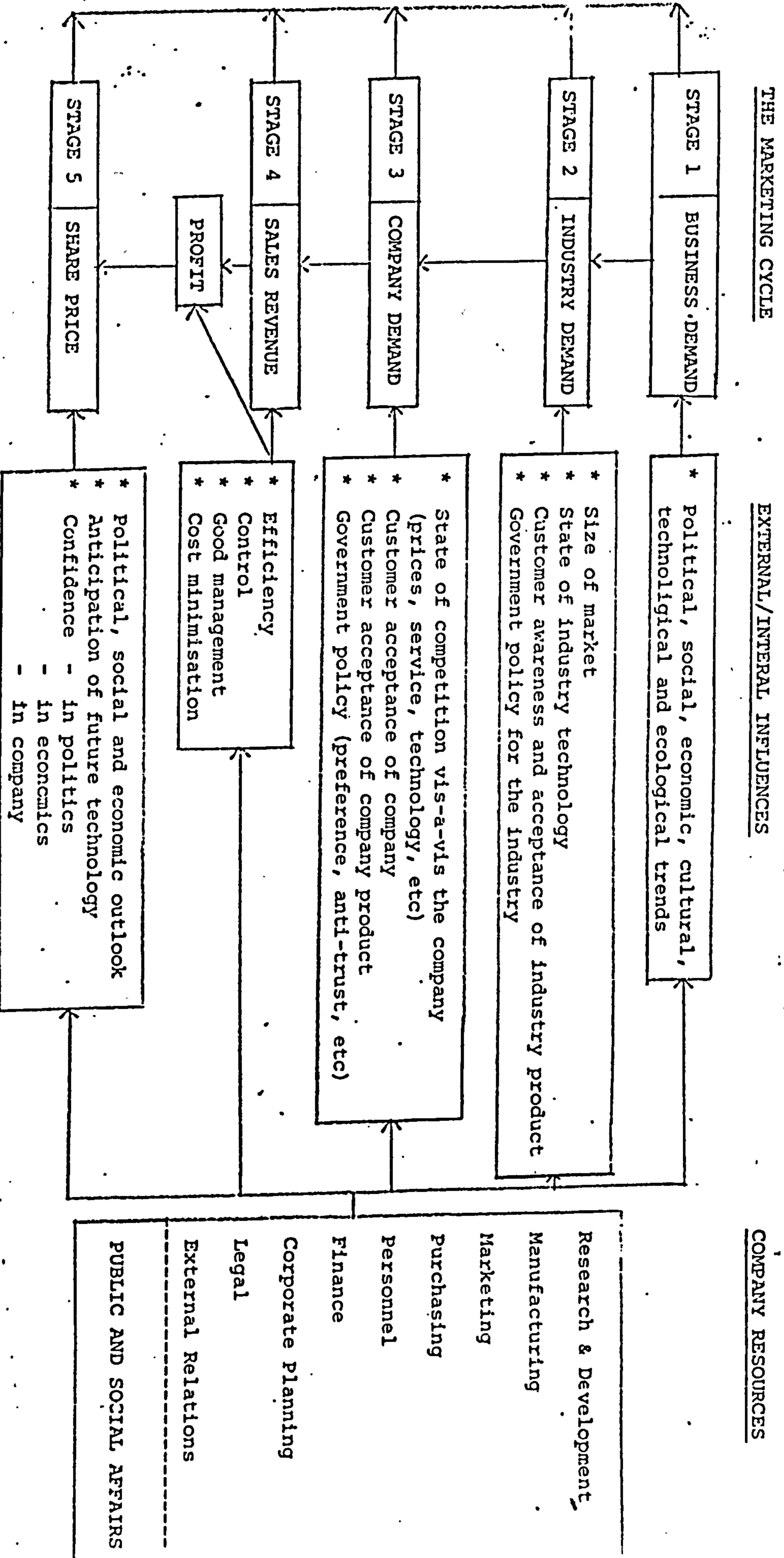
So I see new priorities being set at all stages. The efficiency of corporate management and its ability to minimise costs, although still essential, have a declining effect on the total situation. Likewise, the traditional attention paid to industrial technology, customer sophistication and image is evidently inadequate to control the influences on company share price and industry demand. The question that now has to be asked is whether corporate management accepts that there are forces which it has no prospect of controlling or influencing or whether it can reasonably attempt to control the destiny of its company and the environment in which it exists even in the face of these new constraints.

#### Self determination or abdication?

As the parameters of the marketing process move to include matters which affect society as a whole, we see that what I term 'third circle' social responsibility is not a drain upon nor an alternative to profit. Instead, we find that the long term profit-making potential of every individual company and of free enterprise as a whole, and indeed their very survival, will be jeopardised unless all companies substitute their token handouts, often made from muddled motives, for heavy investments in public and social affairs.

These are investments in the future. Short-term, there may be conflicts in priorities, but such is the case with other investments. Long-term, we already have the precedent of firms which have invested in, for example, education and retraining programmes or sound personnel policies and which have demonstrated themselves to be more profitable and useful than those who omitted to do this. The corporate strategic plan is the authority for the new investment. The question, once more, that is paramount is whether management wishes to manage the destiny of its company or whether it resigns itself to depending, increasingly, on the whims of outside forces.

FIGURE 4 - A BUSINESS MODEL





## Notes

- (1) "The Responsibility of the British Public Company", Final Report of the Company Affairs Committee, Confederation of British Industry, September, 1973
- (2) Ibid.
- (3) "Marketing - the Concept and Application", CBI, 1968

## CHAPTER 5

### THE IMPLICATIONS OF CORPORATE INVOLVEMENT IN PUBLIC AND SOCIAL AFFAIRS

To ask whether management wishes to control its destiny is one question. To ask whether it should or can are others.

On the face of it, it might seem that the preceding chapters advocate a course of action whereby business intrudes upon the traditional precincts of government. This, though, is not the case nor should it be. A partnership with the public or voluntary sector does not imply direct control of those areas which elected representatives have been chosen to manage, even if, in some cases, an intelligent partnership might effectively slow down the erosion of the private by the public sector.

#### Business and the Statutory Authorities

It is only by ensuring that the public and social affairs programmes in which industry is involved remain under the control of the statutory or professional bodies concerned can the needs of a total society, rather than of just an interested part of it, be reflected. But the alternative, to those who still persist in saying that the only concern of business is to make a profit through its traditional activities, has already been discussed. To repeat, it is that, through increased taxation and the growth of bureaucratic control, all these areas where interests overlap will be fully taken over by government with, perhaps, still some support from voluntary organisations, to the total exclusion of business.

Having demonstrated the need for business involvement in public and social affairs, what are the rules? The first and most important rule is that business does not by itself define social problems nor control their solution. It responds to them with the particular expertise that it may have. Business, in this area, is not a substitute for government planning; rather is it an extension arm to government in total

community planning.

The contribution of business is two-fold. It has resources and management skills. Both of these are in short supply in comparison with the total of tasks to be undertaken. The evolution towards some new form of social enterprise simply implies a harnessing of total resources to solve total problems and no encroachment whatsoever on the preserves of elected power or professional skill.

### Implications of Social Involvement

Whether business can control its environment also needs exploring and I am talking here about a sphere of activity that is beyond the normal, competitive activities of business organisations.

The majority of functions traditionally carried out by a company are undertaken to give that company some competitive advantage. Thus the development of a new technology will not only increase industry demand for a product but will give the company a competitive edge in its exploitation of company demand. Similarly, the introduction of improved personnel programmes will improve industrial relations and increase motivation, thereby improving, it is hoped, the profitability and competitive position of the company.

Public and Social Affairs programmes, on the other hand, are not designed to improve a single Company's competitive position. Instead, they seek to make improvements in the total environment which will be of benefit to all; to government, consumers, other industries, employees and even competitors. Such programmes start with society's and not the company's priorities and, as such, are essentially longer term in their nature. They are bread cast on the waters that will surely return.

The implication of this is the need for a cooperative effort with all groups in the interests of all groups. The alignment of effort will tend to follow the alignment of companies of

similar scale because the variables affecting any particular business will normally differ according to the scale of its operations. This attitude demands a change of management thinking that would allow, for example, BP, Shell and Esso, or Unilever and Procter and Gamble or IBM and ICL to work jointly on certain projects. It is significant that in Britain nearly all these firms now support the Action Resource Centre, the work of which is described in Chapter 21. Thus, in addition to developing a whole new series of relationships between the private and public sectors, there is the requirement to forge new industry to industry and company to company links. This has implications not only for business thinking but also for government. For example, in the United States, Anti-Trust legislation still inhibits certain joint initiatives in the public and social affairs sector.

Let me repeat that many of those opposed to free enterprise argue on the grounds of the need for greater community control over the resources and activities of private companies. Public and Social affairs programmes, in the way that this thesis defines them, present such an opportunity, but in a manner which preserves the contribution that free enterprise can uniquely provide.

The real danger in this work lies in companies seeing it as their job to solve social problems by themselves. Programmes entered into with this motivation are likely to reflect the values of corporate management rather than of democratically elected government and the community as a whole. Moreover, they usually go wrong. Programmes carried out in the way suggested in this thesis ensure that the corporate involvement in social problems remains under the control of the community, thereby reflecting social rather than corporate values.

#### The Feasibility of Business Effort

Accepting that industry can and should, anyhow in theory, become involved in public and social affairs, and on the partnership basis described, what then is the scale of commitment that is

feasible. What can even a group of industries do to touch the mammoth problems facing society? Is it reasonable to think that problems so universal as the international economic outlook and international confidence can be tackled?

There are four points here to be considered. The first is that these broad problems tend to be the sum of a number of individual ones which, when broken down, may not seem so formidable. The second is that the effect of such industrial involvement will be slow and long-term but, if it is like water dripping on a stone, then some water is better than none! The third is that some action is anyhow better than none if it helps to reduce, if not totally solve, problems. The fourth concerns risk-management where the question is, "Can business afford not to invest?"

The later chapters on programmes indicate ways in which a comparatively small investment can prime the pump for wider action and bring about fundamental changes in thinking. It is the quality of imagination, rather than massive time and funds, that leads to the breaking of new ground. Nevertheless, the following figures, taken as an example from the UK, indicate the resources that would be available from even a modest investment by business in the social fabric of the nation.

10,000 skilled managers and professionals working 5% of their time on public & social affairs	= 500 skilled man years
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1% of the turnover of The Times 1000 top UK companies (1973-74) (1)	= £770 million (over half of this sum is to be found in the t 100)
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These resources, though not large compared with government budgets, can, through judicious use, make a major contribution to the effectiveness with which the total resources are applied to the solution of problems.

not so unreasonable as at first sight. There is no suggestion that all problems, or any, can be solved overnight. The suggestion is only that the principle of these new partnerships should be tried out in small, controlled experiments in order to see whether the thinking is valid and a basis for wider action. My own conclusion is that collective action by business is not as unreasonable as would seem at first sight. Evidence from projects in which I have been involved, as described in Section I, and others firmly support this conclusion.

## PART 2

### THE BUSINESS ENVIRONMENT

#### CHAPTER 6

##### THE BACKCLOTH - UNDERLYING TRENDS

In order to understand the possible role of business in the modern world, it is useful to be aware of the groundswell themes of this period. Why? Because the fortunes of business and the community are intertwined and because problems are total, not sectional, in their implications.

The backcloth to today's scene is varied and disturbing. Any single aspect of this backcloth would be impressive by itself: together, there is a total picture that has but few parallels in history. Nevertheless, the business executive who fails to think in these total terms is not preparing himself for the discharge of his new and wider responsibilities.

When recruiters for a firm are blackballed in universities; when offices are occupied by militant feminists who believe that promotion is only going to males; when the gardens of executives in a packaging firm are littered with non-returnable bottles; when the buildings of organisations accused of condoning apartheid in South Africa or political prisoners in Brazil are picketed, or when an outcry is evoked by a mining company's intention to bore in a beauty spot, then business is, to say the least of it, interested.

If the flow of high quality recruits dries up; if the aims of government and industry diverge to the extent that legislation, inimical to business, is passed; if the failure to assess its social profit and loss results in the boycott of a firm or if the predictions of ecologists are realised even partially, then it is too late even to be interested.

The attitudes of young people, the conduct of industrial policies, the conservation of natural resources, the political aspirations of the developing countries or the kind of education we are giving to a new generation in a world of change - all these are factors which colour the environment in which business operates and which help determine whether this operation is successful or otherwise. To say these are matters of concern to the businessman is to underline the obvious.

The following paragraphs constitute a summary which touches on some of the social, political and economic trends in sufficient depth only to point to areas where businessmen can usefully turn their attention. Much has already been written on each of these trends and an indication of this is given in the bibliography. All that is said here may appear to be truisms but none the worse for repeating.

### The Acceleration of Change

The overriding feature of today is not just that it is a time of change but the speed with which change is taking place. In earlier centuries, the milestones of history were sufficiently spaced to allow their effect to be assessed against a whole value system. The acceptance of Arabic notation and the invention of the printing press stood alone in their scale of importance. Today, the acceleration of change has reduced the possibility of assimilation. The graph of material discovery is rising at an almost exponential rate - a rate not matched by those social institutions that, in theory, are designed to manage such change. The problem, therefore, is not the change itself, but what might be termed the "change gap".

If we take three important fields, namely, power, communications and knowledge, we can trace this acceleration over the last 2000 years. Apart from certain fluctuations, the line of discovery would appear to be fairly stable. Then, about the middle of the eighteenth century, this line ascends sharply. The power of wind and muscle gives place, in quick succession, to mechanical, then electrical and then nuclear energy. The



development of communications can be seen, both in the time it now takes to cross the Atlantic and also in the media that unite the world. And knowledge, which is said to have received its first doubling in 1750, is now by the same definition doubling every four and a half years.

This acceleration can be correlated exactly with man's enhanced power to perform calculations. The computer, as it helps to solve new problems on the path of discovery, has been a prime tool behind this acceleration. It is little wonder that those who were born into the relative serenity before the First World War or indeed those of later generations, question not only their ability, but also their desire, to keep up.

### An Age of Technology

This is also an age of science and technology. Ignorance of science, like ignorance of the law, is no excuse. The potential of the new technological discoveries is obvious, either for good or bad. The problems of how to keep technology on tap instead of on top occupies the thoughts of many. Two important things should be borne in mind. The first is that it is still issues that confront us, even if we become confused by the tools that have been developed in this particular period. It is no more necessary to have any profound knowledge of technology in order to understand the issues arising from it than it is to understand the human digestive system in order to appreciate the effects of over-eating.

The second point to remember is that the ambivalent promise of technology reflects the ambivalence in the mind of the user. This is the real benefactor or culprit and the time in which to close the gap between man's technical and moral evolution is probably too short for comfort.

So it is the job of every businessman today to understand the potential of technology, to assess its effect and to ensure that technology becomes on tap instead of on top.

### Total "Revolution"

There have been few periods in history which have seen such

convulsive change as the present. What is important in this and other such times when collective consciousness has been in eruption is that, in their course, the "revolution" is on the broadest possible front. The Industrial Revolution in England, for example, coincided with the social revolution in France, with the birth of the United States of America and its commitment to a new ideal, with the publication of Lavoisier's monumental book on chemistry and Adam Smith's "Wealth of Nations", with the rise of non-conformist thought and with artists like Goya and Pushkin going to prison for their revolutionary activities.

Likewise, today, it is impossible to separate the cybernetics revolution from the social revolution of rising expectations or from the challenge to traditional forms of art and behaviour or from the seeking of new religious and emotional experience. It is the total of established thought that is being overturned and questioned and the problem is to know what to discard and what to retain from the old order.

In the business world, many of the accustomed classifications and spheres of responsibility are less clearly defined. The structure of management itself is changing as the pyramid of authority - itself derived from the Roman legion's need to communicate by word of mouth - gives way to new concepts of control. Today, the barriers between employer and employee should be disappearing as situations, rather than people, become the dominating factor to which both employer and employee must respond.

The speed with which what were thought to be unassailable facts are being questioned makes it tempting for business leaders to retreat behind conservative thinking, rather than face the disruptions of change. Unless business acts on the premise that the radicalism of today is tomorrow's conservatism, it will miss out on events. Radicalism is a continuing attitude: not the achievement of a moment.

#### A Distribution Society

The move from a manufacturing towards a distribution, or service

economy is taking place. As this happens, there are changes of pattern in the kinds of work that people do and the cycle of the working week itself. Rapid developments have already taken place in the USA and similar, though slower, trends can be expected throughout Europe.

With these changes come a need to reappraise existing attitudes towards work, leisure, education and the relationship between income and toil. The Puritan ethic of work is challenged and the division between work and non-work, in which work often has to be endured and leisure is regarded as the time to do what one really wants to do, becomes blurred.

The effect of shift working on the provision of services at all hours; the status of the artist and those who raise the quality of life; the possibility of multiple job holding and a guaranteed minimum income; provisions for constant retraining and continuing education; early retirement and, above all, the way in which we help a new generation to adjust to a different relationship between work, education, leisure and service has to be worked out with business playing a key role.

One of the effects of the new pattern could well be to free management to play a wider role in society and the desire for more junior employees that their business should be socially useful, as well as profitable, will have to be met.

### The Ecological Crisis

Much is heard about the ecological crisis that confronts the world. The facts concerning the pollution of soil, sea and air; the population explosion and the squandering of resources are well known. So too, are the figures relating to the social and economic inequities in the world in terms of health, wealth literacy and longevity.

The conclusions drawn from these facts tend to be polarised. There are the prophets of imminent doom and those who relapse into the common hope that everything will work out without our becoming unduly concerned. The issues are confused becausee

of the emotive effect of pictures like "1984" on the one hand and, on the other, the paucity of imagination that resides in most people. To those who devote even a cursory glance at the world forecasts it might seem hard to escape the conclusion that we are moving towards some crisis or climax and that the critical point is not many years away. Yet the dimensions of the possible crisis are so daunting that there is a natural temptation to avoid looking at it in any detail and, more important, trying to avoid it or minimise its consequences.

Be that as it may, the equation for the businessman should be simple. He has four alternatives. (See Fig. 1). Either there will be a crisis in one of these areas or there will not. Either he tries to do something about it or he does not. If there is no crisis and he takes no action, OK. If there is no crisis and he does something, then, still OK. If there is a crisis and he does something: possibly OK. But if there is a crisis and he does nothing then he deserves what is coming!

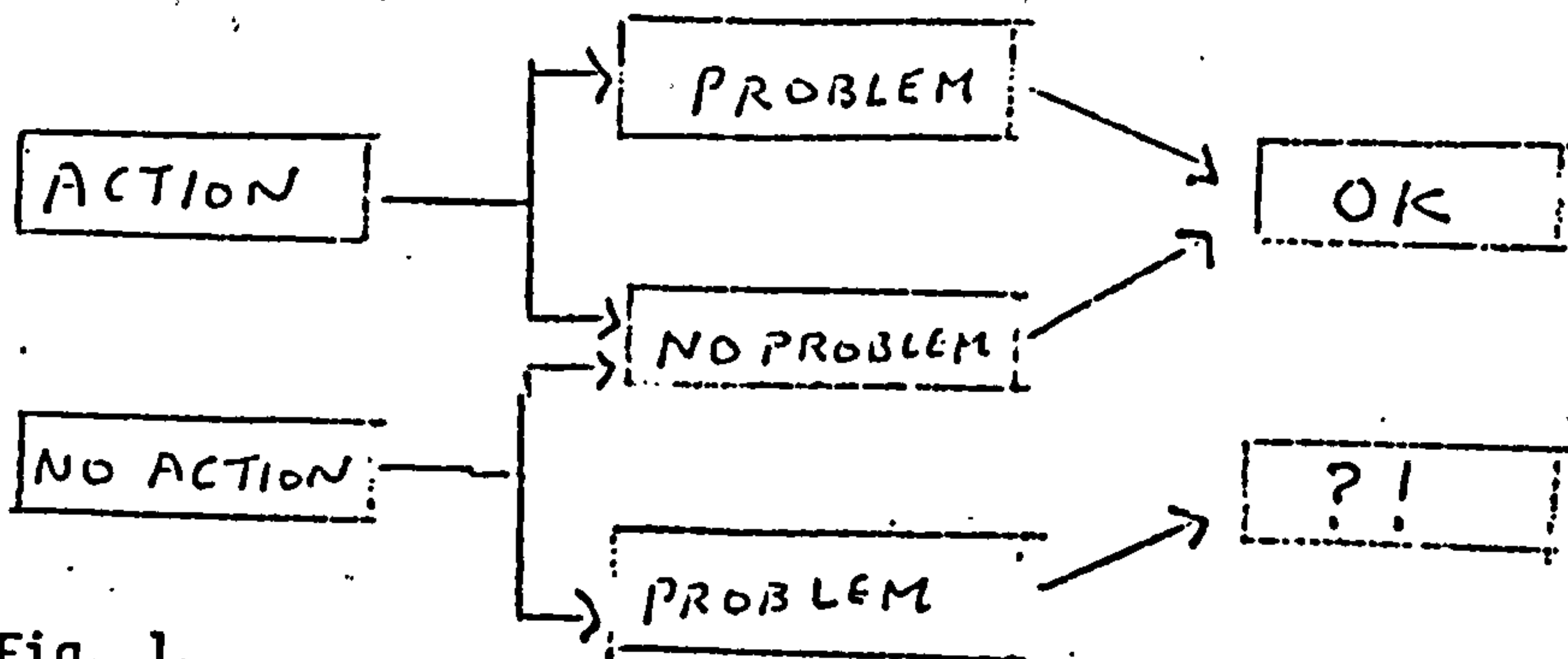


Fig. 1.

Again it is simply a question of risk-management. If there is a five per cent possibility that there will be a crisis of some proportion, and if there is a reasonable possibility that business management might lessen or avert it, the choice of course must be obvious. Perhaps a decision-tree is just an elaborate way of arriving at a common sense decision?

### The Streams of Society

It is not only the ecological threat that requires the combined efforts of all sections of the community. The problems of modern society are complex and the skills to solve them are in short supply. The classical division of a country, in Britain none

apparent than in America, into its streams of government, business and the academic world is wasteful and inefficient. The credibility gaps continue; contact between government and industry tends to be on a pressure and complaint basis and there is distrust between the academic and business world.

Yet the ability of business to pursue its goals depends increasingly on the attitudes of government and their proposed legislation and there are obvious areas of research that can be carried out usefully by universities on behalf of industry. In total community planning and local government, the contribution of business can be great in terms of management skills..

One single step which would have a great effect in Britain would be the establishment of a joint Staff College in which young civil servants, politicians, industrial managers and trade union officials could learn together and establish some common terms of experience and reference. Without such a step, the credibility gap will continue, cooperation will be denied and we shall all be the losers.

This theme, of the need to bring together the streams of society in the joint solution of problems, is repeated throughout this thesis.

### Materialism and the Quality of Life

A new and observable phenomenon and one that has wide implications might be termed the break up of materialism.

The period prior to the 1914-18 War was essentially a physical one. Material objectives were pursued with energy; wars were physical; growth was in material terms. In other ways, Darwin saw man as something less than man and the product of a mechanical, evolutionary process. To Marx, the economy was a self-regulating mechanism and Freud with his Id, Ego and Super-Ego saw even the human personality in terms of the gear wheels of the mind.

Now it is different. Wars are as much of ideas as of armies. Frontiers begin to follow classifications of thought and professionalism as the 19th century lines of demarcation crumble. Therapy is as much mental as physical and quantum physics have

demonstrated that the search for final substance in matter is like the search for a pitch black cat in a pitch black cellar when no cat is there.

Certain effects are noticeable. The '60's were an age of quantity: the '70's one of quality, at least in aspiration. Indeed, it is probably because of the achievements of the past decade that there is time and opportunity to reflect on quality.

Articulate youth is perhaps particularly sensitive. They question whether the craft of organising life has somehow militated against the art of living. They are increasingly reluctant to join a society on terms dictated by technique and, enmeshed in the concrete jungle, conscious of its sights and smells and sounds, they seek to reconnect with nature to find themselves. So they opt out, drop out, or, worse, become resigned. The pursuit of material goals is less desirable; that which classifies and identifies the outward man is less important than being himself. Though the search for new experience follows strange paths, be it drugs or esoteric religion, the lesson is plain.

Businessmen need to be alive to this thinking and recognise the viewpoint of those who feel determined that, even if the world did not begin with their generation, it is not going to end with it either.

As we develop techniques for social accounting, it may be easier to demonstrate how one man's quantity gain is another's quality loss. The French Government has included, for the first time, a Minister of the Quality of Life. Departments of the Environment in other countries also attempt to preserve the amenities of life. Without, however, the clear idea of a framework within which mankind is to move forward, such efforts remain uncoordinated and partly ineffective.

The relevance to my thesis of these short paragraphs is simply that the resources of management and technology should be used to hide, instead of spread, the concrete jungle. The possibility is for a new Bill of Rights: the right to breathe fresh air, to travel on uncongested roads, to be educated, to be oneself. Unless the efforts

of business and government are seen to be directed to this end, the structures they represent will continue to be a target for those who, in their naivete, still believe that value is more important than cost and quality than quantity.

### The Shrinking World

In any period, man's horizons have been largely dictated by his available means of communication. When communication was confined to physical transport, he could think reasonably in terms of city states or even nations. With the divorce of communications from physical transport, it is possible and necessary to think in new dimensions.

It is thus no longer possible to separate the interests of one community from those of another. The slum at the end of the rich man's garden is unacceptable, not just on ethical grounds but because it jeopardises the world's political and economic survival.

In the past, it was possible to have a civilisation surrounded by an Indus or a Euphrates and it could rise and fall and its place be taken by another. Today there is no room, if our own civilisation fails, for another to rise, like the Phoenix, from the ashes of the old.

An understanding between business and government is essential if the problems inherent in the growing gap between the industrial countries and the Third World are to be resolved. U Thant described this gap as "more dangerous than the cold war". But we have the cold war too, and a new power relationship with the oil producing nations and the cries of the Palestinian Liberation Movement to add to the incendiary ingredients of the times.

Business has to consider whether the material profit in one country is outweighed by a social loss elsewhere for, if the gap widens to critical proportions, then the environment in which business operates becomes a purely academic matter.

### The Multinational Corporation

On the whole, those who have taken advantage of the new communications are professionals, scientists and businessmen. They are problem oriented and thus tend to think horizontally across boundaries. Political, as opposed to technical, man still thinks vertically down frontier lines. This is perhaps natural, since the nation state is still the largest entity through which views can be expressed democratically by individuals.

The prime expression of horizontal thinking is found in the multinational corporations and there is some conflict between these representatives of a twentieth century communications system and those of a nineteenth century political system which is a constraint on international effort. There is no political counterpoise as yet to the multinational corporation with the result that two sides play the same game by different rules. Though the theoretical balance may be provided by such organisations as the United Nations and the EEC, these have as yet little real power and authority.

There are many areas where international corporations and national governments can work constructively together and, with the facility of modern global communications, there is certainly a need that both should operate, mentally and physically, in the same dimensions.

### Conservation and Waste

The "throw-away" society is under attack and the business responsibility in meeting this goes deeper than mere efforts to re-cycle waste. One way in which it can discharge this responsibility is to refrain from encouraging, through advertising and the pressure of opinion, the kind of senseless profligacy that we witness today in the Western World.

With a better understanding of social accounting, it may well be found that the profit of one extra car is more than offset by the cost of using that amount more of the world's dwindling resources; that it may be more responsible to build cars that last for twenty years and run on the cheapest fuel and that it is immoral that, through encouragement to maintain an ever higher standard of living, 40% of the world's resources are enjoyed by 6% of its population.



One may well ask whether the legitimate needs of the Third World can be satisfied without some voluntary reduction in demands in the West, and what the future holds if this reduction does not take place. But, in business, waste is everywhere. We see it as waste in employce resources, raw materials, energy, in bureaucratic decision making and, perhaps most clearly, in goodwill. This theme is expanded further in Part IV.

### Inflation

It must suffice here to mention the rate of inflation that is hitting a majority of countries in the industrial world and to draw attention to three aspects that fall within the context of this thesis.

The first, which requires political courage to state, is that no longer can we expect the industrial nations to grow at the expense of the Third World. A return, on those terms, to cheap raw materials and basic commodities cannot be expected. Nor is it desirable if we believe that the gap between the rich and the poor nations is one of the more potentially lethal features of present life. One of the reasons, then, why rich countries may face a decline in their standard of living is that the poor countries are growing richer.

The second which is correlative to the first is that, since the Arab-Israeli War of October 1973, there has been a definite and irrevocable shift of power between the industrial and raw material producing countries. It is a shift of power on a world scale and which is similar in essence to the new power and interest groups emerging within nations.

The third is a factor of the growing intervention by government in business affairs. Government does not have the constraints in obtaining money which face business. Business cannot expand if the banks have no money: government can and does print what it wants. The key question is whether government has the self-control and sense of responsibility to resist the short-term benefits this ability can bring in favour of a longer term future which is otherwise jeopardised.

### Limits to Growth

At least one party political manifesto in Britain has postulated a no-growth economy. This reflects an increasing questioning as to whether growth, in the sense we know it, can continue at its present rate. The record of compound growth in the large corporations is a source of pride to their managements and satisfaction to their shareholders, but the real income, even in those countries that share this industrial progress, has not risen in any comparable ratio.

There are three stages of growth. The first is the 'safety net'. Freedom from hunger and want must come before freedom to speak or be educated is meaningful. A basic level of material growth is legitimate. But this stage of growth is necessarily competitive because it concerns the sharing of finite resources.

The second stage comes when this minimum, or not so minimum, level is achieved and there is the opportunity to weigh the worth of quality against quantity. This, too, is a competitive state because interests conflict. One man's car offends another's desire for pure air! We see this conflict as the aspirations of the less privileged peoples become articulated.

The third stage is when growth is redefined and is seen in terms of unfolding opportunity rather than material accretion. It concerns the breaking of shackles, the broadening of horizons, the removal of limitations. The growth industries, in this sense, are education, communications, knowledge and leisure. At this stage, growth is no longer competitive because it is no longer based on finite resources.

Each of these stages applies to different nations and different parts of the population within those nations. But, for those living in the industrial world and, those managing its key enterprises, it is necessary that the third stage should be taken into consciousness as corporate objectives and strategies are planned.

### Interdependence

This chapter started its list of backcloth factors with the acceleration of change which is precipitating events in every facet of contemporary life. It ends with the suggestion that the theme for this period is interdependence. Despite the apparent fragmentation of life at one level, evidenced by the formation of social, cultural, national and political splinters, there is evidence, at another level of an inevitable cohesion. One person is dependent upon another, one sector of society on the next; nation upon nation. This essential unity is not new. What has altered is the nature of the dependence and also our realisation of its importance.

We see this in every walk of life. The interdependence is technical, social, political, cultural and economic. Technically and socially, we live at a time of single source supply. An electricity failure in New York brought the Eastern seaboard of America to a standstill. Disruption by a handful of men can throw thousands out of work. Politically, we experience an increasing degree of government intervention in the economy of the private sector. Sometimes this represents a reaction by government to the apparent, isolated selfishness of business; sometimes, as in the case of a company failure like that of the RB 211, affecting Rolls Royce and the Lockheed Corporation, the international repercussions lead to government action.

The cultural interdependence of mankind shows itself in simultaneous expression, be it in terms of student behaviour or pop music, in different parts of the world. Economically, there is little need of further evidence with all that confronts us daily, of the fact that the world sinks or swims together. The feeling of inequality, in turn, be it in groups of people or nations, can be as potent a source of conflict as any other.

The businessman, therefore, can in no way escape the consequences of living in an interdependent world. His need is to create a host of new relationships with groups, organisations and institutions which he had not considered seriously in the past.

#### The Implications for Business

Each of the paragraphs in this chapter is simply a vignette. It deliberately avoids the expansion of the many themes which have, for the most part, been treated in depth elsewhere. The purpose is simply to show the complexity of the world in which business operates today. Business survives because of society: it also helps to mould society. The survival is dependent on the degree to which it works with, rather than apart from, the groundswell of the age. The moulding, if it is responsible, will help its survival.

The manager today cannot afford to be ingrowing nor to operate in the business world alone. This would be doing an incomplete job. He would be failing in his declared responsibilities and would deserve any recriminations that were directed against him. He needs therefore to think deeply about these matters and let the spectrum of contemporary events be part of his thinking in the day to day practice of business operations.

The problem for him is how to do it. How, in his busy life, when existing pressures take all his time, can the manager turn his attention let alone his energy to analyse and act in areas beyond his traditional competence. The way is

## CHAPTER 7

### ENVIRONMENTAL ANALYSIS

It has become a truism to say that the 'standard economic forecast' is inadequate in planning the activities of business and other institutions. Today, there is increasing acceptance of the need to appraise the potential impact of trends and changes in the total environment, that is, in the complex of the political, social, economic, technological, ecological and cultural environments and their interrelationships.

The issues for all our institutions and particularly for business in today's environment are many. Some of the key ones and the sub-issues associated with them are listed in Table 3.

I am not suggesting that every organisation actually conducts its own research into each of these issues. This, obviously, would not be feasible. Neither is it necessary. There already exist volumes of information on most of the subjects we are concerned with.

But from a business point of view, it is important to know how these separate pieces of information interrelate. Which information is likely to be accurate? And, most important, which information is the most relevant to the needs of an individual organisation?

It is often not difficult to provide general and non-specific answers to these vital questions. But generalities are precisely what I am trying to get away from. Each company is unique. Each has its different objectives, problems and opportunities. What is needed, therefore, is a mechanism for channeling general information into a specific analysis for an individual organisation.

To do this successfully, a comprehensive monitoring and evaluation system is a primary requirement. Such a system must be capable of, first, picking out and analysing key

trends and changes over a broad range of issues; second, drawing, from general data, specific implications for individual organisations and, third, making information available to top management in a form useful to rapid decision-making.

Until now, most attempts have not been too successful. Inadequacy of sources, the questionable authority of comment, and the length, frequency and format of reports have all contributed to the problems encountered.

This chapter proposes a method which overcomes many of these problems. The method, often described as environmental analysis consists of a number of steps. The first is the use of a series of networks of sources, experts and validators to generate information. The second is based on the undertaking of a sensitivity analysis on the factors identified. The first gives ready access to the best available and validated information. The second permits top management to see at a glance, summarised on a single sheet of paper, all relevant key issues and trends rated according to their seriousness and according to the lead time available for action. Such an 'analysis of change' can be invaluable in helping management to assess risks, to act to reduce constraints or to take advantage of opportunities.

### The Need to Manage Change

The new pressures in society which, in turn, have a real effect on business and on the economy as a whole serve to emphasise my opening statement about the inadequacy of the 'standard economic forecast'. Until recently, as I have described business tended to isolate itself from and be isolated by the rest of society. The business of business embraced a very limited sense of the word 'business'. This meant, even in the case of enlightened companies, that, provided the immediate stakeholders were satisfied, business had no other concern. The immediate stakeholders were the shareholders, satisfied by obtaining a fair return on their investment, and the employees, secure in the knowledge of a day's pay for a day's work.

This principle was tenable for as long as society had large numbers of deprived people, remained reasonably static or was expansionist. Whilst a company produced a good product, showed that it was interested in research and development, employed a highly trained sales force, maintained high standards of administrative and budgetary control, and practised enlightened personnel policies, it could afford to disregard any other factors - if indeed the company or society was ever aware of their existence.

The last chapter, which painted the backcloth to today's scene, identified some of the profound changes that society is undergoing. The reason that they are important to business is that business depends for its success on a reasonably stable society. It prefers to manage than to deal with the unexpected. This does not, of course, mean a static society but rather one in which any changes that cause or result from progress should derive from the past and present and not be a complete novelty. This is just another way of saying that evolution is probably the healthiest process for business and society. Assuming this to be an acceptable premise, then, as we have shown, it is in the interest of business to help in the management of change.

In so doing, it is important to separate cause from effect. The management of the factors that are causing change would, at first sight, present difficulties because they seem new and because, by and large, they appear to be qualitative rather than quantitative. Such is contemporary training that there is a tendency to fight shy of value judgement and a preference to trust in the apparent objectivity of figures. It is useful, therefore, to remember that the well tried principles of "risk-management" have been used by the insurance industry all over the world and the techniques for the management of change (as opposed to the more familiar process of management by crisis) are not dissimilar.

This need to manage change is already being recognised although not always by business. Both the management and even daily press have contained articles on this subject. (1) Virgil B Day (2) maintains that there is a need to appraise "potential impact (danger or more discomfort) and estimate time for response, while looking for opportunities to shape or reshape the challenge". He adds, "it is easy to count our troubles; it is harder to evaluate them."

The changes and trends in society and the resulting demands, both apparent and unnoticed, made on business are now so many and so diverse, that business must have an interest in the future and that interest needs to be systematic and sustained. An analysis of the trends may yield as many opportunities for business as it will risks and the advantage is that business will be able to know how to benefit from these opportunities as well as how to reduce the risks.

What is required is a method for judging the seriousness of both risk and opportunity, for assessing the available lead time, for devising strategies that the company could adopt and for analysing in turn the social "impact" of such strategies once they have been implemented.

#### Difficulties of the Qualitative Approach

Early attempts have not been very successful because of the stress on the need for quantified results. Those concerned with the analysis and forecasting of business trends have been forced into a strait jacket. They have been asked to quote



figures, to extrapolate statistics, to demonstrate with hard provable (in theory) facts what they are stating. In so doing, it has been easy to forget that some of the most important steps forward, scientific discoveries or product developments, have been the result of a creative, imaginative leap which has made use of, but has not been dictated by, hard facts and figures.

There are other factors, too, which have prevented the acceptance of the qualitative approach. Very often the information is expressed as a "gut feel", for what is to happen or it appears to have almost deliberately disregarded other known facts.

Occasionally, too, we mistake the incident for the trend; because a specific event was not foreseen in the precise way in which it actually happened, the trend is rendered invalid. Yet the event could be a hiccup, or perhaps simply occurring earlier or later than had been originally anticipated.

The arguments so far have tended to be philosophic but it is necessary to state them in order to explain the practical difficulties which have militated against the success of a monitoring system.

Another major problem has been that of responsibility. This is not just a question of who should guide, supervise or report on the changes and trends in the socio-economic and political climates. What has been equally unclear is, in a sense, who is responsible for making the decisions as a result of the information that is forthcoming. This latter is certainly a very understandable reaction on the part of anyone brought up to believe that unless you can see it and touch it, it does not exist. Thus it has become an objective to make sure that "monitoring the environment" is a credible function.

#### The Credibility of the Analysis

The credibility of the forecast is directly related to its relevance. It is of little use reporting on all events with the

same degree of emphasis. In reporting trends and changes, it is imperative to bear in mind the business, present and future, of the organisation and to relate the issue to the specific and individual needs of the company. This is where it is legitimate to quantify, albeit roughly, the effect of a change.

The requirement to quantify is not impossible, provided that one accepts orders of magnitude and allows a reasonable margin of error. If a company is, for example, dependent on the import of a mineral, which originates in a country with an unbalanced, or potentially unbalanced, relationship with the home country, then a change like the recent increase in oil prices on the part of OPEC will be used in the calculation. It will be realised that the increase is a political, more than economic phenomenon. The temptation on the part of the developing countries to act in a similar fashion will be great. So, if a company is dependent on cobalt or copper, it must also quantify the potential impact of nationalisation on its continuing cost. Another example which reflects the climate of opinion today\* is that Australia is attempting with success to form a bauxite producing exporting countries association. This, too, against the background of the power politics of the oil crisis, the development of the European Community agricultural policy (which could have an adverse affect on Australia's exports) should be gauged and the effect quantified. The fact that the countries learn political lessons from each other serves to demonstrate the need to look at total possible events in environment analysis and to assess total effects.

Similarly, given a close look at the facts, realistic estimates can be made of the effect of changes and trends in the whole area of worker participation. In Europe, one needs to take into account what the trades unions are saying, what government attitudes may be, what is going on in the EEC, what the experience of other countries has been, and, possibly, the results of employee opinion surveys that have been held within the organisation. The real reason behind the trend and expectations in future developments can then be determined.

The temperature can be estimated; for example, will it result in days lost through absenteeism, strikes or in increased job satisfaction? Approximate costs and profits can be placed against the particular forecast. However, it must be again repeated - these are only estimates.

### The Authorship and Structure of the Analysis

The authorship of a monitoring report must also be convincing. The editor should report to someone, preferably a director, who is very close to the Chief Executive Officer. It is important that the "environment" is as well represented at top level as functions like marketing or research and development. Each is dependent on the other. It is also important that, as society or, indeed government, is many faceted, so this should be reflected in the composition of the team that puts the report together. Whether this team is drawn from within or outside the organisation or, ideally, from both, it should be multi-disciplinary with individuals representing the personnel and technological functions, the external scene and, of course, the economist and marketing areas.

The advantage of including external advisers in the reporting team, as well as using external sources of material, is that it helps to support the authority of the report. When source material ranges from opinion surveys to debates in Parliament or from the work of university departments to actual "events", such as a United Nations Resolution, it is the more important that the source material of factors that themselves may be open to discussion can be validated.

The frequency of the report must also be considered. One way to structure it is to hold a weekly 'editorial' meeting at which changes and trends are discussed and the implications for the organisation noted. The report of this meeting can then be circulated in time for the next meeting of the managing director and his senior colleagues. A caveat to this procedure is that familiarity breeds contempt in business as elsewhere in life and it is therefore better to be content to say nothing when there is nothing to say!

Finally, in this review of the report, the findings need to be presented in summary form. The postcard is harder to write than the letter and the format of even a one page report must be flexible but the ideal is that it should be possible to combine the bird's eye view of the total scene with the in-depth study of a single subject. A suggested approach appears later in this chapter.

### An Intelligence Desk

What I am talking about is the correct use of intelligence and an understanding of its importance. In the Services or in government departments this is not as new a concept as in business. The desk officer, through whom passes all information, however apparently trivial, that has been culled from many sources is an essential part of their operations. The results of personal contacts, information gleaned from reports and official documents, even sometimes hearsay, are collected, graded for their importance to the organisation and on the reliability of their source, and then used for briefing meetings, policy formation and tactical decisions. Business is really no less dependent on such an operation but it needs to be set up formally and then used.

### Sensitivity Analysis

The need to analyse the total environment in depth is gaining acceptance if only because the crises to which society has been subjected in the last few years have begun to convince forward-looking managers that strategic planning on a continuing basis is not an unnecessary luxury. Crises have also ensured that more, though still insufficient, attention is paid to contingency planning. The more serious problem, however, is still that of gaining the ear of top management as a whole. This is, in fact largely a matter of presentation so that the management team, as a corporate entity, considers the future on a "here and now" basis.

A suggested solution to this problem is based on an approach already accepted and used in a number of fields. The technique is that of "sensitivity analysis" and is a way of taking the

temperature of the event or issue being described. It is not, of course, a perfect, scientific answer: indeed, it can even give the appearance of quantifying the qualification or indulging in ascribing numeric values to value judgements! Nevertheless, it is a useful approach.

Before describing the technique, it is worth re-iterating a point made earlier. When dealing with attitudes and forecasts, it is important to reduce the area of doubt as far as possible. The source of the data must be expert and the comments on it authoritative. What is then being presented are the views of those who, through training and experience, are in the best position to be able to predict and who, in a real though limited sense, can help to form opinions. Obviously there is a close relationship between event and voiced prediction or opinion and to claim a priority of one over the other is a philosophic rather than a material argument. But to raise the question of self-fulfilling prophecies is not really germane. The point to establish is the general acceptance of the "weight" or significance of the data.

#### The Technique in Practice

The technique works in a very simple fashion. Based on informed opinion, every trend or change in the social, political, economic, technological and cultural climates is given a likelihood factor. The kind of question that needs to be asked is "how probable is this development?" The answer will not be precise but, wherever possible, the mid-point on the scale should be the result of the consensus of experts. The need is to establish a scale of probability. This scale can range from 0 - 10 or 1 - 100, whatever is more suitable, the broader scale giving more flexibility to allow for a consensus view over a wider time frame. In one particular case the figure '0' would be used to indicate that the event or development was so unlikely as to be not worth considering within the agreed period of time. It should perhaps be pointed out that social change takes longer than technological change but, when it happens, it is far more difficult to resist. In talking in terms of environmental monitoring, one is possibly arguing in a twenty or thirty year time frame, i.e. strategically not operationally. This is stated so that it is realised that if the figure '0' is used this does not necessarily imply 'never'.

In the example stated above the figure of 100 (or 10) could be used to imply that the change will manifest itself within the next year. It is, of course, unlikely that the high figure will appear unexpectedly and frequently. If the environmental analysis report is prepared regularly then the trend should have been apparent some time before it developed the urgency that '100' would imply. Nevertheless, it is as well to have the figure for, perhaps, the occasion when there is a startling new development or when the change has taken on a more immediate character, such as a decision to force an Act through Parliament on Two Tier Boards when it had been assumed the run-up would be more gradual and more flexible.

One could envisage a scale that could be present, viz:

0	=	appears to be improbable in the period under consideration, i.e. after 25 years
10	=	unlikely - that is, it could happen in about 25 years
20	=	occurring in 20-25 years
30	=	" " 15-20 "
40	=	" " 10-15 "
50	=	" " 7-10 "
60	=	" " 5-7 "
70	=	" " 3-5 "
80	=	" " 2-3 "
90	=	" " 1-2 "
100	=	" " within the year

The next step is to use a similar scale to ascribe an "implications" rating to the trend being mentioned. This is probably more difficult than the 'likelihood' factor. The discussion becomes even more subjective and real evaluation is closely dependent on a fairly intimate knowledge of the organisation's business. Even within these parameters it is, of course, highly probable that the personnel function will think one specific external event more important than another, whereas the marketing department will reverse the order completely. But before going any further it will be as well to try to define 'implications'. This definition can be negative; that is, the implications for the organisation of a particular trend could

mean a reduction in its ability to achieve its objectives. This would constitute an attempt to quantify the risk as does the insurance world. Equally, the implication can be positive; that is, the change that is being noted can present a business opportunity. Thus it is important to realise that the implication scale is not one that measures in units of doom or vice versa; it is only an attempt to quantify the real relevance of the issues or trend to the organisation.

As with the 'likelihood' or 'probability' scale, the width of the 'implications' scale can range from 0-10 or from 0-100. The scale could run from:

0	=	presents no opportunity/risk to the organisation
10	=	presents minimal opportunity/risk e.g. failure to take any action would only result in no change in absenteeism rate
20	=	very small opportunity/risk, e.g. a slight change to the product would result in a marginal increase in market share barely offsetting the rejigging necessary
30	=	small opportunity/risk
40	=	opportunity/risk e.g. could result in the restricting of certain activities of the organisation
50	=	some opportunity/risk showing itself, say in increased productivity in one plant
60	=	effective opportunity/risk
70	=	important opportunity/risk, e.g. closure of the organisation's (small) operations in South Africa
80	=	serious opportunity/risk
90	=	very serious opportunity/risk, opening up a total new growth market area
100	=	the jackpot - one way or the other

The next step is obvious. Each change or trend reported is rated on the likelihood scale and on the implications scale. At this point the Chief Executive can see which trends are

thought to be more important. However, priorities for urgent attention can be dramatically highlighted by multiplying the likelihood score by the implications score to give a total trend score. The product will range from ten thousand to zero - a trend scoring 7200 should get, and will get, more attention than one scoring 200.

In this way, all the trends can be brought for consideration by top management and presented in such a way that this 'Overview' or Management Summary need never take up more than one or two pages.

### Supporting Material

Of course, these summaries need to be supported. In practice, this is done by accompanying them with the detailed reports. The report, depending on how many subjects it covers, from one in-depth study, to say, some 20 topics or issues, will vary slightly in format. However, the following has been found to work satisfactorily.

1. The change/trend/issue This section describes the topic in some depth, commenting on the movement in attitude or development that has been noted, where necessary going into some detail on the views of opposing schools of thought.
2. The sources This 'section' will identify the authority for the comment and the forecast.
3. The implications It is important that this section is given as much attention as the others. It ought to be as wide-ranging as possible in that it should look at the long-term implications for the organisation, for the industry group/service area in which that organisation is, and, on occasion, for the region, country or even continent. One needs to bear in mind that the 'sins' of any single company could colour the attitude of the society to business as a whole. No one is 'above suspicion'. For example, a case of irresponsibility by Company X in



South Africa would affect attitudes to other companies operating in the same area, whether they were guilty or not.

4. The Strategies Linked to each trend or group of trends should be suggestions about how the organisation can reduce the elements of risk implied by a particular issue or how it can take advantage of the opportunities that are presented. In a general sense, the strategies outlined will simply update the organisation's strategic plan. It is suggested, however, that actual programmes ought to be outlined in which the target group, the form of the project and the resources required are indicated. Very often, it will be found that one or two strategies can 'satisfy the requirements' for a number of different problem areas. The key point to remember is that each strategy should use the multi-disciplinary approach, and not simply look at press relations, personnel practice or other single technique or function.

#### A Typical Report

Perhaps the best way of showing how the environmental analysis works is to look at the example of the XY Company which is described in detail in the opening to Part III.

Briefly, the XY Company is a medium size multinational in consumer durables. It employs 30,000 people in the UK and has operations in most continents.

The time is 1974. Following a review of the list of possible issues (as shown in Table 3) and discussions with the Chief Executive, it has been agreed that the Company should analyse the following subjects on a regular basis and in depth:

Multinationalism and particularly the external threats to MNCs.

Employee participation

Environmental Pollution

Social Change (particularly changing relation of the individual to the organisation, e.g. C. Rights, recruitment etc)

Following my suggested procedures, the analysis team came up with the summary analysis shown in Table 1 and an accompanying detailed report an extract from which is shown in Table 2. (3)

### The Effect of the Report

This approach goes far in answering some of the problems that were outlined earlier. The Summary sheet does attract the eye of top management; it is short, flexible and to the point. It also, by its very nature, enforces mature consideration and discussion of the points raised. It means, too, that some stand has been taken for the summary, since it is numeric, cannot be hedged. There can be no 'if' or 'buts'. These aspects are more than adequately catered for in the body of the report, detailed reading of which can be delegated. The important thing is that top management knows where the priorities for action lie.

### Internal and External Resources

It is unwise to rely solely on an internal function to provide the total service. There are a number of reasons for this. One is that very often it is an added responsibility - one that has to be undertaken on top of the usual full daily work load. Secondly, the viewpoint tends to be blinkered and restricted to company experience and attitudes. Thirdly, there is a certain natural reluctance to commit oneself to a prediction which may be opposed to that held by management and which may also go wrong.

It is therefore suggested that one or more external organisations should be used to work with internal sources. These will provide a network of information sources and be able to call upon the resources of groups commanding acknowledged expertise on a wide variety of issues. External agencies can often better arrange

discussion groups, indulge in social forecasting, and use Delphi and cross impact analysis techniques. By having a number of clients they have at their disposal constantly updated awareness of the general scene and its likely development. Of course, at the same time, they are bound by the normal rules applying to breaching confidence. However the external organisation can no more do the job by itself than the internal function can.

The need is, therefore, for collaboration between external and internal units. Internal personnel bring to the analysis a detailed knowledge of the organisation, its policies and activities and these will certainly be known better within the organisation than by the outsider. (4)

Earlier, I outlined the four key sections which have to be included in the detailed report accompanying each summary. There will, of course, be overlap in responsibilities in the preparation of each section but, in general terms, the allocation of responsibility between internal and external units will be as follows:

- |                            |   |
|----------------------------|---|
| 1. The change/trend/issues | : in the main, external   |
| 2. Sources                 | : " " " "   |
| 3. Implications            | : the external unit but leaning heavily on internal input             |
| 4. Strategies              | : mainly internal, but leaning on the experience of the external unit |

TABLE 1

Environmental Analysis Unit Report for XY Co. Ltd.

April 1974

<u>Trend Analysis Summary</u>	Like- li- hood	Imp- lica- tion	Trend Score	Ref
<u>Multinationalism</u>				
Code of conduct for MNC's	22	44	968	1.1.
LAFPA control of MNC's	85	22	1870	1.1.
Manufacture in 3rd world - economic and TU implications	64	60	3840	1.1.
Wages parity in EEC	40	60	2400	1.1.
<u>Employee Participation</u>				
Possible legislation on employee participation on Company Boards	66	58	3828	2.1.1
Resistance to assembly line work	70	65	4550	2.1.
<u>Environmental Pollution</u>				
Legislation on environmental pollution	87	42	3654	3.1.1
Attack on 'A' Plant	55	30	1650	3.1.2
Legislation on work place conditions	75	24	1800	3.1.3
<u>Social Change</u>				
Increasing demand for improved conditions	84	72	6048	4.1.1
Employee demand for community involvement	60	50	3000	4.1.2
Legislation on employment of minoritics	45	64	2880	4.1.3
Recruitment difficulties	70	50	3500	4.1.4

Key: reference number indicates location of detailed comment  
on body of report.

TABLE 2 : Environmental Analysis Report for XY Company - September 1974

Report (Excerpt)

MULTINATIONALISM

<u>Factor 'A' :</u>	Code of conduct for Multinational Corporations
<u>Source :</u>	International Business Unit, Ecosoc UK Information Services : INSIGHT, UNIS, EIU
<u>Implications :</u>	Increasing impact starting in 1975 and peaking in 1980 Radical rethink of organisation and responsibilities needed to avoid drastic disruption to integrated production strategy.
<u>Factor 'B' :</u>	Latin America
<u>Source :</u>	International Business Unit, Chatham House
<u>Implications :</u>	Major impact in 1976. There is still time for action now to minimise risks of complete nationalisation
<u>Strategies :</u>	Establish study group Set up R & D facility in Brazil Encourage CBI opposition Mount Government Relations campaign

TABLE 3

Environment Analysis  
Some Key Issues

<u>Main Issue</u>	<u>Sub-Issue</u>
1. Pollution	1.1 Resource Conservation
	1.2 Resource Allocation
	1.3 Alternative resources (inc. invention, discovery)
	1.4 Technological 'Spin Offs'
	1.5 Air, water pollution
	1.6 Noise pollution
	1.7 Legislation - National - EEC - UN etc.
2. Multinationalism	2.1 Economic Nationalism
	2.2 Money Market
	2.3 Tourism
	2.4 Advanced Technologies
	2.5 International mergers and monopolies
	2.6 Manufacturing
	2.7 Economic Europeanism
	2.8 Economic Third Worldism
	2.9 Legislation, practice - national home national host international agencies international/national TU's
	(including shareholding, control, regional development, industrial relations)
	2.10 Cultural internationalism
2.11 East West Contrast.	
3. Employee Participation	3.1 Industrial Relations theory and practice - political and trade union in UK - political and trade union in EEC
	3.2 Motivation (job satisfaction, enrichment, salaries, status differential)
	3.3 Public Ownership
	3.4 Nationalised Enterprises
	3.5 State Ownership
	3.6 Participation through Works Councils, Trades Unions, Staff Associations, etc.

- 3.7 Mechanisation, automation
  - 3.8 Shareholder role/stakeholder roles
  - 3.9 Attitudes of employees, employers etc.
  - 3.10 Fears: redundancy, unemployment, insecurity
  - 3.11 Trade Unionism: social responsibility
  - 3.12 Training, retraining
  - 3.13 Minorities
  - 3.14 Health.
4. Individual and organisation
- 4.1 Alienation
  - 4.2 Pressure groups/power groups
  - 4.3 Customer service
  - 4.4 Industrial Relations inc. Trades Unions (see 3.1, 3.6, 3.7, 3.9 and 3.10)
  - 4.5 Minorities
  - 4.6 Consumerism
  - 4.7 Participation in Planning
  - 4.8 Ombudsman
  - 4.9 Neighbourhood Councils.
5. Business and Society
- 5.1 Philosophy of work
  - 5.2 Big v small business
  - 5.3 Ownership (3.3, 3.4, and 3.5)
  - 5.4 Motivation
  - 5.5 Qualifications, training
  - 5.6 Unskilled/unemployed through mechanisation (3.7)
  - 5.7 Government intervention
  - 5.8 Mergers, monopolies, growth
  - 5.9 Participation
  - 5.10 Company legislation
  - 5.11 Capitalism v Socialism
  - 5.12 Entrepreneurism
  - 5.13 Social Responsibility
  - 5.14 New Business Opportunities
  - 5.15 Centralisation control
  - 5.16 Move from manufacturing to service economy
  - 5.17 Inflation, prices and incomes.
6. Government
- 6.1 State of politics, political parties
  - 6.2 Democracy
  - 6.3 Nationalisation
  - 6.4 Responsibility
  - 6.5 Regionalism
  - 6.6 Europeanism
  - 6.7 Internationalism
  - 6.8 Defence
  - 6.9 Direct planning, intervention, increase in government power and scope

- 6.10 Developments in policy and practice in all department
- 6.11 Legislature versus executive
- 6.12 Inflation
- 6.13 Participation.

7. Technology/Rate of Change

- 7.1 New technologies
- 7.2 Impact and transfer (2.4 and 3.7)
- 7.3 Mass Communications - concentration, power, control, influence
- 7.4 Rate of change
- 7.5 Investment in research
- 7.6 Likely breakthroughs
- 7.7 Responsibility of technologist, scientist
- 7.8 Spin off (1.4)
- 7.9 Scientist as "manager"/entrepreneur"
- 7.10 Technology (low, intermediate, advanced) in 3rd World.

8. Values etc.,

- 8.1 Quality of life
- 8.2 Desire for participation
- 8.3 Leisure
- 8.4 Crime security
- 8.5 Health (physical and mental) drugs, sex
- 8.6 Alienation
- 8.7 Elitism
- 8.8 Invasion of privacy
- 8.9 Morals, religion, ethics
- 8.10 Growth v no growth/reasoned growth
- 8.11 Attitudes to business and its responsibilities
- 8.12 Role of youth
- 8.13 Home, family
- 8.14 Consumerism
- 8.15 Education trends
- 8.16 Demand for information
- 8.17 Racialism, minorities.

9. Urban Affairs

- 9.1 Inner city slums
- 9.2 Infrastructure
- 9.3 Size, power
- 9.4 Education
- 9.5 Transportation
- 9.6 Housing/Social Services
- 9.7 Minorities.



## 10. Third World

- 10.1 Power Blocs
- 10.2 East v West
- 10.3 North and South
- 10.4 Role of Private Business
- 10.5 Role of UN, EEC, OECD, etc
- 10.6 Role of national Government
- 10.7 Population
- 10.8 Natural disaster (inc. drought, floods, famine, c
- 10.9 Technology
- 10.10 Use of power by resource rich (c.g. oil, tin, cobalt, etc.)
- 10.11 Pollution (see 1).

## 11. Resources

- 11.1 Energy
- 11.2 Raw materials
- 11.3 Conservation
- 11.4 Recycling
- 11.5 Oceans
- 11.6 Government legislation
- 11.7 International legislation
- 11.8 Third World
- 11.9 Man-made substitutes
- 11.10 Food.

## 12. International Affairs

- 12.1 European Economic Community
- 12.2 East - West relations
- 12.3 Europe - America relations
- 12.4 Far East (inc. China, Japan, Taiwan, etc.)
- 12.5 Middle East
- 12.6 Trends in nation states
- 12.7 Oceanology
- 12.8 GATT, Trade bodies
- 12.9 Commonwealth
- 12.10 Monetary situation
- 12.11 Trends in international agencies (UN etc.)
- 12.12 Expropriation
- 12.13 War
- 12.14 Global inflation.

Notes:

- (1) For example, Harvard Business Review, Management Today, The Director, Business Weeks, Fortune, International Management, Financial Times, Times. See Bibliography for detailed references.
- (2) Virgil Day, then Vice President, General Electric Company, New York; "Business Priorities in a Changing Environment," Journal of General Management, Winter 1973-74.
- (3) This example is from an actual analysis carried out in 1974 for a real British company, which went on to set up a regular monthly environmental analysis report for top management.
- (4) Since writing this core thesis, I have been involved in the setting up and maintenance of environmental analysis systems, such as the one described, for several (20+) major companies on both sides of the Atlantic. In each case, after experimentation with various models, a carefully balanced combination of external and internal inputs has proved to be the most effective scheme. This conclusion is confirmed further by major studies carried out by Business International and The Conference Board in the US in the late 1970's.

## PART 3

### THE MANAGEMENT SYSTEM FOR PUBLIC AND SOCIAL AFFAIRS

#### FOREWORD

##### XY and Z COMPANIES

At the end of Chapter 7, an approach was indicated for preparing an environmental analysis for the XY Company. This gives us the input required for a management system. In this and the next section, the application of the system and programmes, related in turn to two typical companies, the XY and Z companies, is treated in some detail. The first is a medium size international corporation; the second is a small, national company and their profiles are shown in Tables 1 and 2. Both XY and Z are real companies.

##### CHAIRMAN'S STATEMENT XY COMPANY

I would like to take advantage of the old adage "new brooms sweep clean" and break away from the traditional report framework. Instead, I will cover all the main activities of your company and its prospects. I will review the XY Company as a new boy - which, in fact I am - hoping, in so doing, that I will present a new (though not necessarily improved) slant.

##### Retirement of Sir XY

As you know, Sir XY who founded the XY Company 30 years ago and who was its guiding light, architect and inspiration for more than a quarter of a century retired as Chairman of your board at the last Annual General

Meeting. He had been, with the exception of the previous four years, the chief executive of the company and had encouraged its growth from a small engineering concern to its position as one of the leading manufacturers in the electrical and electronics industry that it enjoys today. It gives me considerable pleasure to know that I can turn to him for his valued advice and I pray that this will continue for many years to come.

#### XY Product Review

The company year 1972/3 witnessed a moderately satisfactory year for our products. We showed a net profit before tax of £26 million - an improvement on the previous year. The economy encouraged briefly the purchase of consumer durables and we saw an unusually high demand, in particular, for household goods. As the chairman indicated last year, our refrigerators, dishwashers and washing machines continued to maintain - and in one or two instances improve - their position in terms of their share of the market. One of the gratifying surprises was the success of our new line in portable colour televisions. We also completed a market study for video and closed circuit television equipment, and launched with some success two new products in this area. Despite changes in the economy and future outlook, to which I shall refer later, your Board is confident that the video and CCTV will continue to be a source of growth.

The one truly new development in our product line has been the Omega series of desk calculators. Ever since the company started, we have had an outstanding name in product research and development - and Omega can

only reinforce this reputation. I would say in parenthesis that your Board will continue to pursue the existing policy of taking risks when presented with a soundly argued and researched case. Omega has proved to be no exception. After a highly successful test marketing operation, we went into full production in June of last year and results to date have been gratifying.

### Manufacturing

Contrary, if I may say so, to the national trend, we continue to run a highly efficient manufacturing division. Our British factories are healthy - our plant in the Midlands now has 10,000 staff. The one placed in South Wales, following discussions with the National Coal Board, the British Steel Corporation and the government, employs some 8,000, and our Scottish plant in the Clydeside development area has expanded from 5,500 to 6,000 in the last two years. Output per man has been encouraging; each plant has won a number of safety awards and, despite the location of our plants in areas of traditional industrial disquiet, we have enjoyed a period of very successful industrial relations. However, due to external pressures beyond our control, there is now a danger of disturbance, particularly in Clydeside. Plant management is therefore looking at how to improve its communications systems still further.

Your Board is, however, very much aware of the growing cost of manufacture in the UK - and is not unmindful of the problems that this poses, both in terms of product cost and also in terms of employment at home. We are

anxious to expand both our marketing and manufacturing competence outside the UK. At the same time we will continue to try to be self-supporting and look for ways in which we can become less dependent on external sources. This, of course, means that the Board is continually looking at new ventures, acquisitions and mergers.

Our manufacturing plants in Australia and Germany continue to maintain their usually high standards. The assembly plant in the Republic of South Africa has allowed us to meet the growing market demand, not just in the Republic but also in West Africa. We have not been so fortunate in Brazil; the growing pains of the new plant have been considerable. Most of these are due to the prevailing uncertainties in Latin America, political, industrial and economic, all of which are beyond our control. We remain optimistic, however, and have no regrets at our decision.

#### Overseas

This country's membership of the European Economic Community has in itself made little difference to your company. We have long established companies in Belgium, Germany and Italy. Our other European subsidiary is in Sweden. Performance has not been even; the Italian Company has had a rough year and, as you will see from the financial report, has returned a small trading loss. However, the German company has been highly successful. Despite, however, our long involvement in the European continent, your board view with considerable misgivings the possibility of UK withdrawal from the Common Market.

Our other overseas companies have reported moderately successful years -

though, again, there have been fluctuations. XY Brazil and XY Argentina have had some difficulties, XY USA and XY Canada, after an initial poor start, appear to have rounded the corner successfully. The problems of the past three years in the Indian sub-continent have militated against a profitable performance by our two companies there. However, in view of the circumstances, your Board have nothing but praise for the efforts made. XY Australia continues its usual, highly efficient and effective progress although there is now some concern over the economic situation there. I referred earlier to the supply of South African assembled products to the Republic and to West Africa. This is but one indication of our success in the Republic and we have witnessed also the growth of XY Nigeria. Because of the nature of the market place, XY Tanzania and XY Kenya cannot demonstrate a similar return; comparatively, they have made significant moves forward.

Our overseas activities have kept us aware of trends outside the UK. I have also already indicated that, as a country, the UK would lose more than it would gain if it moved out of Europe. It is a source of some pride that your company's activities, particularly in Africa, are so highly regarded. Our evidence to the Parliamentary committee on employment in South Africa was highly commended. The management of our companies in Nigeria, Tanzania and Kenya are one hundred per cent native born and enjoy cordial relations with the governments of these countries. A similar situation obtains in Indian and Pakistan. Your company is, in addition, considering ways of further accommodating the natural demands of these governments for greater influence in the management of the companies.

## People

We have long maintained the view that XY's greatest strength is its people. Your Board would like to take this opportunity of thanking all employees for their sterling efforts over the past year. We believe our record demonstrates our awareness of aspirations and needs and I have pleasure in telling you that we have set up a study group to look at the question of further employee involvement. We have effective works councils in this country, and are considered to be in the forefront on industrial relations practice both in Europe and America.

Our customers are, of course, vital to our continued existence. One of today's more pressing problems is that of customer service and product satisfaction. It is with pleasure that your Board tells you of the information of a consumer advisory committee made up of the Directors of Marketing and Manufacturing, the Sales Manager of a large retail group, an area Electricity Board representative and three housewives.

## Future

Your Board is confident that it can continue to prosper. The future is not cheerful but, using our strengths and remedying our weakness, we plan to reduce the constraints and - most importantly - take advantage of the opportunities that we are certain will present themselves. No company such as ours can today afford to disregard the pressures which are and will continue to affect society. We are cognisant of the fact



that our respective societies are undergoing stress and strain and that, if we are to continue to grow, we must work together with all recognised bodies for the good of all.

#### INTRODUCTION TO THE MANAGEMENT SYSTEM

It is difficult, indeed undesirable, to discuss the management system for public and social affairs in isolation from other corporate activities directed at the external environment. These other activities, relating to first and second circle responsibilities are essential components of Stages 2, 3 and 4 of the marketing process described in Chapter 4.

It has been emphasised that, whereas the difference in the underlying reason for activities at Stage 1 as opposed to Stages 2, 3 and 4 is fundamental, there can be, and indeed often is, significant overlap between programmes. It is highly desirable, therefore, that the company adopts an integrated approach to the external environment in order to optimise the use of scarce resources.

This can be done through the establishment of a new function, which I have called "Corporate Affairs" which is preferably represented at Board level. The Corporate Affairs Division Department contains all functions and activities through which the company relates to the external environment, excluding direct sales and sales support and relationships required for the day-to-day operations in manufacturing, purchasing, finance and personnel. Thus, Corporate Affairs includes all the traditional communi-

cations and external relations functions such as corporate publicity, press relations, educational relations, government relations, etc as well as the new function of public and social affairs.

Because of the importance of consistency in communications and because employees have access to the same media as external publics and are subject to external influences, it is highly recommended that the internal communications function also be included in Corporate Affairs and integrated with other activities.

This organisational construction ensures that any project which can be directed at more than one objective, is so directed. For example, a well-designed public and social affairs project, aimed at improving the country's educational system (third circle responsibility) may well have a significant effect on the company's image with government (second circle responsibility).

For these reasons, the chapters in this section of the book which describe a recommended management system for public and social affairs do so in the context of the total Corporate Affairs function. Thus in discussing, for example, organisation and project planning, in Chapters 9 and 12, I have to consider corporate affairs requirements first, with public and social affairs forming only part of a wider scheme of things.

TABLE 1PROFILE OF THE XY COMPANY

Main activities: manufacturers of electrical and  
 electronic projects

Main products: refrigerators, radios, TV's, dishwashers,  
 washing machines  
 Now venturing into the desk calculator  
 field

Head Office: London SW1

Total No. of Employees (in UK): 30,000

Manufacturing Plants: UK Midlands with 10,000  
 South Wales with 8,000  
 Clydeside with 6,000

Overseas Australia  
 Germany  
 Brazil (just starting)  
 Republic of South Africa (knock  
 down assembly)

Subsidiary Companies: Europe Belgium  
 Germany  
 Italy  
 Sweden

America

USA  
 Canada  
 Argentine  
 Brazil

Asia

India  
 Pakistan

Australia

Australia

Africa

Republic of South Africa  
 Kenya  
 Tanzania  
 Nigeria

Turnover: £200 + million

Net Profit before Tax: £26 million  
 % to turnover 12.9%

Assumptions

- a A profitable, well run organisation
- b Good Research & Development with a receptive management that is prepared to take risks if presented with sound arguments.
- c Though in areas of the country where labour unrest is not uncommon, the company has enjoyed reasonable employee relations.
- d The founder of the company to whom there was personal loyalty retired as chief executive 5 years ago, and as Chairman 2 years ago.
- e The company is anxious to expand and to place more manufacturing plant outside the UK. It is very aware of the high cost of manufacture, particularly of electronics in the UK.
- f Wherever possible, it tries to be self supporting. Thus it will not produce steel from the raw ore, but it does have foundries for body pressings etc.
- g The time is early 1974.
- h The company is already a client of a social affairs consultancy and is receiving regular reports on multinationalism, worker-participation, environmental pollution and social change.

TABLE 2

PROFILE OF THE Z COMPANY

Main activities:                      producers and fabricators of plastic and plastic products

Main Products: plastic fittings, plastic casings and linings for appliances, some crude plastic sold directly to other fabricators.  
 Head Office: Otscip, S. Wales  
 Total Number of Employees 405  
 Manufacturing Plants: Midlands with 200  
 Otscip, S. Wales with 205  
 Turnover: £6 million  
 Net Profit Before Tax: £400,000  
 % to turnover 6.7  
 % to capital assets 6.3

#### Assumptions

- a Fairly profitable and reasonably well-run.
- b Little or no research. Small development laboratory in Otscip plant. Most processes used are those developed by its founder, a chemical engineer.
- c Labour relations are very good, especially in Otscip where the company is the sole large employer in the area.
- d The company's plant in S. Wales is the older and less efficient of the two and will have to be modernised or closed down in the next decade. The Midlands plant produces crude plastic which the S. Wales plant fabricates, organisational efficiency and transportation costs would be improved by consolidating the plants.
- e The founder, originally from S. Wales, runs the company paternally and is anxious to make positive contributions to the well-being of the places where his plants are located.

## CHAPTER 8

### STRATEGIC PLANNING FOR CORPORATE AFFAIRS

Possibly the most important single document in the corporate affairs management system is the strategic plan. It is the strategic plan which gives the direction for all the plans, techniques and programmes described in subsequent chapters and puts them into an overall context of company needs.

There can be little doubt that the full potential of most corporate affairs efforts in the past has not been realised because of the inadequacy of corporate affairs plans at the strategic level. Shorter term plans have tended to be less than effective because of the absence of the broader, longer-term, framework. This has resulted in programmes that have been ad hoc, or based on management whim or directed solely at papering over the cracks in a series of difficult situations.

The basic elements of the corporate affairs strategic plan, the reasoning behind it and the techniques used in producing it do not differ significantly from any other strategic plan, be it in marketing or personnel. The strategic planning process has been described very adequately in numerous books, articles and seminars over the past few years and requires no repetition here. Because of its importance to Corporate Affairs, however, it may be worth outlining some of the basic principles, particularly since there is a strong case that, because of the long-term nature of most corporate affairs activities, strategic planning in this area is even more important than in other functions in the Company.

#### Time-Frame

A number of points are worth establishing in advance of structuring the strategic plan. Fairly obviously, the first is the time-frame of the plan. Should one look two, three, five, ten or even twenty years on?

For corporate affairs, the following guidelines are suggested:

- Two years or less: I doubt if anyone believes that this short time-frame is relevant to strategic planning. But there are many who do believe that they can produce a meaningful operating plan simply for this period. This, again, I doubt. A one or two year plan, by itself and without a longer-term context, can do little more than allow for responsive activity and 'fire-fighting'. Most projects directed at corporate affairs objectives, however, are cumulative in effect and take a long time to achieve results. Turning the project tap on and off within a one or two year period for the sake of expediency or any other reason for that matter is often counter-productive and nearly always wasteful. Of course flexibility is important and there may be a strong justification to change or stop a project in mid-stream. The damper is that in many cases projects are simply not given a chance to succeed.
- Two to Five years: This is, in fact the most appropriate time-frame for operational and project plans. Project programmes of this duration can be effective. In many cases, particularly for communications programmes, they can also be measured.

For small companies this 2-5 year period is usually sufficient for strategic planning. But the bigger the company, the greater the number of external forces which it needs to anticipate and to which it needs to respond. The complexity of these forces is often such that 2-5 years is simply not long enough for the response to be effective.

- Five to Ten Years: This is a reasonable time frame for strategic planning for most medium-sized and large companies. Some of the largest may, in fact, need to look even further out but, obviously, the probabilities of accuracy start reducing rather sharply beyond, say, ten years. Within the 5-10 year period, however, alternative scenarios can be suggested and described in some detail and strategies and programmes can be devised which have sufficient time to ease the company along its desired road. As in Research & Development or planning massive new capital investments, the context



of a ten-year strategy is essential to ensure that anything done in the short-term is, indeed, an optimum course of action.

A summary of the time frames for various types of planning is shown in Figure 1.

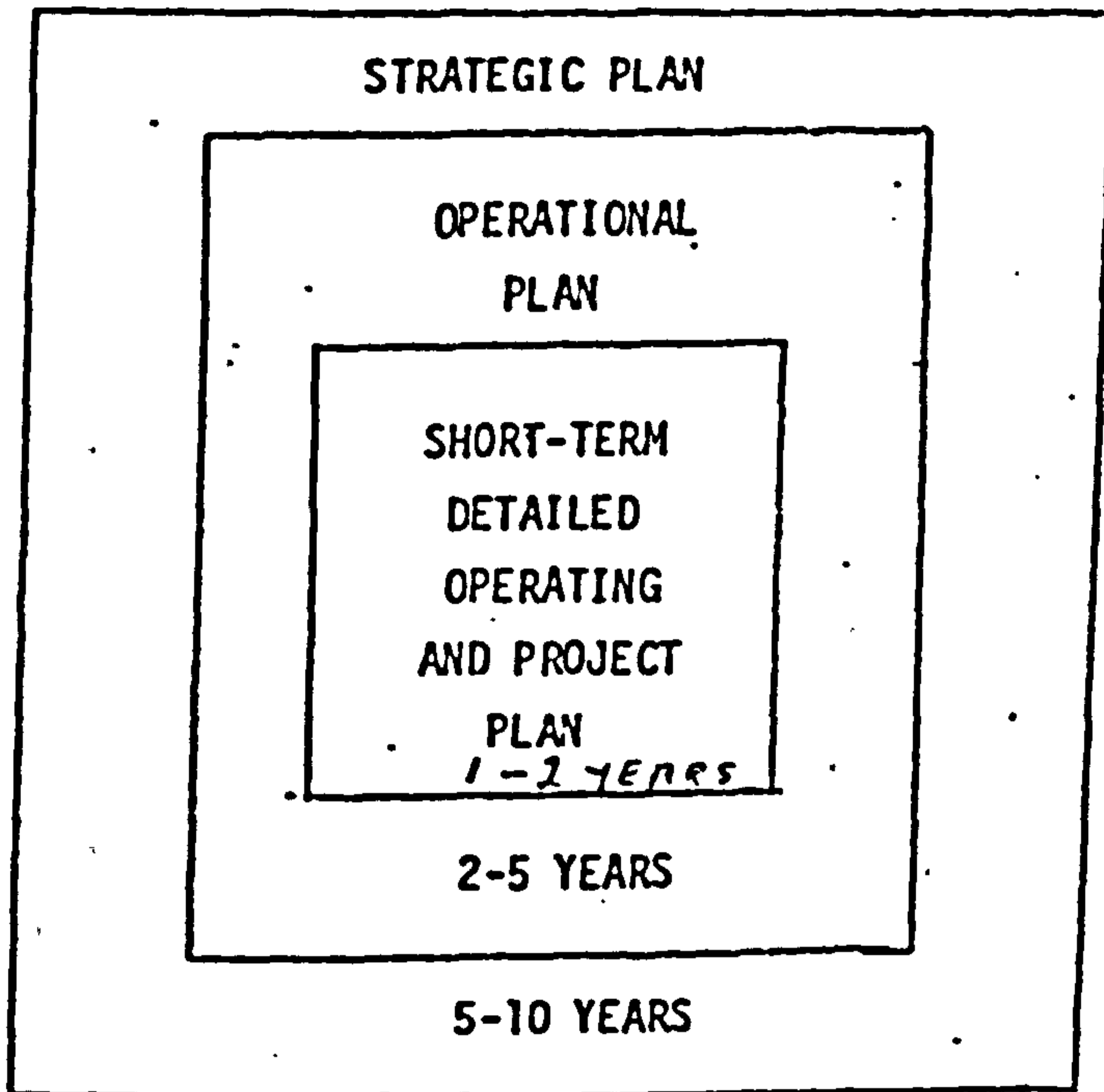


Figure 1. Time-frames for planning

### Flexibility

An essential feature of the corporate affairs strategic plan is flexibility. This has been mentioned before and will be stressed again. A strategic plan that is rigid is useless and, worse still, it is often counter-productive leading to scarce resources being applied in the wrong direction. Using the words of D Thoroman, IBM's Director of Corporate Strategy Development, "(strategic) planning must anticipate uncertainty. The best plan is the one which minimises the cost of error, and, therefore has incorporated some flexibility to adapt to real conditions as they emerge. This principle implies that plans should change, rather than be rigidly adhered to".

This may sound like a cliché. Perhaps it is. It is also a truism. The problem is that something so fundamental is so rarely applied!

In Corporate Affairs, it is evident that the uncertainties are often greater than in other areas of the business. This means two things. The first is that more effort is required to produce a useful plan. The second is that the flexibility principle is particularly important.

The strategic planning process must be continuous. The Plan itself should not be a completely new document each year; nor, however, should it be revised only once every one, two or five years. Strategic planning can only be really effective if the production of the Plan is accompanied by regular discussions, frequent questioning of the assumptions in the Plan and by continuous updating.

### Contingencies

A major feature of the flexibility principle is the building into the Strategic Plan of Contingency Plans. These are basically a series of statements, giving alternative responses to "what happens if" conditions. Quite clearly, precision will be difficult and, in some instances, impossible. On the other hand, there are many areas of risk and exposure which can be identified, probabilities set and a framework for dealing with such contingencies established. Such an analysis would be dealt with in the key issues section of the Strategic Plan (see page 8.10) and would attempt to answer questions such as "how would our corporate affairs strategies change if in 1976 the probability of a breakdown in social order in Western Europe increased significantly from that assumed in the Plan?"

### Commitment

Vital to the success of the corporate affairs Strategic Plan, is top management commitment. The whole purpose of planning is to make better current decisions. Therefore, the Plan must not only be highly professional; it must be used. It should not be regarded simply as a 'nice to have' exercise designed to keep Company intellectuals happy; nor as simply a series of numbers to be added to the main long-term financial plans to balance the books.

The corporate affairs Strategic Plan must be and must be seen to be a fundamental document of vital importance to the life and prosperity of the company. If it is not used continuously as a reference point for management decision, there is little point in producing it in the first place!

## Planning Responsibility

To be effective, planning must be principally a line responsibility. The surest way of losing commitment and being seen as irrelevant to the needs of the company, is for a group of backroom boys, however clever, to produce a Plan in isolation from the line. There is a particular danger of this happening with Corporate Affairs.

Corporate Affairs is essentially dealing with the long-term. It is usually trying something new, challenging traditional priorities and practices. It is difficult enough having the basic concepts accepted by the Company without aggravating things further by producing a magical plan out of the blue.

The corporate affairs Strategic Plan affects not only the functions within the Corporate Affairs Division, it affects nearly every aspect of the Company's activities. Corporate Affairs objectives can only be met if the whole company understands, supports and uses the Strategic Plan. For this to happen, it is essential that all key functions in the Company are involved in the strategic planning process.

Of course, there is a requirement for a central planning staff to research, conduct special studies, to innovate and to pull the Plan together. But without a constant dialogue with line functions, the work of the staff is often almost completely wasted.

It is also important to remember and emphasise that the corporate affairs Strategic Plan should not be a stand-alone document. It is a part of the Company's total long-term corporate plan. Without this integration, there is again the danger of irrelevance. And it is well to make certain that, for example, the market areas defined by the marketing divisions are not disregarded or, even worse obviously, contradicted by corporate affairs strategies.

Even if the Company does not produce a corporate plan beyond, say five years, the corporate affairs function must do so. This may well lead to conflict situations with other parts of the Company but fighting battles to introduce something new is not an unusual task for corporate affairs Directors!

## The Strategic Plan

The most useful contribution of strategic planning to the Company is the planning process itself; the research, analysis, discussions, presentations, iterations, renewed discussions, etc. But there is an obvious need to produce a document which represents the culmination of the process. The Strategic Plan is a snapshot taken at regular intervals of a continuing activity.

There is nothing in the contents of a corporate affairs Strategic Plan that is particularly different from any other strategic plan. Thus one needs to include summary statements of:

Mission

Environment

Objectives

Strategies

Resources

Organisation

Dependencies

Key Issues

The amount of information required to produce a useful long-term plan is, of course, great. Assuming, however, that adequate consultation has taken place during the planning process, the final document, the Strategic Plan itself, need not be very lengthy. Indeed, if it is to be read and used, there are many advantages in keeping it as short as possible. One can always refer back to the authors of the document for points of clarification, research studies and detailed analyses of individual issues.

### Mission

It is useful to introduce the Strategic Plan with a statement of mission which reiterates what Corporate Affairs is all about; what, in broad terms it is trying to do for the Company. It is likely that the mission statement will remain fairly constant over time and its aim is to provide a reference point for the Corporate Affairs function.

### Environment

The starting point for any planning or action in Corporate Affairs is an

environmental analysis. The importance of such an analysis, together with techniques for carrying it out, are described in detail in Chapters 6 and 7. Environmental analysis, together with financial, technological, marketing and personnel inputs from other Company functions provide the information needed to produce the Environment statements in the Strategic Plan.

While recognising the essential inter-dependence between environmental factors, it is often helpful to subdivide these statements under a number of topic areas. For example, the XY Strategic Plan subdivides its Environment statements as follows:

- \* Market place
  - for products or services
  - changes in technology/produce/level of service
  - activity of competitors
  - activity of industry or service sector
  - attitude of customer/user/elector
  
- \* Economic
  - inflation, wages, prices
  - monetary crises, devaluation
  - balance of payments
  - effects of Common Market or other trading blocs
  - availability of raw/finished materials, goods, etc
  
- \* Political
  - legislation, anti-monopoly activity
  - increased government planning
  - nationalisation
  - regionalisation
  - foreign policy
  
- \* Societal
  - the quality of life, changing value systems
  - the reaction to big business, to multinational corporations
  - the responsibilities of business
  - the alienation of minority groups
  - the changing industrial relations scene

At the same time environmental factors are described, their implications for the organisation and their inter-relationships, both external and the internal, should be clearly and categorically stated. One needs to bear in mind the need to accentuate the positive (optimising the opportunities) as well as eliminating the negative (forestalling the harmful pressures).

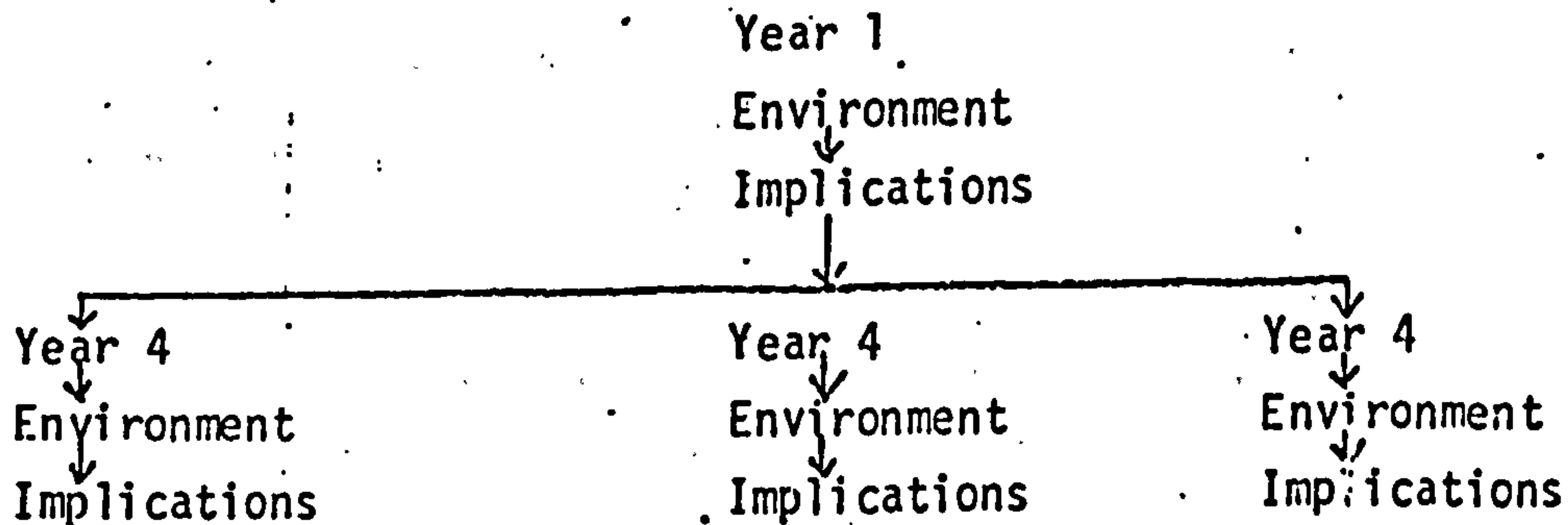
The statements actually included in the Environment section of the Strategic Plan are not predictions. They represent simply the most likely forecasts of trends, selected from a series of alternative scenarios.

It is highly desirable, in fact, that in the analysis leading up to this selection the alternatives are described in some detail, since they form the basis for contingency planning in the key issues section of the Plan.

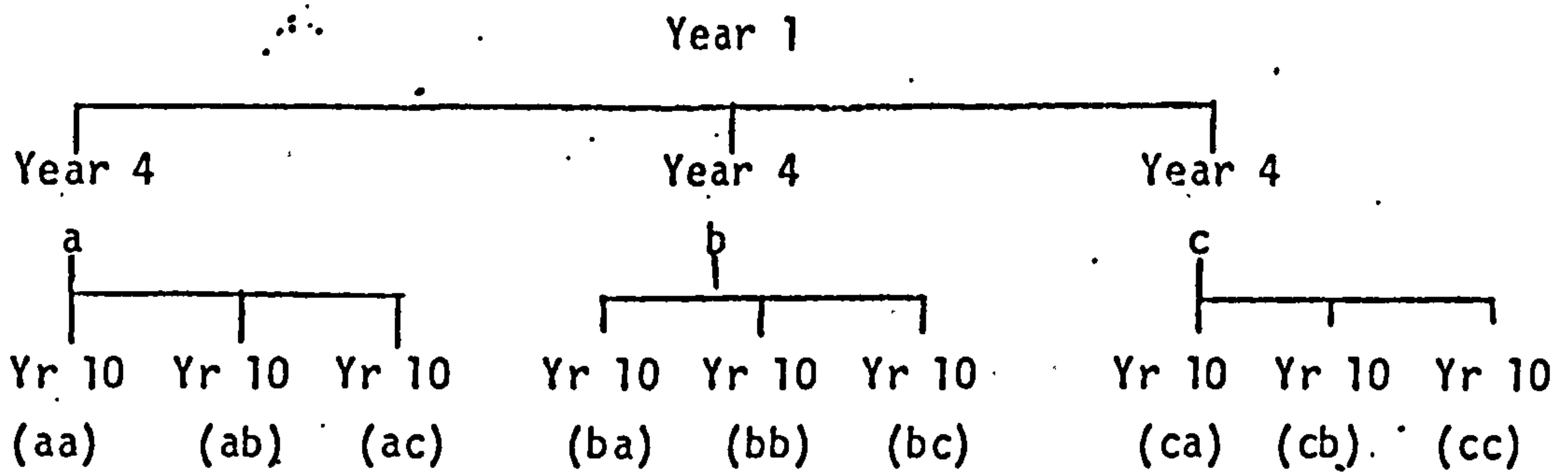
There are a number of ways of generating these alternatives. For example, teams of internal and external experts can be consulted as to the condition of the world in 'x' years time and then, through the use of Delphi or similar techniques, a number of synthesised 'models' of the company and its environments can be derived for the year 1980, 1990 or even 2000.

A variant is to lead up to the year selected in a series of steps.

One knows what this year is doing, one can be reasonably confident in predicting the effects of decisions taken on next month but one needs to consider a set of possible effects when considering three years hence. So one could start with



One can then move forward say ten years and generate a whole series of alternatives as follows:



Of course, frequently, because the human imagination is finite or at least it is in its expression, there may well be similarities, even duplications, between for example 'ac' and 'bc' in Year 10. This scenario building can be approached quite simply. The choice of the most likely can be made, the objectives set and agreed, the key strategies decided upon. Further refinement can be obtained by subjecting the various scenarios to the 'Delphi' technique.

### Objectives

In every function there usually exists a hierarchy of objectives, from the specific and, hopefully, measurable up to the more general statements of direction. Together with the environment statements they form the basis of the strategic plan.

The argument as to how high up in the hierarchy of objectives one needs to go in the Strategic Plan is a complicated one. In my view, the answer is the higher the better and I would recommend that the first level of objectives considered coincide closely with overall Company goals. In thinking about these first level or strategic objectives, it is useful to return to the marketing model described in Chapter 4, and formulate an objective for each stage in the marketing process, i.e.

business demand  
industry demand  
company demand  
sales  
profitability  
share price

By relating all other objectives and strategies to these strategic objectives, one ensures that everything in the corporate affairs Strategic

Plan is directly relevant to the Company.

However, objectives such as "help to grow overall business demand" or "support sales efforts" are obviously far too general to give a precise direction for action.

One needs to move on to statements aimed at the specific mission of Corporate Affairs such as "create awareness of the managerial and professional competence of the Company within government and the media". And so, a second level of strategic objectives is required. These are specific statements about how the main strategic objectives will be met. It is at this second level that a clear direction for Corporate Affairs begins to emerge. Therefore it is important that, at this level, objectives:

- be measurable
- be addressed at specific needs or to specific target groups
- make use of specified resources currently or potentially available to the Company

This necessitates a detailed assessment of specific needs and target groups (or audiences) and this assessment comes, of course, from the environmental analysis. Thus, whereas it is likely that main strategic objectives will stay more or less constant over the strategic plan period (even though the priorities between objectives may change), the second level strategic objectives will change with changes in the environment.

### Key Strategies

With the objectives defined, the corporate affairs function knows where it needs to go. The next step is to decide how it is going to get there.



It does this through the formulation of strategies. At this level in the hierarchy one is providing a detailed framework for the selection of specific projects.

In my experience, there is often some confusion between what is a secondary objective and what is a strategy. Yet, the difference is clear. A statement such as "increase government awareness of the Company as a responsible contributor to the economy" is a secondary objective. "Intensify dialogue with MP's, civil servants, etc through joint projects with government" is not; it is a strategy. One could, of course, play around with words and call statements such as the latter "tertiary objectives", but with three levels of objectives already having been defined, this is not particularly helpful and adds to the risk of confusion.

Strategies, then, are specific statements of what needs to be done to achieve the secondary objectives. In formulating strategies it is important to bear in mind the Company's strengths and weaknesses, its planned resources (current and additional), the skills mix of corporate affairs and other staff and the techniques available (currently and in the future).

### Resources

#### (a) General

It is important to ensure that the corporate affairs function is funded both in terms of people and money to be at "critical mass".

It is desirable that the allocation of resources be made against the type of responsibility defined in the mission statement, i.e. there are different needs for

- long term corporate affairs programmes
- internal communications
- short-term promotional support programmes
- environmental monitoring
- planning, measurement and administration

and thus each "area" will have to be budgetted for separately.

(Of course, the growth plans for the whole company need to be taken into account - for example, the corporate affairs requirements of new locations).

Of fundamental importance is the need to realise that statements of resource requirements for the Strategic Plan are not commitments to final budgets. Rather they are indicators on which to base current decisions.

(b) Money

The following factors should be borne in mind:

- inflation in the cost of existing programmes
- the continuing cost of a long term programme
- the desirability or otherwise of using external services
- the listing separately of those programmes which are
  - committed (legally)
  - committed (morally)
  - responsive
  - creative
- the need to differentiate between
  - space, welfare and office costs
  - salaries
  - head related expenses (e.g. travel, education, overtime)
  - project expenses
  - capital expenses and depreciation

(c) Manpower

The following factors need to be borne in mind:

- the appropriate "mix" of managers and professionals
- the need for manpower planning
- succession planning
- career planning
- training and education requirements
- the desirability or otherwise of the use of external agencies

(d) Techniques

It is vital that the corporate affairs function not only monitor the effectiveness of existing programmes and methods. It should also be aware of new techniques and evaluate their use against the company's changing requirements.

For example, one of the key needs of the next eight years will be the controlled dissemination of information both within and outside the company. There are a number of advances being made in the fields of communications, not the least of which are the use of closed circuit television and the use of video.

The Strategic Plan should contain within it, allowance for the testing - on a pilot basis - of new or as yet unknown techniques.

(e) Strengths and Weaknesses

Implicit in the projection of resources is the need for continuous analysis of the particular strengths and weaknesses in the Company and especially within the corporate affairs function. For example, there is no point in planning an elaborate project for 1976 when there is little chance of obtaining the skills required in time to manage the project.

Dependencies

As the company interface with the external environment, the corporate affairs function touches on every aspect of corporate activity. The strategies of Corporate Affairs cannot be pursued nor objectives achieved solely through the work of a Corporate Affairs Director, nor can they be isolated from what happens elsewhere in the Company. This interdependence is basic.

It follows that the successful implementation of the Corporate Affairs Strategic Plan is dependent on other "things" happening elsewhere in the Company. A trivial example is that corporate publicity programmes aimed at demonstrating the Company's social responsibility will have little effect however much is spent on public and social affairs if the Manufacturing Division is firing staff indiscriminately and the Marketing Division is "cheating" its customers! Or, more seriously, if the aspect of the

Company's behaviour most worrying to the government of a developing country is the Company's refusal to reduce its equity holding, then it is unlikely that the work of the corporate affairs function will have much effect until top management decides to change its mind.

These examples point the way to the need for a section in the corporate affairs Strategic Plan which spells out these dependencies.

Thus dependencies are simply statements of what other parts of the Company need to do if the corporate affairs function is to meet its objectives.

### Key Issues

Just as dependencies show where the implementation of the Strategic Plan is threatened from inside the Company, the key issues show where the Plan can go wrong through changes in assumptions about the external environment.

Earlier in this chapter, I emphasised the need for flexibility and for contingency planning. The key issues section lists the assumptions about the environment which, if wrong, could make a significant difference to what Corporate Affairs needs to do.

Thus key issues represent the alternative scenarios discussed on page 8-9 and form the basis for contingency plans.

Although it is highly desirable to work out contingency plans during the planning process and, perhaps to mention them during presentations of the Strategic Plan to top management, I have found that it is probably better to omit the details from the Plan document to avoid confusion, although a brief summary of what they are and where details can be found is useful.

It is difficult to be more specific about the requirements of a corporate affairs Strategic Plan without actually seeing an example. In the appendix to this chapter, I have therefore prepared extracts from the Strategic Plan for the XY Company. As can be seen, the time-frame selected is eight years until 1983. Examples are given of what might go into each

of the sections described above and I hope that these serve to show what needs to be done. (1)

Another point that is worth discussing concerns multinational companies, such as the XY Company. Quite clearly, different strategic plans are required at different levels of responsibility. Thus the Company should finish up with a hierarchy of plans with the plan at any one level dovetailing into the plan at the next level, with a final consideration of all plans at headquarters. Whereas strategic and primary objectives may well apply across the board, it is almost certain that there will be significant differences between secondary objectives, strategies and resources required.

Finally, this Chapter is not meant to provide an exhaustive treatise on strategic planning. This can be found elsewhere. What I have tried to do is to stress the particular importance of the Strategic Plan to the corporate affairs function and to develop the methodology for the corporate affairs component of the Plan.

AppendixXY Corporate Affairs  
Strategic Plan 1975-1983 (Extracts)  
Mission1. Mission

The Corporate Affairs function has been created to act as the interface between the Company and the external environment and has the following mission:

- to identify constraints on and opportunities for the Company generated by external trends and to act to remove the constraints and foster the opportunities
- actively to advocate and practise a policy of social and corporate responsibility
- to help create the external conditions and climate favourable to the profitable growth of the company
- to help ensure the company is regarded as a desirable employer

XY Corporate Affairs  
 Strategic Plan 1975-1983 (Extracts)  
 Environment

2. Environment

2.1. Market

- slow down in sales domestic equipment in Europe .....
- sustained acceleration in raw material costs .....
- distribution problems because of shortage of lorry drivers .....
- growth in sales of desk calculators though threat from Far East growing faster over next five years .....
- emergence of developing countries (though impeded by oil crisis) as long-term markets for domestic products .....
- XY products' technical excellence respected. However growing dissatisfaction with service is to be expected with increased customer sophistication and consumer power .....
- customers are beginning to encourage legislation on enforcements of guarantees, etc .....

2.1.1. Implications

XY growth will be affected by

- continuing rising costs of manufacture and distribution
- profits squeeze through greater competition and increasing customer demands

2.2. Political

- growth of public sector - possibility of nationalisation in UK .....

- growing government (and EEC) intervention .....
- some pressure to regulate market share and limit export of profits .....
- political action likely on questions of environmental pollution and employee participation .....
- growing nationalism on the part of the developing countries - nationalisation an increasing threat especially in Africa .....
- long term instability of some South American governments .....
- growth of multinational unions .....
- establishment of UN Information Centre .....
- centre on multinationals likely; with possible eventual restrictions on multinational company operations

### 2.2.1.

XY growth would be affected

- by nationalisation in any country
- by intervention by national or international governments
- positively by devolution of power to subsidiaries

### 2.3. Economic

- continuing inflation and growing unemployment in Europe .....
- statutory prices control very likely .....
- possibility of incomes policy .....
- balance of payments continues as key issues .....



### 2.3.1. Implications

XY growth would be affected by

- statutory controls
- inflation

### 2.4. Social

- increasing alienation among groups in society .....
- large companies cause concern
  - lack of (national) control on investment
  - lack of (national) control on employment
  - lack of (national) control on profits
- demand for greater responsibility to the employee .....
- growing dissatisfaction with practice of western capitalism .....
- lack of response to societal needs
- quality of life
- freedom of choice
- environmental problems .....
- problems of consumer society .....
- power of media owners .....
- confrontation not consensus .....
- increasing influence of pressure groups .....
- fall in quality, quantity and relevance of "skill" training .....
- demand for involvement, participation .....

#### 2.4.1. Implications

XY company growth would be affected by

- attacks by students
- shortage of skilled recruits
- (positively) joint projects on matters relevant to XY long term future

## 2.5. Internal

- growth in demand for participation in local affairs .....
- demand for more information on future of employment, plans, careers .....
- growth in credibility gap between management and employee .....
- stress caused by short time, redeployment, etc .....

### 2.5.1. Implications

XY growth would be affected

- by attrition of needed skills
- by worker directors
- positively by trust between management and employees

XY Corporate Affairs  
Strategic Plan 1975-1983 (Extracts)  
Strategic Objectives

3. Objectives - Strategic

- 3.1. Help to grow overall business demand
- 3.2. Help to grow demand for products and services of the industry as a whole and to increase demand for new products
- 3.3. Help to protect and strengthen XY's own position in the market-place
- 3.4. Support XY sales efforts
- 3.5. Contribute to XY profitability
- 3.6. Contribute to sustaining and growing XY's share price

XY Corporate Affairs  
 Strategic Plan 1975-1983 (Extracts)  
 Objectives - secondary

4. Objectives - secondary (examples)

4.1. Business demand

- 4.1.1. Increase awareness and acceptance of the need for 'free enterprise', profits, etc

Key audiences: opinion formers, Media, Politicians, general public, governments, academics, students

- 4.1.2. Identify, research and develop key new opportunities for business which
- have high potential
  - have social value

- 4.1.3. Encourage industrial, government and social participation in analysis of needs of total economy

- 4.1.4. Develop and implement programmes of social responsibility that meet the demands of good corporate citizenship of the communities in which XY is located.

- 4.1.5. Create awareness of efforts in 4.1.3. and 4.1.4.

Key audiences: media, politicians, community leaders, business leaders, opinion formers

4.2. Industry Demand

- 4.2.1. Increase awareness and acceptance of need for industry products and services

Key audiences: business leaders, media, politicians, governments, general public

- 4.2.2. Identify, research and develop key new opportunities for the industry which
- have high potential
  - have social value

- 4.2.3. Create a favourable climate for increase in growth of industry sales and increased awareness of products and services

Key audiences: customers, prospects, leaders, employees

- 4.2.4. Create awareness of the managerial and professional competence of industry and its people

Key audiences: National and international governments and agencies, media

- 4.2.5. Influence government policy to provide a free and open market place for industry products

Key audiences: National governments in Third World, politicians,

#### 4.3. XY Demand

- 4.3.1. Increase awareness and acceptance of need for XY products and services

Key audiences: business leaders, media, politicians, governments, general public

- 4.3.2. Create a favourable climate for increase in growth of XY sales and increased awareness of products and services

Key audiences: customers, prospects, leaders, employees

- 4.3.3. Create awareness of the managerial and professional competence of XY and its people

Key audiences: National and international governments and

4.3.4. Advise constituent parts of the company in establishment of promotional goals through the applied use of Corporate Affairs resources

4.3.5. Increase awareness of XY as a company having enlightened personnel policies and practices, and employing highly skilled trained people .

Key audiences: customers, prospects, media, schools, universities

#### 4.4. Profitability

4.4.1. Measure and evaluate the activities and resources of the corporate affairs division, ensuring the maximum cost effectiveness

Key audiences: XY

4.4.2. Continuously monitor and report on changes in the environment (internal and external) and educate and advise the company on the need to implement suitable programmes to optimise its operations in the light of such changes

Key audiences: XY

4.4.3. Improve employee morale and motivation by creating awareness of XY personnel policies and practices and by increasing knowledge of and confidence in industry in general and XY in particular

Key audiences: XY.

#### 4.5. Share Price

4.5.1. Create a favourable climate for XY continued growth as a corporate entity by enhancing its reputation and image

Increase awareness of XY's contribution in the economic, social, management, educational and scientific resources, the countries in which it operates

Key audiences: politicians, senior civil servants  
journalists, etc

- 4.5.2. Increase awareness and acceptance of the benefits of multinational companies specifically XY to the countries in which it operates
- 4.5.3. Improve employee morale and motivation by creating awareness of XY personnel policies and practices and by increasing knowledge of and confidence in industry in general and XY in particular

XY Corporate Affairs  
Strategic Plan 1975-1983 (Extracts)  
Key Strategies

5. Key Strategies (examples)

5.1. Public Sector

- Extended dialogue with key contacts in international national and local government
- joint projects on study of long term needs of countries in which XY operates
- provision of XY resources to help groups concerned with total society, and to run seminars, etc
- Promote XY management as business leaders
- Research needs and implement, with key contacts, community programmes, providing resources as necessary
- Undertake joint proposals with EEC and other supra-national authorities

5.2. Industry (including customers)

- Ensure provision of skilled promotional support for marketing divisions
- Ensure active participation industry associations
- Encourage sound and responsible management practices throughout business

5.3. Thought Leaders

- Maintain an acceptable profile of the company
- Become one of the key XY sources of external information



and influence on XY business related and management questions

- Develop and implement programmes with or without partners in the management solution of key societal problems
- Encourage research into impact of industry, particularly high technology on society
- Encourage research into impact of technology on less developed and developing countries
- Mount joint projects that demonstrate the professional and managerial competence of XY people

#### 5.4. XY

- ensure provision of XY resources as appropriate to employees participating in the community
- Ensure provision of resources for XY to exercise leadership in management thinking, in control of 'change'; and develop concomitant recognition programmes
- Be the 'conscience' and watchdog of the company externally and internally on matters that form the 'new variables' (changes in values etc) and that could impact the profitable growth of the company
- Become one of the key XY sources of external and internal information on all matters related to XY present and future plans
- Develop programmes that will close the various 'gaps' within the company (HO and the field; marketing and manufacturing etc) with particular attention to improving the creditability of management wish to exchange information
- Improve awareness of XY plans and XY marketing, technical and corporate responsibility successes

- Improve awareness of XY as an enlightened employer through increasing knowledge of personnel policies and practices.

XY Corporate Affairs  
 Strategic Plan 1975-1983 (Extracts)  
 Resources

6. Resources

1975 1976 1977 1978 1979 1980 1981 1982

6.1. Long-term corporate affairs

6.1.1. Financial (£'000)

Salaries

Benefits

Overheads

Operating costs

Programmes

TOTAL

Capital requirements

6.1.2. Manpower (manyears)

Directors

Managers

Professionals

Secretarial

Administration

TOTAL

6.1.3. Space (sq ft)

Offices

Work areas

Admin areas

Other

TOTAL

6.2. Internal Communications. 1975 1976 1977 1978 1979 1980 1981 1982 1983

6.2.1. Financial

6.2.2. Manpower

6.2.3. Space

6.3. Short-Term Promotional Support

6.3.1. Financial

6.3.2. Manpower

6.3.3. Space

6.4. Environmental Monitoring

6.4.1. Financial

6.4.2. Manpower

6.4.3. Space

6.5. Planning, Measurement  
and administration

6.5.1. Financial

6.5.2. Manpower

6.5.3. Space

6.6. Major Programmes

Corporate publicity

(a) Financial (£'000)

(b) Manpower (many years)

Joint projects with government

(a) Financial (£'000)

(b) Manpower (many years)

Secondments

(a) Financial (£'000)

(b) Manpower (many years)

Venture capital fund

(a) Financial (£'000)

Government Relations

- (a) Financial (£'000)
- (b) Manpower (manyears)

Donations

- (a) Financial (£'000)
- (b) Manpower (manyears)

Video cassette network

- (a) Financial (£'000)
- (b) Manpower (manyears)

Regular environmental analysis reports

- (a) Financial (£'000)
- (b) Manpower (manyears)

.....  
.....  
.....  
etc.

XY Corporate Affairs  
 Strategic Plan 1975-1983 (Extracts)  
 Dependencies

7. Dependencies (examples)

\* Economic nationalism is becoming increasingly severe in the developing countries. Corporate affairs can help lessen the negative effects but there is an urgent need for top management to review once more

- (a) the question of local ownership
- (b) increased use of local raw materials
- (c) manufacture of key technologies in LDC's

Without changes in policy, corporate affairs objectives in LDC's will be almost impossible to achieve

- \* Commitment to corporate affairs must be company wide. The achievement of corporate objectives is dependent on active participation in corporate affairs programmes by top management and employees throughout the Company. Therefore activity in public and social affairs, industry and professional affairs etc must be accepted as an integral part of XY duties. All managers must positively encourage such activity, make time available, and ensure employees engaged in corporate affairs have this work considered in their appraisals
- \* A key factor in the ability of XY to achieve its objectives in the plan period will be the sensitivity of individual managers to their staffs. Internal communications programmes can help but they can only be really effective if the company takes major steps to intensify man management training.
- \* Success in European corporate affairs programmes depends on a coordinated approach at EEC and national level. Without the full and sustained support of XY Country General Managers, this is unlikely to happen

XY Corporate Affairs  
Strategic Plan 1975 - 1983 (Extracts)  
Issues

8. Issues (Examples)

- \* Assumption has been made that there will be no major war during the plan period. However, there is the possibility of certain major conflicts such as .....
- \* Assumption has been made that there will be a continuing but manageable energy shortage affecting Europe and the USA until the end of the decade and that the 1980's will see a return to sufficiency via the use of North Sea Oil and non-oil energy sources (especially nuclear power). However, there is the possibility of further major energy crises through mismanaged Middle East politics and delays in new energy services .....
- \* Assumption has been made that there will be a continuing successful drive to independence by remaining colonies in Africa. However, in countries A and B, there is a possibility that .....
- \* Assumption has been made that there will be long lasting revolutionary change in the form of government in Western Europe and North America. However, there is a possibility of breakdown in Italy leading to serious difficulties in the EEC such as .....
- \* Assumption has been made that the United Kingdom will not withdraw from the EEC. However, there is a possibility that, as a result of a referendum, the Labour Government will withdraw .....

NOTES:

- (1) The XY Corporate Affairs strategic plan example is part of an actual plan prepared in 1974.

I introduced the method and applied it to IBM UK's Corporate Affairs strategic plan in 1971, after which it was used as a method for IBM companies in other countries and at regional headquarters.

Since the completion of this core thesis, I have successfully introduced this planning methodology into some ten major British and American companies.



CHAPTER 9  
OPERATIONAL OBJECTIVES FOR CORPORATE AFFAIRS

As discussed in Chapter 8, the formulation of a hierarchy of strategic objectives is one of the most important aspects of the strategic plan. These objectives give an overall long-term direction to the corporate affairs function. The next step must be the formulation of some general operational objectives which can be prioritised and used for short and medium-term planning within the context of the strategic plan. These are what I call primary objectives.

Before the manager responsible for Corporate Affairs can embark on any kind of detailed management system he must start by being as precise as possible in defining what it is that he really wants to achieve; that is to say, what are his primary objectives. This may sound like a perfectly obvious statement, and of course it is. Yet the process of determining primary objectives for Corporate Affairs is probably the most difficult part of establishing a workable planning and management system. Time and time again, I have seen sound ideas and plans and programmes flounder because primary objectives had not been explicitly stated and agreed.

Agreement is essential; not only agreement from executive management but, just as important, agreement, at least in principle, from managers in charge of corporate affairs functions.

The three pre-requisites for setting primary objectives are first, a clear statement of overall company objectives; second, well thought out company and corporate affairs strategic plans; and third, an evaluation of company strengths and weaknesses.

Although I recognise the difficulty faced by senior managers in certain companies in actually obtaining agreed company objectives, for the purpose of this thesis I have assumed that such objectives are in fact available.

Primary Objectives

It is most unlikely that these primary objectives will be in quantifiable form. Nor is this usually either desirable or even possible. What is essential, however, is that they be stated in terms of desired OUTPUT

rather than input. What is required is a series of generalised statements saying explicitly what needs to be achieved.

Thus, for example, the statement "The writing of six articles to be published in the national press" is not a statement of output, but input. It is not a primary objective. It represents, at best, a means through which the achievement of some primary objectives can be aided. On the other hand, the statement "enhance the reputation of the company among key audiences" is output-oriented and can therefore be used as a primary objective.

It is quite possible that not all primary objectives can be stated in a form that is totally output oriented. But it is important to try.

The next step is to categorise the primary objectives and, for most companies, the following questions should place all objectives into one of four categories:

1. To what extent does management want to contribute to the development of the external environment? (Environment Support Plan - Public and Social Affairs)
2. How much should Corporate Affairs be involved in employee morale and internal communications?  
to recall the dictum of Talleyrand who said, "Give me good internal policies and I will give you a good foreign policy". (Internal Support Plan - Internal Communications)
3. To what extent is the concern with improving the Corporate image? (Corporate Support)
4. How far is it intended that the function offers direct short-term marketing support? (Marketing Support)

All these four areas are very different from one another and must be understood to be so: otherwise priorities cannot be given either to objectives or the work programme.

From experience it can be seen that a major cause for misunderstanding of the role of public and social affairs lies in the failure to differentiate between projects that are biased towards

support the direct marketing effort. There is a world of difference between choosing a project that has a "third-circle" objective with some marketing spin-off and one that is using corporate responsibility as a means of achieving a marketing objective with the community as a subsidiary beneficiary. Both kinds of project are needed but the relative priorities between the two will determine the programmes.

#### The XY Company Objectives

The XY Company, as a result of asking the above questions, has developed the primary objectives shown in Table 1. The agreed objective rating is also shown in the Table and is discussed further in Chapter 12. The objectives relate to the total Corporate Affairs plan which, in turn, relates to the XY Corporate objectives. But the priority so far as public and social affairs is concerned, has been identified.

#### The Z Company Objectives

A second set of primary objectives, this time for the Z Company, is shown at Table 2.

**TABLE 1**  
**XY PRIMARY CORPORATE AFFAIRS OBJECTIVES**

		* (i) RATING OF OBJECTIVE (OUT OF 100)
<b>A</b> Socio- Political- Environment Support Plan  Public and Social Affairs  32	<b>A1</b> Contribute to the development of a socio-politico economic environment favourable to the long term corporate objectives of the company	20
	<b>A2</b> Continuously monitor and report on trends in the environment and educate and advise the company on programmes to its long term benefit	6
	<b>A3</b> Identify, research and develop key new opportunities for business as a whole arising out of environmental analysis	6
<b>B</b> Internal Support Plan  Internal Communications  25	<b>B1</b> Improve employee morale and motivation by creating awareness of XY personnel policies and practices	13
	<b>B2</b> Increase awareness of XY as an enlightened employer	7
	<b>B3</b> Increase knowledge of and confidence in future of the industry in general and XY in particular	5
<b>C</b> Corporate Support Plan  External Relations  25	<b>C1</b> Enhance reputation of XY as a corporate entity with enlightened policies and practices	14
	<b>C2</b> Increase government awareness and acceptance of XY specific skills and successes and contributions	11
<b>D</b> Marketing * (i) Support Plan 15	<b>D1</b> Increase awareness and acceptance of XY products and services	15
<b>E * (ii)</b> Cost Effectiveness 3	<b>E1</b> Ensure the cost effectiveness of all programmes undertaken by the Division	3
<b>TOTAL</b>		100

\* NB (i) The assumption is that the principle marketing effort, including product publicity and customer relations, is in the Marketing Division. Marketing support within Corporate Affairs refers to more general PR activities such as government relations, press relations.

(ii) Although not an output-oriented external objective, this item has been included to ensure that some proportion of resources is deliberately allocated to planning, research and monitoring Corporate Affairs activities.

TABLE 2  
Z COMPANY PRIMARY CORPORATE AFFAIRS OBJECTIVES

		RATING OF OBJECTIVES (OUT OF 100)
A PUBLIC AND SOCIAL AFFAIRS  29	A1 Contribute to the development of a local environment favourable to the long-term corporate objectives of the company	20
	A2 Continuously monitor and report on trends in the local environment and educate and advise the company on programmes to its long-term benefit	9
B INTERNAL COMMUNICATIONS  28	B1 Improve employee morale and motivation by creating awareness of Z personnel policies and practices	14
	B2 Increase awareness of Z as an enlightened employer	7
	B3 Increase knowledge of and confidence in future of Z	7
C CORPORATE EXTERNAL RELATIONS 20	C1 Enhance reputation of Z as a corporate citizen	12
	C2 Increase local government and local community awareness of the role of Z	8
D MARKETING SUPPORT 20	D1 Increase awareness and acceptance of Z products	20
E COST EFFECTIVENESS 3	E1 Ensure the cost effectiveness of all corporate affairs programmes	3
TOTAL		100

## CHAPTER 10

### THE ORGANISATION

There can, of course, be no hard and fast rules in setting up an organisation which will meet the needs of each, let alone every, company. There are, however, some guidelines which, though they may vary slightly according to the size and nationality of the organisation, are helpful. A number of them are self-evident but, in my view, worth restating.

The organisation that is to help the company respond to the new variables most effectively will need to be adapted to reflect the more important of these. Thus there may be a need to develop and orientate an organisation towards the key audience groups with whom there is an important interdependence or towards key issues which will have a significant impact on the company.

It may well be helpful to undertake a feasibility study before the organisation is established. The study would determine the key audiences and issues as well as what the "users" of the services of organisation - ie. the chief executive, the board, the personnel function, the corporate planners - need from it.

Whatever organisation is decided, its purpose is threefold:

- \* to help the company adopt a meaningful and integrated approach to the external environment.
- \* to make the whole company more productive for the individuals within it and for society as a whole.
- \* to monitor the effectiveness of programmes.

## REQUIREMENTS FOR THE ORGANISATIONAL STRUCTURE

Whether the company is big or small, the impetus for setting up and supporting an organisation for dealing with Corporate Affairs must come from the top. Enthusiasm seldom spreads upwards. Moreover, in this way only can the function be sheltered from the well-meaning-but short-sighted strictures of those whose job, rightly, is to look after the more evidently immediate objectives of the company. The organisation itself may be a facet of one Board Member's work or it may require a much larger operation but the principle remains. The Corporate Affairs function represents an aspect of the Chairman's mind and is concerned with those external factors which affect or are about to affect his business. That is why it cannot be discharged at a supernumery level.

The work of Corporate Affairs must, moreover, be seen as normal corporate activity and part of the company's strategic plan. While the focal point may be one office, with people who are the thinkers and planners, the entire Company is involved. The inference is that the Board of Directors and the executive officers must be corporate affairs oriented. They must accept the importance and relevance of Corporate Affairs to the future of the Company and themselves. Because Corporate Affairs reflects the total approach of the business, and must therefore influence the organisation at the day to day level, the best financial and marketing decisions can only be taken when the Corporate Affairs voice is heard as well as that of the Directors of Finance and Marketing.

Any organisation must be flexible, organic and capable of change. It should be able to react to new challenges and only in this way can it help the Company adopt a meaningful and integrated approach to the external environment.

It is important, too, as with the strategic plan, to bear in mind the time frame within which the organisation must operate. It is no good thinking in terms of two or three or even five years....



Since the object is to influence society, men's minds need to be informed, and this takes time. The Corporate Affairs function, though it cannot overlook the intervening period, often needs to look ten to fifteen years ahead.

The results of such a long-term approach are, first, that it enables a sensible list of functions to be drawn up. It is possible to think in terms of meeting the needs of the future - for example, education and youth and the company's recruits and customers of the years to come. Even Public Relations campaigns can be planned, executed, measured and improved since messages will convince more honestly and easily. Second, the criteria used by the Company in the allocation of resources to Corporate Affairs can be tailored to meet the real needs of the Company. The Company will know whether its decisions to reduce or expand are having an impact on the long-term market or are simply an expediency in a short-term crisis.

A final guideline is the need to bear in mind the geographical parameters within which the Corporate Affairs organisation will work. Local problems will require local attention: national and international problems will require meeting at a higher organisational level. (See Figure 1). Usually, the point for detail is at the national level. Even if the company is an international one, all that the Headquarters Corporate Affairs function should do, in addition to managing international projects, is to ensure that the national companies are aware of the needs, techniques and suggestions that exist and of the help that can be provided. But action must be local; techniques must be decentralised and communications fostered and used to ensure that all are in the picture. Needs do differ from country to country, region to region and any organisation must reflect these differences.

#### STAFF AND LINE RESPONSIBILITIES

The analogy for the relationship between staff and line exists already in other functions. There is a personnel staff who formulate policies and guide their implementation but the day to day responsibility for the implementation is with the line manager at all levels. In the same way, the Financial Comptroller in a company will provide guide-lines and targets but the responsibility for adhering to these is placed fairly and squarely with each line manager.

The same principle applies to the area covered by Corporate Affairs. The central staff are concerned with the formulation of policies relating to the aspect of company activity that covers its relations with the rest of society. Their implementation, however, cannot all be relegated to the same staff group but becomes the responsibility of line management.

The area of staff responsibility, then, is to:

- \* Formulate policies
- \* Propose objectives
- \* Develop, encourage and monitor plans and programmes.
- \* Implement some activities requiring particular specialist skills.

#### THE SMALL, MEDIUM AND LARGE COMPANY

In the small company, the Corporate Affairs function is not likely to exist as a separate entity. If we accept that this function constitutes an aspect of the Chairman's own total approach to his job, then it may not be possible, in the small company, for this to be delegated beyond his own office.

When the company is bigger, this delegation will take place though, again, the Corporate Affairs function of a medium sized company may not exist separately. The activities of Corporate Affairs, like those of a press office, personnel policies affecting activities in the community, advertising and customer relations may well be the province of someone acting as Director of Staff. But the principle that these activities reflect a compartment of the Chairman's total approach, and are not separate from it, must be adhered to if Corporate Affairs is to remain in the mainstream of the company's life.

The large firm can afford and will almost certainly have a department concerned with Corporate Affairs. In most companies, this term is still

wrongly equated with Public Relations and Sales Promotion. In too many companies the function is relegated down the line and the manager responsible finds himself removed one or two levels from the Chairman. When this happens, it is clear indication that this aspect of business is likewise removed from the Chairman's thought unless something goes wrong or there is some specific event to promote. The concept of his being concerned with all external variables affecting the company is thus missing.

### THE INTERNATIONAL COMPANY

The extra dimension of international operations means that there is a need to harmonise Corporate Affairs activities in many countries, while retaining flexibility of operations. The precepts are simple:

- \* centralise strategy
- \* decentralise tactics
- \* keep communication lines short

The strategic matters will refer to such all-embracing subjects as Anti-Trust, the degree to which the profile is high or low key, the proportion of resources to be devoted to corporate responsibility and so on. The tactics will depend on the political, social and economic environment in which each subsidiary operates. The communication network ensures that all are in the picture and safeguards against misunderstanding.

### DIFFERING NEEDS IN DIFFERENT COUNTRIES

In every country the principle governing the activities of Corporate Affairs, and so of the organisation created for their conduct is that a firm, whatever its size, must identify the external variables which are crucial to its existence. Some of these variables may affect business as a whole in that country; some may affect the particular firm or industry. If the

reasoning process starts with the external situation and leads back to the firm and its organisation, then the necessary deductions are simple. They are only difficult if the reasoning is the other way round and starts with some organisational pre-conception.

In the developing countries, the need for political sensitivity will probably be greater than anything else and even the small firm, with few other resources for corporate programmes, will have to devote top management attention to this field. As elsewhere in the world, the governing rule is that involvement starts at the very top and is delegated only so far far as organisational and other pressures demand. \*\*

#### THE USE OF NON-EXECUTIVE DIRECTORS

A Board of Directors is, ideally, composed of people who can balance short-term profits against long-term social costs which, in turn affect long-term financial gains. It will normally be necessary to give up some immediate profits in order to ensure longer term gain and so there is a need for people who can make these judgements. It is unlikely that internal experience alone will be enough.

One of the implications of choosing outside people whose judgement can be trusted should be that they are informed about the company. This is by no means always the case yet, if they are to appraise the effectiveness of a firm's proposals, especially when they touch on matters that depart from traditional business interests, and if they are to play a part in real issues rather than be confined to the few formalities that too often occupy their attention, the completeness of the information at their disposal is of paramount importance. They must be free and able to offer constructive criticism to their colleagues, insist on the broader picture being taken into account and be able to review functions independently in the light of a full knowledge of what is happening.

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\*\* International programmes are often dependent on action by a number of national subsidiaries and therefore require close coordination at all levels. A suggested organisational framework for such programmes is shown in Figure 2.

For the work of outside directors to be useful there are, then, certain ground rules which must be stated if the fashionable but wrong approach towards the use of these people is to be avoided. This approach is, of course, "name hunting". It is wrong because it starts with the personality instead of the need. The right approach is to identify the area of need and then find the individual to fill it, just as one would fill any other position.

So the ground rules are:

- 1 Identify the gap or need - the area where outside judgement is crucial.
- 2 Match the person to the need. He may not be the prestige name that is dear to public relations and his "rightness" will include his availability.
- 3 Stipulate what is expected from him in terms of time and areas of work.
- 4 Ensure that the internal director recognises the particular role they can play.
- 5 Identify the non-executive director's main functional counterpart in the firm.
- 6 Fix a salary commensurate with the work expected.
- 7 Set a retirement age.
- 8 Then use him! (or her)

#### ADVISORY COUNCILS

To complement the use of outside directors, it is often desirable to establish an Advisory Council consisting of competent individuals from various fields of activity and capable of identifying and advising on matters that spill over the boundaries of business or geography. They can operate at two levels.

The first is at Corporate level where their advice is available to either a national or international headquarters. In the latter case, their usefulness can be enhanced by their being members of the Company's local board of directors in the country from which they came.

The second is at a local level. Theoretically, business management and labour could decide together to be irresponsible towards the community because of short-term gain to them. This is an unlikely picture but it serves to highlight the need for the community to be not only the beneficiary of what business decides to do but also a consultative partner.

The idea of workers on boards of directors skates round this particular problem. On the other hand, the importunate intrusion of community auditors, who have no knowledge of the business they are investigating, is the least propitious way of getting a business to listen to the voice of the community.

One possible solution that is now being investigated is the formation of local advisory boards. This goes further than merely appointing a director of the Company to become Mr XY for the region and to interface with the community. It means the formation of a group of people including, for the sake of argument, a member of the local Rotary Club, the local Director of Social Services, a representative of a voluntary organisation and a teacher who would be party to some of the Company's broad strategies and plans and who would meet at intervals with the senior executives of that location. They would discuss the implications of what the Company was doing in the area and advise on matters which extended beyond the business expertise within the company.

A way in to this somewhat radical arrangement would be to constitute an "advisory board" rather than an immediate local board of directors. It would be up to all parties to the experiment to make it work and not use the meetings as an occasion for uninformed comment or sectional pursuits. Then, if successful, it could be ratified and point the way for a new relationship between business and society.

### CONSULTANTS

The use of consultants, as opposed to non-executive directors, must also be mentioned. The distinction needs to be kept in mind, even though the need for outside help from people who can advise, open doors and help negotiations may be similar.

Broadly speaking, consultants fall into three categories; retired professionals from some other field; specialists, either individuals or firms, who are on call to help in specific areas and those who are simply brought in as a breath of fresh air, to broaden horizons and develop new ideas.

The 'useful life' of the first category is shorter than that of a non-executive director since he depends on knowledge and contacts from his former profession that soon become out of date. His contribution is his expertise rather than his judgement ability and breadth of horizon. For the time of his service, he can be expected to work three or more days a week and have an office in the firm to which he is consultant. His tenure of appointment should initially be short, even though it can be renewed.

The consultant on call will normally be still active in his field of expertise. His appointment can therefore be renewed for so long as he himself is renewing his own expertise.

The third category may be used on a one-time or continuing basis. They will normally have access to resources in their fields of interest that are widespread and influential. They can bring to a firm a depth of experience and a contact with new thinking that is unlikely to be found within any one business organisation. If they prove themselves, they can then be brought in as often as their particular skills are required.

### CORPORATE AFFAIRS ORGANISATION

The total interface with the external environment is the task of many functions. In the company, where there is a co-ordinated Corporate Affairs function, its responsibilities should include:

- \* Research and Intelligence - that will monitor trends, evaluate their importance for the Company and provide the input information for action programmes that will reduce constraints and maximise opportunities.
- \* Strategic Planning - that will propose objectives and formulate policies. Such a responsibility is an important one for it implies, inter alia, providing the Corporate Affairs input to the Company Plan. (The Finance department submits the financial input and marketing submits its input - but Corporate Affairs is the one function that sees the company as an entity). In the Strategic Plan it has of course, a specific and unique responsibility for using the information supplied by the Intelligence Unit to determine Corporate Affairs policies.
- \* Developing and Managing Corporate Affairs - plans and programmes and encouraging not only Corporate Affairs but also other parts of the organisation to implement these.
- \* The monitoring of performance - is the organisation ensuring the Company is optimising the use of its resources? This responsibility also includes the routine "control" of budgets and administration.

To meet these requirements, the Director in charge of this function will have a small staff which may include all or some of the following depending on the size of the company.

- \* Public and Social Affairs
  - Government Relations
  - International (Agency) Relations
  - Community Relations
  - Environmental Affairs
  - Education Relations (schools, universities etc)



- \* Regional Directors representing the company as a corporate entity in areas of the country where there is a strong company presence. Responsibilities will vary but could include
  - local community affairs
  - local employee relations
  - location administration
  
- \* External Communications Adviser
  - Advice to senior management on external communications
- \* Internal Communications Advisor
  - Advice to senior management on internal communications
  
- \* Industry and Professional Relations
  - Co-ordinate Company interface with industrial, trade and professional associations.
  
- \* Communications Operations
  - Press Relations
  - Corporate Publicity (advertising, publications, films etc)
  - Corporate Design
  - Editorial Services (house journals, noticeboard announcements, management bulletins etc)
  
- \* Research Plans and Programmes
  - Intelligence
  - Strategic planning
  - Surveys, attitude studies
  - Project evaluation
  - Measurement
  - Budgetary and administrative control.

Some specimen job descriptions now follow.

SPECIMEN JOB DESCRIPTIONSDIRECTOR OF CORPORATE AFFAIRS

The Director is responsible to the Chairman and has primary responsibility for

- formulating policies
- proposing objectives
- developing, implementing and monitoring plans and programmes to ensure that
  - the company meets its social responsibilities
  - its contribution to the country's economic and social development is understood inside and outside the company
  - its image is correspondingly enhanced

To this end, he (or she)

- directs the company's internal and external communications activities and public and social affairs
- develops and maintains close contact with key external groups, including
  - government, both central and local
  - industry
  - the professions
  - the world of education
  - the communities of which the company's facilities are located
  - pressure groups
  - employees
- provides guidance, advice and service to other parts of the company and ensures their input to, and involvement in, Corporate Affairs programmes
- initiates and co-ordinates major government contacts

He will thus have the following functional responsibilities

- organisation
- political and economic affairs (eg. aware of all changes in legislation etc which could affect the company's business)
- external and environmental affairs
- industry and professional affairs
- community relations
- media relations
- corporate publicity and related activities
- employee communications
- public and social affairs

#### DIRECTOR OF PUBLIC AND SOCIAL AFFAIRS

The Director is responsible to the Director of Corporate Affairs for formulating and proposing policy concerning

- public sector relationships
- social affairs involvement
- "third circle" responsibilities

He advises company senior management on the impact of the company's activities on public sector leadership and vice versa. He sustains contact with and an informed awareness of intergovernmental and non-government institutions. He formulates policies and programmes that demonstrate the company's involvement in the major social and environmental problems of the day eg. ecology, urban affairs, education, youth, pressure groups etc.

He represents the company thinking to audiences in the public sector, on public platforms and internally.

Some of his further responsibilities include

- liaison with government (political and civil service), opposition, decision makers in nationalised industries, government agencies and in local government and community fields.
- promotion of an understanding of the rôle of the company
  - as a socially responsible corporate citizen
  - as a contribution to the country's social and economic development.
- awareness of all changes or proposed changes in the legislation etc and the proposal of plans etc to exert legitimate influence on such developments.
- participation in the Corporate Affairs planning processes.
- development of projects and programmes to meet the needs of the company and the community.
- maintenance of an active co-operation with other parts of the company.
- being the focus of effort to see that all new and developing managers are trained to appreciate the importance of the social, economic and political environment to the company and to their development as managers.

#### REGIONAL DIRECTOR

The Director is responsible to the Director of Corporate Affairs for the strategic thinking and operational management of the Resident Manager Programme. The main objectives of the programme are:

- to ensure senior community affairs representation in an area
- to ensure a senior company presence in the area
- to provide a focal point for local community affairs activities
- to provide an "ombudsman" to assist the Personnel function in the operation of the company's employee relations programmes

Thus the role of each Director is to ensure that in each area

- the company meets its social responsibility objectives
- the company's contribution to the economic and social development of the areas is understood both inside and outside the company
- the image of the company is correspondingly enhanced

To this end he will be resident in the region and

- maintain an overview of internal and external communications activities
- develop and maintain close relationships with the company's many audiences (local authorities and MP's, educational establishments, the media, commercial "neighbours" etc)

He will thus have responsibilities at a local level in

- political and economic affairs
- external and environment affairs
- industry and professional affairs
- community and media relations
- employee communications etc

EXTERNAL COMMUNICATIONS ADVISER

The Adviser is responsible to the Director of Corporate Affairs for the provision of strategic creative thinking and expert advice to Company senior management on matters external communications. As for the Internal Communications Adviser, he will provide advice and counsel to Communications and Corporate Affairs functions in all Company locations.

Some of his further responsibilities will be

- to provide creative thinking on long term corporate promotion and on the use of relevant communications techniques
- to advise on the corporate promotion goals and develop projects which contribute to these goals (where possible promoting senior management as public figures)
- to advise the marketing divisions on the use of communications skills in promoting product sales
- to represent the marketing thinking to the appropriate Corporate Affairs functions and vice versa
- to ensure that the company plays a positive role in the academic and professional communicators associations and institutions

INTERNAL (EMPLOYEE) COMMUNICATIONS ADVISER

The Adviser is responsible to the Director of Corporate Affairs for the provision of the strategic creative thinking and expert advice to Company senior management on matters of internal communications and industrial/employee relations. He will also be responsible for providing advice and counsel to communicators and Corporate Affairs functions in all company locations.

Some of his further responsibilities will be

- to ensure that the necessary Communications and Corporate Affairs skills are provided to meet the Company's internal communications and industrial relations needs
- to ensure continuous monitoring
- to provide creative thinking and advice on the use of communications techniques
- to maintain an awareness of trends in the external environment as they relate to employees

#### INDUSTRIAL AND PROFESSIONAL RELATIONS

The Industrial and Professional Affairs Manager is responsible to the Director of Corporate Affairs for the provision of strategic creative thinking on methods of projecting the company management as industrial statesmen. He will co-ordinate the interfacing between the company and external management, business, industry, trade and professional associations.

He will ensure that the company plays a positive role in these associations and will be the company's representative on some of them.

#### MANAGER OF COMMUNICATIONS OPERATIONS

The Manager of Communications Operations is responsible to the Director of Corporate Affairs for the creation of maximum awareness and acceptance of the company as a corporate entity. He must define and select the messages to be conveyed to the company's various audiences. He will also ensure adequate funding, planning and implementation of the message concept. He will provide advice and counsel to the Director of Corporate Affairs on communications issues and activities.

RESEARCH, PLANS AND PROGRAMMES

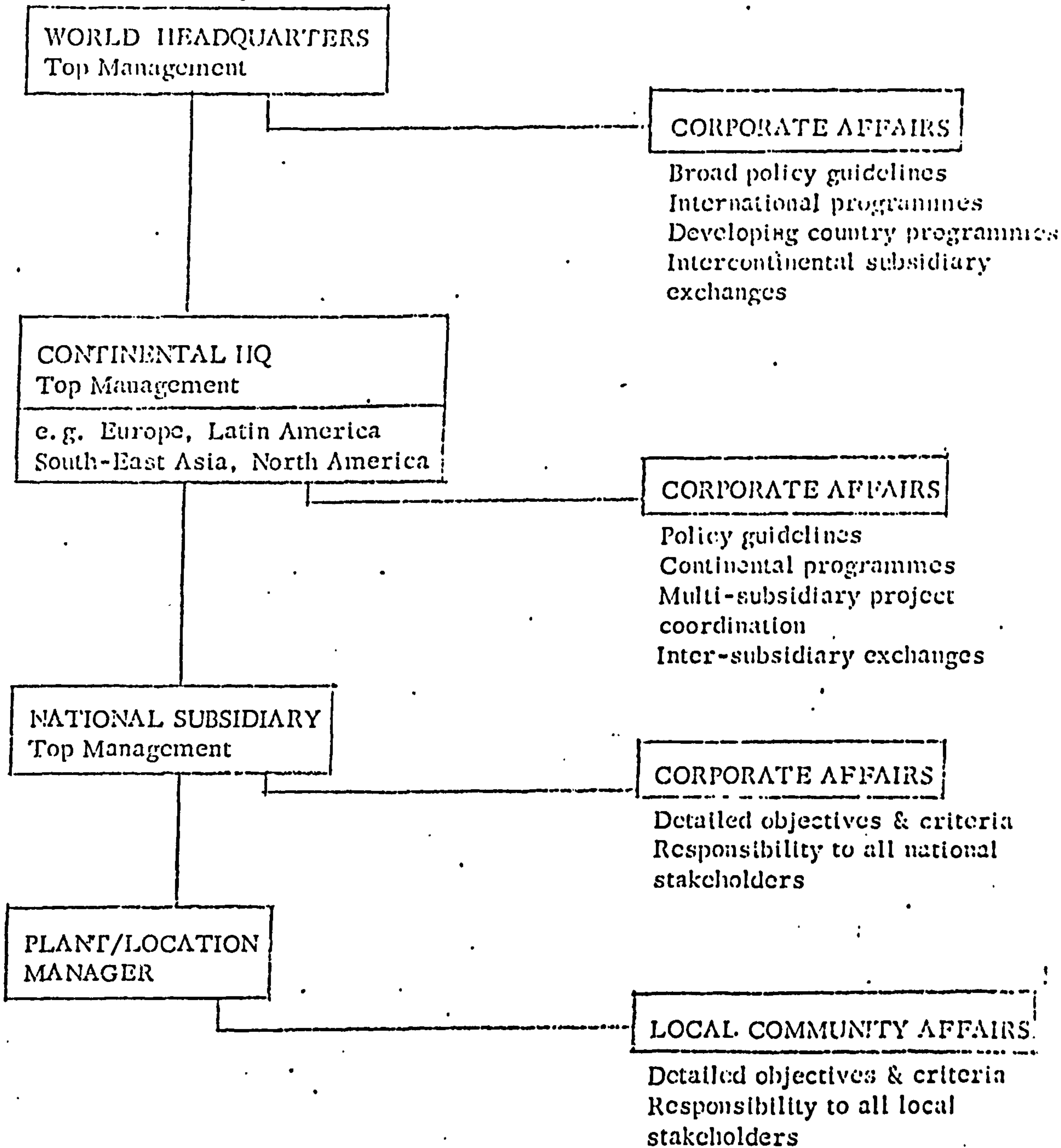
The Research, Plans and Programmes Manager is responsible to the Director of Corporate Affairs for the development of Corporate Affairs strategic and operating plans, project evaluation studies, the development of systems to measure performance against plans, the design of major divisional projects, and for research studies.

He will give staff assistance in the development of objectives, strategic plan input, and control of expenditure. He will give assistance to the Director of Corporate Affairs in the monitoring of the national and international environment and provide an 'intelligence' service for the company on social and political issues.

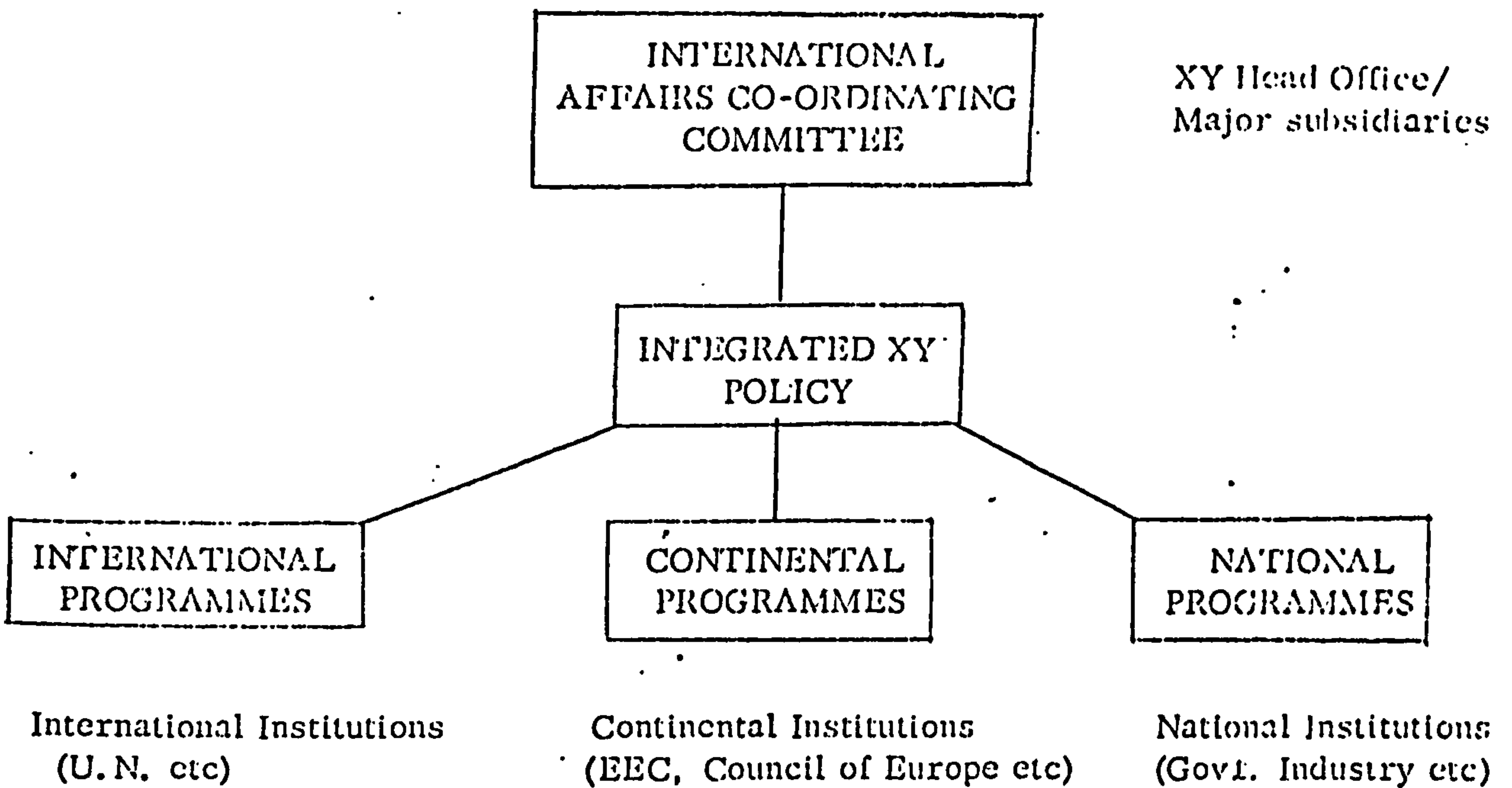


Fig. (i)

ORGANISATION FOR CORPORATE AFFAIRS



ORGANISATION FOR XY INTERNATIONAL PROGRAMMES



Developing Countries

Mechanism

Resources from XY HO. Programmes carried out by 'centres of competence in HO and/or countries

Resources from Regions. Programmes carried out by 'centres of competence' in regions and/or countries

Resources from countries. Programmes carried out by countries

## CHAPTER 11

### RESOURCE ALLOCATION

The trouble with any decision about how much to spend on public and social affairs is that it always involves a reconciliation of infinite possibilities with finite resources. There is never enough to do everything that is desirable. To determine the amount to be spent in relation to the constraints is, like investment in research and development; somewhat of an act of faith. The validation of the decision generally comes later.

It is, however, possible to ask some basic questions to point the way towards this decision. If, for example, an organisation spends a total of ten percent of turnover on new investment, how much is it worth spending on the external environment, to increase the chances that this investment will be profitable? How much in all does a company spend on its various insurance policies and how much is it worth to insure against external risks? The decision tree on page 6 - 6 illustrates some of the choices that are open.

#### Guidelines to Investment

It is investment and insurance that I am talking about and, whatever sum it is decided to spend, it must be spent as effectively as possible. Hence the use of carefully constructed techniques for project evaluation described in Chapter 12. So, start somewhere and spend effectively is the first rule. The second is to remember that this sum represents seed-corn and not peripheral expenses and so it simply must not be cut out in a difficult year.

The sum to be spent on public and social affairs depends, of course, on the definition of this activity. Currently, an amount varying between 0 and 3 percent of net before tax profits is the range, with the average well towards the bottom of the scale. And even then the definition of what should be included in the expenditure varies. Some guidelines may therefore be helpful:

Do not include:                    Other corporate affairs activities  
    Corporate publicity  
    Marketing aids  
    Educational grants directly related  
    to the business  
    Top management time outside the  
    function

Do include:                            Costs of people engaged full and  
    part-time (excluding top management)  
    Project costs relating to the function  
    Costs of people included in the project  
    from outside the function  
    Charitable contributions  
    Intelligence desk

The lines between what we term second and third circle activities corresponding to the second and third level of responsibility, will necessarily be sometimes blurred. A rule of thumb for seeing to which budget an activity belongs would be:

- \* for projects where social responsibility is the chief objective, the money is allocated direct to the public and social affairs function
- \* for projects where marketing is the chief objective, the money is allocated from marketing with some spin-off accruing to public and social affairs

The correct allocation is a factor that can be built into project evaluation systems. This all means that both a project which starts in the social responsibility field and leads later to marketing possibilities or one that starts as a marketing project but is then found to have social implications are covered by this approach. A total separation between the two is not always possible. The same formula applies to other functions in the Company. If the main benefit of an activity comes to manufacturing, personnel or publicity, and the main objective lies within those parts of the organisation, then that is the main source for the budget.

Which Budget?

Where should the money come from? From net before tax profits or from turnover? If the former, we are effectively saying 'you must make less profit in order to fulfil your social responsibility'. We are also saying that 'if you make a loss, there is not much you can do.' In the second case, we are saying 'this is an investment in your future so you must look at your whole allocation of resources and, if necessary, alter your investment mix in the light of new priorities.' This means that, instead of asking how much you can afford after profit (if any), you ask how much you need to and can do. Thus, the year to year fluctuations of the business will have less affect on what is a long-term investment and the activities that are agreed will relate more and more to the constraints affecting the business.

Let us now look at some figures. If we take the Times Top 1000 Companies, in the UK, the average turnover of companies from numbers 450 to 500 on the list is about £24 million and the average number of employees is 3000\*. The average turnover of companies in the top 100 of the list is £200,000,000 with an average number of 40,000 employees. Let us suppose that a sum of 0.2% of turnover were allocated to public and social affairs, this would give a budget of £48,000 for the companies in the lower range and £400,000 for those in the higher range.

It can readily be seen from these figures that such sums, used intelligently and either alone or in cooperation with some other organisations facing the same constraints, would allow a whole range of activities including professional or management time, pump priming or full scale projects.

An outline of what the XY and Z companies propose to do with their allocation is given at the end of Chapter 19.

Small and Big Companies

Whatever sum is allocated, the programmes can be tailored to

fit the budget. Even small companies can and should, in their own interest, include a modest investment in public and social affairs. It may be helpful to recall the following conversation I had in 1974 with the chairman of a small company manufacturing plastics and employing 200 people.

Manufacturer: "We like your thinking but what can a small company like ours do?"

Authors: "Are there any other firms round here that think the same way?"

Manufacturer: "Yes, four or five - all about the same size."

Authors: "What would you say was the biggest community problem in this area?"

Manufacturer: "Without doubt, young unemployed".

The conversation continued and it was agreed that each of these firms could spare an accountant or solicitor or manager for half a day per month. So they were told about the Young Enterprise movement which arranges for business supervision to be given to groups of young people who form their own, entirely viable, businesses. The involvement that these few firms could manage could do something to solve a problem that would benefit them and others in the area. Think power rather than money is often what is needed.

If the inclusion of a budget for such activities means the possibility of a somewhat smaller short-term profit because nothing else can be cut out to allow for it, then so be it. But normally a good part, if not all, of the money needed can be found from a reallocation of existing resources because priorities have changed. A little less spent on research, advertising, travel or entertainment, in order that new priorities may be met; add it together and there is a budget for public and social affairs.

My advice to the Chairmen of XY, Z and other companies is simply this. Start small but start somewhere; use what resources are going to be allocated efficiently; try and find the budget by adjusting existing expenditure to meet new priorities; match programmes to constraints and public and social affairs will have made a modest start in your company.

## CHAPTER 12

### CORPORATE AFFAIRS PROJECT PLANNING

#### Introduction

I have explained earlier the concept of 'total' corporate affairs and the advantages of this concept to the company in terms of optimisation of resources and management.

Organising corporate affairs in this way opens the way for substituting the ad hoc planning and selection of projects usually found in this area with management techniques designed to make the most effective use of limited resources.

One would think that with the fairly large sums of money being spent by some companies on certain corporate affairs activities, particularly public relations, corporate advertising and charitable donations, that such techniques would, by now, have found fairly wide application. Not so. In my experience, surprisingly few companies even try to plan their corporate affairs with the same vigour as they do for other functions. Rather, decisions are usually made on the basis of what was done before, short-term crisis response or, simply, the personal preference of one or two senior executives. It is not at all uncommon for recipients of company giving, for example, to be selected by whim. Quite clearly decisions in favour of a chief executive's pet charity or a PR Director's ego trip cannot in any way be justified. Nor can an indiscriminate junket of wining and dining so-called important people in the name of an ill-defined 'image' cause.

It is no wonder, therefore, that managers of corporate affairs activities often find great difficulty in justifying budget increases and that it is the corporate affairs budget that gets cut first in times of economic squeeze.



The basic hypothesis of this thesis, the repetition of which requires no apology, is that the corporate affairs function is as important to business survival as any other function in the company. It must therefore be taken as seriously as any other function. And this necessitates the use of rigorous planning and control mechanisms.

### The Planning Problem

Translating this worthy statement of intent into practice is far from easy.

In the traditional system, an individual function, such as PR, asks for the money needed for a new proposed project. Discussion among decision-makers is likely to centre on the merits of the particular proposal in relation to a general background of the financial situation, rather than upon the competing claims on the present and future resources which are represented by an aggregate of the spending policies of corporate affairs activities. There may be exceptions to this but, in general, the system with regard to corporate affairs projects is one of piecemeal decisions.

Reorientation of company thinking, culminating in the creation of an integrated corporate affairs function, recognises a new situation based on three key factors. The first is the need to do more in the corporate affairs arena and to do it more effectively than in the past. The second is the increasing complexity of corporate affairs activity as it adjusts to increasingly rapid changes in the social and political environment. The third relates to the recent changes in economic thinking. Just as in the public sector the Keynesian revolution changed the role of public finance and its relationship

to the national economy as a whole, so there is a need to look at the public and social affairs part of the corporate affairs budget not as a simple process of disbursing a proportion of profits to the ill-defined 'public good', but as a sophisticated process in which company resources (material, human and financial) are used to influence the course of society as a whole (within the constraints discussed in chapter 5).

Thus the importance of corporate affairs planning is increased by the fact that the total corporate affairs plan becomes the company's "national plan".

The issue at stake is the development of a methodology for organising the Corporate Affairs Department to fulfil its overall objectives, for balancing the allocation of resources between projects and therefore between the various corporate affairs functions according to company priorities, and for managing and controlling selected projects

There are a number of more or less well developed techniques for project organisation, evaluation, management and control in the traditional area of private sector decision-making. For example, we can use DCF for selection between capital investment projects, and we can introduce more sophisticated probabilistic models to take care of uncertainty. But in these methods there is a clearly defined objective function to be optimised and a way of determining the costs and revenues of the alternatives. Likewise measures such as revenue per salesman and productivity per employee are available to help in the planning of traditional company activities.

This does not apply in corporate affairs, particularly when we are

concerned with public and social affairs objectives. What one is trying to do is to optimise the company's contribution to the community within certain financial, manpower and political constraints. What is more, although one can evaluate the cost of a project, the 'revenue' is considerably more intangible and must be considered in terms of social cost or benefit - and even this is no more than an indicator of the project's contribution to long-term profitable survival.

Corporate affairs planning, decisions concerning choices between alternatives and control are therefore much more closely amenable to public sector techniques than those traditionally used in the private sector. Thus the first step is to find out what techniques are currently being used in the public sector and whether these could be adapted with suitable modification to planning the corporate affairs operations.

In initiating new methods of planning and analysis I am proposing no more than the introduction throughout Corporate Affairs of an approach towards more rational decision-making which is already applied in other departments. Previously, as already mentioned, most corporate affairs expenditures have been made on a purely ad hoc basis. With the suggested reorganisation, the company is in a position to make more objective decisions.

### The Planning System

In this section, I introduce a corporate affairs planning system which, although still far from perfect, has been tried and tested and has proved of immense value in improving corporate affairs decision-making.

I have christened the system CAPERS, which is an acronym standing for "corporate affairs project evaluation, review and selection". Essentially CAPERS is little more than MBO applied specifically to the needs of corporate affairs. The CAPERS system also borrows heavily from public sector techniques such as PPBS and output budgeting.

Why PPBS? I have already mentioned the similarity between the public sector planning problem and the corporate affairs planning problem. It is essentially how to choose between a range of projects, each of which has very different characteristics, each of which has benefits which are not directly quantifiable, within a total budget which is fixed annually. In government the budget is determined by the level of taxation. In Corporate Affairs, the budget reflects the level of investment agreed for this activity by corporate management. In this respect, Corporate Affairs and Public and Social Affairs in particular is similar to research and development. Both are investments in the future; both are concerned with ensuring that the company has as much as possible going for it in the long term.

But the parallel with the public sector is even more appropriate. In addition to the similarity in the planning problem, both are concerned with the social, economic and political environments. Both are concerned to create a climate in which existing systems and organisations can continue to meet long-term objectives. Both have to reconcile short-term responsive needs with long-term programme designs of a multi-year nature.

Systems and techniques for public sector planning are available. The

greatest relevance to the needs of Corporate Affairs is perhaps to be found in the Planning, Programming and Budgeting System (PPBS), first introduced in the US to control federal programmes and expenditures, but now applied in some form by many international agencies, national governments and local authorities. In each case PPBS is used to plan spending which, by its nature, cannot be regulated by competitive forces.

Experience since the introduction of PPBS has been varied and, in several cases, the system has not been as effective as at first envisaged. Reasons for failure when it has occurred are several but the principal one is the non-acceptance by managers of government departments of a new system of what is essentially top-down planning in areas where, previously, they had been their own masters. Another reason for PPBS failure has been that the system requires a tremendous amount of new information, much of which is very difficult to generate.

CAPERS has been developed to avoid these difficulties with PPBS and to offer to management a relatively simple technique which can be made more and more sophisticated with experience. In essence, it is the thought process behind PPBS which is important and has been used in CAPERS.

The main philosophy behind CAPERS, like PPBS, is to think of corporate affairs activities in terms of programmes and projects rather than of function. A trans-functional approach is required which starts with the programme and then brings to bear on it the various corporate affairs skills in a coordinated manner. The aims of CAPERS in this context are:

- (a) the specification of objectives
- (b) the evaluation of programme output as it is related to objectives
- (c) the measurement of total system costs
- (d) multi-year programme planning
- (e) the evaluation of alternative programme designs
- (f) the integration of policy and programme decisions within the budgetary process

The implementation of CAPERS requires an output-oriented programme structure which presents data on all the operations and activities of each function of corporate affairs in categories which reflect the function's objectives. Clearly, in its early days, the Corporate Affairs function will not have all the information required to set up a full system, and so a model needs to be developed which generates this information and orients corporate affairs functions to thinking along programme lines and in terms of output measurement and comparison.

In fact, the creation of such a model, which is in essence a simplified version of PPBS, though consistent with its essential approach, can be constructed fairly rapidly. At first it will be relatively crude but, as information is gathered over time, it can become more sophisticated until, eventually, a full

CAPERS system can be implemented.

What the model sets out to do is to try and optimise the use of corporate affairs resources within a set of output-oriented objectives and a set of resource constraints. In simple terms, it is a cost-benefit model which measures each corporate affairs project in terms of its contribution to total corporate affairs objectives and then presents an optimised project portfolio for any given set of constraints.

The effect of the model is to allow more objective decisions regarding the planning, programme analysis and budgeting of corporate affairs projects. Since any corporate affairs project is only as extensive as the resources put into it, the place where decisions, whether rational or not, concerning the deployment of corporate affairs effort are most apparent is in the total corporate affairs budget. This budget is the central expression of how Corporate Affairs' finite resources will be allocated and the basis of the competing claims of the different advocates for more money for the various Corporate Affairs programmes. Hence it is in the executive process of putting together a budget that the new approach will be most apparent. In the early stages, the greater part of the total budget will be what it is because of what it was. All those programmes which are already mandatory will have to be paid for and so, at first, the range for discretion will be limited. But, as time goes on, more decisions will be open to conscious choice, and it is to this choice that new techniques are directed.

An Introduction to CAPERS

The essential steps in CAPERS are similar to those for PPBS, namely:

- (a) Define the objectives in terms of output
- (b) Build up a relevance or decision tree
- (c) Detail the possible alternate ways of reaching the objectives
- (d) Estimate the costs and benefits of each alternative
- (e) Present the data to those responsible for making the decisions
- (f) Measure the results on a continuing basis

To define the objectives, three questions must be answered:

- (a) What services have been provided?
- (b) Which group of people is the service aimed at?
- (c) What specific needs of that group are we trying to satisfy

The definition of the ultimate objectives of Corporate Affairs, as



they are realised through operational decisions, is of course the central issue. The construction of a set of programmes may be described as building a bridge between an objective described in general, almost philosophical, terms and the assignment of resources to its achievement. The importance of thinking in programme, rather than functional terms is that, in addition to clarifying objectives, it helps to move discussion away from the fairly useless absolutes of (a) what fixed amounts of money to spend, no matter what the goals, or (b) what fixed objectives to achieve no matter what the costs.

It should be remembered that there is no budget size or cost that is correct, regardless of the pay off, and there is no need that should be met regardless of cost. In dealing with corporate affairs problems, the dominant characteristics in a decision will often not be those which can be measured. But, if we do what is possible through numbers, it leads those involved in a decision to be clear about the more or less quantifiable factors on which a decision may be based. And such an influence is often useful. The problems of defining what is rational and what is not and of deciding whether rational choices, if possible at all, are better than those made on the basis of intuitive feelings, involve high-level, philosophical thinking. But, to assert that it is advisable to know what one is doing may be a modest claim, susceptible to general approval.

What the new techniques, such as those used in CAPERS, attempt to provide are methods by which those who make the decisions about how Corporate Affairs should direct its efforts can

increase their awareness of the conditions and consequences of their choices, and can clarify the elements that enter their judgements. Various unforeseeable and irrational factors will continue, rightly or wrongly, to influence decisions, and will lead to controversy. For example, a department head may override his professional advisers for political reasons, good or bad. But the knowledge which the new techniques provide may be used to raise the contests over such issues to a more responsible level.

The CAPERS system differs substantially from earlier budgetary processes in so far as it opens the "political" process at every level of detail. CAPERS attempts to influence the choice of both ends and means with a problem-solving approach. It emphasises the analytical criteria of effectiveness and efficiency rather than the political criteria of consensus; it forces an examination of a wider range of alternatives than those typically dealt with in the political process; it stresses long-term planning rather than "muddling through".

#### CAPERS

Because the information needed to implement a full system takes time to accumulate, a start can be made with a simplified model. This shares CAPERS objectives and has already proved to be a useful tool for decision making in Corporate Affairs. The essential steps in this model are shown in Figure 1:

- (a) From agreed company objectives, establish primary Corporate Affairs objectives

- (b) Agree ratings of these primary objectives with executive management
- (c) Set secondary Corporate Affairs objectives related to primary objectives
- (d) Agree ratings of these secondary Corporate Affairs objectives
- (e) Each manager submits project nominations for every project he wishes to carry out, identifying resources needed.
- (f) Interview manager submitting projects to score the contribution of the project to primary objectives
- (g) Work out the total score (value) of each project
- (h) Run projects through a model which can have built-in resource constraints
- (i) Model generates project listing in priority order
- (j) Model shows cut-off point according to resources constraints
- (k) Management judges which of the eliminated projects should still be included
- (l) Model puts remainder in priority order

The model thus permits:

- (a) rapid evaluation of options
- (b) sensitivity analysis - change in ratings
  - change in resources
  - "what if" questions
- (c) optimum use of Corporate Affairs resources

#### Primary Objectives

- (a) The starting point for any Corporate Affairs system must be the setting of primary Corporate Affairs objectives. The method for setting primary objectives is described in Chapter 8.
- (b) To repeat, the primary objectives are generalised expressions of what executive management expects Corporate Affairs to achieve as the Corporate Affairs' contribution to the achievement of total Company objectives. These objectives must therefore be rated to define the relative priorities between objectives. A simple technique is for the Director of Corporate Affairs to score each project as a percentage, so that the cumulative score for all objectives equals 100. The objectives and the scoring are then discussed, modified if necessary, and agreed by executive management.
- (c) When the primary objectives are agreed and rated by management, they form the basis of the planning model. Each of the following steps is now an attempt to relate all Corporate Affairs activities to these objectives.

Secondary Objectives

- (a) Whereas primary objectives such as "increase the acceptance and awareness of the Company as a major contributor to the national economy" are adequate for executive management to decide on priorities between them, they are not measurable and so cannot form the basis for the measurement of any project's potential contribution. It is therefore necessary to develop for each primary objective a whole series of intermediate or secondary objectives which can be measured. A possible secondary objective for the primary objective stated above might be, for example, "increase the proportion of civil servants who are aware of the contribution that the Company makes to exports from 15% to 25%." Other examples of secondary objectives are shown in Table 1. We can see that they are all related to the external environment, the key audiences and those audiences' attitudes or expectations as defined in the Company's strategic plan.
- (b) During the initial stages of Corporate Affairs, it is unlikely that the exact percentage of any given audience having a particular attitude will be known. This requires research. But ideally we need to look for secondary objectives which can be measured by this type of objective quantification. What can still be done before research results give the quantifiable data required, is to set intermediate secondary objectives which can be measured by subjective quantification, e.g. "shift in attitude among civil servants" or "increased penetration of the public sector market place" etc. In general the intermediate secondary objectives that will be set will be those that are accepted as key indicators of achievement of the primary objective. Examples of such indicators

are shown in Tables 2, 3 and 4. In most cases, for Corporate Affairs, these will be based for each audience on

- (i) key attitude shifts
- (ii) key expectation realisations
- (iii) actual achievement of environmental changes

#### Rating of Secondary Objectives or Indicators

- (a) Any of the primary objectives may have a whole series of secondary objectives associated with it. For example, if the primary objective is a generalised statement referring to a change in attitude, the secondary objectives may include separate statements for eight different audiences. Each of these audiences may not have equal importance to the Company. Similarly, other secondary objectives will be of varying importance. It is necessary therefore to give each secondary objective or indicator a rating. Again, the idea of scoring as a percentage is suggested, with the cumulative total adding up to 100. Examples of rating are shown in Tables 2 and 3.
- (b) The relevance of the secondary criteria and their ratings should be agreed by the Corporate Affairs Director and his managers. Naturally this will be a subjective estimation. A number of techniques are available for this ranging from "brain storming" to the Delphi technique.

#### Project Nominations

With primary and secondary objectives agreed and rated, the basis is set for project planning, evaluation and selection.

- (a) Every activity which any manager wishes to carry out needs to be submitted as a project nomination. (See attached nomination form on page 12 - 35). This project nomination must include a statement resources required - money, manpower, equipment.
- (b) The definition of what is a project can be argued. A suggestion is to define a project as an activity or group of activities which is independent of other projects. Thus, for example, a corporate advertising campaign would be a project; the insertion of a single advertisement would probably not. Even with this definition, there can often still be confusion and careful judgement is needed to ensure that individual projects are structured in a consistent way so as to be comparable. It might, for example, be preferable to include a programme of press tours to company facilities as a single project, rather than having each individual tour as a project.

For the purposes of the Plan, a useful rule of thumb is that projects which cost less than £1000 and use less than 3 man weeks should be reviewed to see whether they are truly discrete or whether, in fact, they can be added to other projects with similar objectives, thereby increasing the 'benefits' of both.

Each project nomination should be prepared on a total corporate affair basis; thus there is a need to consider in the nomination what requirements there might be for techniques and/or resources from all other departments.

The project may have head-related expenses and the costs of temporary help (secretarial etc) should be allocated to the project.

Manpower resources required for the project will need to be included in the project nomination. The workload in man weeks directly associated with the project, should be measured.

When considering the number of man weeks required for a project a guide is to use the rule of thumb that 1 man year is equivalent to only 43 man weeks of actual work. The rest tend to go in holiday, sickness, education, personal business, etc.

There are some projects which are self-contained and can be completed within the year without any moral or legal commitment to continue - e.g. a seminar on The Environment. However, there are others which involve either a possible moral commitment for future years, e.g. support for a Festival, or else are projects which could not be completed within 1 year.

The number of years the project will take to complete and the total cost in money and manpower should be taken into account when evaluating the project.

One should also ask whether it would be possible to put in a project at a lower cost which, whilst achieving less, nevertheless would still be 'minimally effective'. If you believe this to be so, then it is worthwhile putting in two nominations for the same project, one at minimum level, the other at the desired level. All projects, whether new or not, should undergo the nomination process.

Another problem often encountered is that, having identified an activity that can be classed as a discrete project, it is often difficult to estimate the level of resource required to make the project effective.

For most corporate affairs projects, there is a level of resource below which there is little point in doing the project at all, and another level above which additional resources will bring diminishing returns, as represented in Figure 2.



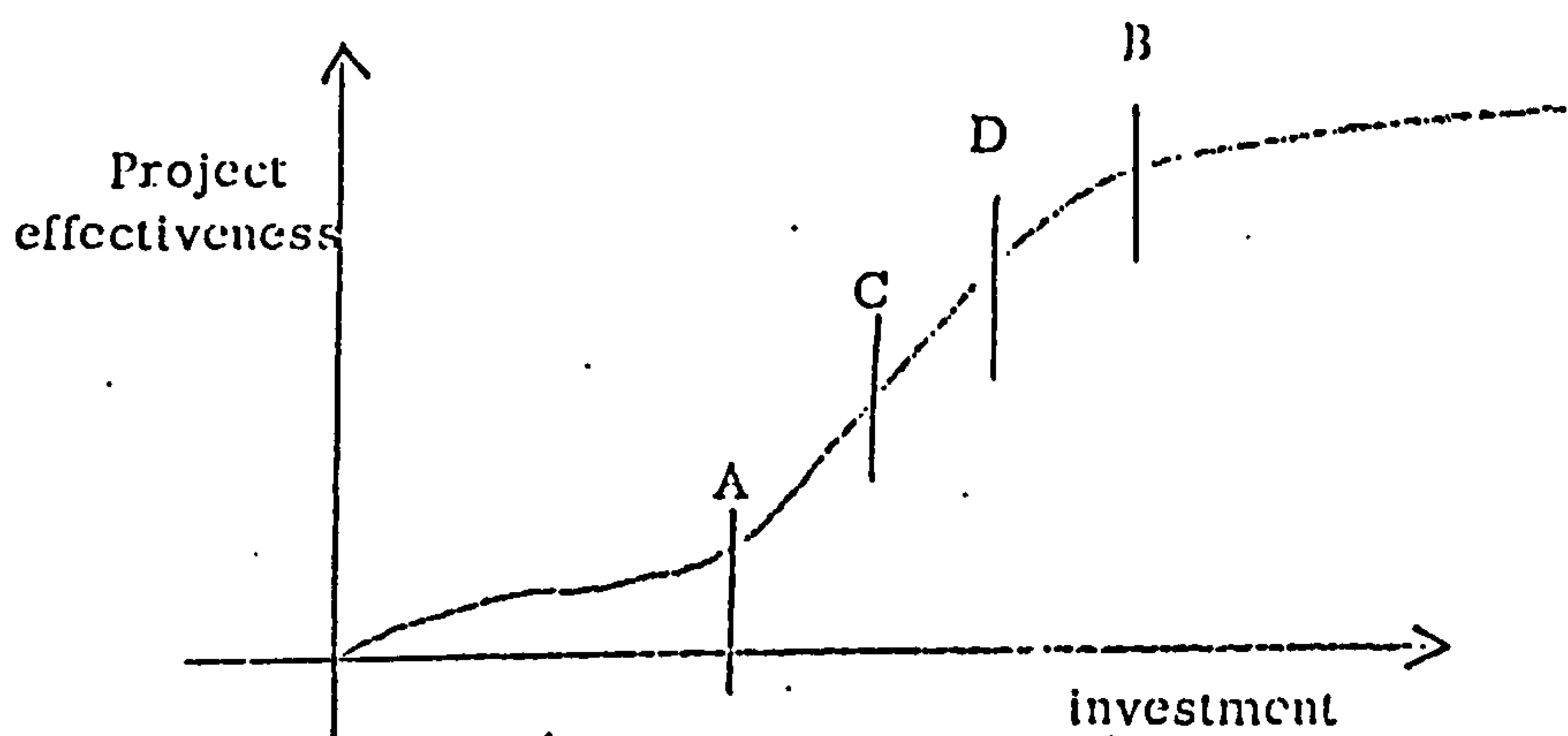


Figure 2

Clearly the amount of money put forward for a project in a project nomination should lie between points A and B on the curve. Where these points are is not only difficult to ascertain without extensive research, it will vary significantly from project to project.

This is an area where experience is an invaluable and often the only aid to decision-making. For most projects some if not much experience is around, although often outside the company. It is well worthwhile seeking advice on this problem since a lot of scarce money can be wasted through the inadequate or over-generous resourcing of a project.

Judging level A in Figure 2 is particularly important for basic programmes which, although not representing an optimal use of resources in terms of meeting agreed objectives, simply have to be done (e.g. responding to enquiries from non-priority audiences). In this case, it is important to keep investment to a minimum - although it must be adequate to meet basic requirements.

In submitting a project, it is often worthwhile submitting several project nominations for the same project but at different levels of resource. For example, in Figure 2 above, it is quite feasible to submit four project nominations corresponding to investment levels A, B, C and D.

Clearly, the benefit of the project increases with the investment level and this will be reflected in the scoring process. Depending on total resources available and other projects submitted, it may be that the project will be accepted at level C but rejected at level B.

If it is accepted at level D, listing of all accepted projects will probably also include the same project at levels A and C. In this case, obviously, one would accept the project at the higher level and omit the others at lower levels, thereby releasing resources for other projects which fell "below the line".

For example, an educational fellowship programme could be submitted at £4,000 representing two fellowships, £8,000 representing four fellowships and £12,000 representing six fellowships. Because of a tight squeeze on money, the project might well not be accepted at all if submitted solely at the £12,000 level. But it might get in at £4,000 or £8,000 and, as long as this is not below the minimum level to make the project worthwhile, this represents a highly acceptable alternative to not doing the project at all.

- (c) It is essential that every activity is included, even those which are considered to be already fully committed. Allowances for commitments can be made at a later stage in the evaluation.

### Limitation on project selection

There is a marked similarity between scientific research and corporate affairs in general, and public and social affairs in particular, in terms of the difficulty in selecting the right mix of projects. In both, there is an almost unlimited number of projects one could tackle, any of which might produce the desired long-term benefit. At the time of decision, the information available and the level of uncertainty make accurate predictions impossible. In addition, the constraint of available resources, not only headcount and money but also the skills mix, means that only a relatively small number of project-options can be realistically selected.

Figure 3 below is a summary representation of what often happens in Research as described by Dr L Branscombe, Director of Research for IBM Corporation.

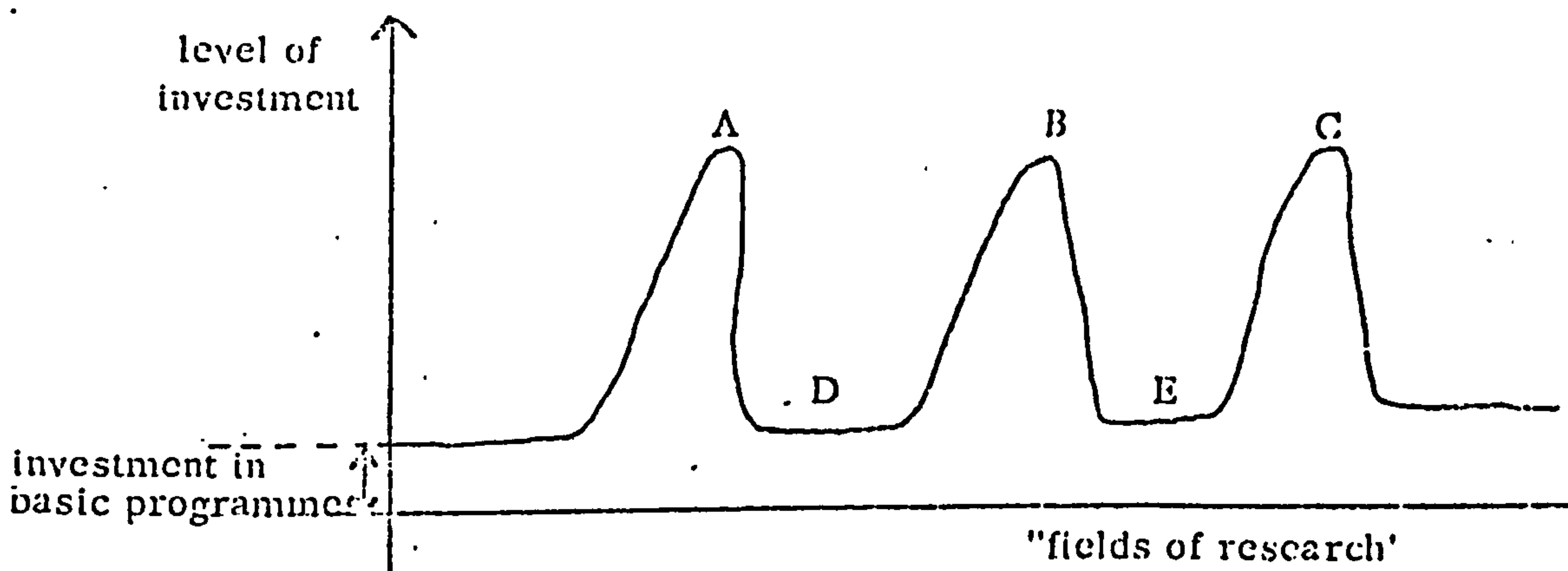


Figure 3

Research fields A, B and C are selected according to the competences and resources which are currently available or fairly readily available. The selection is made so that (i) investment in A, B and C is adequate to produce results in a reasonable period of time and (ii) the 'distances' between A and B and between B and C are small enough so that if anything of major significance occurs at D or E, the people working in A, B and C should notice it and bring it forward for management's attention.

The other feature of Branscombe's analysis is that before resourcing new projects, there must be adequate investment in a few basic programmes that must be carried out.

Applying this analysis to corporate affairs, my experience shows that in many companies the position is as represented in Figure 4 below:

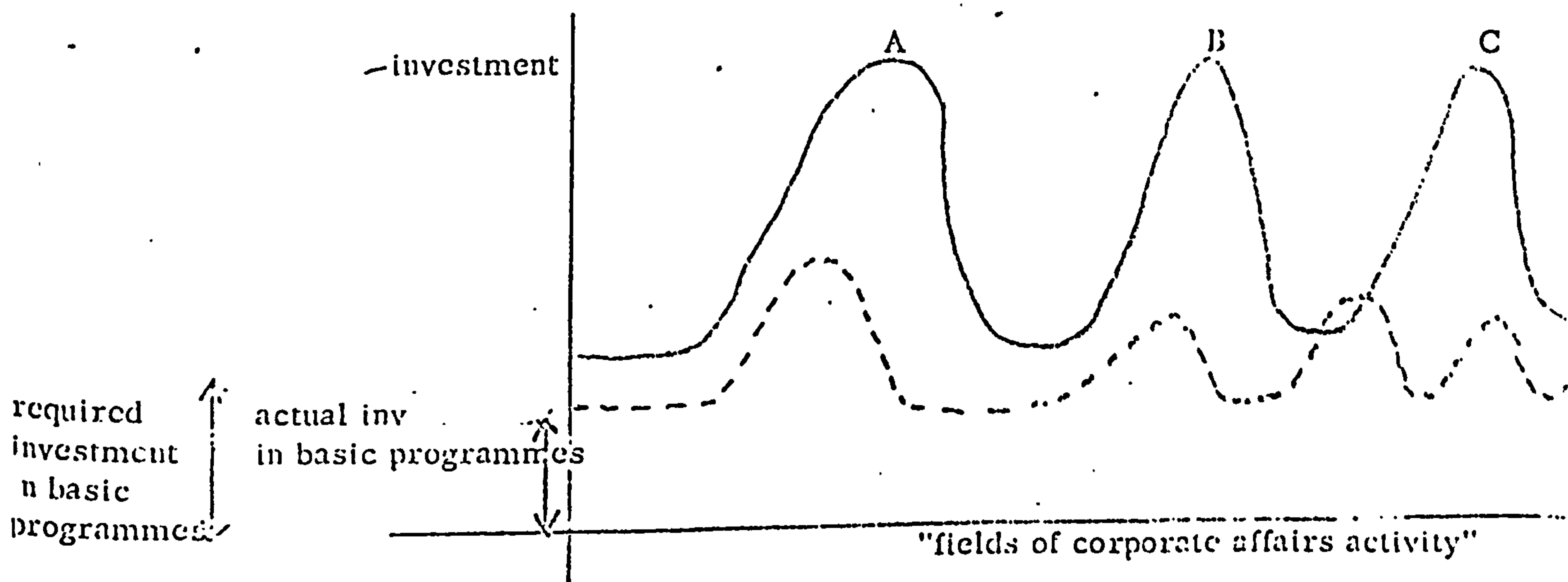


Figure 4

The heavy line represents the level of investment required to carry out projects A, B and C properly. The dotted line represents what many corporate affairs functions tend to do, i.e. too many projects for resources available, so that in 'fields' A, B and C, the level of resource is inadequate.

The conclusion from this analysis is to repeat that the project planning system should:

- (a) identify the basic programmes that corporate affairs must carry out and ensure that these are adequately resourced, albeit at minimum level
- (b) Identify existing competences plus those that can be brought into the function from outside fairly easily; and select a limited number of project areas and resource them adequately for objectives to be met in a given period.

Scoring the Projects

- (a) This activity is the core of the planning process and, in many ways, the most difficult. The question to be answered is how each project meets Corporate Affairs objectives and how well does it meet them. In other words, what is the value and benefit of each project.
- (b) It is unsatisfactory to measure project contribution in relation to primary objectives because of the immeasurable nature of these objectives. Hence the setting of secondary objectives which are specific and more easily measurable. In the absence of information for secondary objectives, one sets intermediate secondary objectives, or indicators, as described above.
- (c) I suggest that the evaluation of project contributions is best carried out by each project proposer being interviewed by an independent assessor. This allows consistency in what is, after all, a very subjective evaluation process, since the same assessor scores each project according to his estimation, based on detailed discussions of how well the project meets each secondary objective. Each score is agreed with the manager concerned. This last is essential if all managers are to accept the results of the model without a lengthy fight.
- (d) An alternative to the independent assessor approach to evaluation is the application of the Delphi technique.

Working out the Value of Each Project

In three stages, we have now related:

- (i) each primary objective to Company directives
- (ii) each secondary objective according to its contribution to each primary objective
- (iii) each project according to its contribution to each secondary objective

These stages make up what can be termed as a "relevance tree". (See Figures 5 and 6).

A series of multiplication of scores and ratings within the model yields the total score of the project in terms of its contribution, or value, to the company. Obviously, this "value" in itself has no meaning. It cannot, for example, be related to profit. It is a relative number which assumes meaning only when compared to other Corporate Affairs projects.

#### Resource Constraints

Corporate Affairs objectives are generally of the type that the more one spends the better even though the point will be reached for all projects when extra resources will produce diminishing returns. This makes it different from a large number of other Company activities where the measure of efficiency is the minimising of resources. Thus executive management has the task of deciding how much it is willing to spend on Corporate Affairs in total in the same way as it has to do for research and other long-term investments. This is the only way the total constraints on expenses and manpower can be meaningfully determined. These constraints can be easily built into a computer model which can automatically optimise the projects submitted in terms of their value and considering the constraints.

Thus, for example, if money is available but people scarce, the model will penalise those projects requiring a lot more manpower.

The use of a computer is an added piece of sophistication which enables resource constraints to be built into the optimisation process. In the early days of developing the system this sophistication is not altogether necessary and a simple cost-benefit analysis, without resources constraints can easily be calculated without a computer.

### Project Listing

The model can be run to generate a project listing in order of value. In the more sophisticated version the listing takes into account resource constraints, as described above. Headings for the output of the model are shown in Table 5

### Cut-off Point

Knowing the total resources available, the model identifies the cut-off point in the listing when resources run out. The list above the cut-off line is the optimised project portfolio and the sum total of all the "values" of the projects above the line represents the total "value" of this Corporate Affairs project plan to the Company.

### Management Judgements

Looking through the list, management can see easily:

(a) What projects they consider to be committed fall below the line

(b) What happens if they increase or decrease resources by a given amount

At this point, management judgement has to be exercised, e.g. what projects must be included, whatever their score? Should resource levels be changed?

### Rerunning the Model

Once the management decisions have been made, it becomes a simple matter to rerun the model incorporating these decisions.

### Conclusions

- (a) The model described in this paper is admittedly imperfect. The results are admittedly based on a series of subjective judgements. In spite of these shortcomings, there seems little doubt that it provides Corporate Affairs management with a useful tool for rational planning and decision making that it has not had before. The application of CAPERS raises the level of management decision making in that it forces the setting of objectives and priorities and moves managers away from arguments about "pet" projects. It forces all project proposers to think in terms of Company and Corporate Affairs objectives and away from narrow departmental goals.
- (b) It will be noted that departmental objectives have at no time been mentioned in this planning process. All projects must be described in terms of Divisional objectives and Company needs. This is the only way to ensure comparability among projects which can be very different in nature. It is only after the project portfolio has been selected that departmental objectives and resources are determined.



TABLE 1CAPERSSecondary Objectives

<u>Audience</u>	<u>Secondary Objectives</u>
<u>1. Government</u>	
1.1. Central Government	Increase acceptance of Company as national contributor from 20% to 50%
1.2. Opposition	Increase acceptance of Company as national contributor from 5% to 30%
	Increase acceptance of concept of responsible private enterprise from 1% to 15%
1.3. Civil Service	Increase awareness of Company and products from 25% to 40%
	Increase acceptability of product usage in Civil Service from 20% to 40%
	Increase acceptance of Company as national contributor from 20% to 40%
1.4. Local Government	Increase acceptance of products in planning from 20% to 40%
	Increase awareness of Company as integral part of local community from 10% to 30%
<u>2. Education</u>	
2.1. University students	Increase acceptability of private industry from 20% to 40%
	Increase awareness of Company as vital for economic/social progress in the country from 10% to 30%
	Increase awareness of Company and its products from 20% to 50%
2.2. School students	Increase number of students going into mathematically-oriented subjects from 30% to 50%

- 2 -

Increase awareness of the nature of industry  
from 15% to 30%

2.3. Teachers/lecturers

Increase acceptability of private industry  
from 15% to 40%

Increase awareness of use of products in  
education from 10% to 30%

TABLE 2 SCORING THE PROJECTS

A. 1. Primary Objective : Contribute to the development of a socio-politico- economic environment .....

<u>Criterion</u>	<u>Rating</u>	<u>Contribution</u>	<u>Score</u>
Change in attitude to business as a whole (% shift) by : (25)			
- politicians at national level	6	50	300
- politicians at local level	4	20	80
- trades unions/pressure groups	5	30	150
- business leaders themselves	3	60	180
- press	4		
- local community leaders	3		
Participation of XY in joint projects (23)			
- with international government	3		
- with national government	8		
- with local government	7		
- with other sectors	5		
Secondments of XY employees (14)			
- to government	8		
- to voluntary organisations	6		
Appointment of XY employees (12)			
- to national public commissions	6		
- to local government commissions	4		
- to business committees	2		
Contribution to solution of national problems (26)			
- youth	5		
- education	5		
- management	5		
- urban affairs	4		
- unemployment (retraining)	6		
- health	2		

TABLE 3 SCORING THE PROJECTS

C. 1. Primary Objective : Enhance reputation of XY as a corporate entity .....

<u>Criterion</u>	<u>Rating</u>	<u>Contribution</u>	<u>Score</u>
Change in attitude to XY (% shift) by (52)			
- politicians (international)	3	10	30
- politicians (national)	8	30	240
- politicians (local)	5	60	300
- trades unions	6	20	120
- pressure groups	4	10	40
- academics	7		
- business leaders	4		
- press	6		
- local communities	6		
- mass audiences	2		
Acceptance of XY in joint projects (20)			
- by government	11		
- by other sectors	9		
Secondments of XY employees	9		
Appointments of XY employees	6		
Contacts made with (13)			
- politicians	3		
- academics	2		
- trades unions	2		
- business leaders	2		
- press	2		
- local community	1		
- mass audiences	1		

TABLE 4 SCORING THE PROJECTS

B. 1. Primary Objective : improve employee morale .....

<u>Criterion</u>	<u>Rating</u>	<u>Score</u>	<u>Total</u>
Change in attitude of employees	10	75	750
managers	9	60	560
all employees	9	40	360
employees at outgoing locations	7	70	490
Reference in public by journalists	7		
Politicians	7		
leading figures	4		
academics	3		
industrialists	3		
Contribution through secondments in appointments			
community orgs.	9		
advisory/public bodies	7		
Good industrial relations image among			
employees	8		
future employces	6		
politicians etc	6		
journalists	5		
	<hr/>		
	100		



THE PROJECT PLANNING PROCESS

Top Management

Top Management

Top Management

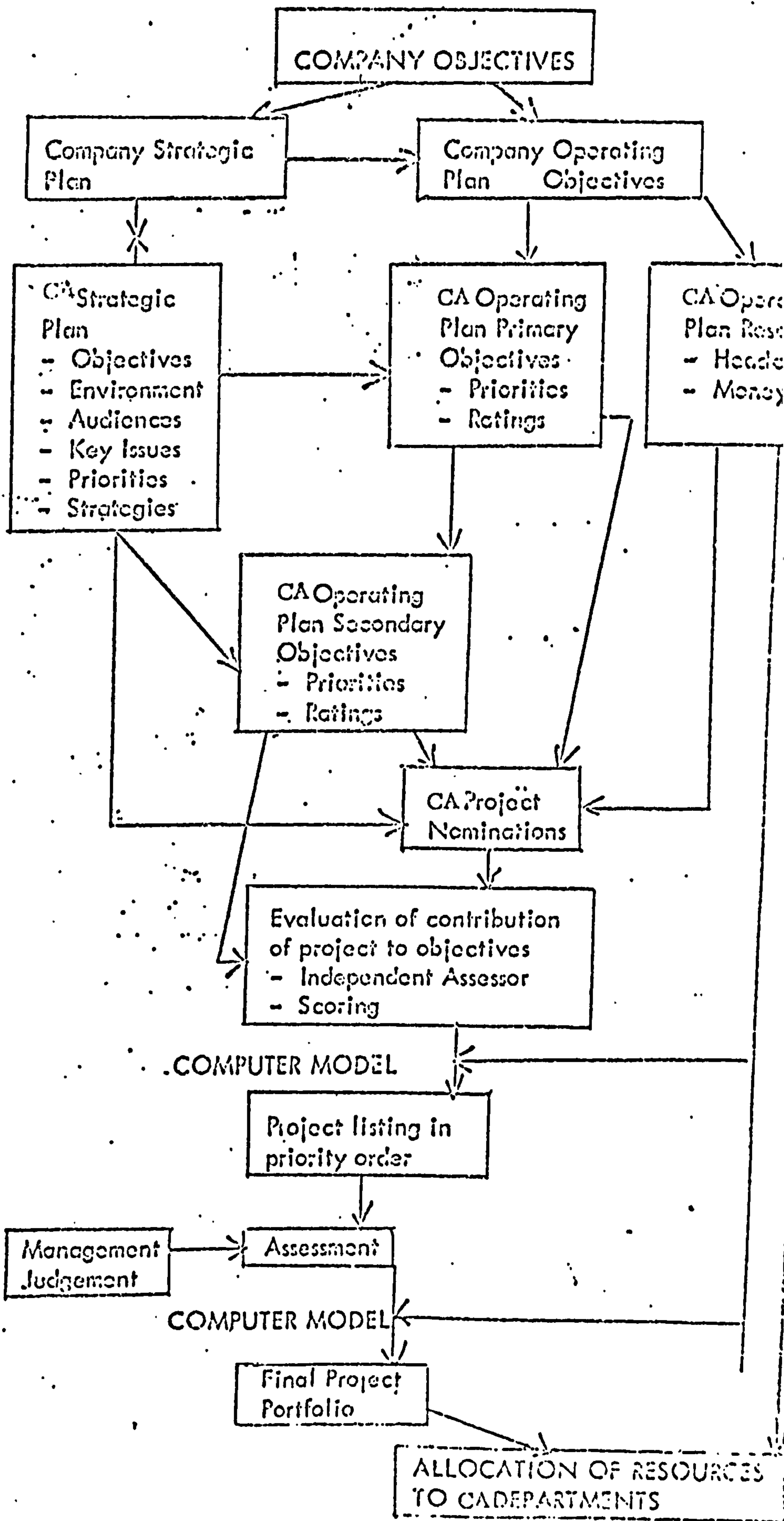
CA Director

CA Dept. Managers

Project manager plus independent assessor

CA Director

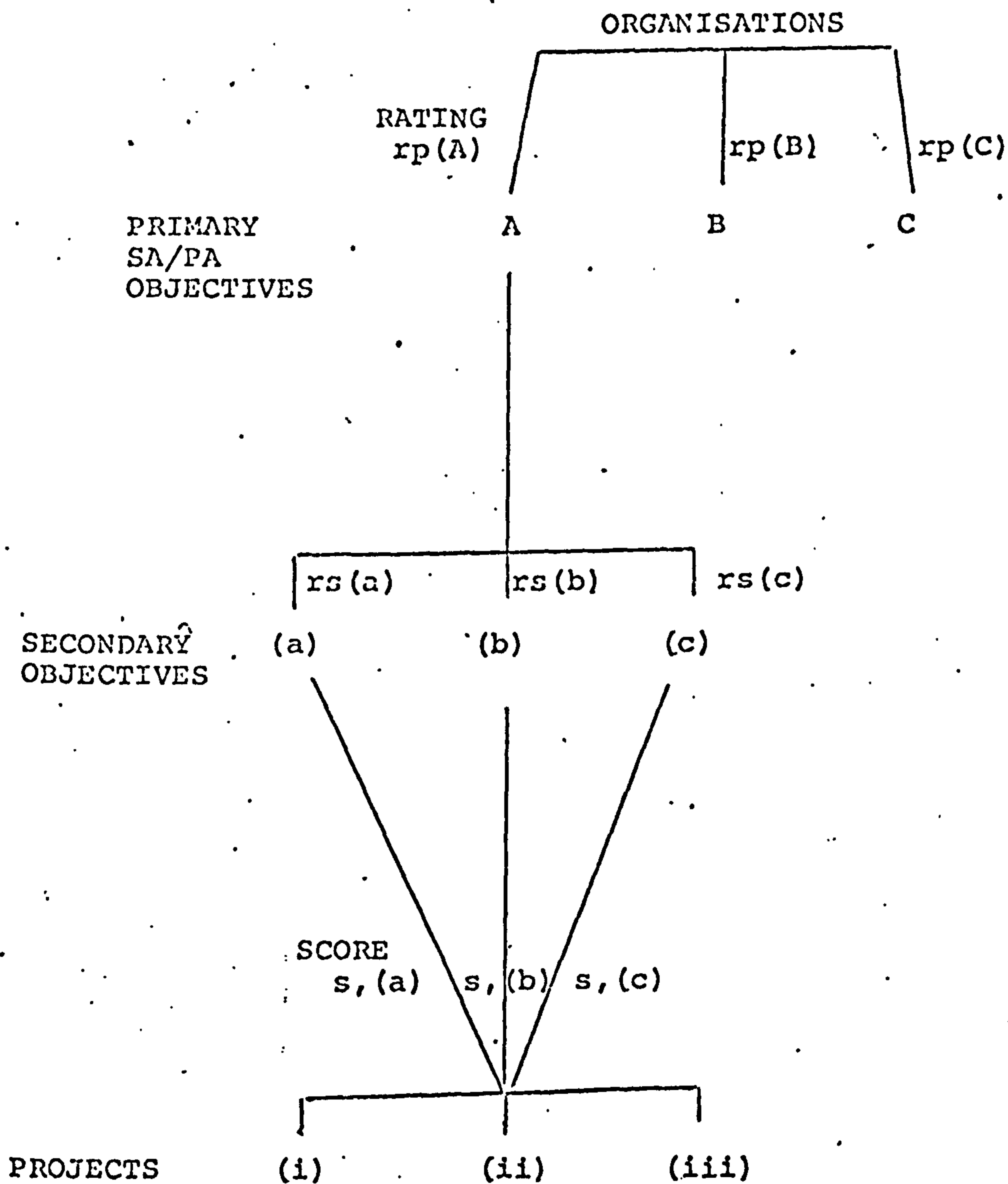
CA Director



ALLOCATION OF RESOURCES TO CA DEPARTMENTS

FIGURE 5

DECISION TREE (1)



TOTAL PROJECT SCORE FOR PROJECT (ii) =

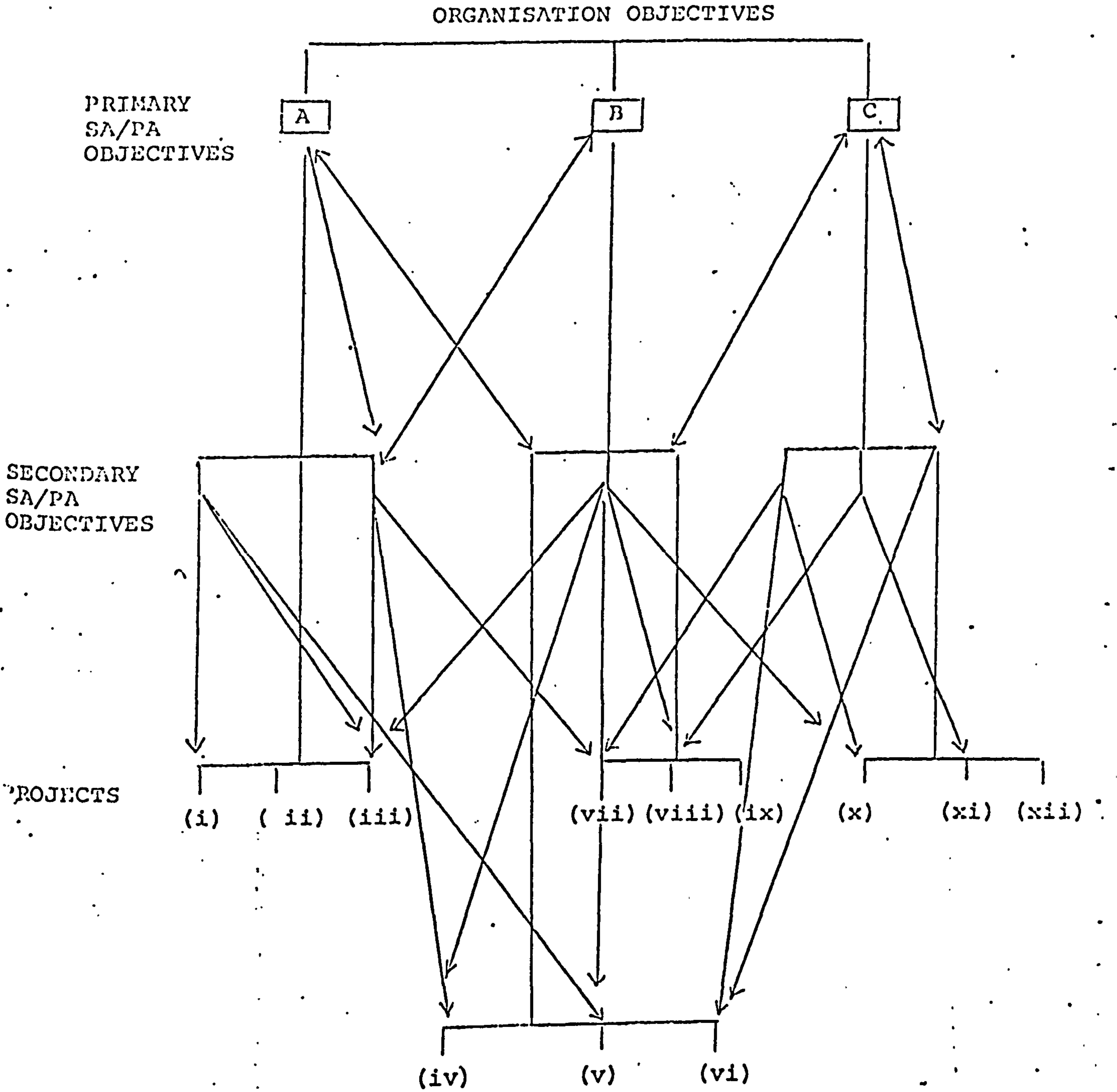
$$(S,(a) \times rs(a) \times rp(A))$$

$$(S,(b) \times rs(a) \times rp(A))$$

$$(S,(c) \times rs(a) \times rp(A)).$$



DECISION TREE (2)



PROJECT NOMINATIONS

CORPORATE AFFAIRS  
PROJECT NOMINATIONS FORM

1. Date :	4. Project Title	5. Project No:
2. Dept Name		6. Mark R or C if responsive or committed at minimum level
3. Mgr Name		

7. Project Description:

8. Audiences (if any):

9. Resources

9.1. People (man weeks)

Own Dept				Other CA	Other Company Non CA
Mgr	Prof	Other-directly related to project	Total		
(mw)	(mw)	(mw)	(mw)	(mw)	(mw)

9.2. Expenses

Own Dept					Other CA
Project	Head-Related	Overseas Travel	New Capital Equipment	Total	
(£)	(£)	(£)	(£)	(£)	(£)

10. Timing: Start Date: End Date:

11. What resources are required in future years :

	Year 2	Year 3	Year 4
People (mw)			
Expenses (£)			

12. Alternatives :

13. Impact of not doing project :

## CHAPTER 13

### PEOPLE REQUIREMENTS

All the structures and techniques described in the earlier parts of this section lose their meaning without a clear idea of the actual people who are going to have to implement them.

#### What Skills are Necessary?

In the total Corporate Affairs operations there are two different groups of people. The first are the professionals and these will include people with journalist or advertising background. There is always some difficulty in reconciling the life-styles of the professional of calibre and the tightly knit structure and requirements of a business organisation. On the whole this is a tight rope which the manager of those professionals, who himself will be a manager first and professional second, will have to tread with delicacy. Despite this, professionalism in the operators is a high priority.

The second group are those whose job is mainly outside the company, dealing with civil servants, academics, politicians and others - including some less conventional organisations. These have to be people in their own right whose vision is sufficient to see matters from a broader viewpoint than of their own organisation. They must have a business basis and understand their own company but this understanding must be sufficient to understand it also as others see it.

In practice, these two broad functions again sub-divide into five necessary skills. The first requirement is for the specialised professional whose prime task is to have an intimate knowledge of his speciality combined with an understanding of the company. The second is the generalist who likewise has an understanding of the company but who is able to draw on a variety of experience and thus place the specialist skills of the first group into a broader context. The third, still with internal experience, is the one who brings to corporate affairs

a recent and first hand knowledge of field and line management. He is vital in ensuring that the activities of Corporate Affairs are relevant in fact, as well as in theory, to the mainline production and sales functions.

The fourth skill is provided by a man from outside the company with recent and practised experience in the kind of problems and issues towards which the work of Corporate Affairs is directed. He will normally have a political, public sector or social service background.

Tying these four elements together and providing effective leadership within the group and at Board level, will be the fifth element, namely, the Director. Without an effective cohesion at this point, and in a new and controversial field, the activities of Corporate Affairs can easily lose credibility and fail.

There are two ways of selecting people for this sensitive work. The first, which seems to be the more usual, is to promote people from within the company. In this case they must be trained in their new responsibilities. The other way is to recruit specialists from outside and then they too must be thoroughly trained in the business background they will have to represent. My recommendation is that there is a need for both and the balancing of skills becomes a critical operation.(1)

#### What Sort of People to Choose?

The choice of professionals in press, advertising or sales promotion work can follow fairly conventional guide-lines. In selecting people for work in public and social affairs, however, the main focus of my thesis, two criteria are useful guides for any individual whose job it is to represent the company outside. The first is that he should be able to take an editor or senior minister out to lunch and not bore him. The second is that, if possible, he should be of the stature that would encourage that same editor or minister to telephone him, even at home, to seek his advice. Such people are not

easy to find but these criteria should remain the goal. This means that key Corporate Affairs personnel are not necessarily drawn from the press office, public relations, advertising or any traditional communications function.

There are other qualities. He must have the stature to be able to walk into the office of a senior executive in another company and command his attention; to be able to display the sensitivity and patience in dealing with people whose tempo is less than his and to have the lack of pomposity that will allow a free exchange of ideas with young people, voluntary organisations and pressure groups.

His business base will be the centre but not the circumference of his thinking. He will be aware of and concerned about national and community problems. He will be more a generalist than a specialist, sensitive to both social sciences and technology and he will have, or gain, a competent knowledge of the workings of government and the administration. He will listen as much as talk and, to avoid any suggestions that this is a male domain, he may be a she!

#### Training for Public and Social Affairs

It might appear that the personal qualifications listed in the last paragraph demand a uniquely unobtainable individual to fill the post. This is not so. There is no course in public affairs nor is any degree or diploma specifically relevant to the work. Beyond some intelligence, a willingness to learn and the appreciation of a conscience, the formal qualities are few. On the other hand, it is a job that is "felt" rather than simply learned and if the "feel" is not there then no amount of training will ever produce a sensitive public affairs operator. Those who do not understand or appreciate the work may see this as the classic definition of a dilettante: those who are sold on the concept of public affairs will see its exponents as the focal point of many skills, not least those of diplomacy and communication. If the government analogy is used, the Director of Public Affairs has to walk somewhere along the frontiers of, in

Office and the Home Office.

He will, of course, have to know his company's structure and products but, more, he must know the effect that these products have on the user, the colleagues of the user, their wives and children, the politicians and the street trader. He will need some professional training in speaking and writing. Otherwise, his skills are acquired and built, through experience, on the basic qualities of sensitivity and imagination. You cannot learn about how to deal with a government minister, a voluntary organisation, a body of critical students or a convocation of clergy. You deal with them and learn from the experience! (1)

### Professional Training

Little new need be added about the training of Corporate Affairs professionals. Whatever their particular skill, they must be professional. The danger in this area is for professionalism to be the objective, rather than the quality, of what is done. A superbly produced brochure or film can be analagous to the surgeon's verdict, "The operation was successful but the patient died!" The true professional must always ask Why he is doing something. One way of keeping him out of his skilled rut is to ensure rotation of jobs in related areas or to insist that each professional spends part of his time in study groups or task forces that force him to meet with other people and interests. That a business grows as its people grow is obvious and applies in Corporate Affairs as elsewhere.

### Project Management

The dangers suggested in the last paragraph tend to stem from people becoming skill or department instead of project oriented. The total approach, which bring together the strategies and activities of public and social affairs, the media and the professional experts, can only come when the starting point is with the problem. Then, having defined

the problem, the means by which it can be solved can be integrated. In this way it will often be found that solutions based on some historic, departmental approach will be abandoned; new approaches will evolve and the range of existing skills can be deployed for a single purpose.

### The Industrial Statesman

Apart from the professional who works in Corporate Affairs, there is today a need for a new kind of business executive or, for that matter, trade union leader who, in addition to the task on which he is immediately engaged, can recognise his wider responsibilities within society and is trained to exercise them.

### The Traditional Picture

Since the end of World War II, this new kind of executive has, in fact, been emerging. The evolution did not start then, but 1945 is a convenient date to begin tracing the change. It was a time when business training was mainly confined to the organisational and functional; when the importation of public relations, human relations and management by motivation experts was considered progressive, but, possibly for that reason, to be relegated to specialist departments outside the mainstream of activity. The discoveries of social science were mainly by-passed and, in Europe at least, the concentration on rebuilding a war-ravaged Continent with scarce resources was the main concern. Politically, after a period of nationalism or socialism - and, in some countries, both - there was a tendency towards a liberal individualism, but the intellectual evolution of businessmen did not rise much above material progress and financial profit. The success of, for example, the Wirtschaftswunder in Germany, seemed to confirm that what they did was right.

The next decade, 1950-1960, saw a new generation of businessmen who maintained the past objectives and found little place for those who challenged them. Schelsky, writing of this said, "The judgement in this epoch was

reduced to technical rationalism and the society to the dimension of technical availability".

For well into the next decade, businessmen in the main continued to be educated in the narrower fields of economics, law or the technical sciences. True, there was some proportion who went to the growing national or international business schools, but contact with the social sciences and a knowledge of history, sociology, philosophy, psychology and political science was left to arts students; students who themselves enjoyed a traditional leaning towards the Left. Personal effort, the rationalisation of production and office administration, aggressive marketing and increasing wages and salaries were the hallmarks of the successful businessman.

Nor has he changed greatly. The public picture of the businessman, which may not be altogether inaccurate, is along these lines:

**Education:** Degree, if any, in specialised subject.

**Personal characteristics:** Hard working, knowledgeable about his business, oriented towards short-term business expansion and profit maximisation; sceptical about modern management and strategic planning techniques

**Political Beliefs:** Rarely an active member of a political party; uneager to develop or discuss his own political theory; mainly distrustful of politicians

**Civic beliefs:** When in the office, content that the creation of wealth and jobs and the payment of tax discharges his responsibilities, whatever he may feel as a citizen when out of the office.



The Need for the Industrial Statesman

The justification for this pattern is past success. If not so much in Britain, then certainly on the Continent this kind of business orientation has worked. But will it go on working? This is the point for, with the totally new pressures that are arising, businessmen are already finding themselves out of depth and desperately naive when it comes to dealing with those people in other sectors of society who now can materially affect the future of business.

This is seen in the UK, for example, by the lack of any business dialectician who can begin to compete with the leaders of the Militant Left on any platform. It has been seen in the slowness and inadequacy with which the CBI has taken up a position on issues which evoke an authoritative response from the Unions within hours. Indeed, one may ask, how many businessmen are capable of explaining the workings of a competitive economy? How many have thought through their philosophy sufficiently to believe in it and defend it publicly? How many have had their own confidence eroded so that they feel vaguely guilty about what business does? How many even recognise the pressures and need to give more information about what goes on inside a company whether they have developed the capacity to defend it or not?

And, if these purely business questions are hard to answer, what about the replies to questions which search the ability of businessmen, in their capacity as such, to take part in some of the social, political and economic forums in the country? The small numbers who, in Britain, are seconded to Government departments or who do actively take part in activities outside their business function indicate the answer.

Yet, today, it is not enough to be a business manager.

The industrial statesman has to be able to take an equal place alongside those leaders of other spheres who are concerned in national affairs. If there is an increasing mood on the part of academics, voluntary organisations and politicians to criticise and intervene in business operations then, whether or not the criticism is justified, let there at least be businessmen who can defend and explain themselves and be intelligent about the activities of those other groups.

All this leads to the need to develop the men who, by the time they reach the top of their organisations, possess the wider knowledge of the environment in which they must operate.

#### The Incomplete Manager

The business manager who ignores his responsibilities in man-management, or budgetary control is not doing his job. Similarly, the manager who does not embrace his corporate responsibility is an incomplete manager.

The people at the top, certainly of our major industries, have today to be industrial statesmen rather than merely business managers. They must be multi-dimensional thinkers, at home and able to contribute in many environments. This means that the whole way in which managers are selected, developed, promoted and appraised must be updated.

The selection and promotion of managers on the basis of a good sales record may suffice to take them to branch manager level, but these achievements alone will leave them sadly lacking when the breakthrough comes from functional to general management. We have no equivalent in Britain, in fact or in philosophy, of the Polytechnique in France.

Training should start with first line management who should have included in their in-house training an element of

exposure to the total environment in which they operate. Outside speakers, representing Parliament or the economic world, are generally glad to contribute talks. If there is no or little in-house training, then groups of managers can still be brought together for short seminars, at which people from outside speak, or even sent on courses on subjects unconnected with their immediate jobs.

At higher levels, the injection of outside experience is more important. Time away in a business school is not the answer. A secondment to a civil service department or academic environment, encouragement to take time in working hours to sit on some national or community committee, attendance at the Brookings Institute in America or Chatham House courses in the UK, participation in conferences on the environment, economics or the political scene and membership of non-business institutions all help to broaden experience.

### Appraisal

Having trained people, and let it be emphasised again that the impetus for this will come from the top, reality must be attached to the importance of this training in the way that managers are appraised. A proper assessment of a manager's all-round performance must already include the way he runs his people and budget. It must also include an assessment of his performance in this new dimension and his further promotion must depend on it. Otherwise the executives of business will continue with too large a proportion of those who are incapable of transcending the merely tactical aspects of their job. "Inscapism" - the disease of immersion in one's own affairs - is a bore at any level. At the top it is a calamity.

The fund of executive experience that does already exist within business is, from a national point of view

still in short supply. On the whole this expertise does not embrace the wider conditions of the environment nor is it much used in public and social affairs. Hence the need to "grow" a race of industrial statesmen who are able and willing to play their part on the national scene.

## Notes

- (1) In discussing my recommendations with over 40 companies, throughout Europe and North America, since the completion of this core thesis, agreement has been almost unanimous - and this based on many years' experience of some very senior executives.

## CHAPTER 14

### CORPORATE AFFAIRS - HINTS FOR A SUCCESSFUL OPERATION

The total corporate affairs concept as described in this section, although still relatively new, has been tried and found vastly more effective in most cases than the more traditional fragmented approach to the external environment.

But it has not always seemed to work as well as was hoped for by its proponents. Where it has not fully succeeded, however, this has not been due to some inherent weakness in the concept itself, but more in the way it was managed.

There is a task, therefore, to identify from relevant experience the ingredients of success or failure and to learn from them.

Table 1 is a listing drawn from my experience of viewing corporate affairs at work in several companies and represents a personal analysis of these ingredients. Table 2 summarises some hints for action to make the corporate affairs function truly effective and repeats some of the points made in earlier Chapters. (1)

Table 1                      Ingredients of Success and Failure  
in Corporate Affairs

<u>Success</u>	<u>Failure</u>
<b>A. <u>GENERAL</u></b>	
1. Strong and effective man and project management at all levels	Weak management
2. Growth towards critical mass of people	Sub-critical mass
3. Clear identification of what is responsive work and what is innovative work.	Confusion between responsive and innovative. Unbalanced situation
4. Development of sound theoretical base for plans and programmes	Absence of theoretical base. Plans and programmes based on "rule of thumb"
5. Balance between theory and reality	Impracticable or 'wild' ideas
6. Innovative techniques	Traditional methods
7. Strong planning and control	Weak planning and control
8. Entry, from time to time, of new people with fresh ideas	No change in people
9. Wide range of external contacts, sustained on a continuing basis	Inward looking function with limited spasmodic external relations
10. Participation in work of external organisations	"Staying at home" - company activity only

SuccessFailure

- |   |  |
|---|--|
| 11. Advice and assistance from external 'brains'  | Use only what is available within the company  |
| 12. Understanding of and good relations with other functions in the company (Marketing, Manufacturing, etc)       | Isolation. Little attempt to understand and communicate with other functions                           |
| 13. Clear identification of roles and priorities - attaining a sound balance between the short-term and long-term | Imbalance between short-term and long-term   |
| 14. Careful project selection - tailormade to objectives and limited to resources available                       | 'Scatter' approach - trying to do do everything  |
| 15. Clear identification of key issues and priorities   | Unselective response   |
| 16. Solid understanding among all managers and professionals of external issues facing the company                | Artificial analysis. Little communication of issues  |
| 17. Right level of person for the job   | Too many junior level people attempting senior level work  |
| 18. Right skills mix. Changing skills mix to meet changing needs  | Wrong skills mix. Relying solely on existing skills when function changes. Midjudging new requirements |
| 19. Attempts at all levels to 'sell' the corporate affairs function and its ideas to the rest of the company      | Isolation. Defensiveness. Withdrawal. Arrogance  |



Success

20. Build up to adequate resources to meet objectives

21. Serious attempt at research and measurement of results

B. LONG-TERM ACTIVITIES

1. Independence from mainstream activities

2. Maintenance of direction in spite of opposition

3. Joint projects with external organisations (other companies, government, voluntary organisations, etc)

C. SHORT-TERM ACTIVITIES

1. Rapid response time

2. Positive, helpful response

3. Advisory service in addition to purely responsive

4. Close relationship with other functions in the company who may require corporate affairs support

Failure

Function although accepted in principle, continuously under-resourced so that objectives simply cannot be met

Artificial evaluation. Over-reliance on subjective assessment by managers

Giving in to short-term expediency

Deflection off-course through weakness

Trying to do it all alone

Slow response to requests and needs

Negative, defensive response

Limited response only

Distant, almost aloof, approach to other functions

TABLE 2Hints for Action to Improve  
Effectiveness of Corporate Affairs

1. Never underestimate the importance of effective line management. Recognise that creative communicators or public affairs professionals are not necessarily going to be good managers. On the other hand, management in a creative environment requires particular skills.
2. For the difficult job of relating to and working with senior people from outside the company, use senior people yourself. Bring them in both from the outside and from other areas of the company and be careful to maintain a balance between these two categories.
3. Ensure that a continuing two-way flow of staff at all levels is maintained in and out of the corporate affairs function
  - with other areas in the company
  - with the outside world
5. Ensure that the corporate affairs function does not try to do everything, but selects only those activities which available manpower and money resources allow to do well.
6. Ensure that the function includes among its staff, individuals who can generate new ideas and translate them into effective programmes.
7. Recognise that, whatever corporate affairs sets out to do in its founding 'charter', it will often have to play three or four clearly separate roles, each of which will have to be satisfied, i.e.
  - (a) Responsive
    - response to internal requests
    - response to external requests
  - (b) Short-term Marketing Support
    - external relations with key audiences
  - (c) Internal Support
    - internal communications

- (d) Long-term activity - environmental analysis
- public and social affairs
- external relations with key audiences

Recognise further that the basis of allocation of resources to each of these roles is quite different. The classification which the authors consider to be most sensible is as follows:

- (a) Responsive - resources can be considered as an administrative overhead
- (b) Short-term Marketing support - resources should be allocated according to short-term marketing objectives and criteria
- (c) Internal support - resources should form part of the allocation for the Personnel function
- (d) Long-term activity - resources should be treated as an investment and long-term investment criteria applied

8. Ensure that the corporate affairs organisation reflects the different roles identified above.
9. Recognise that effective external relations are a matter not of isolated contacts, however senior, but are dependent on a whole range of individuals in the company building a sustained and close relationship with key individuals outside the company over a long period of time. Therefore, the level of person used for external relations should coincide approximately with the level of the external contact in terms not only of position in the organisation, but also in terms of education, experience and non-business interests. Hence the need for item 3 above.

## Notes

- (1) Since completing this core thesis, I have worked with some 40 companies as a consultant. This added experience has only reinforced the analysis and recommendations in Tables 1 and 2.

## PART 4

### SOCIAL AUDIT

#### Foreword

No thesis on social responsibility would be complete without a discussion of the social audit which, although in a very early stage of development is, I believe, potentially the single most important aspect of any organisation's planning and control system.

Stated quite simply, the social audit is the measure and evaluation of an organisation's social responsibility performance. If one accepts the broad definitions of social responsibility discussed in Chapter 3, it covers the measurement and evaluation of most aspects of an organisation's non-financial performance, including, in particular the organisation's responsibilities to all its stakeholders and its response to social and political change.

It follows that the social audit covers everything the organisation does, from R&D and manufacturing, through marketing and personnel, to corporate affairs. It would, therefore, be inappropriate to include an exhaustive treatise on social auditing techniques in a thesis, the main focus of which is one aspect of social responsibility. Indeed the subject deserves detailed treatment all of its own.

Another reason for hesitating to include a comprehensive analysis is that, in this thesis, I have tried to concentrate on my own first-hand experience and proven techniques backed up, wherever possible, by case studies in which I would experiment directly with my theories. At the time of completing the core thesis, although I was starting to be involved in several attempts at social auditing, they were still at a very early experimental stage. In fact, since then, in a major research programme financed by some 20 companies over two years, I did manage to complete a lot of the research required to come up with a workable social audit

system. This research project is summarised in Section I. However, the detailed results of the work are beyond the scope of this thesis.

In the following chapters, therefore, I limit discussion to an introduction to the basic concepts which were used in the major programme mentioned above. Chapter 15 stresses the importance of social audit and explains what is involved. In Chapter 16, I suggest a new way of thinking about the whole area of measurement and evaluation of corporate performance. In Chapter 17, I propose a new approach to social auditing, which has been discussed widely since but only parts have been implemented in a corporate setting. At the same time, Mr. Ron' Lessem, with whom I developed the approach, took it considerably further, expanded its theoretical framework and has applied it in non-corporate situations. Finally, in Chapter 18, I suggest a way in which company XY might tackle a social audit. At the time of writing it was a fictional case study, albeit based on real examples. Since completion of the core thesis, however, I have successfully applied the approach in more than a dozen social audits (see Section I).

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Why Social Audit?

The idea of a social audit for organisations, particularly in business, is new. The term 'social audit' is still interpreted differently by different people. To some it means the public disclosure of a company's social performance. To others it means the internal (confidential) evaluation of a company's social responsibility performance. Others go further and define the social audit as a comprehensive evaluation of the way a company discharges all its responsibilities, to shareholders, customers, employees and suppliers, to the wider community, indeed to all its stakeholders.

I prefer this last definition, not because I believe it to be 'better' or more 'correct' but because I feel it gives the scope for constructing a general framework within which other interpretations of social audit can if necessary be developed.

Until this new field has progressed a good deal further, however, I believe that each organisation will need to develop and use its own definition, based on its own objectives, interpretation of requirements and the resources it wishes to allocate to the process.

But, whatever the definition, I believe that social auditing must, and will be developed and developed rapidly in the coming years. Indeed I am convinced that these will represent the major innovation of the next 10 - 15 years in the whole field of management.

There are powerful reasons for this conviction.

### The need for new management tools

The first reason is that, given the needs of social responsibility, as defined in this thesis, and growing management recognition of the importance of this whole subject to the survival and success of any business, there is an obvious requirement to measure and evaluate performance. In the words of Dr. Clark Abt, one of the pioneers of social auditing in the United States, "without measurement there can be no assurance of progress toward corporate social responsibility goals, there can be no evaluation of the cost effectiveness of efficiency of alternative social investments and hence no optimisation of social investment mixes; there can be no comparison of companies and industries to determine what is possible and what is standard and what can and should be corrected; and there can be no criteria for corporate decision making in the interests of social responsibility". (1)

Already, a great number of companies consider themselves to be "responsible" and devote very considerable manpower and financial resources to functions and activities, the performance of which cannot be quantified using traditional financial yardsticks. The whole area of personnel is one example; Corporate Affairs is another. Judging whether these resources are allocated in the best possible way is totally dependent on management's ability to evaluate performance. Indeed one could go further and say that any management that does not make a serious attempt to evaluate performance in these fields is culpable of negligence.

In summary, there is a crying need for a new set of management tools to aid decision-making and this fact is being increasingly recognised throughout the world.

### External Audits

The second reason is that, whether or not companies decide to conduct their own social audits, they will find themselves being audited by external groups.

This is, of course, already happening. (2) (3)

These external audits are of course usually done without the consent of the audited organisation - and frequently with its hostility. In some ways, their independence in this situation is the public-interest auditors' greatest asset, as it frees them from the institutional pressures and problems of perspective that hamper companies' in-house audits. However, this situation also isolates the auditors from their best source of information - the company or institution itself - and often causes their audits to be incomplete, inaccurate and biased. Like everyone else, the public-interest audits encounter difficulties because of the weakness of the social audits' analytical tools, although their problems in this regard are exacerbated by limited resources. The public-interest auditors' greatest weakness, though, is a lack of objectivity; having selected a company initially because it was considered socially irresponsible in some way, the public-interest auditors are frequently open to the charge that they are out to "make a case" against that company. The tone of these social audits frequently sustains the accusation.

### Institutional Investors

Not all external auditing groups, however, are merely pressure groups with a particular axe to grind. More and more institutional investors are conducting social audits before deciding where to place their investment portfolios. Among the first investors in the United States to add 'social' criteria to their decision making were the universities and the Churches, but the movement has now spread to foundations, insurance companies, banks, mutual funds and pension funds. An excellent assessment of the latest situation, based on detailed research on 196 institutions, is published in a report to the Ford Foundation by Bevis Longstreth and David Rosenbloom entitled "Corporate Social Responsibility and the Institutional Investor". (4) The report also discusses a number of general shareholder campaigns. It is an important document particularly for those who still believe that "earnings per share" or "yield" or "share price" are the sole considerations in the minds of major shareholders when deciding where to invest their money.

In Britain, too, there are the beginnings of a movement although, as in the rest of Europe, it will take several years before catching up with the U.S. Already, however, one sees the Church, trades unions and local authorities, all with significant portfolios, trying to establish non-financial criteria and some have pulled funds out of companies operating in South Africa. Many Insurance Companies are also now going through a thorough reexamination of their priorities, a thought process no doubt started during the Distillers Company case with thalidomide children.

The problem with all these external audits, whether by pressure groups, investors or governments, is that, even if well-intentioned they are usually carried out by people with little or no experience of the company, the industry or the institution concerned. This means that the results are often inaccurate, nearly always incomplete and not, therefore, particularly helpful to decision making or to the cause of public accountability.

But no company or institution can give a clear, unemotional and accurate response to these audits, if it has not conducted its own measurements.

#### Government Legislation

The third major reason why companies must start developing their own social audits and start now is that, in many countries, governments will require them to disclose publicly a great deal more information than they do at present. This disclosure requirement will not concentrate simply on additional aspects of financial performance but will include information on social performance. In the United States, this is already happening, albeit in a very limited way, with the requirement to publish statistics on minority hiring and equal opportunities. In Britain, the Companies Bill drafted by a Conservative Government in 1973 incorporated a first attempt in this direction and the subsequent Labour Administration enacted legislation going considerably further.

### The Responsibility of Public Disclosure

The fourth major reason in favour of developing social audits is that, if there is a continuing trend of stakeholders demanding more information about company performance than appears in the traditional annual report, then the disclosure of such information is in itself a necessary act of social responsibility. Responsibility is indivisible; one cannot respond to one set of changing needs and ignore others that may appear to be less convenient. If more disclosure is demanded; more disclosure there must be. And, clearly, an integral part of this responsibility is that all information released should paint a true picture and not be treated as a whitewash operation. Thus the information must, as far as possible, be complete, accurate and validated using the same rigour in analysis as in the best statements of financial performance. The ability to disclose information on social responsibility performance presupposes the conduct of a social audit.

### The Current State of Social Audit

It is not for this thesis to provide an assessment of all attempts at social auditing carried out so far. Such assessments appear in detail elsewhere (5) In actual fact, determining the current state of the social audit is far from easy, if for no other reason than that it is nearly impossible to identify everyone who is involved with the subject.

Outstanding among the readily identifiable sources are a handful of academics, public interest groups and professional consultants several publications, and an indefinite number of companies. The utility of these sources to the practising auditor is questionable, however, chiefly because most display the understandable weakness of preaching the merits, rather than the fine points, of the social audit. The descent from platitudes to practise is an arduous one that only a few have made. But the social audit is a reality only to the extent that it is done and

it is the work of those who practise it that describes the state of the art.

The chief impetus for social audits seems to be American corporate legislation involving social problems such as pollution, discriminatory hiring, and safety. These laws require a concern with social responsibility that often translates into a regard for the social impact of the company in general and thus into a need for some form of social auditing. And so, the United States, which probably has the most stringent corporate "social" legislation, has so far led in the development of the social audit. There is no way of telling how many American companies have thus far conducted social audits, since most are for internal use only. In 1972, it was estimated that several dozen US companies had undertaken social audits. By 1974 the estimate was that nearly one-half of the largest 500 US companies were engaged in social audits of one kind or another. Outside America, the social audit is still in a pre-natal stage, with a few exceptions(5) So far, only a handful of European companies and a few multinationals have made known serious attempts. Numerous Japanese companies do some sort of social accounting (it is estimated that 23 per cent of Japanese corporations will include some data on their social performance in their annual reports), but it is different to measure its utility, as this social accounting must be viewed in the context of the social role of the Japanese company.

The American companies that have conducted social audits and published results defy easy categorisation. They range in size from the small such as Abt Associates (assets \$5.5 million in 1972) to the huge Bank of America (assets exceed \$50 billion), and produce everything from ice cream to power plants. Nevertheless, most seems to have several common - and instructive - characteristics. Most of the companies are in "low problem" industries; few are involved in mining, heavy industry or declining traditional industries. The majority are located in sophisticated and expanding sectors of the economy (consulting, banking, chemicals, energy, food processing, electronics, insurance,

cosmetics), are reliant on advanced technology, deal directly with individual consumers (as opposed to supplying other industry), and have a tradition of social consciousness. Most make good profits and have a history demonstrating that profitability and responsibility march hand in hand.

Although often admirable gestures of social responsibility, most social audits thus far completed have not been "audits" in the strict sense of the word. Generally, they have been neither thorough, systematic, nor critical. Their faults, however, are not just the failings of the auditors, but rather due to conceptual difficulties that pervade the entire subject. These issues - roughly divisible into problems of identification, measurement and evaluation - arise quickly in any attempt to conduct a social audit.

#### What is involved in a Social Audit?

Any analysis of current approaches to social auditing will show them to be very varied indeed. It is clear that, at this point in time, there is no single 'best' way of conducting a social audit. Each technique has its strengths and weaknesses and an applicability to particular circumstances. It is probably preferable, therefore, that each individual organisation starting on a social audit remain free to select the approach most closely aligned to its own objectives and ideas and best suited to its own requirements.

What I can perhaps contribute in this thesis is a framework, as set out below, which hopefully will assist management in deciding on the most appropriate approach for starting the social auditing process.

There are four basic questions to be answered:

1. What social audit perspective should the company adopt, i.e. which of its functions, activities and relationships should be included? If, for example, one accepts the definition of social audit as the evaluation of all non-

financial performance, then the perspective will embrace nearly all functions, activities and relationships within the company. To start off in such a comprehensive manner is usually neither desirable nor feasible. There is a need, rather, to break down and classify the potential areas for social audit as in Table 1, which shows one method of classification which I have found most useful in my early work, and then select priorities from within this classification.

Using Table 1, a company could consider the nature of its overall involvement from one or more of four major perspectives. It may have a particular organisational unit in mind, like the 'Marketing Department' or the 'Yorkshire Division'; it may wish to consider a particular activity like 'staffing' or 'production scheduling'; or perhaps, a particular stakeholder such as the 'consumer' or the 'employee'; or, the central concern may be with a certain problem area or issue such as 'labour turnover' or 'the image of the multinational' or the 'responsible use of energy'.

2. How broadly should the company become involved within each selected perspective? As can be seen in Table 2, for each of the four major perspectives, there is a corresponding range of potential involvement classified as 'minimum', 'intermediate' and 'maximum' participation. For example, maximum participation, from all four perspectives would involve the company as a whole, whereas a minimum degree of involvement might embrace only one stakeholder, one organisational work group, etc.
3. What is the desired depth of involvement in terms of the audit itself, i.e. how far along the path from identification through measurement to detailed evaluation does the company wish to go?



The complete process consists of three main steps:

- a) awareness - the identification of issues and stakeholders for which the company has a responsibility and to which it wishes to respond. During this step, the company needs to establish the relevance of issues and stakeholders to the company and their relative importance.
- b) accounts - the measurement of the company's performance in relation to the issues and stakeholders identified in the first step and presentation of the information in some structured way within an overall framework of what might be termed 'social accounts'
- c) audit - the evaluation of each item in the social accounts against some standards or criteria which indicate what performance ought to be.

4. What specific method of approach should the company adopt within the selected areas of interest?

One of the most distinctive factors distinguishing one social audit approach from another is the extent to which the measures and criteria used are qualitative or quantitative. Quite clearly many aspects of the social audit are confined by the subjective nature of the phenomena with which it is concerned. This leaves little doubt that most of the measures used will be less 'precise' than those applicable in traditional financial accounting.

This inbuilt imprecision has led to two opposing views. On the one hand, there are those who focus the audit solely on those features of social responsibility performance that do lend themselves to quantification while ignoring the more amorphous - but often more important - information. The opposite tendency is to abandon quantification altogether and to approach the audit from a totally subjective viewpoint, thereby missing the opportunity of using information which is important and, with some analysis, can be made available.

This confusion has led to serious dispute over the mode of measurement a social audit should use. The battle forms along vague lines of "quantifiers" and "non-quantifiers", and the implications of the controversy extend to the whole conception of the social audit. Generally, the extreme "quantifiers" take their inspiration from financial audits on one hand and economics on the other. They contend that like economics - or perhaps through economics - applied cost-benefit analysis techniques will enable auditors to measure and evaluate performance in money output terms. Furthermore, they argue that the results can be presented in a highly structured form in, for example, 'social' profit and loss statements and balance sheets that presents the company's social responsibility performance at a glance.

The extreme "non-quantifiers", on the other hand, are generally content with a series of qualitative statements of performance presented in an unstructured manner, usually in a series of unconnected reports.

In between the two extremes are those who favour the mixed approach, quantifying what is really quantifiable and using qualitative measures where quantification is not possible. The motivation behind this mixed approach is the need to find the best measurements available and to use them, even if imperfect.

The horizontal axis at the top of Table 3 shows this range of methodologies.

#### A Framework for Selecting the most Appropriate Approach

The whole of Table 3 summarises my suggested framework for selection of the social audit approach most appropriate to any individual organisation. Each of the boxes in the middle of the table represents a specific approach depending on each organisation's requirements for perspective, the breadth and depth of involvement and for methodology (quantitative/qualitative)

I am not suggesting that there are 108 different approaches as might be deduced by counting all the boxes in the Table! There are significant areas of overlap. But in thinking of which approach to adopt, it is useful to consider the full range of alternatives available.

#### How to choose

Which particular approach will be ultimately chosen will depend on:

- (i) the organisation's perception of the nature of its 'business'
- (ii) its corporate philosophy and the real reason for wanting to conduct a social audit in the first place
- (iii) the financial and human resources at its command
- (iv) management's perception of particular problems facing the organisation at the time of decision and
- (v) how information within the social audit will be used

#### The Nature of the Business

The nature of the business will often determine management's primary interest and hence the initial perspectives selected for social audit. Thus, for example, whereas management of a supermarket chain may be well concentrate first on consumers and employees, a manufacturer, who is the major employer in a small community, may select the local social and physical environment as his primary concern.

### The Real Reason for Wanting Social Audit

The overall corporate philosophy relating to social responsibility is the single most important determining factor in selecting an approach to social auditing. R. Bauer and D. Fenn suggest that there are four ways in which management of various companies view social responsibility(6) | These are:

- to satisfy the conscience of the Chief Executive and top management
- to anticipate and avoid pressures by stakeholders
- to solve perceived social problems
- to contribute to the achievement of long-term objectives

It is obvious from the rest of my thesis that I subscribe to the last of these philosophies and, indeed this preference is reflected in the comprehensive approach proposed in Part 3. But there are many companies which may have different priorities. They may, therefore, have quite different requirements for the social audits.

The important thing is for management to be completely honest with itself about the real reason for its interest in a social audit. The choice of approach is dependent on it.

### What can be Afforded

The third factor to consider is what can be afforded. Quite obviously, the extent of any company's involvement in any social auditing programme will be dependent on the discretionary funds at the company's command and on the availability of people within

the organisation who have the interest and abilities to introduce and develop the programme. An important supplementary question for those companies who consider social responsibility of real importance to the future of the business is what aspects of the social audit can one not afford not to have done.

#### What are the Key Issues

Next, most organisations will wish to select the approach which focusses on those issues, problems and opportunities which management sees as most relevant and immediate to its activities.

#### How will the Social Audit be Used

Finally, it is imperative to consider carefully how the information within the social audit will be used. This relates closely to the question of corporate philosophy discussed above.

In my view there is a significant difference between an internal audit used within the organisation as an important input to decision-making, and an audit used externally for public disclosure. I believe further that, with the current state of the art, although companies can go a long way in developing useful internal audits, it is still too early to produce audits for external use, except in a very limited form. A great deal of work still needs to be done on developing widely accepted criteria and standards of performance before social audits can be disclosed with confidence. Until that time, and the time must come, information generated by social audits must be treated with care.

In looking at published statements of social performance produced recently in the U.S., one sees that these are limited to those very few activities where management feels the information is reliable and criteria generally acceptable.

And so, I believe that the principal focus of social auditing, at this stage, should be on the internal audit aimed at making sure that management is fully aware of what it is doing, how well it is doing and what more it needs to do. At the same time there is a need to prepare for disclosure, without yet going the whole way.

In summary, the organisation embarking on social audits can choose any combination of perspective, breadth, depth and measurement methodology within the overall framework shown in Table 3. By carefully answering the questions discussed above, management is in a position to decide between the wide range of approaches available.

TABLE 1                    CLASSIFICATION OF SOCIAL AUDITS

1.                    Organisational Unit Audits

Functional Department Audit  
 Operating Division Audit  
 Location Audit  
 Regional Audit  
 Overseas subsidiary audit

2.                    Activity Audits

Personnel Audit

internal communications audit  
 employee relations audit  
 working conditions audit  
 training audit  
 management development audit  
 salaries and benefits audit  
 motivation audit

Marketing Audit

product audit  
 advertising audit  
 customer relations audit  
 service audit

Communications Audit

pressure group relations audit  
 government relations audit  
 press relations audit  
 opinion former relations audit  
 education relations audit  
 industry and professional relations audit  
 general public relations audit  
 community relations audit  
 internal communications audit

Safety Audit

TABLE 1 (cont:)

3. Stakeholder Audits

Shareholder Audit  
Employee Audit  
Customer Audit  
Supplier Audit  
Creditor Audit  
Local Community Audit  
National Community Audit  
International Community Audit

4. Issue Audits

Consumerism Audit  
Multinationalism Audit  
Urban Affairs Audit  
Worker participation Audit  
Environmental pollution Audit  
Civil rights Audit  
Threats to free enterprise Audit  
Changing values Audit  
Third World Audit  
Raw material use Audit  
Energy use Audit



TABLE 2

PROGRAMME BREADTH FROM ALTERNATIVE PERSPECTIVES

PERSPECTIVE	DEGREE OF INVOLVEMENT		
	<u>Minimum</u>	<u>Intermediate</u>	<u>Maximum</u>
Organisational	work group	section, department, division, subsidiary	company as a whole
Activity	single activity	combination of related activities; 2 or more unrelated activities	all company's activities
Stakeholder	single stakeholder	combination of interacting stakeholders; 2 or more unrelated stakeholders	all company's stakeholders
Issue (Problem/ Opportunity)	affecting a limited area of the company for a limited time	affecting a significant part of the company over a significant amount of time	affecting the whole company all the time

RANGE OF PROGRAMME ALTERNATIVES

TABLE 3

METHODOLOGY	Qualitative			Quantitative/Qualitative			Quantitative			DEPTH			
	Q1	Q2	Q3	B1 Maximum	B2 Intermediate	B3 Minimum	B1 Maximum	B2 Intermediate	B3 Minimum				
Awareness/ Identification D1	1	2	3										
	4	5	6										
	7	8	9										
Accounting/ Measurement D2	10	11	12										
Auditing/ Evaluation D3													
	P1	P2	P3	P4	P1	P2	P3	P4	P1	P2	P3	P4	Issue
													Stakeholder
													Activity
													Unit
													Issue
													Stakeholder
													Activity
													Unit

DEPTH  
PERSPECTIVE

## Notes

- (1) 'Managing the Socially Responsible Corporation: New Accounting Tools', Garrett Lecture delivered by Dr. Clark C. Abt at Columbia Graduate School of Business in January 1973.
- (2) Counter Information Services Reports include:
  - (a) The Oil Fix - an investigation into the control and costs of energy
  - (b) Your Money and Your Life - an investigation into pension funds and insurance companies
  - (c) Consolidated Gold Fields - profits and working conditions
  - (d) British Leyland - the beginning of the end.
  - (e) Courtaulds
  - (f) Lucas
  - (g) Unilever
  - (h) The General Electric Co. Ltd.
- (3) 'Social Audit' Reports - published by Social Audit Limited:
  - (a) The Social Cost of Advetising (Vol. 1 No. 1)
  - (b) Tube Investments Ltd. (Vol 1 No. 3)
  - (c) Cable & Wireless Ltd. (Vol 2 No. 1)
  - (d) The Lawson Empire (Vol 1 No. 4)
  - (e) The Alkali Inspectorate (Vol 1 No. 4)
- (4) Corporate Social Responsibility and the Institutional Investor - A Report to the Ford Foundation, Bevis Longstreth and H. David Rosenbloom, Praeger (New York), 1973.
- (5) By far the most complete analysis of attempts at social auditing can be found in the book, Corporate Social Accounting, Meinhold Dierkes and Raymond Bauer, Praeger (New York), 1973.

An excellent summary of early attempts at social auditing in the US can be found in The Corporate Social Audit, R. Bauer and Dan Fenn, the Russell Sage Foundation (New York), 1972.

For other assessments, it is worthwhile reading the following:

R. Bauer, 'The State of the Art of Social Auditing' (unpublished manuscript) Harvard Business School, 1973.

C. Abt, 'Social Audits: The State of the Art', invited address presented at the Conference on Corporate Social Responsibility sponsored by Business and Society and Business Society Review (New York), October 1972.

J. Dauman, R. Lessem and G. Morris, 'The Current State of Social Audit', a Matrix paper produced in January 1974 and obtainable from Matrix, Greater London House, Hampstead Road, London NW1..

C. Abt 'The Social Audit: Problems and Possibilities' (unpublished manuscript), Abt Associates Inc., 1974.

(6) The Corporate Social Audit, R. Bauer and D. Fenn (see Note 5).

## Chapter 16 In Search of New Performance Measurements

### The Measurement Issue

In considering the measurement of business performance, considerable misunderstanding arises because the pursuit of short-term profit (the 'quick quid' or fast buck') is equated by many with general industrial motives. Of course, companies still exist where the whole motive of top management is to make as much money as quickly as possible whatever the long-term consequences. But the major proportion of goods and services produced in industrialised societies today is through companies whose management, often separated from the actual owners, is concerned as much with long-term survival and success as with short-term returns.

It is therefore far more helpful and realistic in understanding corporate decision-making to use the approach advocated by most professional bodies in business, which can be summarised as follows:

- 1 The role or overall objective of business is to service the present and future needs of the community. This, and this alone, provides the justification for business' use of people, materials, land and all other resources it requires. Unless business provides for genuine needs it is unlikely in the long-term to be acceptable, remain profitable or even survive..

- 2 The method by which it achieves this objective is to satisfy the needs and interests of its stakeholders. In the past, the main focus was simply on the shareholders; then customers, and later employees were added to the list of vital stakeholders. More recently, there has been a growing acceptance that the community as a whole is a stakeholder of vital importance. The addition represented a major change in enlightened business thinking in the United States in the mid-1960s. In Europe, it has taken a little longer, but seems, at last, to have arrived.

Thus the satisfaction of the needs and interests of stakeholders is not an end in itself. Nor do I believe, that there is necessarily an irreconcilable conflict between them.

- 3 The measurement or reward for the successful achievement of business' goal, in the long-term, is profit.

Within this definition, profit is neutral and inert; yet few words in the vocabulary of business have as strong an emotive connotation. A situation now exists in which profit conjures up vivid, often extraordinary, impressions in the minds of people. This poor overworked and misunderstood word has become a political symbol epitomising wide ideological differences. It is even under attack from many who classify themselves as supporters of free enterprise.

And so, now, there is talk in some quarters of doing away with the word altogether and finding not only a new word but a new concept which, apparently, will eradicate the inequities of the profit motive and be more relevant to business in the 1970s and beyond.

The balancing of needs is concerned with relationships; indeed it can only be reflected in real relationships between organisations and the people and things with which they interact. Yet normal units of profit consist only of money, a unit of exchange, which often stands in the way of a direct relationship.

In the short-term, therefore when a real conflict often exists between stakeholder interests, the use of profit or any other monetary measure for that matter is woefully inadequate.

'Profit is more than you think!'

Following this argument, there is a strong temptation to agree with those who seek to eliminate profit from the business vocabulary.

But profit is more, much more, than its national economic definition as 'surplus value' implies.

Whatever its deficiencies, profit is still the only generally accepted overall measure of a company's efficiency. As such, this unitary measure serves as a source of communication inside and outside an organisation, and as a spur toward unified effort.

Not only has profit served, in psychological terms, as a symbol of entrepreneurial and managerial achievement, it is also the one and only measure of output available for representing the integrated achievement of the different units and functions of any company. Profit A + Profit B = Total profit; an easy calculation to perform with monetary units; an impossible calculation to perform with most other available measurements.

It is, in fact, noticeable that one of the major difficulties facing non-profit organisations is the absence of a unitary measure for the purposes of comparison and of consolidating overall performance.

It is my conviction, therefore, that because profit is so embedded into the psychology as well as the economics of companies and their management, it will die very hard. Furthermore, until a measure can be found which can be proved to have the advantages of profit and do the job as well, while eliminating the deficiencies and not introducing any

more that are still worse, talk of eliminating profit should stop. For there is a very real danger of throwing out the baby with the bathwater.

On the other hand, one must now accept that profit, by itself, is no longer an adequate measure of performance. And the shorter the measurement period, the less adequate is the measure.

There is a major requirement, therefore, to find other measures of performance and effectiveness that reflect the real needs of employees, customers, suppliers, the general public, indeed of all stakeholders, as well as those of shareholders, and which can incorporate -not replace - profit.

This, I submit, is probably the biggest single challenge to management science in the last quarter of this century. My own approach to the question of social audit is couched in the context of this challenge. I have called it the 'Matrix' approach.



### Problems with profit as a measurement

Great care must be taken to distinguish between the use to which the profit motive has been put and any inherent problems in using profit as a measure of performance.

As I have already stressed, a great deal of misunderstanding has been generated by equating the greed of certain individuals in pursuit of the 'fast buck' with general business motives.

Balancing the needs of all stakeholders is a long-term process. With rare exceptions can it be effectively achieved in the short-term. The use of short-term profit maximisation as the only measurement of a company's performance is not only wrong, it should always have been considered wrong, and has no place in any theoretical framework of a modern free enterprise system.

For it is sustained long-term profit which is the valid measurement and this is founded on the belief that, in the long-term, the interests of all stakeholders tend to converge. Short-term there will, of course, be conflicts and this is only too apparent. But, short-term, these conflicts are not only between stakeholders, they exist also within stakeholder groups.

The definition of what is short-term and what is long-term is not easy and will vary significantly from company to company with the size and nature of each company's operations. But for the medium and large companies which contribute the bulk of the output in any

modern industrialised economy, plans are already being made for 5,10,15 sometimes even 20 years ahead.

If one examines the profit performance of Western business as a whole since the end of World War 2, there is only one conclusion. Contrary to the popular view that too much profit has been generated, the evidence shows that there has been far too little. Indeed, profits expressed as a percentage of world output, have been decreasing sharply. Of course, fortunes have been made during this period. But the overall picture looks far from rosy and it can be strongly argued that short-term profit maximisation to the exclusion and at the expense of the long-term has been the principal contributory causes.

This is not to argue that short-term profit should not be used at all in measuring performance. Clearly, it has a role to play. The point is that it is not enough; short-term profit cannot be used as the sole measure.

The other major problem with using profit is inherent in the nature of the profit measurement itself. I have specified the method business achieves its overall objective; it is through satisfying the needs of all stakeholders. To argue that the needs of stakeholders are all monetary in nature would be an illusion of the first order. The satisfaction of needs includes an array of psychological, sociological, physical, cultural and spiritual factors which often have nothing to do with economics, and simply cannot be quantified in terms of money output.

## Fundamental Requirements of a Social Audit System

In developing my own approach to social auditing, I have tried to resist the temptation to produce a system which is little more than a superficial response to external pressures and short-term requirements. Such a system might work for a while but there is a real danger that it would be out-of-date before it really got going. Rather, I have tried to examine in some depth the overall needs of business in the 1970s and beyond, in order to develop a system which is now, and will continue to be directly relevant to those needs.

I believe that any new lasting system has to meet certain basic requirements, namely:

1. It must act as a motivator to everyone associated with the organisation, both inside and outside, and particularly to management.
2. It must be relevant and be seen to be relevant not only to the needs of the organisation, but also the needs of society.
3. It must enable the organisation to compare performance between operating units and consolidate performance of all operating units to give an overall picture. Similarly, it must enable comparisons between organisations and whole industry consolidations.
4. It must use business concepts and language which are understandable and acceptable to management.

5. It must incorporate the traditional monetary measures, such as profit.
6. It must be flexible enough to allow individual managements of individual organisations to develop their own system relevant to their particular needs and objectives, within an overall framework.
7. It must not rely solely on new information and new techniques but must be able to use currently available information and proven techniques.

#### Motivation

Man, throughout the centuries, has been looking for purpose and meaning in what he does. In fact, the higher the individual or organisation is along the evolutionary scale, the more likely he or it will respond purposefully to circumstances rather than react purely instinctively.

Traditionally, the manager or owner of a small business has derived a sense of purpose both through the expectation of a monetary return for his efforts and through an identification with the particular product manufactured or service performed.

In this context, the idea that the fundamental concern of management today should simply be the 'survival' of the organisation it manages, which is implicit in many new ideas on measurement, including the replacement of profit by balanced cash flows, needs serious examination. For I would

argue strongly against the notion that basic survival is in itself a purposeful goal.

The question of what kind of survival is paramount and I would submit that a static, defensive corporate existence, perceived simply in quantitative terms, cannot be enough. If all those in the organisation, directors, managers and employees alike, are to be imbued with a sense of dynamism and purpose, while at the same time willingly exercising their social responsibilities something much more is required. To the extent that profit expectations have in the past reinforced the businessman's more self-centred need for achievement, a new ethic will need to reinforce his own broader human concerns. To the extent that profitable operations have been perceived as a contribution to the national product, something else must be added which can be seen, touched and felt, so that purposeful response becomes the order of the day rather than pragmatic, defensive reaction.

In other words, the need is for measures and targets which are for real; which capture the imagination of all those concerned with the life of the organisation.

#### What is for Real?

Most people in business have accepted the accountants' measures of assets and liabilities, revenues and costs, as expressed in monetary terms. However, these monetary assessments are merely nominal; it is the physical and human resources themselves that are for real. Thus the real physical assets are not the '£1000 worth' of materials or equipment, but the physical quantities

themselves and their respective qualities: for example 500 tons of high grade steel or a generator capable of generating 1000 kwh of electricity. Similarly, real human assets consist of people with identifiable knowledge, skills and aspirations.

These real assets, moreover, are not confined within the organisation. Management has often looked to a particular supplier or customer and maintained 'they're a real asset to the company'. In other words, the organisation, in its relations with this external stakeholder, has built up a bank of goodwill which is reflected in their mutual interactions. Furthermore this goodwill, which is indeed a real asset, may well have been developed in relation to local or national government or even with respect to the public at large. Whether, therefore, one is referring to materials, energy, plant and equipment, land and buildings or to employees; whether one is relating to suppliers distributors, shareholders, financiers and customers or to conservationists, local action groups, local and national government in all cases the talk is, at least potentially, about real assets. In addition, what is most important is that these should be conserved and developed in a balanced way.

The other side of the coin to the conservation and balanced growth of real assets is the elimination of waste.

There can be little doubt that 'waste' is a term which, like profit, catches the imagination, often in emotive ways.

However, unlike 'profit' which is strictly associated with monetary gain, waste has a much broader application in a variety of different contexts. On a personal level in any one day an

individual may find himself wasting not only money, but time, food, social opportunities; in fact, any number of things, many of which he feels to be precious. In a business context, a company may be wasting materials, equipment, people, energy and time - as well as money. Some of these can be quantified in money terms; others cannot. The only real common denominator is that they are all 'aspects of waste!

### A New Business Ethic

My proposal is that the elimination of waste in all aspects of an organisation's activities becomes the central ethic by which business measures its performance.

Not only is the avoidance of waste, at a time of diminishing resources, rapidly being recognised by society as a whole as a prime necessity, it is a term with which all individuals can easily identify. It is a term that is both real and widely applicable; it is a notion that transcends mere self-centredness and embraces an involvement with things which are tangible. Finally, waste can be seen, touched and smelt; it can be heard and felt; there is no getting away from it!

I envisage that some people may react against the idea of 'waste' as a new organisational ethic. It may even conjure up notions of sin or damnation! I do not see it that way. For, interesting enough, 'waste avoidance' interrelates the 'protestant ethic' of thrift with the management scientist's notion of efficiency and the conservationist's desire for preservation. In fact, when I talk in terms of minimising the waste of assets or resources I imply a concern for man and for nature.

The more management is able to see physical and human resources as scarce and even beautiful creations that must be nurtured to the best of its abilities, the more likely it will be to succeed in furthering business' basic mission. Moreover, the greater the extent to which management is able to identify and employ an asset's full potential, the less inclined it will be to associate waste minimisation with passive maintenance as opposed to active development.

#### Using Waste for Performance Measurement

In Part 3, I explore in some detail the use of the proposed new ethic as the basis for social auditing. Only a brief summary is therefore necessary here.

As already mentioned, one of the major advantages of profit is that it can be seen as a unified, overall measure of corporate performance. However, short-term profit can only reflect costs and revenues; it cannot bring businessmen close to the actual resources from which these are derived. On the other hand, measures of waste can help identify quickly with what is really going on.

The first need is to identify the full range of actual and potential assets both inside and outside the organisation. These will include the primary assets such as employees, raw materials and energy resources; organisational assets such as work groups, buildings and equipment; stakeholder assets such as shareholder and customer goodwill; and external assets such as the health of the total community in which the organisation operates. There is then a further need to break these down into specific



diverse factors as, for example, durability and tensile strength for raw materials, to technical knowledge and interpersonal skills - for employees, to loyalty and influence - for customers. At this point one is ready to derive a complete range of real measures of waste.

Accounting for waste of current assets and asset potential involves compiling statistics on such items as the volume of discarded scrap, unit losses of energy, labour turnover and absenteeism; it involves the tabulation of results of attitude surveys of employees, customers, the local community, etc. - reflecting any losses of goodwill that may arise. Everything the organisation does can be accounted for as an aspect of waste. Organisational units, whether at the level of work group or the company at large will then be able to respond directly to the tangible phenomenon being reflected, so as to minimise the waste of assets on all fronts.

In evaluating the extent to which it is carrying out its responsibilities, management should regard compliance with legislation as no more than a minimum criterion. Real, purposeful responsiveness can only arise from a strong identification with organisation's physical, human and institutional resources and from a committed, inner-directed drive to avoid the waste of the scarce and valuable entities, even if this requires going well beyond the law. Future motivation to minimise waste will need to match in strength the historic drive to maximise profit.

### The Case for a Waste Free Society

In summary, I have argued the case for a waste-free society - associated with the balanced development of all assets within all organisations - as a realistic and realisable aim.

I believe that, whereas the use of profit optimisation is still relevant, it is only so if applied to the long-term. In the short term, there is a need for much more. Indeed there is a need for a new ethic strong enough to replace the traditional notion with something equally purposeful and more real. The requirement is for a unifying force to arbitrate in the traditionally perceived conflict between free enterprise and social concern. In this context, I believe that the elimination of waste is a realistic and acceptable common denominator.

### Relating the Reduction of Waste to Other Needs

Earlier in this thesis, I have discussed the demands for all organisations, and particularly those engaged in business and industry to:

- (a) respond faster and more directly to changing needs and values within society.
- (b) be more responsive to the real as opposed to the perceived needs of the individuals, groups and other organisations on whom their activities have an impact.
- (c) be more accountable to all their stakeholders, and finally in this chapter,

(d) conserve assets and resources and reduce waste.

These demands, which are intensifying all the time, come not only from the opponents of the current 'system' and way of life, but also from a wide range of supporters who see a change in behaviour as necessary to retain the basic elements of the system.

I share the view that the demands must be met, and met effectively, to ensure the continued development and success of our institutions through evolution within the current system rather than through a radical change in the system itself.

I believe also that, suitably defined, the four demands described above are closely inter-related.

In considering the demand (a) for faster response to changing needs and values, it is clear that through the detailed analysis of social and political trends and changes, management can anticipate future constraints and opportunities for the organisation; and this is vital information for planning the successful survival of the organisation. Demand (b) concerns the real needs of employees, customers, etc. - these can and should be planned as part of (a). Also if, as I have suggested in my approach to social audit, there is a need to redefine assets and resources to include employees, customers, etc., then management cannot respond to the demand (d) for conserving assets without responding to demand (b) at the same time.

Further, one can consider the demand (c), for accountability to all stakeholders, to be part of demand (b) since the call for accountability is based on a real need on the part of an increasing number of individuals, groups and organisations.

Finally, the demand (d) for conserving assets and reducing waste, should be the easiest for most organisations to accept, since it forms part of the traditional optimisation process. One sees already a great deal of effort towards meeting this demand for conservation and elimination of waste; but only for some assets. There is a clear need to broaden the conception of what constitutes an asset so that all real assets are included. Carefully defined, demand (d) can encompass demands (a), (b) and (c).

Thus the measurement of how well an organisation meets demand (d) will include the measure of that organisation's performance in relation to its social responsibilities.

However, the measurement system I am proposing encompasses more than is generally included within the term 'social responsibility'. I am proposing a total approach which reaches the whole organisation and all its activities.

I am, in fact, talking about total responsibility.

In my approach, therefore, I replace the current notion of a 'social' responsibility audit with the more comprehensive notion of a 'total' responsibility audit.

## Chapter 17

### The 'Matrix' Method: Total Responsibility Accounting/Audit

#### The Basic Concept of Balanced Asset Growth

#### The Current Situation

I have discussed in earlier chapters the need for business, indeed all organisations, to consider a set of new variables which are increasing in importance and disturbing significantly the traditional formulas for success. Business has now to interact with a much wider range of external groups and organisations and has started to consider what action it should take, faced as it is with a whole battery of seemingly conflicting pressures from consumer groups, governments, trades unions, the public at large, as well as from the more traditional stakeholders.

There have been numerous examples of response to these new pressures for some time, usually within organisations justifiably regarded as 'enlightened'. A number, although still remarkably few, run regular employee opinion surveys and use the results to improve their personnel policies and practices. Some have undertaken detailed studies, in co-operation with others, to determine a new direction for employee benefits programmes.

Others run "training for retirement" programmes and ensure close contact is kept with pensioners. A number of organisations, particularly large companies, undertake community affairs activities in liaison with local authorities and local voluntary groups - often allowing employees time off for such activity. Others have run seminars and workshops to improve their relationships with pressure groups. And there are many other examples.

Quite clearly, these organisations, in defining their corporate objectives, do already consider their broader social responsibilities.

What is missing, however, is a logically constructed system for monitoring, evaluating and controlling activities which fall outside the current strictly financial accounting and auditing procedures in a comprehensive way.

#### The Future Requirement

In my view, the way ahead does not lie with the introduction of some fundamentally new and radical ideas, but rather with a reappraisal and extension of existing ones. There is an obvious need to take a longer-term perspective. There is a clear need also to take a more balanced view of growth. This is neither turning away from the notion of profit, nor

indeed, taking on a whole series of 'nice to have' social responsibilities. Rather, with the concept of a balanced growth in all assets, management is able to increase awareness of the full available potential within the organisation. It is able to decrease the wastage of all currently available assets, human, physical and institutional as well as financial. And, through this process, the organisation's long-term return on all its investments is taken care of.

#### What are our Real Assets?

Many management writers ranging from Peter Drucker in the United States to John Humble and Reg Revens in Great Britain have identified 'people' as the greatest assets any organisation can have.

The present energy crisis, the ever increasing shortage of materials, and the growing concern for the quality of the environment leads to the rather obvious conclusion that physical resources must also count as indispensable assets.

It is unfortunate, to say the least, that conventional balance sheets seemingly fail to take account of human assets and, in fact, only partially represent physical ones.

The words 'seemingly fail' are important here, because the 'failure' is not complete. In fact, the concept of 'goodwill' is very familiar. This, in very broad terms, represents the value of the human assets contained within a business as well as of the relationships developed externally. Today, few would question the value of maintaining and developing goodwill with all stakeholders.

It is, therefore, recognised that there is a wide range of potential physical, human and institutional assets which are largely un-represented in conventional accounting systems, but which are critical to the future of any organisation.

In discussing assets in this context, it is fundamental to consider not just the current value of each asset but their full potential in the long-term.

### The Importance of Balance

Within double-entry bookkeeping, the books are deemed to balance when debits and credits, assets and liabilities are equal in quantitative terms. In a much broader qualitative context, however, it is also appropriate to talk of a balanced approach in which double-entry is a requirement while numerical equality is not. For example, in a balanced assessment, supplier goodwill as an asset will take into account the regular financial payments that go towards maintaining that asset.



Similarly an employee will only contribute fully to the company if he is rewarded in both economic and non-economic terms for his efforts. Whether one is talking in physical, human or institutional terms, there is a need to look both at the potential that is there and at the ways in which it must be encouraged if it is to be fully realised.

Good managers are already well aware of the need to 'balance' the interests of conflicting entities and pressure groups. The accounting system must persistently weigh asset against liability and compare quantitative assessment with qualitative judgements. There is also a need to balance short-term against long-term and internal against external pressures. My proposed approach is concerned with developing a method which facilitates this balancing process.

### Balancing Growth

Governments, business organisations, local authorities and most other organisations are concerned with increasing the quality of their operations and raising the value of their returns without incurring burdensome internal and external costs.

There is a new requirement for each organisation to recognise the mutual interdependence of its assets, to identify areas where the waste of energy, resources,

people, loyalty, knowledge etc., is being incurred, and to balance the financial audits and accounts against their environmental and social equivalents so that actual or potential waste may be identified. In this way the organisation should be able to conserve and develop all its assets.

### The 'Matrix' Programme

#### Identifying and Classifying Assets

The first requirement of the 'Matrix' Total Responsibility Audit programme is a detailed identification of all the assets that need to be considered in the exercise and a classification of these assets into a number of categories.

The basic categories are

- (a) internal - those assets contained within the organisation and
- (b) external - those assets outside the organisation which interact with the organisation.

For example, employee assets are categorised as internal while customers are categorised as external.

The basic categories are then divided into sub-categories which describe more precisely the relation of the asset with the organisation. The sub-categories are:

<u>Category</u>	<u>Sub-category</u>
Internal	Primary
	Secondary
External	Direct
	Indirect

The primary internal category includes the basic assets on which any activity is based. These include employee resources, raw materials and energy. The secondary internal category includes the organisational and physical assets required to enable the primary assets to work. These include work groups, subsidiaries, buildings and equipment, and the physical environment of the work place.

The direct external category includes all those individual and institutional assets whose goodwill is directly relevant to the short- medium- and long-term success of the organisation. These are all external stakeholders. In business these include shareholders, customers, suppliers, governments, etc.

The indirect external category includes the assets of the overall community/communities in which the organisation operates and on the health of which the success of the organisation depends.

In the direct external category, there is a direct relationship between any organisation and its stakeholders. Institutional 'goodwill' is an asset in a sense exclusively owned by the organisation. However, this exclusiveness no longer applies in the indirect external category which is represented by general social, political and economic conditions. This is the Third Circle in which the efficiency of government, the basic support that all organisations receive from a stable society, as well as a healthy economy and a clean physical environment, cannot be related directly to any individual organisation. Yet, as I have demonstrated, these factors have a significant influence on each organisation and must therefore be included as assets under my definition.

Examples of assets under this basic classification are shown in Table 1.

### Describing Assets

The next step is to describe each asset in terms of its attributes and the basic factors that go into defining these attributes.

For example, employees can potentially contribute knowledge, skills and favourable attitudes; in our terminology these are the attributes belonging to the employee asset. The knowledge attribute can be defined in terms of a series of factors, e.g.

- (a) basic - economics, science, history
- (b) applied - accounting, personnel, planning  
and
- (c) contextual - facts, statistics, contacts.

The skills attribute can be defined in terms of mental, mechanical and interpersonal factors, etc.

Likewise, attributes for raw material assets would include their quality, durability and recyclability.

Examples of attributes and their basic factors for a number of internal and external assets are shown in Table 2.

This process of describing assets is of paramount importance, since it is the asset attributes and their ingredient factors which determine what is measured, what needs to be conserved, and where waste must be minimised.

### Evaluation/setting Priorities

At this point in the programme, it is important to consider all identified assets from the point of view of their importance to the organisation and to weigh each asset accordingly.

Care, indeed extreme care, must be taken to include, in this analysis, the long-term needs of the organisation. The development and conservation of employee and institutional assets, for example, is a long-term process.

However, in order to keep the whole exercise within manageable proportions, an evaluation of priorities is essential.

Another evaluation of priorities, this time for asset attributes, then needs to be carried out for each asset. Clearly, the way assets are used varies from organisation to organisation and the importance of each attribute, and its ingredient factors, will also vary.

### Accounting for assets

At this point, the assets have been identified, classified and described. They and their attributes have also been evaluated from the point of view of their importance to the organisation.

The next step is to develop measurement procedures within some kind of accounting system.

In the Matrix programme, the accounts are sub-divided into three what can be called transaction areas, namely:

- environmental/physical
- economic/financial
- social/personal

These transaction areas are characterised by the type of measurement that is used. It is important to stress that measurement in this context refers to output, not input, whenever possible. For example, in pollution, a reduction in noise levels is more relevant than the amount spent on noise reducing equipment. One should only use input measures where no meaningful output measure exists.

Environmental/physical transactions apply to physical resources, physical working conditions, internal and external pollution, land, buildings, equipment and to employees' physical attributes. Measurement of these elements is in physical units; tons of material, numbers of physical injuries, decibels of noise, toxicity levels of air, acres of useable land, etc. A number of these physical units can be converted into monetary units; others cannot.

Economic/financial transactions apply principally to the monetary representation of a number of commercial exchanges. Some of these already are, and others are not accounted for in the traditional accounting process. Within our framework, a great deal of the institutional support a company may be offered is reflected in economic terms. Supplier discounts, government tax subsidies and local authority grants are examples. With economic/financial transactions, I also include a number of measurements which, although not monetary, are closely related to economic performance; for example one might include the number of customers gained or lost, turnover in numbers of shareholders, and the number of complaints received.

Social/personal transactions apply to the measurement of the complex areas of

- (a) human relationships and attitudes and
- (b) the health of the wider community.

It is here that one finds the greatest difficulty in establishing quantitative measures and, in many cases, there is a need to accept qualitative assessments. It is possible, however, to identify a number of quantitative measures to act as indicators of performance. In social transactions relating to employees, for example, intelligence test and training course scores



as well as attitude surveys can be used to supplement statistics on strikes, absenteeism, labour turnover and days lost due to sickness.

For most transactions dealing with human relations, measures of attitudes are, in fact, usually the most important.

In Table 3, I show a number of examples of accounting measures that could be used in each of the three transaction areas.

Many organisations already use some of the measures suggested. Very few organisations, however, bring them together in accounting format in an effort to assess total performance.

#### Relating the Accounts to Key Activities/functions

Every organisation will have to relate its own key activities to the particular transaction and asset categories that are relevant to it. For example, whereas the Personnel Function is primarily concerned with employees and thus with 'social' transactions, the Production Function is bound to be significantly concerned with both physical and human assets/resources and thus with 'environmental' and 'social' transactions. Table 4 is a chart which relates assets, activities and transaction accounts.

## Accounting for Waste

An activity centre should be aiming to reduce the gap between 'what is' and 'what could be' and thus to decrease waste, in real physical and human terms. The ways in which people, materials, energy, equipment and goodwill at all levels, can be wasted are all too familiar. In fact, the proposal here is that organisations might introduce a 'wastage factor' representing all of the above, to supplement the financial measures of costs and revenues. In the long run, waste can be reflected in monetary costs. In the short-term, I believe it possible to convert all measurements into aspects of waste, thereby giving to management a common denominator for evaluation.

There are two ways of looking at waste. On the one hand, one might point to a failure to recognize an asset's capabilities; for example, many companies fail to exploit a computer's real potential. On the other hand, one may be aware of the potential while not realizing that the asset must be appropriately treated if it is to contribute fully. Thus, a creative individual will only blossom with ideas if he is given the free rein he requires; similarly, a steel plate will only remain almost permanently durable if coated with a metal alloy. Table 5 shows some aspects of waste as related to assets.

Criteria for Auditing the Accounts

Making measurements and putting them into a system of accounts are essential parts of the Matrix programme. But, alone, they are not enough. There is a requirement to audit the accounts, i.e. to evaluate how well the organisation is doing against a series of standard criteria of how well the organisation should be doing.

The development of these criteria is probably the most important part of the whole programme. It is also the most difficult and results are likely to be the most controversial.

Setting criteria is a difficult enough process in traditional financial accounting. Within the extended framework, one enters not only into the qualitative arenas of attitudes and behavioural matters, there is a need also to anticipate alternative future situations which may affect the organisation in various ways.

To the best of my knowledge, no one has yet been successful in developing a set of comprehensive criteria for an evaluation of the kind required. I too, would hesitate to do so. What I can do, however, is to propose a meaningful framework for the development of such criteria and a methodology for an evaluation of their validity. (7)

The basic framework for developing criteria is obtained by considering the three level classification of a company's responsibilities discussed in detail in Chapter 3 and summarised as follows:

- Level 1 : Basic Responsibilities
- Level 2 : Organisational Responsibilities
- Level 3 : Societal Responsibilities

In general terms, these levels correspond, respectively, to responsibilities associated with short-term, medium-term, and long-term survival and success. However, it is difficult to make completely rigid rules, since there are numerous interactions between activities at all three levels. Thus, for example, certain activities at the organisational and societal levels will have a direct affect on an organisation's ability to succeed in the short-term.

#### Level 1 - Basic Responsibilities

Basic responsibilities are defined as minimum standards of behaviour demanded by the very fact of the organisation's existence.

Short-term survival and success and in part contingent on:

- (a) Keeping within the letter of the law, with respect to current legislation, official regulations and formal codes of conduct.
- (b) Ensuring that the organisation's primary human and physical resources are in a position to be used effectively.

There exist, of course, extensive laws, regulations and codes on physical working conditions, employment, pollution, obligations to shareholders, patents, trade practices, monopolies, building standards, etc., etc., relating to nearly every aspect of organisational activity. There is, therefore, little problem in developing appropriate criteria.

## Level 2 - Organisational Responsibilities

Organisational responsibilities are defined as those designed to meet the changing needs over time of all stakeholders associated with the organisation and to minimise the negative impact on those stakeholders of all the activities of the organisation.

Medium-term survival and success is likely in part to depend on:

- (a) Paying heed to the spirit of law, over and above the letter of the law and acting in anticipation of impending legislation, new regulations and more stringent formal standards. Included here would be behaviour consistent with the highest standards as defined by new, albeit informal, codes of conduct. For example, an interpretation 'in spirit' of the recently introduced 'Fair Trading Bill' implies far greater consideration of the consumer than an interpretation

based on the attitude "what is the minimum we can get away with".

- (b) Responding to current attitudes, needs and values of the stakeholders and anticipating future changes in such attitudes, needs and values. Anticipating changing government attitudes is covered partly under (a) above since these attitudes are often translated into new legislation. But there are also the changing needs of employees, customers, local communities, etc., and even those of shareholders.
- (c) Minimising the 'waste' of an organisation's assets; both internal - employees and physical resources, and external - individual and institutional goodwill.

The primary tool for determining criteria at this second level is a comprehensive environmental analysis, as described in Chapter 6, focussing in particular on trends in legislation and codes affecting the company directly and on trends in attitudes, needs and values of all stakeholders.

Level 3 - Societal

Societal responsibilities are defined as those contributions to the wider community designed to help create the healthy overall environment the organisation requires.

Long-term survival is associated with the contributions all organisations make towards their overall environment. As I have shown, management must be aware of the impact of the wider community on the organisation and, therefore, needs to consider the political, social, economic and ecological foundation stones upon which the whole of society is built. Thus a company might be concerned with financial contributions to certain community organisations or with the education not only of its employees, but of a much wider population. Business becomes involved, in essence, with removing the ills or wastage constraining the growth of business and society as a whole, such as urban alienation, social malaise, environmental degradation, etc.

At this third level, the development of meaningful criteria is very difficult. Clearly, the long-term effect on society of the action of a single organisation is rarely measurable, if ever, and so one can rarely talk in terms of output measures. The criteria developed, therefore, must often reflect an assessment of the input, i.e. the degree of effort the organisation makes at this level. My proposal is that these criteria come from three sources:

- (a) industry/activity 'best' performance
- (b) comprehensive environmental analysis of probable future social, political, economic, etc., trends and an evaluation of the level of response required to minimise anticipated constraints and take full advantage of anticipated opportunities generated by these trends
- (c) independent judgement of respected experts (as discussed in the next paragraph).

#### Audit Validation

I recognise and accept that any social or total responsibility audit, however well structured, will contain within it a large number of qualitative judgements. At the organisational and societal levels described above, management is, after all, trying to assess performance against a complex web of changing needs and values.

I believe strongly, therefore, that there is a need to supplement the judgements associated with any internal audit structure and function with an external and independent assessment.

There are conflicting views on how such an independent assessment might be carried out. One view, being put forward by the Confederation of British Industry among others, is that non-executive directors should be



selected and used for this purpose. Another view is that there should be a government commission with powers to assess performance.

My own view is that, however desirable these suggestions may be in theory, they are unlikely to be effective at the present time. The idea of using non-executive directors suffers from two major deficiencies. The first is that however independent such a director tries to be, in the final analysis he is and will be seen to be a paid member of the company. If one of the objectives of the audit is greater public accountability, it is unlikely that this dependence will be acceptable to external groups, nor, indeed to many employees. The second problem with this method is that a large number of the kind of people needed to exercise the required judgement simply are not available, either through choice or circumstance, to become directors.

The use of an official government commission is also likely to be unacceptable; this time to management. It would be difficult, if not impossible, to separate the operations of such a commission from the short-term political objectives of the government of the day and, until such time as a broad set of widely acceptable criteria are agreed upon, this method would be dangerous.

I believe, that what is required at present is something rather different; a flexible, low-key method, which can meet the need for independent assessment while ensuring that all concerned with responsibility audits learn to walk before they run.

The Matrix programme proposes the use of an Independent Panel of experts and public figures. The Panel would be set up expressly for the purpose of independent assessment and validation of an organisation's own, internal responsibility audit.

In considering the composition of the Panel, I believe it very important that Panel members reflect as broad a spectrum as possible of experience, political views and interests. The aim is to have a truly multi-disciplinary group of people from all sectors including politics, business, the trade union movement, academics, the consumer, environmental and civil rights movements, youth, local government, research institutes, the media and the Church. The hope is that the concept will attract both recognised experts in individual fields and men and women who are highly respected for their balanced judgement in a number of fields.

For each organisation wishing independent assessment, a sub-Panel of say six to eight members would be selected and who would make up the most appropriate team for that

organisation. Clearly the composition of sub-Panels will vary considerably according to the nature of the organisation being assessed, its geographical impact, and the assets which have been selected for audit.

The sub-Panel would review the major features of the internal responsibility audit report and the assumptions and criteria used with the Chief Executive and his top management team, in total confidence, and make their comments and suggestions.

My belief is that, at this early stage of development, confidentiality is absolutely essential.

#### Who Implements the Programme

I believe that the responsibility audit will develop quickly and effectively only if the bulk of the work is carried out by those who truly understand the organisations involved, i.e. the internal staff of managers and employees.

Consultants can help by leading the way in the development of audit structures and methodologies and by providing vital information through environmental analysis.

Experts can help in their own specialised disciplines.

Academics can help by providing a sounder theoretical framework for the principles involved and through independent research to develop evaluation criteria.

Public interest groups can help by exerting pressure and playing 'devil's advocate'.

In the final analysis, however, each organisation is unique, each has its own methods, problems, constraints and opportunities. Thus, specific measures and techniques can only come from those with practical experience who understand the organisation in depth.

An entirely external audit is unlikely to serve any useful purpose. On the other hand, it is unlikely that any management will have all the skills required to carry the programme through without external inputs.

My approach represents only one of a number of approaches being tried at the present time. I believe that it incorporates a number of new principles of importance to management.

In particular, I believe that it meets the requirements of a social audit system as defined in Part 2.

1. I believe that the concept of developing to the full all the assets in an organisation, coupled with the minimisation of waste, can act as an effective and acceptable motivator, to people inside and outside the organisation.
2. The elimination of waste represents a clear priority need not only for each individual organisation, but for society as a whole. This ensures a direct and general relevance for every aspect of the approach.
3. By defining each measurement as an aspect of waste, the proposed approach enables management to compare performance between units and between companies within an industry.

In addition, the logical extension of total responsibility accounting to organisations outside business could lead, one day, to comparisons of performance between various institutions.

4. By using the traditional vocabulary of business - assets, liabilities, transactions, waste, etc., - the approach concentrates on concepts and language already understandable and acceptable to most managements.
5. By including financial transactions in the comprehensive programme, traditional monetary measures are automatically incorporated.
6. The approach is completely flexible in that, within the comprehensive programme, management can select the perspective, breadth, depth and methodology - as shown in Table 3 in Part 1 - most suited to its immediate needs.
7. Much of the basic information required for the new accounting system is already available in many companies, and can be incorporated in the overall scheme. Some new information, particularly relating to criteria, will be required but management can often start with what it has got.

**TOTAL RESPONSIBILITY ACCOUNTING/AUDIT**

**Table 1**

*Classification of Assets*

<i>Basic Asset Category</i>	<i>Sub-Category</i>	<i>Type of Asset</i>	<i>Examples of Assets</i>
Internal	Primary	Human Resources	Managers, supervisors, professionals, clerks, skilled manual, semi- and unskilled manual etc.
		Physical Resources	Raw materials and energy
	Secondary	Groups, Depts.	Work groups, marketing, production depts., etc.
		Susidiaries, Divisions	Local, national, international subsidiaries
		Buildings	Factories, warehouses, offices
		Equipment	Plant, machinery, tools
	External	Direct	Commercial
Government			Departments of Trade, Industry, Environment; Inland Revenue, EEC, etc.
Local Community			Local government, community groups etc.
Other			Conservationists, consumer associations etc.
Indirect		Political, Social, Economic, Ecological	Efficiency of government, quality of education, control of inflation, quality of housing, social stability, economic growth, etc.

Table 2

*Asset Attributes and Factors (Examples)*

<i>Category</i>	<i>Asset</i>	<i>Attributes</i>	<i>Factor</i>
Internal (primary)	Employee	Knowledge	Basic: economics, statistics, psychology, etc. Applied: accounting, personnel, planning, etc. Contextual: facts, statistics, contacts, etc.
		Skills/ Abilities	Mental: verbal, numerical, logical, memory, etc. Mechanical: eye-hand co-ordination, manual dexterity, reaction time, multilimb co-ordination, etc. Interpersonal: sensitivity, communications, leadership, socio-political, etc.
		Attitudes	Diligence, initiative, co-operation honesty, friendliness, self-discipline, etc.
Internal (secondary)	Raw Material	Durability	Tensile strength, versatility, resistance, etc.
		Purity	Concentration, consistency, toxicity, etc.
		Renewability Recyclability	Speed, cost, efficiency, scarcity. Speed, cost, efficiency, scarcity.
Internal (secondary)	Energy (fuel)	Storeability Purity	Cost, feasibility. Concentration, consistency, toxicity.
		Efficiency Convertability	Work rate. Speed, cost, efficiency.
		Location Area Cultivation	Access, aesthetics. Space. Trees, gardens, etc.
Internal (secondary)	Buildings and con- struction	Area Infra struc- ture	Space. Roadways, paths, etc.
		Location Facilities	Access, aesthetics, etc. Lighting, heating, ventilation, furnishings, etc.



Table 2 (continued)

<i>Category</i>	<i>Asset</i>	<i>Attributes</i>	<i>Factor</i>
Internal (secondary)	Plant and Equipment	Capacity Durability Quality Efficiency Design	Physical output. Life cycle. Product consistency. Input-output. Aesthetics.
	Group	Complementarity Cohesiveness Innovativeness, etc.	Knowledge, skills, attitudes. Attitudes. Ideas, application.
	Department	Employees Structures Processes etc.	Knowledge, skills, attitudes, training. Standardisation, flexibility, etc. Objectives, plans, programmes, procedures, techniques.
External (direct)	Consumer (individual and institutional)	Knowledge Attitudes Influence	Interest, understanding. Loyalty, consistency, support, etc. Economic, social, political.
	Shareholder	as above	as above.
	Supplier	Knowledge Attitudes Facilities	} as above. Discounts, credit, quality, etc.
	Distributor	Knowledge Attitudes Facilities	} as above. In store promotion, storage, transport, etc.
	Government (Domestic)	Knowledge Attitudes Facilities	} as above. Stability, subsidies, grants, protection, etc.
	Government (Foreign)	Knowledge Attitudes Facilities	} as above. Tax credits, free trade, etc.
	Community (Action Groups, Individual Citizens)	Knowledge Attitudes Influence	} as above
External (indirect)	Overall Physical Environment	Pollution free: Air Water (river, marine, estuary) Soil	} Cleanliness. Fertility } Attitudes, crime rate, delinquency, income levels, purchasing power, price/income index, productivity.
	Social Stability	Reduce: alienation, gap between haves and have-nots, rate of inflation	

Table 3

*Transaction Accounts (examples)*

<i>Asset Element</i>	<i>Measurement Factor (Transaction area)</i>	<i>Measurement Unit</i>
	<i>Physical/Environmental Accounts</i>	
Internal Work Environment	Nutrition, warmth, ventilation, lighting, workspace, safety, physical health.	Calories, temperature, air flow, square footage, injuries, deaths, illnesses;
Internal/ External Environment	Sanitary and rest facilities. Air, water, soil, noise pollution.  Materials utilisation, re-cycling; fuel utilisation, waste disposal and processing.	Levels of provision. Parts per million, de-oxygenation, toxicity, decibels. Rate per annum; % recycled, processed.
	<i>Economic/Financial Accounts</i>	
Consumer Supplier	Volume, spread, turnover, attitudes Credit/discount facilities, volume, attitudes.	Nos., £., %. Dep., £., %.
Shareholder Distributor	Spread, turnover, loyalty. Space, storage, payment, promotion, attitudes.	% months Footage, units, days, £., %.
Financier Government	Volume, terms, endurance. Tax credit, subsidies, protection, attitudes.	£., days £., units, legislation.
Community/ Citizens	Complaints, compliments, law suits.	Nos.
	<i>Social/Personal Accounts</i>	
Employee	Aptitudes, internal promotions, manpower development programmes, recreational and social facilities; strikes, absenteeism, attrition, demotion, labour turnover, mental illness, initiative, responsibility, honesty, integrity etc.; laziness, withdrawal, frustration, apathy etc. job satisfaction-dissatisfaction.	I.Q., Personality Test Score, programme/ facility levels. Days, nos., ratios, types of illness, case histories, attitude levels.
Community	Contributions to charity; employee service in local community. Disease, boredom, illiteracy, poverty, etc.	Types, % revenues. Nos., %. Nos., types, %.

Table 4

Activities	Sub Activities	Assets											
		Employees	Physical Resource	Consumer	Shareholder	Supplier	Distributor	Citizen/Community	Domestic Government	Foreign Government	External Environment		
Research & Development	- research	✓								✓			✓
	- development	✓		✓						✓			✓
	- product engineering	✓		✓									✓
Production	- plant engineering	✓										✓	
	- industrial engineering	✓											
	- purchasing	✓				✓							✓
	- manufacturing	✓		✓		✓							✓
	- quality control	✓		✓		✓							✓
Marketing	- warehousing & distribution	✓		✓		✓							✓
	- market research	✓		✓						✓			✓
	- sales operations	✓		✓									
	- advertising & promotion	✓		✓		✓							
	- packaging	✓		✓		✓							
	- distribution	✓		✓		✓							
	- manpower	✓											
	- organisation	✓											
	- industrial relations	✓									✓		
	- allocation of funds	✓		✓		✓							✓
Accounting and Finance	- planning and budgeting	✓		✓		✓							✓
	- accounting	✓		✓		✓							✓
	- Physical	✓		✓		✓							✓
Transaction Account	- Economic	✓		✓		✓							✓

Relating Assets to Organisational Activities

**Table 5**

*Aspects of Waste*

<i>Asset</i>	<i>Asset factor Unexploited/ Unutilised</i>	<i>Liability factor Undischarged/ Unrequited</i>	<i>Aspects of Waste</i>
Employee	Physical strength; manual dexterity. Intellect, enthusiasm, initiative	Pollution free atmosphere; warmth, ventilation. Job variety, promotion opportunities, autonomy of operations	Deterioration in strength/dexterity. Laziness, apathy, disinterestedness, defective management
Physical Resources	Durability Re-cyclability	Any storage facilities Re-cycling facilities	Rust Rapid dissipation
Consumer	Loyalty, consistency	Quality product	High fall-off rate in consumption
Supplier	Credit	Prompt repayment	Loss of supplies
Distributor	In store promotion	In store after sales service	Loss of preferential treatment
Government (Domestic)	Investment subsidy	Plant location in development area	Loss of tax savings
Government (Foreign)	Trade protection	Retain locally major proportion of profits	Loss of investment opportunity
Local Authority	Amenity grant	Land reclamation	Loss of cash flow
Citizen	Word of mouth image promotion	Facilities for disabled; charitable contributions	Loss of favourable image
Physical Environment	Clean air and water	High level chimney stacks	Pollution

THE XY APPROACH TO SOCIAL AUDIT

The following account describes the approach of the XY Company to the commissioning of a social audit. Unlike other examples in this thesis, it can only synthesise some recent thinking on the subject for the simple reason that no social audit of this kind has in fact been carried out. Nevertheless, though the narrative has yet to be proved in practice, the approach is consistent with my basic hypothesis and related concepts.

The XY Situation

The new chairman, faced with a need to evaluate his firm's social performance, found himself with a formidable task. XY employed 30,000 people in its three UK plants alone and had plants or subsidiaries in 14 other countries. Its manufacturing expertise related to nearly every industry; its customers numbered millions and, not least, many thousands of families depended on XY for their source of income or held shares in the company. The predominant position of XY in the electronics industry meant responsibilities both to the general public and for the state of the industry as a whole.

Though XY was a socially conscious company, the size of the problems and the difficulties in analysing them appeared insurmountable. Though the Chairman had read of analytical techniques and methods of measurement as well as developments in the social sciences, they appeared mainly descriptive and lacking practical application. Business friends had, however given him the name of a consultancy specialising in social audits and, valuing an independent perspective as a matter of principle, he turned to them for help.

The approach of the Consultancy

The consultants explained the nature of the social audit and the procedures for conducting it. They explained that the state of the art was such that most audits were valuable only internally, i.e. for modelling a company's own programmes for social responsibility. Though attempts had been made to use the information collected for the purposes of public relations, the difficulties of measurement and analysis in something so intangible as social responsibility precluded the social audit from being used in the same way as a financial audit.

The procedure was itself straightforward. The company had first to decide what resources it had available and then select those operations which it felt important to audit. Within these, it would then select specific activities for further attention. Then the Chairman and consultants could structure "audit teams" to produce some preliminary measurements and analyses. These could then be compared by the consultants with objective performance criteria that they had developed and adjusted to the particular XY circumstances. This would help to formulate and implement a programme of action and it could be expected that, as the consultants got to know XY Company, each subsequent audit would be easier to conduct.

This was simple in the abstract but the Chairman had only £18,000 for the audit and neither knew the full implications of XY activities nor those that were most crucial. Certainly, XY retained a commodity research group and was concerned in consumerism and product safety. It also made charitable donations. But it was ignorant of its social posture in many areas such as pollution, accounting for labour relations, relations with local authorities and minority groups, female hiring and the effect of

its plants on their neighbourhoods. Much of XY's expansion was through acquisitions but it had no idea of the adequacy of its merger policy; XY had a large R & D programme yet knew little of the social effect of its inventions.

### Preliminary Identification of Problems

To identify the most important areas, the consultants therefore presented the Chairman with a checklist of company activities that had a significant effect on society and asked him to evaluate these by assigning number values to what he believed was the probability of problems arising in these areas as well as to the impact on XY if these problems arose. Once these numbers had been selected, they were multiplied yielding a result which roughly indicated their ranking.

The resulting priorities for the XY Company turned out to be pollution, labour relations, mergers and acquisitions and relations with local authorities. From this the question was still which areas and how intensively would be audited and so the consultants suggested a conceptual framework which would assist this definition. There were four basic variants to keep in mind (see Chapter 15):

1. How widely did XY want to get involved?
2. How deeply should the company get involved?
3. What perspective did XY wish to adopt?
4. What method or approach should XY adopt?

This framework was variable. In pollution, XY would want to scrutinize

the entire organisation in depth, as a review of existing operations and with a quantitative approach. On the other hand, the depth and range of labour relations problems could only allow a narrow focus, with the resources available, on some selected activity where a number of problems interacted. So the initial audit would serve to give XY an idea of its social impact in an area as well as introducing the concept of auditing some areas in depth. The Chairman agreed and decided to direct the audit to a project currently before him that would involve labour relations, community relations and certain other concerns.

Peerless Plastics Ltd (the Z Company)

The project concerned the removal of a plant that XY had recently purchased from South Wales to the Midlands. XY was still partially dependent on outside suppliers and, in keeping with its policy of self-sufficiency, had acquired Peerless Plastics Ltd, a supplier over many years of crude plastic and plastic parts. The Company's owner, had been willing to make this move but there were disadvantages in that the Peerless plants had inadequate pollution control facilities and the South Wales plant was in an inconvenient location. In the first instance, therefore, XY had to install effective pollution control equipment and then, to eliminate transport costs, it intended to move the South Wales plant to the site of the second Peerless Plant in the Midlands.

The South Wales plant, located at the Head Office site at Ostcrip, employed 205 people and the Midlands plant a further 200. Turnover for the Company was £6 million with a net profit before tax of £400,000. It was a reasonably well run company with good labour relations, especially in South Wales where it was the sole large employer in that area.



Structuring the Audit

Each audit team would contain an executive of XY who was familiar with the sector to be audited, an adviser from the consultants who would act as liaison with the Chairman and coordinate the audit and several experts and technicians who were knowledgeable in the area being audited. Paralleling the work of the audit team would be an "independent panel" composed of prominent scientists, public figures and senior businessmen, with whom the consultants themselves retained close contact, to weigh and formulate criteria by which companies' social performance could be gauged.

Once organised, each team would follow a similar course. By examining the audit sector's workings, it could identify the significant variables. Then it could establish an information base on these variables to be collated into an overall measurement of the sector. This was not easy, since each measurement involved different units of measurement and some variables that could not be measured at all. Finally, the company's social performance had to be evaluated by comparing the data collected on its operations with the criteria collected by the consultants and their independent panel. These criteria, which were not easy to state, were generally based on the consultant's own environmental analysis of key trends, research into academic studies and codes of good practice, on the legal requirements of progressive countries and on the performance of industry leaders.

Once they had developed these criteria, the consultants met with XY management to adjust them to the company's specific circumstances. The consultant then applied these standards to the data collected by the audit teams, judged the Company's social performance and, finally, met with XY management to devise a programme of corrective action.

The Audits

The areas of XY concern to be audited were, therefore, the overall impact of moving the Peerless Plastic factory in Wales to the Midlands and, in addition, the Chairman requested a thorough audit of XY's status on environmental pollution. After selecting the audit teams, the auditing programme was scheduled and meetings began. We will look first at the second of these two audits since pollution was a matter of concern to both the XY and Peerless Companies.

The Pollution Audit

The audit defined pollution to include everything from air and water pollution to public nuisance caused by noise and odours. The team mapped XY's operations to determine which should be scrutinised. Of the XY plants, the Clydeside and South Wales locations posed few difficulties since they were not engaged in pollution-creating work. The Peerless plant in South Wales, soon to be moved anyway, was also "clean". But the XY and Peerless Midlands plants posed problems; the former with both stamping works and its own power plant which emitted noise and airborne effluents respectively and the latter which was a chemical works and having problems from the odorific chemicals it used and some dangerous substances it dumped in a nearby river. It was at these two plants that the audit team spent most of its time.

The XY Midlands Plant - smoke and noise

Employing nearly 10,000 people, this plant was concerned with nearly every phase of appliance construction. What air pollution it produced was due to its coal-fired power plant. Although XY tried to use low-sulphur

fuel, as suggested by the local authorities, the plant still emitted quantities of SO<sub>2</sub> and much soot. Measurement of this problem was relatively simple because the legal minimum was known and so criteria were available. The audit team's technicians were able to establish that the plant's emissions were within the legal limit and that the soot content, though not regulated by the local board, was less than in other nearby plants.

Even so, the consultants considered "social responsibility" to imply more than observance of legal minimums. Although normally the level of SO<sub>2</sub> would not be exceeded, meteorological conditions could disrupt the normal dispersion and exceed the safety limit. To avoid this, they recommended that XY erect a higher smokestack. Also to combat the effects of thermal inversions they suggested that XY should close the power plant on days when weather conditions precluded effective dispersion. They also suggested that XY instal filtering devices or even an electrostatic precipitator to reduce soot emissions and thus help keep neighbouring property clean.

### Noise Pollution

Noise affected plant employees and neighbours alike. Its origin was the plant stamping works and heavy lorries. The task of gathering data was not difficult as it involved known technical measurements and standards. The audit team found that noise levels in the plant ranged from 50 to over 140 dBA.

Although employees already received ear protectors in high noise areas, it was suggested that XY take steps to reduce the overall noise level since the maximum level a worker should experience without ear protectors

was 90 dBA and even at lower levels performance was affected. While standards as strict as those in residential areas need not apply, it was recommended that the plant's overall noise climate be reduced, where possible, to 75 dBA.

The main disturbance to neighbours was from lorries and its disruptive effect was considerable. Recent EEC studies had suggested a fence-line noise limit of 36 dBA for plants. The consultants believed this standard was adequate and that, since lorry noise was intermittent, they felt that limits of 55 dBA (35 dBA indoors) by day and 45 dBA (25 dBA indoors) by night were reasonable. They recommended that XY require drivers to reduce speed on approaching the plant and avoid quick acceleration to keep noise to a minimum and they also suggested certain alternate routes where possible.

#### Odour Nuisance and Water Pollution

The Peerless Midlands plant used, amongst other chemicals, acrylate monomers which produced an odour so pungent that two grams could affect people living miles away. There was no system to control the odour apart from certain handling precautions.

Though there was no way to measure at what level the acrylation became offensive, one whiff convinced the team something should be done. Developing criteria was a problem. The recommended safety limits for employees allowed a concentration of monomer that was still unpleasant. The consultants, in this case, halved the recommended level to safeguard against bothering nearby inhabitants and then contacted a pollution control systems engineer for estimates to cover further measures.

Peerless' chemical processes produced undesirable by-products, including sulphuric acid and hydrogen cyanide, which were dumped in a nearby river even though this affected marine life and made the water non-potable.

Initial measurements of the effluents were below fatal but the consultants' criteria, based on laws in the USA and a pending UK pollution Bill, prohibited dumping either chemical at all. Dumping effluents into local sewers was rejected because of the loads this would impose on the local sanitation system and the simple recommendation was that XY should install a regeneration system for the sulphuric acid and an incinerator to dispose of the hydrogen cyanide. Each of these systems would help pay for itself, as the acid recovered and the heat given off by the incinerator could be used in the plant.

#### Moving Peerless South Wales Plant

The Chairman realised that the plans to move this plant to the Midlands involved social considerations of every sort - labour and community relations, acquisition policy, and relations with local authorities.

The task of auditing this move was great and required a careful definition of the audit and identification of the areas of its concern. The Chairman and consultant therefore listed the following issues :

#### labour relations

how many of Peerless's employees would be required to leave S Wales?

how many of the employees would actually make the move?

what would happen to the employees not asked to move with the plant?

what would happen to those employees who refused to move and were fired in consequence?

what compensations would be given to the employees moving?

what compensation would be given to the employees fired or made redundant?  
 would Peerless's employees, especially those in management positions, be  
 fitted into the new organisation with adequate regard for their talents  
 and training?

would adequate provision be made for special rights of Peerless's employees,  
 i.e. seniority, profit-sharing plans, bonuses, pay readjustments, and  
 worker participation schemes?

### community relations

how many families would move out of the plant's locality (Otschip, S Wales)  
 if XY moved the plant to the Midlands?

what would the resulting drop in payroll, retail trade, housing prices, and  
 the local tax base be?

what opportunities for employment would there be for those thrown out of work  
 as a result of XY moving the plant?

what could XY do to ameliorate the problems it raised by moving the plant?

what would the impact, if any, be on the Midlands site's locality in terms  
 of the locality's transportation, utility, energy, sewage and water supplies,  
 its housing, education, commercial and financial circumstances, and its  
 relations with other industry?

would the local schools produce skilled labour in sufficient quantities to  
 meet Peerless's future manpower needs?

### business relations and merger policy

what provisions would XY make for Peerless's traditional suppliers and  
 other customers?

what were XY's responsibilities, beyond simply repaying debts, to Peerless's  
 creditors (e.g. posting of security on demand)?

would the merger weaken XY's status as a debtor or investment?  
had Peerless and XY made adequate disclosure of the merger plan and  
procedures to everyone affected by the merger?

The consultants and Chairman narrowed down the sectors that contained most problems. Business relations were healthy; so, too, were sales. Phasing out of suppliers presented little difficulty; there were few outstanding debts and third parties had been well informed about the merger. The acquisition would enhance the value of XY shares and the move to the Midlands would be easily absorbed in the area.

More difficult questions concerned labour and community relations. These divided into the impact of the move on the plant's employees, the effect on the village of Otscric and the problem of integrating the South Wales employees into the Midlands organisation. Separate audit teams were set up for each of these.

#### Community Relations Audit at Otscric

The problems arising from removing the Otscric plant defied easy quantification, involved intangible and conflicting social questions and demanded a type of response that no business could give. The audit team therefore approached the problem functionally. The essence of moving a plant was that assets (including employees) are moved from one area, reorganised and deposited elsewhere. The first part was the one that interested the audit since, in the wake of the move, people lost jobs by not moving, or because of the decline in economic activity in Otscric, there could be a glut or shortage of local resources and the community's long term prospects were affected.

The scope of the move involved a cost to the area of £670,000 in payroll revenue, and considerably more in losses from supportive services. Only 110 of the 200 employees had agreed to move, many of whom were not originally from South Wales. This would leave 90 Peerless and unknown others without jobs. The Ostcrip area economic and tax base would be eroded, its industrial development, directed partly to the chemical industry, would be undermined and its building programme for hospitals, schools and houses would be affected. Because of the predominant Peerless position in Ostcrip for so long, a responsibility was clearly felt towards the village.

So the audit team listed the difficulties facing Ostcrip under the headings of housing, employment, the economy of the area, education and health care and quality of life. Since there were no ready answers to what XY should do, the problem was again referred to the "independent panel" whose broad experience and opinions were worth hearing. The outline recommendations were for steps to gradualise and minimise the impact of leaving including a phased removal over several months, financial support to continue the adequacy of services in the public sector until they became used to the decreased demand and support for any local training schemes designed to combat unemployment. XY was encouraged to use its business contacts to help Ostcrip obtain new industry and also to divert, if possible, some of the activity of its Welsh circuitry plant to Ostcrip. Finally, recommendations were made to increase severance pay and other financial support for the Peerless employees remaining in Ostcrip.

#### The Audit on Employees being moved

The issues facing XY were what to do with the employees who were not moving and how to compensate those who were. In practice, XY would dismiss those who did not move, while granting severance pay, maintaining some pension rights



and granting some bonuses. As noted, the consultants had suggested some increase in severance pay to ease the economic shock on them and on Otscrip, and it was concluded that the future of Peerless unemployed, being tied to the future of Otscrip in general, would best be helped by XY helping Otscrip.

For those employees who were moving, XY's policy was to pay the cost of the move, and, when necessary, costs such as children's schooling, additional living stipends and, if relevant, costs of visits to the UK. In the Otscrip case, the consultants examined what the effect of the move on families would be.

Properly viewed, the move affected the employee, his family, his job and his entire way of life.

The consultants produced, therefore, a precis of what XY should do.

Moving the family - costly, but XY to pay the costs

Housing - temporary accommodation needed: also note the cost of houses, rates etc higher in Midlands. At present XY has not agreed to pay the costs

Transportation - distance to work in Midlands likely to increase

Cost of living - essentials more expensive in Midlands and quality of life lower than in South Wales

education - generally better in Midlands: also facilities for young

employment - job security and prospects better in Midlands

On balance, therefore, while some things would be improved by the move, the

employees' general well being could be expected to decline. Some computations of the additional costs to families were then made.

### Housing

The average family spent one third of its income on housing and prices in the Midlands were 10% higher. Moreover, to find houses with gardens and other facilities to match South Wales, and to obtain equivalent mortgages, would be harder. It was suggested that XY should adjust salaries to cover the increased cost of housing and pay an allowance for additional housing costs as well as help employees find lodging and mortgages in cases of hardship.

### Transport

The additional cost of getting to work would reach £100 annually and it was suggested that XY should reimburse this expense.

### Cost of Living

Apart from housing, the general cost of living was 10% higher in the Midlands. Some of this was covered by XY offering pay rises to those who agreed to move. It was further recommended that XY should increase pay rises to a full 8% of the total salary which should cover the increased cost of living without reimbursing the employees twice for the increased cost of housing.

### The Quality of Life

Although the issue was an intangible one, the auditors felt that costs of this kind would be taken into account by employees in deciding whether to move or not and chose not to attempt to redress any imbalance with economic remedies.

The Cost

The consultants received the audit team's report and determined that the financial cost of the move to XY, including moving costs, bonuses, salary rises and allowances to employees left behind in Otscip would total over £110,000 in the first year and at least £60,000 in each subsequent year and this did not include unforeseen and hidden expenses such as helping Otscip to adjust to the plant's departure.

XY's Chairman was at first taken aback by this apparent high cost of responsibility. On further reflection, however, he was able to weigh up the benefits, albeit subjectively. The recommended programme of action would have long lasting beneficial effects for XY. It would contribute to the development of XY's human assets by motivating all employees (not just those involved) and increasing their acceptance of XY as an employer worth working for. It would develop XY's goodwill asset not only with the local communities concerned but with government, trades unions and potential recruits. Although he could not put a monetary value on these benefits, the cost was small compared with the total cost of the move and so the Chairman felt happy he could recommend the programme to his Board.

## PART 5

### PUBLIC AND SOCIAL AFFAIRS PROGRAMMES

#### CHAPTER 19

##### THE BASIC ELEMENTS OF A PUBLIC AND SOCIAL AFFAIRS PROGRAMME

Public and social programmes must do the right things in the right way for the right reasons. This apparently trite preface to this chapter is simply to underline the now repetitive statement that, unless such programmes are undertaken within a body of theory that is acceptable to business practices and unless certain basic criteria are observed, the programmes may go awry.

##### The Criteria

In public and social affairs, the third circle, four important criteria must be observed. The first is that those with the mandate, be they elected or professional, must define the problem. It may well be that a business approach can help in this definition but the ultimate responsibility in the community field lies solely with those who have been appointed to look after these matters. If this criterion is not observed, then the accusation that business is extending its tentacles of control may well be justified. More important, the programmes undertaken may falter because some apparent, rather than real, need has been determined.

The second criterion, which follows, is that the task of business is to define the particular expertise that it can place at the disposal of the elected or professional workers. In a general way, it may be felt that an experience of management is common to any business but, over and above that, there may be particular experience in systems analysis, consultancy, pharmaceuticals and so on, or there may be professional experience in the legal, real estate and other departments to be found anyhow in the bigger organisations. The principle of not going outside one's subject should be an obvious one.

The third criterion is that each decision to embark on a programme should be preceded by answering the question whether the proposal reflects a direct business or a community priority. If, in the first case, the answer is that it will clearly enhance the standing and success of a particular firm, then it may be still right to do it but it will be a second, rather than a third, circle activity. If, on the other hand, the answer is that a community need has been expressed, whether at a local or national level, and that its satisfaction will strengthen the community by which, naturally business, including any particular firm, will benefit, then the priorities for third circle work are correct.

The fourth of these criteria is that the other partners in the project must be identified and the relationship with them established. Community problems will tend to be complex and requiring an amalgam of many skills to solve. Business will be one element only and the other elements will almost certainly include local or national government, voluntary organisations and, possibly, academic institutions. Within this whole, individual responsibilities and lines of reference must be clearly defined. This is particularly important as the juxtaposition of different life-styles in a single project is itself not least of the problems!

Having established the criteria it is then possible to examine participation in a number of areas.

### Political Affairs

Many business organisations, understandably, decline to become involved in party political matters as companies, even though they allow individual employees to do this. In general this is right because business involvement in the community should rarely be partisan. But there are other "political" matters in which business can be legitimately involved.

Local government often needs the injection of high calibre

management in its planning functions. To allow employees to stand and take part, in office hours, as Councillors, regardless of political party, is an obvious contribution.

Sometimes pressure groups may be involved in local politics with objectives that do not coincide with the programmes of the elected Council. For example, in many Boroughs there is pressure against the free hand that appears to be given to property developers. To support this pressure with the name of the firm may be questionable. On the other hand to build a computer model showing the effect of the "deprivation cycle" and to allow either the Council or the other groups to answer "What if" questions from commonly held facts would be a service. Indeed, there already exist joint ventures with local authorities involving fiscal and urban planning, with the industrial and government partners each contributing to the cost and manpower.

At the national political level, the same dispensation can be given to employees to stand for Parliament without any attempt to support a particular party. If we complain about the lack of industrial experience in Westminster, then time off to fight an election for adopted members of recognised parties and some agreement that, if the employee loses a later election he may return to the company without loss of pension, is a small price to pay for finding an antidote.

Service on Government Committees and Commissions is another way not only of contributing business experience but also of widening the horizons of those who do this. In Britain, the Home Office has appointed industrialists to the Boards of Prison Visitors and is seeking help in the training and employment of ex-prisoners; the Department of Health has sought Chairman of Hospital Boards from industry; the Department of the Environment, recognising that the running of a national park extended to routing, traffic control and amenities placing, looked to a systems engineer for assistance.

Not least of the spin-off from this kind of participation is

that, by working together for common objectives, some bridge over the credibility gap between business and government is built - an objective that is surely desirable if business is to continue in an atmosphere of greater understanding.

### National Affairs

We start with the problem and, from it, work back to see what can be done. What are some of the evident problems on a national front? They will surely include the poor working relationship between politicians and civil servants on one side and business on the other. In the USA this is less noticeable than in the UK where contact is too often on a pressure and complaint basis and where a mutual understanding between the administration and business is at least poor. Credibility gaps exist elsewhere: between students and the establishment, between academics and business, between professionals and industrialists and between manager and managed. This represents a dissipation of resources and saps the national effort.

An obvious remedy is the exchange of people at Principal and middle management level in the Civil Service and business. Normally these exchanges are for two years and the person seconded takes on real responsibility. Translating a desirable goal into practice is, however, hard because it is essential that good people are seconded, and the immediate benefit does not accrue normally to the releasing department. The result in the UK is that the total of exchanges remains a little more than a score and more effort is needed to force Civil Service Department heads as well as business managers to accept the immediate discomforts of change for a longer-term purpose.

An example of successful bridge building was a course which I organised and took place at Cambridge University. Four senior civil servants together with four directors from each of four large corporations worked in syndicates for a week looking at aspects of government-industry relations. Not least of the benefit was that the two

sides gained an understanding and respect for each other's way of working. If this were to be a yearly event, there would be quickly built up a cadre of senior people who had learned to work together.

Such bridge building exercises can be applied elsewhere. The point is that the investment of resources in this way can only work to the long term good of the country and thus of all elements within it.

### Youth and Education

The quality and quantity of education is of concern to more than just educationalists. Business involvement in education can be at two levels. One is the 'second circle' approach. Here there is a natural interest from a recruiting and image point of view. The provision of seminars, scholarships and sandwich courses is related directly to a particular firm's or industry's needs and there is little new in the principle of this even though there will be variations of practice.

The 'third circle' approach starts with a national need and one that has been defined by other than businessmen. Careers guidance, unrelated to recruiting can generally be given better by businessmen to schools in their community than by the average careers master whose practical experience is minimal. Youth Employment Officers often welcome a partnership with businessmen provided the latter can remain disinterested and avoid being patronising. Where there is a shortage of, say, maths or science teachers, it is possible, with the agreement of the teaching staff, for graduates in local firms to supplement this resource. There is a need for businessmen to do a real job with the Boards of Governors of schools, particularly on the accountancy and administration side, and this help is of more practical benefit than the mere inclusion of a magnate on the letter heading!

As with all 'third circle' activities, educational programmes must observe the criteria outlined at the beginning of this



chapter. I stress this because it is often forgotten.

A more detailed account of one successful experiment, known as the Trident Trust, is given in chapter 21.

### Business Management

There is a constant need for those in the profession of business management to keep up to date. This can only be done by the injection of practising managers for periods of a term or more into the business schools. There is also a need to study and review the effectiveness of management training itself. The Mant Committee, set up by the British Institute of Management and headed by a management training officer seconded from a major company to carry out a study of the role of business schools, was an example of this.

There are several others. Again in Britain, working with PEP (Political and Economic Planning) a small group of senior managers with a proven record of enlightened personnel policies in their own firms, produced the highly constructive report "The Right to Manage". Another group of businessmen founded the "Institute of Manpower Studies", seconding people from the member firms to staff the Institute which is engaged in looking at the manpower and skills required by the nation as a whole.

One of the country's great needs, which is still to be resolved but which is the subject of study by a number of people in the UK, is an "Institute for the Management of Change". It is possible to react in three ways to change; to drift with it, to resist it or to manage it. The first two alternatives are the current habit so we have management by crisis rather than of it. Only by defining some longer term goals of society, establishing priorities within these objectives and then managing the technology that produces changes can we manage change rather than let it manage us. This, indeed, is one of the principal themes of my thesis and business has a key role to play. (1)

Another area of development that needs exploring, particularly in Europe, is that of risk capital. A number of people in the business world have been exploring the possibility of making some liquid capital available to promote small businesses along the lines of Route 128 round Boston, Mass. It would seem desirable that the promotion should extend to enterprises not directly connected with the sponsoring firms and that the funds could possibly be matched by a merchant bank. It would also seem desirable that the sponsoring firm should second a man as financial controller until the business is on its feet. But the scope for developing this thinking seems great. (2)

The benefits of good management in the country as a whole are indivisible. It therefore becomes the duty of those organisations which have established good management practices to share their own experience with vendors, suppliers, teaching establishments and national institutions so that the overall level of management in the country is raised.

### The Community

A business is part of the community be it small or large. The managers will also be parents, householders, purchasers and possibly active participators in community affairs. The fabric of that community is shared by all in it. If there is a failure in the community, whether it is a social failure or the closure of some enterprise on which it largely depends, then I suggest that this is something in which all elements should get involved.

A large employer in a depressed region of Britain summed up this general attitude in the words "We have always known that, if we fail, the community will suffer because they depend on us. Now we see that, if the community fails to grow and prosper, we and all other elements will suffer also". The practical result is that this firm is now seeking to define a project, together with the local authorities and other employers, which will help to set new horizons for that community.

## Voluntary Organisations

Voluntary organisations can be divided into those that are ephemeral and those that have some established structure. Within their spectrum of activities, they cater for a range of needs ranging from crash pads and assistance to unmarried mothers to discharged prisoners, social service for youth and the homeless. Drug addicts, potential suicides, dossers, drop-outs and society's fringe claim their services along with the old, the sick, the incapacitated and others. The means range from community centres and Settlements to coffee bars and soup kitchens. Three things tend to be common. The first is that they tend to be pathfinders in areas that have not yet been accepted as the responsibility of the established authorities. The second is that they plug the gaps between areas already defined as the responsibility of those authorities, and the third is that they contain a very high percentage of individualists who, whatever their other qualities, often do not easily cooperate with each other!

Voluntary organisations in Britain receive some £40 million a year\* from industry in the form of donations. They receive more from government organisations and charitable trusts. They do not often get the mileage from these resources that they should simply because the element that is lacking is management.

One experiment I conducted at the request of three national organisations involved a weekend course for twenty five workers during which the management training staff of IBM : taught them the basis of budgetary control and project management.

When the first Ugandan refugee camp opened in Britain, the leader of the voluntary organisations who were meeting the refugees and helping their immediate needs, asked for help from industrial management in organising the camp. I helped find three firms which responded with their people working long hours until government services took over.

A number of examples of ways in which business can help voluntary

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\* In 1974

organisations are given in Chapter 21 in the course of describing the work of the Action Resource Centre. It is important to remember, however, that the staff of most of these organisations are, almost by definition, suspicious of the motives of business and doubtful of their values. Their often concensus type approach to the resolution of problems contrasts sharply with the tightly structured approach of a business organisation. Reporting lines are blurred; money is spent according to the rightness of the cause rather than the fullness of the till and the manager who works with them must be genuine, flexible, mentally tough and patiently tactful.

### International Affairs

The size and influence of the Company will largely determine the size of the community which affects it and which must therefore be taken into account in the corporate affairs policies. International companies are constantly faced with those who are not thinking in the same dimensions and are affected by world and regional events. They can also contribute to the solution of problems on the same scale. Indeed, they must do so as shown in the rationale in Figure 1.

Even these large companies cannot alone do much but, if they act together, they can with their political and other partners do much. There already exist some examples of projects where this cooperation has already taken place including business contribution to the work of United Nations agencies. Looking to the future, the Aigrain Committee listed for the EEC in Brussels numerous areas where an industrial/political partnership could be valuable in a European context. The recommendations of the Stockholm Conference on the Environment are likewise not going to be fully implemented without the resources of business.

The United World Colleges are a specific way in which international business can invest in its own future by helping to grow a generation that is thinking in international dimensions. These sixth form colleges, located in several parts of the world and each comprising thirty or more nationalities can become one of the greatest forces for unity and international understanding that

the world has seen and can be supported by scholarships, bursaries and teachers' fellowships.

The relationship of the industrial nations to the developing countries is likewise a major concern for the international company and already some of the large multinationals are working in these areas on tasks like education, scientific farming support, the development of communications, medicine and so on.

The possibilities are varied.

What is

important to recognise is that cooperation at this international level will be a demand on the resources of the international company just as another level of the community will be more directly the concern of the smaller firm.

### Sponsorship

An area of activity gaining increasing prominence in business thinking is sponsorship. The term is often used to include a wide range of corporate support for activities such as the arts, sports, and youth programmes.

The majority of sponsorship funds today are disbursed merely for product or corporate publicity. As such the support activity or event is secondary to the publicity media surrounding the project. Publicity is, of course, a valid objective for sponsorship.

A secondary purpose has traditionally been altruism. Altruistic sponsorship has been going on for many years, particularly in the US. In Britain, with some notable exceptions, such sponsorship has been confined in the main to charitable contributions of a limited nature. In Europe generally the traditionally greater involvement of the State in providing resources for arts and sports has meant a total separation of business from involvement in these activities.

But today, there is another purpose; the third circle purpose. The reasoning behind this is the same as for all public and social affairs programmes. In the case of support of the arts, for example, there is a clear need for industry and commerce to become the new patron in order to maintain and expand the cultural

heritage on which the growth of society partly depends. It is increasingly apparent that governments cannot afford to provide resources for everything that is required and, in the arts and sports, this usually means that government support available is for activity at a minimum level. But civilised and healthy society needs more than this minimum; our cultural heritage depends on the attainment of the highest standards; the health of our citizens on the rapid expansion of sports opportunities for all.

There are numerous methods of sponsorship through which business can make a contribution. Some of these are listed in Table 1. (3)

There are also several examples of sponsorships at both local and national level where third circle criteria have been successfully applied. Support for sports at the grass roots, rather than at the publicity conscious competitive end, may go unheralded but the contribution to the sport as a whole rather than merely a few leading players is much greater. And without this support at the grass roots, the top end cannot survive for long. One company in Britain, for example, sponsors a competition encouraging lawn tennis clubs to improve themselves and provide opportunities for young people to take part in a local activity. (4) Still in tennis, another company is involved in a coaching scheme for young players. The immediate publicity value of both these projects is low; but the contribution to the sport is significant and appreciated.

In the arts, there are in Britain some instances (not many) of business support, although these are usually highly localised. In Germany such support is easier to come by. In the USA, the arts have for years had business as their main source of support. One international company (US based) adopts a policy of supporting contemporary artists and musicians in every country in which it operates. One company in Britain has developed a long standing relationship with a leading national orchestra.

But all current examples, even when added together, represent but a drop in the ocean in relation to what is required.

Summary

The above are examples of ways in which companies can become involved in programmes for corporate affairs. Obviously all companies will not do all these things, nor should they. But what all companies must do is to examine those external factors which affect them and business as a whole. Then, having had the problems defined by the competent experts in the community and having defined the particular business skills they can offer, they should be prepared to invest a proportion of their resources, more often than not in terms of manpower, to help safeguard not just their own interests but the fabric of the society on which they and others depend.

The XY and Z Companies' Programmes

As an example of the way in which this whole subject can be approached, the following Tables 2 and 3 develop a programme for the XY and Z companies. The setting is naturally indicative rather than comprehensive, nor is it presumed that the XY or Z Company will choose to do all these things. Rather is the intention to show how a company approaches the whole matter and the kind of programmes that might be practical.

FIGURE 1

XY AND INTERNATIONALISM

Rationale for XY involvement in international  
Public and Social Programmes

LONG TERM PROFITABLE GROWTH

DEVELOPMENT OF WORLD WIDE MARKETS

INTERNATIONAL STABILITY

SOCIO-ECONOMIC DEVELOPMENT  
OF DEVELOPING COUNTRIES

INTERNATIONALIST POLICIES

DEVELOPMENT POLICIES

- Breakdown national barriers
- Promote international institutions
- Support international education
- Push towards greater multinationalism

- Promote Research
- Support Education
- Provide technical skills

+

Lobby governments/other companies to pursue more enlightened policies towards internationalism and developing countries.



Table 1

Sponsorship: Summary of possible motivations and types of contribution

MOTIVATION	CONTRIBUTIONS			
	Cash		Non-cash	
1. Direct Business Interest				
1.1 Consumer Visibility Advertising	X	X		
1.2 Company Prestige Advertising	X	X		
1.3 General Public Relations/ Company Goodwill	X	X		
2. Social Responsibility				
2.1 Altruism	X	X	X	X
2.2 Enlightened Self-Interest	X	X	X	X
	General grants/ Covenants	Grants for specific projects	Guarantees (underwriting against loss)	Programme Advertising
				Management skills/ secondment Direct Advice
				Materials/ Product donations/ Loans/ Price Reductions
				Loan of company buildings and facilities
				Benefit of company discount facilities with suppliers
				Fund raising assistance/ co-operation with other firms
				Scholarships/ Commissions/ new works

- \* a) use of company contacts to raise funds
- b) use of company funds to finance professional fund raising
- c) loan of company personnel to fund raise

Environmental Factor	Strategies	Programmes
INTERNATIONAL 1. Attitude towards MNCs	i. Increase understanding of MNCs ii. Contribute to priority activities of EEC iii. Identify key problem areas in S America & Africa and contribute to their solution iv. Build up management skills in key countries v. Contribute to understanding between Europe and USA	(a) Help set up MNC research and information programme (b) Participate in MNC hearings (c) Develop code behaviour of for MNCs (d) Use business expertise to help international committees
2. Development of EEC	i. Contribute to the effective development of the EEC ii. Demonstrate the positive role of business within the EEC iii. Assist in national and international understanding of EEC	(a) Joint research into EEC social problems (b) Assist development of European technologies (c) Support for committees, conferences etc. (d) Promote business input into European strategic planning
3. Stability of South America and Africa	i. Promote understanding of needs of developing countries ii. Analyse role of business development process iii. Encourage acceptance of role of business as agreed with national and international organisations	(a) Joint research with national and international organisations on needs, priorities etc. (b) Communicate issues, manner of business participation, etc. to wide audiences (c) Contribute to national plans (d) Assist UN agencies
4. Management skills in developing countries	i. Increase opportunities for development of skills ii. Provide own skills for solution of problems	(a) Include non-company people in company training programmes (b) Secondments of skilled people to national & international organisations and areas of special need (c) Help setting up of training institutions (d) Exchange of personnel
INTERNATIONAL 1. Credibility gap between government, academics and business	i. Provide platform for bridging gaps ii. Promotion of joint planning and ventures	(a) Exchanges with civil service (b) Contribute to setting up of joint staff colleges and joint action groups (c) Secondment of personnel (d) Encourage executives to write, speak and explain business
2. Inflation	i. Contribute analytical skills to study of inflation ii. Help broaden study from purely political basis iii. Increase awareness and understanding of causes and problems of inflation	(a) Support research (b) Work closely with professional and trade organisations (c) Train executives to write and speak publicly
3. Attacks on free enterprise	i. Increase the awareness and acceptance of the role of free enterprise and profits in a mixed economy ii. Encourage the pursuit of social responsibility by all business	(a) Commission books and teaching materials for schools and universities (b) Top management speeches, articles, luncheons, seminars on free enterprise, profits and social responsibility (c) Active promotion of social responsibility by directors and employees in professional and trade associations

Table 2

Table 3

Z Company—A Public and Social Affairs Programme

<i>Environmental Factor</i>	<i>Strategy</i>	<i>Programmes</i>
<p>A. NATIONAL National concern about the possible over-reliance on plastics at a time of crude oil shortages and also about the continued use of non-bio-degradable plastics</p>	<p>i. Improve understanding of problems within the industry</p>	<p>(a) Participation in work of industry and trade associations (e.g. Plastics Institute) (b) Encourage industry funding of further research in universities and assist such research, particularly in local universities</p>
<p>B. LOCAL B.1. Unemployment in South Wales, particularly in Otscip area</p>	<p>i. Assist in generation of employment opportunities</p>	<p>(a) Top management participation in campaign to attract new investment (b) Provide opportunity for non-company personnel to be trained in company training programme</p>
<p>B.2. Pollution in area very close to where majority of Midlands plant employees live</p>	<p>i. Assist in improving quality of physical environment in area</p>	<p>(a) Sponsor luncheons, articles etc. to encourage other industrialists in area to reduce pollution levels (b) Support local voluntary environmental groups</p>
<p>B.3. Social malaise due to poor living and social conditions of large sections of local population</p>	<p>i. Assist efforts to ameliorate situation</p>	<p>(a) Give encouragement to employees participating in voluntary work and support through limited time off and small donations for carefully specified needs (b) Get together small committee of local industrialists to assist local authority where required</p>
<p>B.4. Inadequate sports facilities for young people</p>	<p>i. Encourage improvement of facilities in area</p>	<p>(a) Hold annual Club of the Year Award for most improved sports club</p>

## Notes

- (1) I have made several attempts between 1969 and 1979 to have such an Institute started. Unfortunately, there are too many vested interests to allow it to happen.
- (2) This idea was pushed strongly from 1970 by myself and a number of colleagues. My first paper recommending IBM become involved in venture capital and small business was in early 1971. A paper I wrote for the Board Social Policy Committee of the National Westminster Bank (See Section I) was submitted in December 1975. In IBM's case, it took some 7 years to act, as one of the driving forces behind the London Enterprise Agency. In NatWest's case, it took 5 years to develop a small business program. In 1981, support for small business in Britain is a "trendy" idea - unfortunately for the country, the programmes are some 10 years too late.
- (3) Table 1 comes from the book I wrote for the Royal Philharmonic Orchestra in 1974, entitled "Developing a Partnership between Business and the Arts: a case for sponsorship". Section I has a copy of the summary.
- (4) The program, called "IBM Club of the Year Competition", was a joint project I organised between IBM and the Lawn Tennis Association. It lasted six years and led to the formation of the official LTA "Clubs Committee".

SHARED RESPONSIBILITY

Long term community interests transcend the sectional. While it is doubtful that, to misquote, what is good for General Motors is also good for the USA, it is almost certainly true that, in the long-term, what is good for the community as a whole must be good for the elements within it.

A common future means joint planning for the future, together with a sharing of the rewards, obligations, risks and penalties. This will never be achieved from entrenched "adversary" positions. There is a need, on both sides of the Atlantic, to work out the practical degree to which labour and management can work with each other and with the government in sharing decisions about the future. True incentives have to be developed to allow all participants to benefit from satisfaction but also to share in the penalties for failure.

A practical consequence of any resolution to embark on this kind of sharing is some mechanism which would allow government and business, whose concept of the long-term is so markedly out of step, to get together within some common terms of reference.

The Role of the Business Manager

Each partner in joint community planning has a distinct role. That of the businessman is a motif that threads through many chapters in this book. So far as implementation is concerned, it is a subordinate role in which the business manager places his skills at the disposal of those whose job it is to conduct affairs in the public and social field. Having said this, however, the very real contribution of the businessman, and particularly the senior executive, should not be underestimated. He can be the source of new ideas

and sound judgement and can act as a catalyst for new developments. Indeed, one might go so far as to say that a major cause for weakness on the national stage is the quality, both personal and administrative, of political compared with business leaders. Nor is this surprising when one remembers that to appoint some one hundred office holders from a total of perhaps three times that number represents a ratio of captains to troops that, in any other sphere, would be totally unrealistic. Nevertheless, in today's complexities and with the kind of problems facing governments becoming even less capable of a doctrinaire, political solution, the need for an infusion of top class executive talent into the government arena has become a priority. Even in the British Civil Service, where the standard of intellect, integrity and administrative competence is as highly concentrated as anywhere in the world, there is still a requirement for the particular talent of the business executive who thinks in terms of management by objective and control. To encourage its talented people to offer their services for a period to government is major and practical evidence of a firm's sense of social responsibility.

The social responsibility of business is something that has come to stay. Not all the actions that have been taken so far, however well meant, were effective or sensible. Nor has there been too much clarity of thought about whether social responsibility was self-generated, defensive, reactive, self interested or merely doing good. If there is a shake out now, this is to the good.

#### Questions affecting Business

In studying further the role of business as a social force, we can consider such questions as:

- \* whether the size and nature of the business organisations affects their social function

- \* what is the social function of profit
- \* where is the demarcation line between public and private enterprise
- \* how can business ensure that its technology and products are socially useful rather than harmful

These are not new questions and some of the subjects are covered in previous chapters. In particular, the function of profit is one of the subjects for the "Debate" in Chapter 2. What might be reasonably asked is the degree to which the average business manager can marshal his thoughts to justify the system in which he believes with the same degree of competence shown by the average trade union leader in denouncing its iniquities. Surely it is part of his responsibility, if he wishes to enjoy the satisfaction of its success and avoid the penalties of its failure, to be able to speak convincingly on behalf of the profit motive and explode the ludicrously unfounded comments of many of its attackers. He will also be better placed to observe those areas where enough is still not being done; to look at the activities that business must now embrace if its long term profitability and usefulness to society is to be assured and to turn attention both to the way in which the profit cake is divided and the way in which information about this is promulgated.

As a practical aside, a useful way to give senior managers this basic and necessary ability to communicate externally is through close circuit television. There are a number of competent outside interviewers, already experienced with radio and television, who can expose deficiencies and perform a task of education in a manner that would, in most cases, be unacceptable from colleagues.

### The Size of the Organisation

Each business organisation, be it small or large, must start

by identifying the external variables that it deems crucial to its continuing existence. These will vary in detail according to its size: so, too, will the programmes on which it can reasonably embark.

The manager of the small firm will be concerned with his local community, local press and dignitaries. His firm's reputation for employee relations will make or mar its ability to recruit from the area. Its directors will, or should, be considered part of the community scene and may serve on local Councils or Boards of Governors of schools.

A medium sized firm will affect and be affected by what is going on in a wider community and its suppliers and customers will probably extend beyond the region.

A large firm is likely to operate in a national environment. It may also have a particular relationship with a local community if its major location constitutes a large part of that community's work force. It therefore has to select from the total factors that could affect it those for which, either alone or in consort with others, it has some special expertise and thus justification for action. For example, while any company may claim general management ability and may be affected by poor government planning or, say, the drug problem, the former is more suitably the area for experts in systems analysis or management



consultancy and the latter might best be tackled by a pharmaceutical company!

### The International Company

The international company is affected by the problems affecting the relationship between any large organisation and its environment but there are also other specific and often highly emotive beliefs that affect its operations. Here are a few:

- \* Ownership and control are resident outside the host country
- \* Employment of nationals constitutes a disguised brain drain
- \* It is beyond local union control
- \* It manipulates the money market
- \* It is an agent for the country where it has its base
- \* It is more powerful than many nation states

Many of these comments are untrue some of the time.

In fact, the international company, just because of its position, is more likely to identify itself with its host country, more likely to constitute a stable employer and a catalyst for top skills, more likely to be a force for social usefulness where it operates. But the failure is not only in not denouncing those that have come up to the critic's expectancy but rather in the lack of effort and success in explaining what international operations entail and thus assuaging the concern that too many, even if wrongly, feel.

## Private and Public Enterprise

The measurement of efficiency in terms of profit applies in the main to the private enterprise. In many cases this need not be so but in practice the intervention of political factors has turned potentially profitable, even though nationalised industries, into subsidised organisations. The division of British Steel resources into two areas because of the need to relieve unemployment and the boosting of a shipbuilding firm sited where it is no longer accessible to the large ships of today may be politically and socially questionable but, from the point of view of profitability, they were disastrous.

On the other hand, there may be nationalised services - postal, health and education - where the goal is social above all else. In such cases it may only be possible to talk in terms of reducing cost by the maximum efficiency, at least until some acceptable method of quantifying the social factor is evolved. In both the public and the private sector, the yardstick of service applies. What does constitute a positive disservice is to inject a political element into a business undertaking without first assessing what that injection costs and then whether it is worth paying for. The other disservice and social irresponsibility lies in failure to apply exactly the same strict criteria of budgetary and project control that would obtain in a well run private business. As for management by objectives: well, this is as laughable in many public sector organisations as, lamentably, it still is in some private firms!

One of the tendencies is for nationalised industries to be confined to the less profitable areas of activity. In many cases they have been nationalised just because they have proved to be commercially non-viable so that government, in effect, is left to tackle the unprofitable parts of business, pursuing this task by increasing taxation.

One solution that is being offered can be termed the "pairing principle" (1) whereby the private sector will continue to operate freely in profitable areas if, at the same time, it assumes responsibility for some complementary area that is less profitable. In this way the best expertise of the private sector can be brought to bear on that which might otherwise be added to the public sector.

### Responsibility for Products

The reaction to the plight of the thalidomide children was retrospective. This tragic result was not a factor of planning. But there are many examples of products being launched which, on reasonable reflection, might be realised beforehand to be objectionable. Business promotion not only aims to satisfy actual needs: it is also engaged in bringing out or even fostering latent needs.

On the whole the "service" yardstick still applies. If, ultimately a business transaction or promotion does not satisfy a real, rather than an induced, need, then it is likely to boomerang even if, in the short-term, the business gains.

This is to enter into the field of morals and the whole question of how to establish the long term and humane goals of society; a question that is explored in the final chapter. For the moment let it simply be said that such matters, underline the importance of including the public and social affairs element in the planning process, not because it is necessarily more moral, but because specialists in this side of business have learned to weigh certain additional factors in the balance.

One final word in a section on the responsibilities of business. What a business does, and the way it is regarded, is a factor of what is done by all engaged in it.

The good or bad work of an individual is, in this sense, the act of the business, whether that individual is a leader or not.

## The Role of Organised Labour

### The Role of the Unions

Organised labour has tended, more than business management, to see itself as the custodian of moral purpose and standards in business. This may be unjustified in the light of an increasing number of business managers who feel they are morally just as committed and the truth is probably that it takes all sorts to make a manager's or a worker's world.

Nevertheless, the history of the labour movement stems from a past that included unacceptable working conditions, exploitation and deprivation together with lack of security, all of which were attributed to a relentless pursuit of profit. Nor do all these problems belong to the past and so the labour movement still sees its task to be the supply of corrective measures and the plugging of gaps that business leaves behind in its apparent efforts to remain accountable to the shareholder. This attitude is often not without justification since it can fairly be asked how often management has, for example, initiated a wage increase or fought for a minimum wage.

Critics of organised labour, on the other hand, will also ask questions. Much of the eroding effect of inflation is attributed to the stand of union members who do not recognise that it is only by raising efficiency and productivity that the pool of wealth can be increased. The need to find new markets and broaden the base of production has not been helped by the resistance of unions to Britain's entry into the EEC, nor has the militant defiance of the Industrial Relations Act, passed by law in the British Parliament, seen to be other than a disservice to democracy.

All of which indicates that any distribution of halos is foolish.. There are shortfalls on all sides. How can they be made good?

### Elected Leadership

One of the problems of the labour movement is that its leadership is elected. This is not a cynical statement and it anyhow ignores the highly questionable way in which this election takes place. It simply means that, like any leadership, it can lead only as far as it is allowed. The need at present is to get the conditions that will allow the responsible trade union leader to lead where he wants to go. He will lead by consultation and the participation of members and, if the undue influence of a disruptive element is not truly representative, the policy of the leadership will be distorted. A first responsibility, then, for union members is to raise the degree of responsible member participation and thus the standard of communication within organised labour.

### The Right To Strike

The organisation of labour stemmed from the basic fact that one employee does not equal one employer in terms of power. For this reason, the individual seeks the solution to individual industrial problems by acting collectively with others. Organisation means that there is a channel to resolve problems and this can be a stabilising factor to be recognised by employers. What it does not, or should not, mean is that this organisation presupposes a constant state of confrontation. In fact, in a majority of cases this does not happen.

The sanctity of agreements has to be maintained and the final right to walk out is not to be invoked lightly. As society becomes more interdependent, one man's right to strike becomes a threat to another man's right to work. In some areas, such as power, hospitals and sanitation, the threat

extends further. The cost of strikes is felt, not only by business and labour but by those who, although not directly involved, are disadvantaged as a result. Should, therefore, all parties directly involved in strikes be prepared to share their cost? Can the moral imperative that apparently surrounds some strikes have any justification at all when the occurrence of the strike invests that action with a sanctity that automatically prevents other members of the community from exercising their own rights in relation to it? Can the attempts by other members of the community to pursue their regular business fall under the moral condemnation of "strike-breaking"? How, in short, can the rights of the whole community be asserted? The assertion of rights is not one way traffic.

A second area to be examined, therefore, in terms of labour responsibility is the way in which alternatives to adversary positions can be developed; alternatives to the dislocating cost of strikes, agreed both by labour and management and enforced by law.

### Political Alliances

The trades unions constitute an important political element in both the UK and USA, and this fact constitutes another area for examination in terms of social responsibility. In Britain the major influence of the unions has been in the formation of the Labour Party and in influencing its social policies.

The accountability to those who have elected the union leaders and representatives in Parliament can be debated. What is the social role of unions? Whom do they represent? Is it their members, the workers as a whole and, if so, as producers or consumers? When a leading unionist states that the purpose of his union is not only to obtain better conditions for its members but also to "overthrow the capitalist system", one can ask whether he represents any lawful group at all. The very fact that unions are strongly organised in

areas where bargaining power is greatest could be seen to be the protection of the strong against the weak.

This is particularly true in the public services. To push up wages in the public services to a level equal to the private sector would be at a cost that would either cause those services to deteriorate or make them too expensive to use. The responsibility that is widely recognised to maintain public services must carry its rewards for "good behaviour". All parties have to find ways in which those who waive their right to strike can be rewarded by joining a higher quartile of wage earners so that the best behaved do not have to be equated with the lowest paid.

But the social compact must go further. A compact that recognises special rights and responsibilities is one thing. A compact that represents a special deal between two sections of the community such as the Trade Union movement and the Labour Party in Britain, often at the expense of other sections of the nation is no compact at all. Rather is it a sign of a visible and unhealthy trend towards the shift of power from the elected Parliament towards the non-elected institutions, with as its most obvious example, the militant element of the major trades unions.

A prime social responsibility of the rank and file of the labour movement, as well as of its many moderate leaders, must be to refuse to be taken for a ride by the more militant elements and to insist that power is exercised in the way to which, in Western democracies, we have become accustomed.

#### Interdependence in Industrial Units

From a national point of view, there is a need for unions to take part in a phased and properly considered response to change. They need to join constructively in issues affecting corporate development and manpower planning, to help with a new design for company law and to seek a

new statutory basis for employee and management responsibility to all concerned in the business. The essence of participation is the sharing of responsibility for consequences. The right to vote is not enough.

There is also a need to look beyond the existing parameters of operation. The establishment of worker participation is just a formula unless unions and management display equal forethought. What, for example, are the implications of the move towards a distribution society? What does this mean in terms of a shorter working week? What about retraining and continuing education? How can a mechanism be developed to ensure that obsolescence of skills does not lead to redundancy of people? And, nearer today, to what extent is anti-social behaviour in the work force a protest, not against wage rates, but against the form of their environment, against the means of production and the disruption of family life through compulsory overtime? Surely the lower incidence of strikes in those firms that have abolished the production line environment is no coincidence?

### The Circles of Responsibility

Like management, labour has its outgoing circles of responsibility. The initial need to organise in protest against the wrong use of power can, if this purpose is itself abused, lead to a new power group with the corresponding degree of corruption that all power risks. More serious, this leads to the creation of new centres of powerlessness in our national life.

The removal of inequities is one step. The development



of the social health of society in partnership with other sections of the country is another. Perhaps the next great step is to evolve ways of auditing the results of union action, in the same way that there is a move to audit the social behaviour of business management so that the rights and responsibilities of organised labour go hand in hand.

### The Role of Government

Government can act in two ways. It can either adopt the 'motorway' principle, by which the broader parameters of societal behaviour are laid down but within which there is freedom of movement, or it can impose the detailed legislation that, in traffic terms, corresponds to one way streets, lights, signs and, too often, culs de sac.

Even the most limited legislation, however, requires the process of Government and no move towards a better degree of social responsibility will be complete without Government as a partner.

The classical prescription if an evil arises is to pass a law to regulate omissions. But the trouble is that the problem is normally far ahead of the legislation. This tendency is made worse unless the partnership of government with other sections of the community is on-going. A relationship built on a pressure and complaint basis is unlikely to be profitable. Sensible solutions are not going to be found in the rush of matters of high controversial content and urgency. All relations have to be kept in good repair all the time to stand the strain of urgent controversy. What is not sense is for everyone to "do their own thing" and then expect government to step in and clean up the results when they become intolerable.

### Government and the Management of Change

Two factors inhibit the successful partnership of government in responding to change. The first is the political line-up

of the trades unions and businessmen. Unless relations are divorced from this, the political process will never be effective nor will it ever be able to regulate the conflicts between power groups in business.

The second factor is that government and business do not think in the same time scale. Long-term thinking for a politician tends to be as far out as the next election. This is self-defeating and a growing number of citizens recognise that the problems of the coming decade or two are not amenable to the treatment of political expediency. Not only is the credibility gap between government of any party and the rest widening but the measures taken by political government may well be out of phase with the problem and thus accentuate it.

We need to find the mechanism that will allow governments to tap the think power of other sections of national life and to give government permission to work in the time scale that it really requires. The deep social needs of the country have to be met by more than the ephemeral policies of the party of the day.

#### Towards an Incomes Policy

Whatever the failures to maintain a stable rate of economic growth, stable prices and full employment at a macro-economic level, no incomes policy is going to work without the support of both management and unions and without the recognition that only governments can do certain things. It is important to recognise in turn that nationally evolved policies cannot be made effective unless they are accompanied by the consent and cooperation of labour and management at the level of the enterprise. The ordinary man has come to see the need to evolve an incomes policy. The power to produce this lies with the three groups concerned and to evade this responsibility is to sell out society at large.

## Government Responsibility and Business Representation

An elected government has defined degrees of power and is accountable for what it does. The same provision for labour and management is less defined. If profoundly new attitudes are to be developed, perhaps the infrastructure of our society and its government needs to be considered. What is the role of government in a mixed society? Is it responsive, merely providing a framework in which society can flourish or is it creative in the sense of planning the best type of environment? If the latter, how can business management and labour be brought into this process and how can it possibly be successful if they are not. Would industrial or union votes be more or less unfair to society than the university ones of an earlier era? Is responsibility without power any more moral than power without responsibility? What is the acceptable level of government intervention?

These can only be questions. To find the answers we have to understand better the proper political roles of business and labour in the future. What seems inevitable, however, is some diminution of sovereignty and independence for organised labour and business. A free for all, with a choice between a corporate and a bankrupt state is unacceptable. Government can no longer be considered in the role of a generally unpopular referee. Only a new cooperation between all sectors can avert a slow, or not so slow, disintegration.

### The Carrot and Stick

A major role that can only be played by government is the provision of rewards as well as penalties for certain kinds of behaviour. The present penalty for pollution, for example, may make it cheaper in some cases to pollute and pay the penalty for it than to stop polluting. Likewise, it is more rewarding for many not to work than to

work. Tax incentives, at present applied in areas of doubtful usefulness, could be granted for retraining people in-house and for other socially responsible activities. The pressure of Government monopoly purchasing power can be directed so that vendors are selected from socially responsible firms and those that have good labour relations. This presupposes a means by which a social audit can be carried out on such firms and a healthy corollary to this would be a willingness for government to look at itself; to look at its own behaviour, at the accountability of its civil service and, in short, to lead by example. There is no quicker way for government to get business to do its own social audit than to have one done on itself - and then to publish the results.

#### The Responsibility of the Institutions

There are, in our society a number of professional institutions and other bodies that play an important part in national life. Or do they? A few questions will indicate a line of thought that the reader can pursue. Has the Institute of Personnel Management ever censored a member firm that failed to practice good personnel policies? How often did the Institute of Public Relations or the professional bodies concerned with advertising and promotion ever strike off or even threaten to do so, a firm that was guilty of unethical statements or of inducing objectionable demands? Has the Institute of Chartered Accountants ever insisted that the firms where it has members practice sound accountancy procedures? The lamentable failure of some well known companies might not have been had some supervision, and some disclosure of information, other than an annual audit, taken place. Has a merchant bank ever made the removal of an incompetent Board member or the promise to invest their money where it is most needed a condition of financial support? Perhaps they have but it is not published. More probable is the fact that non-intervention has traditionally been the practice, - a practice that, if ever justifiable, is certainly not now.

The point is that every institution in the country has a responsibility to the country to practice and maintain the

highest professional standards. When organisations thrive on incompetence and doubtful practices, it is reasonable to ask whether, in fact, this responsibility is recognised. Self-generating reform followed by the embodiment of this reform in the statutes of the institution, its policies and code of conduct; an acceptance by those affected backed by accountability for performance and, finally, enforcement by some formal or informed sanction seems to be a check list worth considering by our institutions.

### Responsibility of Higher Education

Given the profound changes that are taking place in the world and, not least, the criticism levelled at existing institutions by the academic world, how do the universities measure up to their own responsibilities? To what extent do they criticise and do nothing or direct their research towards helping to support a new and necessary business ethic with a body of theory in the field of social audit and social responsibility? To what extent is the academic world proving accountable to anything but itself?

Certainly there are university projects which are concerned with Operations Research, Decision Making, Marketing and Industrial Relations but the integrated approach which would examine the whole business system in its relationship to the needs of consumers, employees, shareholders and the public interest is missing.

Work in matters of business behaviour lacks the multi-disciplinary approach that is prerequisite; it is based too often on out of date premises and the practical experience of those heading up research projects is often minimal. The interplay between academics and senior, practising business people is sparse and, on the whole, new thinking is left to the Business Management schools and the Polytechnics, both primarily serving the interests of business.

The resources required for the kind of research that looks at the national, rather than the purely business interest is only going to be found in the universities. With the immense disbursements now being made to these institutions, it is reasonable to expect that, in return, some constructive attention is paid to one of the most pressing problems of the time.

Some efforts in this direction are indeed being made in the USA. Table 1 lists some of the courses being offered in American Business Schools.\* The strictures in this section therefore apply more to Europe.

### A Joint Approach

There is a general, if still instinctive, feeling in the UK at least that the time for more 'horizontal' thinking has come. The vertical lines of division between sections of society are unhelpful nor is there any evidence that those who are on a particular side of one of these lines are necessarily right. On the other hand, what has become painfully true is that no one section, no particular party, no movement supported by management or labour alone has been right enough to solve the problems of society as yet. The mood that is seeking to break out of the confines of social, political and other compartments suggests that it is only by some new and total approach by unions, management and government together that we can ensure any real bargaining about the way the economy is run so that action in one area does not destroy the quality of life in others. The adage that there is one person who knows more than anyone and that is everyone may yet prove a practical guide in national life.

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\* In 1973

TABLE 1Courses on Social Responsibility at  
Graduate Business Schools in the US

In the Summer 1973 edition of Business and Society Review, an article on US business schools' teaching activity in social responsibility listed the Courses on Corporate Social Policy at 23 Graduate Business Schools, based on information submitted in March 1973. The following are some examples:

Boston College, School of Management

## Courses

Problems of Administration in Changing Environments  
Contemporary Issues and Management Responsibility  
Competition and Public Policy  
Legal and Social Issues  
Business Leadership and Urban Problems

University of California At Berkeley, School of Business  
Administration

## Courses

Political, Social, and Legal Environment of Business  
Seminar on the Modern Corporation  
The Interaction of Business and Government

University of California At Los Angeles, Graduate School of  
Business Administration

## Courses

Public Services and Private Functions  
Business and Society  
Business Policy and the Organisational Environment  
The Philosophy of Enterprise Control  
Comprehensive Planning in the Public Sector

Carnegie Mellon University, Graduate School of Industrial  
Administration

## Courses

Managerial Environment  
Political Process and Social Change  
Seminar on Public Policy  
Law and the Changing Environment

Columbia University, Graduate School of Business

## Courses

Conceptual Foundations of Business  
Business and its Urban Environment  
Comparative Analysis of the Enterprise and Its Environment  
Seminar in Business and Urban Problems

Cornell University, Graduate School of Business and Public Administration

Courses

Institutions and Values in Contemporary Society  
Business Enterprise and Public Policy  
Corporate Behaviour and Public Interest  
Corporation Organisation and American Society

University of Michigan, Graduate School of Business Administration

Courses

Social, Legal and Political Environment  
Ethics and Business  
Business and Society

Harvard University, Harvard Business School

Courses

Environmental Analysis for Management  
Business, Society and the Individual  
Black Power and the Business Community  
Comparative Business and Culture  
Marketing, Management and Public Policy  
Seminar on Poverty, Minorities and Marketing  
Organisational Development in the Inner City  
Research in Social Measurement in the Firm

University of Michigan, Graduate School of Business Administration

Courses

Business, the Economy and Public Policy  
Business and Government  
Social Problems of Business  
Development of Minority Enterprise

New York University, Graduate School of Business Administration

Courses

The Social Setting of Business  
Socioeconomic Accounting  
Social and Philosophical Issues in Management  
National Priorities and Financial Resources  
Poverty, Discrimination and Related Racial Issues  
Marketing and Social Responsibility  
Quantitative Methods in Ecology  
Social Consequences of Information Technology  
Decision-Making in Social Policy Analysis

University of Pittsburgh, Graduate School of Business

Courses

Business and Society  
Environmental Influences on Business



Stanford University, Graduate School of Business .

Courses

Business and the Changing Environment  
Economics of Poverty  
Minority Employees in White Organisations  
Women in the Labour Force

University of Washington, Graduate School of Business Administration

Courses

The Context of the Business System .  
Business and Public Policy  
Cultural Change and Modernisation  
Legal Aspects of Business Regulation

CASE HISTORIES

Public and Social Affairs activities are not just theoretical. Business, even though tentatively, has moved into the "third circle" and is continuing to do so. The hope is that, as this move continues, a critical mass will be achieved and a new norm of business behaviour will be established.

The following examples are meant to indicate a range, rather than a dimension of these new activities, and are given in the full recognition that much other work is continuing on both sides of the Atlantic, a lot of it unpublicised.

Public and Social Affairs in the US

Business activity in public and social affairs has increased rapidly ever since the Detroit riots in 1968. A whole range of programmes are being implemented at local and national level. Many succeed; some fail. The experience is that the ones that fail do so because they broke one or other of the rules set out in Chapter 5. Motives have been mixed. For some companies, involvement in social problems has been a matter of social conscience or a response to an immediate problem. For others it has been simple altruism. Some wish to attract bright recruits who would otherwise not join the Company. Until 1974, only a few companies applied the business case in Chapter 4 as their justification for the programmes. But 1974 saw a marked change in thinking and a drive towards the business case. This means that programmes are more likely to be sustained and improved, even during tough economic times.

The few examples below give an idea of the extent and variety of 'Third circle' activities by business in the US.

Human Resources Network

Human Resources Network, started in 1971 by seven young graduates in Philadelphia, is a non-profit educational corporation whose charter purpose is to collect and disseminate important information about pressing social issues. Its first task was to compile a national compendium of corporate social involvement and, after

responses from 105 corporations, banks and insurance companies, published in 1972 a most useful reference text entitled "Profiles of Involvement" (1) which lists over 500 social action programmes. An updated version, with over 1500 such programmes, was published in 1975, after completion of this core thesis.

In its analysis of research findings, the authors of "Profiles of Involvement" point to the fact that "the sponsoring companies initiated about half of the programmes. The other half were responses to community requests or a joint initiation between the companies and the communities. Some companies joined together with other companies in both initiated and responsive programmes. A small number of programmes were started as a result of recent changes in the law."

Most of the programmes researched had been started the two years previously.

The analysis also gave the following breakdown of the issues to which corporate action was directed:

General community affairs	29
Consumer programmes	11
Drug abuse	17
Education	85
Environment	47
Housing	26
Employment opportunities	18
Job training	72
Minority-enterprise	53
Health	21
Safety	12
Urban development	13
Volunteerism	11
Youth	62
The Arts	14
Miscellaneous	37

In my view, "Profiles of Involvement" is required reading for any organisation contemplating a programme of public and social affairs. The detailed case histories of hundreds of programmes make it a unique potential contribution to a field where there has been much talk but little action.

There follow now some brief examples of work, all of which it should be remembered, have been researched and monitored in detail.

A. General Community Affairs

1. Community Relations Committee of Salem, Anchor Hocking Group

Measures to involve large numbers of citizens in identifying and solving problems contained in racial tensions. Industrialists used to train others in conference and problem solving techniques. Result: despite riots in neighbouring areas, no civil disturbances in the location chosen.

2. Community Development Corporation

A wholly owned subsidiary of Citizens and Southern National Bank founded to provide business loans and mortgages for low-income families and housing. Results: 210 businesses financed and 300 mortgages provided.

3. Urban Economic Analysis

Studies on urban and economic affairs published by First National City Bank. Result: recent policy changes in housing, education and economic development have been consistent with the recommendations in these studies.

4. SK and F Information Services Centre - Smith Kline and French Laboratories

Set up to enable the community to help itself, thus making it possible for residents to develop their own sense of direction. Services and information provided to 2000 area residents.

B. Consumer Programmes

1. Signal Finance Group

A Consumer Credit Counselling Service to restore self-reliance and family well-being to those involved in unfortunate financial circumstances. Result: in 28 months 3,600 clients have been helped to find relief from pressures on emotions and family life.

C. Drug Abuse

1. Community Drug programme

A comprehensive programme from Clairol Inc for four towns. Now supported by local government, youth and private citizens.

2. Last Minute to Choose

A programme to curb the increase in drug abuse by young people and heighten public awareness of the problem. Television programmes sponsored by The Fidelity Bank. Result: a flow of requests for the film by all concerned agencies and organisations.

D. Education

1. Bell of Pennsylvania

A Co-operative Work Study to give High School pupils exposure to the world of work. Students who have taken part are more readily placed in work on leaving school.

2. One-to-One Programme - Central Penn National Bank

To improve reading levels and arithmetic skills of children in city's schools. Individual attention and new experiences have brought new relationships between children and tutors.

3. General Motors Institute

To recruit black high school students for engineering education and assist applicants to GM who have no formal education. 128 minority students enrolled: 12 matriculated by 1972

4. Faculty Loan Programme - IBM Corporation

To loan services of IBM employees for teaching assistance at 18 Black colleges. Quality education provided; promising students attracted and funds from private sources attracted.

5. Project Units - Nationwide Insurance

To unite the resources of the school system and community to solve problems facing schools in seven areas - education programmes, finance, buildings, staff resources, urban problems, communications and organisation. Over 1900 volunteers involved and 26,000 man hours expended.

E. Environment1. American Motors Conservation Awards Programme

To encourage preservation of natural resources through awards. Widely recognised as a prestige programme.

2. Learn to Live - Marine Midland Bank - Western

Designed to evolve workable solutions to environmental problems. Information disseminated through seminars, film festival, cash awards, youth forums, displays, TV documentary, matching grants, surveys. Good attendance at events and requests for information.

F. Housing1. Middleton Giant Step Inc. Armco Steel Corporation

A programme to develop with other corporations improved housing for low-income citizens. Help in qualifying for grants and loans for building and improvement.

2. New Opportunity House Loans - Bank of America

To make money available for housing in low-income areas and promote home ownership in minority communities. By mid-1971 over \$100 million loans to 6100 families.

3. Camden Housing Improvement Projects - Campbell Soup Co

Again, to provide housing and home ownership possible for low-income families. Vacant or abandoned properties brought up to standard. Result: so far 2% of the city population rehoused; 400 houses reconstructed; the blight of deprivation arrested.

4. Urban Low-income Housing - General Motors Corporation

Interest-free loans provided to two non-profit organisations to acquire land for low-income housing. Business experience provided for black contractors and employment created. Above average housing for hundreds of minority labourers.

G. Employment Opportunities

1. Capitol Operations - Control Data Corporation

To bring employment to city's minority and disadvantaged programmes. Manufacturing plant established in Washington DC ghetto. Now focal point for some of Control Data's public authority contracts.

H. Job Training

1. Jobs '70 - Boise Cascade Group

To provide meaningful employment to unemployed or underemployed persons including orientation, counselling, job-related education and on the job training.

2. Business Experience Training - Chase Manhattan Bank

A work study project for high school students to give exposure to the working world. Through 1971, 277 trainees joined of whom 195 finished high school and 57 went to College.

3. On Site Training for Inmates of Penal Institution - General Dynamic

Training for those still under sentence and penal rehabilitation programmes involving 600 inmates. Costs provided partly by public funds.

I. Minority Enterprise

1. Aid to Minority Enterprises - Aluminium Company of America

Non-sectarian businesses employing under 500 disadvantaged people are assisted by purchasing programmes and business direction.

2. Economic Development Division - Chase Manhattan Bank

To help minority businesses develop through financial aid. A diverse portfolio includes restaurants, trucking, bus companies, designers, etc.

3. The Travellers Insurance Co - Urban National Inc

To make venture capital loans and give technical assistance to minority owned businesses. \$500,000 invested.

4. Fighton - Xerox Corporation

A people's manufacturing enterprise, operated by a black militant community group producing metal stampings and electrical transformers. Xerox assists training and guarantees to buy a portion of output.

J. Health

1. Mobile Dental Care Unit - Citizens and Southern National Bank

To bring dental care to disadvantaged children. 2500 children treated.



2. Nutrition Counselling Programme - Washington Gas Light Co

To teach families with low incomes to prepare low cost nutritious meals. Hundreds of requests for help and advice.

K. Urban Development1. Opportunity Park Urban Renewal - B F Goodrich Co

To revitalise 404 acres, before with shabby stores and abandoned buildings and now taking on the look of a new community.

2. Project Pride - National Bank of Detroit

To clean up a 55 block ghetto area. Refuse removed: lawns and fencing renovated: rat extermination. Other sections of Detroit copying.

L. Youth1. Living Witnesses - Bethlehem Steel Corporation

To convince young people of the need to complete high school education.

2. Tutoring Programme - Hewlett Packard Co

To allow HP personnel time off with pay to serve as teaching assistants at local high schools.

3. Firefighters Involving Teenagers - Xerox Corporation

33 teenagers helping to dispel inner city animosity in Rochester.

M. Volunteerism1. Celanese Volunteer Pool - Celanese Corporation

120 employees volunteering to bring professional skills to community social agencies

N. The Arts1. New York Philharmonic Concerts - Joseph Schlitz Brewing Co

To make the orchestra more widely known. Free concerts have brought audiences of over 100,000.

Public and Social Affairs in the UK

I give three examples, each involving a large number of companies, which I helped to launch and which indicate that in 1974 there was an awakening sense of total responsibility on this side of the Atlantic as well.

Trident Trust

The Trident Trust is an educational charity registered with the Department of Education and Science. It was conceived at a Ditchley Park Educational Conference in late 1970. In looking at what is called 'the problem of youth' it was felt that the real problem was that of an urban society in which the prime asset of the country, namely, its people, was not being developed. This was something in which all sectors of the community had a stake.

The first Trident project was set up in Hampshire under the County Education Authority and with an industrial coordinator seconded from a local industry. Its purpose was to provide young people, between the ages of 15 and 16 with personal experience during school term which would help develop their maturity and, at the same time, to persuade employers and society at large to value skills, experience and personal qualities not measurable by standards of academic attainment.

Specifically, as the name Trident implies, there were three prongs of such experience. They were self development, with the aim of fostering individual talent be it through an Outward Bound course or through some academic or artistic achievement; a knowledge of the community, often achieved through social service and an experience of the world of work gained through working in school term in a factory, office or shop for three weeks.

After the initial success in Hampshire, a Trust was founded in 1972 to foster the expansion of this concept in other and more difficult parts of the country. With a head office in London and generous support from the Dulverton Trust as well as industry, there are now (in late 1974) Trident operations in Leeds/West Riding, Thurrock in Essex, Cheshire, Crawley in Sussex and Darlington. More are to come. In each case the Director of Education controls the project, as well as providing an office and secretary. In each case, too, a full time coordinator is provided by local industry with the task of matching the requirements of students and outlets in the three experience areas. Several thousand pupils have now had Trident training; several hundred firms around the country are offering over 2500 work opportunities; there has been a special Bill through Parliament to allow the young people at work to be indemnified and a nation wide interest has been aroused.

#### Examples of Activities in 1973

- \* 200 young people were sponsored by the Trust to take part in courses at the Loch Eil Centre, with Outward Bound, Brathay and schooner training, with the Calshott (Hants) Activities Centre and other places
- \* nearly 200 pupils to City Challenge, residential courses for handicapped children, hospitals, environmental projects (archeology, bird ringing, red deer count) and social surveys
- \* 800 jobs identified in banks, shops, factories, laboratories, farms, airports, TV studios, garages, gas and electricity boards, offices, printers and other work environments.

From the point of view of this book, the criteria that have been followed are these:

- \* The project, though it involved industry, started with a community need rather than that of a business organisation
- \* The problem was defined by and the project is controlled by the competent professional department, that is, the Education Authority

- \* Several partners, including local government, business, the unions, schools and voluntary organisations are involved together in a project which, singly, they could not undertake. In particular, business provides an extension arm to education.
- \* The benefit accrues to society; therefore to business as a whole, being part of society; therefore to individual firms

### Quotes

#### Pupils

"The projects that were assigned to us made me more confident of myself and I found it was possible there to try skills that I little realised existed in me".

"I am now more keen to get my 'O' levels".

"At home somebody asked me if it had been depressing working with handicapped students. I cannot see how it could be depressing watching people of the same age trying to do lots of different activities, nor caring about the effort involved and accepting help and guidance without indifference. There was no distress involved and altogether we were a happy, although mixed, bunch".

#### Parents

"It increased her self-confidence. It was a valuable experience of dealing with people different from herself. She developed an ability to stick it out in difficult and unfamiliar situations".

"Beneficial to the boy because you learn more by practical experience than talk in a classroom".

"It wiped away any worry that she may have had about going to work".

#### Heads

"When they came back from their work experience they were more adult

and reasonable. They were more self-confident and considerate".

"Truancy has dropped to a measurable degree since their work experience".

### Employers

"He grew visibly in self-confidence".

"She went from shy to eager in three weeks. We hope the Project will be permanent".

The future of Trident is now being looked at in two agencies. The first is to see how the Trust can expand its activities in other interested counties. The second is to carry forward the principles of Trident to the "year between" and an experimental group, who will spend a full year on the three facets of Trident experience, will be at work during 1975.

Those interested in further details should contact the Trident Trust at Albany Buildings, 39 Victoria Street, London SW1. (Tel. 01-222-7402).

### Action Resource Centre

The Action Resource Centre (ARC) might be defined as a 'stepbrother' to Trident. It is a continuation of the philosophy that certain societal problems are of a scale and complexity that demand the resources of more than one section of the community.

ARC was established in late 1973 to act as a clearing house for matching business skills to community needs. People are provided on secondment from business to help with projects that have been defined by ministerial departments, local authorities, or voluntary organisations.

It is a registered Charity with a Board of Directors representing different areas of national life and an executive staff. It is supported both financially and with manpower by business organisations as well as, in certain specific projects, by charitable trusts. The first two years or so were in experimental mode in order to establish the criteria and methodology for joint projects. Then it could be seen whether some larger and more permanent centre, perhaps a National Resource Centre, needs to be incorporated in the national life of the UK. (1)

The secondments fall into a number of categories.

1. part or full time release of professionals to existing community projects
2. joint projects between business and local authorities
3. new projects, meeting "gap" situations, that require research and coordination

Examples of this work follow.

Part and full time release

- \* An accountant to spend one afternoon a fortnight with British Association of Settlements helping with Budget and Project control and their whole financial accounting system
- \* Auditing the 1973 accounts of the National Gyjsy Education Council
- \* Part-time Treasurer for the Hammersmith Cyrenians
- \* A chartered surveyor and architects to advise, cost and plan on behalf of Street Aid the setting up of a leisure and education centre in a vacant Covent Garden building
- \* a solicitor's articled clerk to assist at the Westminster Small Claims Court

- \* an adviser from a training board to supervise building work for the Patchwork Community
- \* a Business School student to plan the financial programme and costing of cooperatives to be set up in West London
- \* a business manager on secondment to Liverpool University Settlement for 18 months started cooperatives to provide self-supporting and self-financing occupations for local groups of young unemployed
- \* a manager to assist the Camden Council for Community Relations in promoting equal opportunity programmes in industry
- \* a training coordinator, attached for 6 months to the "In Kind" project of the St Mungo Trust, to help get spare material resources transferred from industry to social agencies

There are many other examples. Part time work allows a valuable professional service to be supplied, with minimal effort, to a non-business organisation. It broadens the outlook of the employee and is a source of satisfaction to the sponsoring firm.

Sometimes projects require longer secondments. Both Business Schools and Corporations see this project work as a way of offering a dimension of training that is not easily found in a purely business environment. In some cases, too, it is a way of letting senior managers move into retirement through a period of community work.

### Joint Projects

In areas where the employees of a single firm constitute a large part of the local work force, there is a particular opportunity for business to work with local authorities for community needs. ARC has been acting as a catalyst in five areas of the country to bring together local authorities,

employees and voluntary agencies in joint projects. In one area near Manchester, a firm has taken a manager off all other work for three months in order to spend his time exploring with local organisations how they and this firm might work together.

### "Gap" Projects

Many worthwhile projects fail because the local authorities, voluntary and statutory agencies, industry and commerce all run down different tracks, doing their own thing. Other problems fall between the clear lines of responsibility delineated for different organisations.

In Manchester, ARC was approached by the Chorlton Village Residents Association which was having difficulty in persuading the City Corporation that it would be better to improve, rather than demolish, over a hundred terraced cottages. Destruction would have meant the loss of long friendships, community links and an environment enjoyed over the years by scores of people. A firm of architects was asked by ARC to survey and plan every home. Working closely with the Corporation and Residents Association, the firm drew up a schedule for an alternate plan and, subsequently, the Corporation withdrew the compulsory demolition order. The architects are now overseeing the actual improvements.

In Lewisham, South London, the problem of unqualified, jobless, drifting black teenagers is as bad as anywhere in Britain. ARC has worked with the Lewisham Way Centre, the North Lewisham Project, Lewisham Borough Council, Lewisham Council for Community Relations and the Department of Employment to launch a training project for an experimental period. A business coordinator has been found through ARC whose main responsibility is to pull together the different elements in the projects. Five craftsmen will teach and supervise skills, such as motor mechanics and bricklaying to young people who will be paid by funds from Community Industry as though they were in normal employment. When the scheme is evaluated, it is hoped that the ideas and methodology can then be transplanted to other parts of the UK.



Broadening the Base

ARC, at the time of completing the core thesis was less than a year old. Those running it were feeling their way and testing theory. Manpower lending, a new concept in community help, was becoming a reality and, with over one hundred firms already involved. The objective of getting this involvement to be accepted as a norm in business behaviour was a step nearer fulfilment. (1)

National Westminster Enterprises

The National Westminster Bank is an organisation that is conscious of its responsibilities in the fields of community and social welfare. Like other large Clearing Banks it has a wide range of skills at its disposal and, like them, it sees periods of fluctuation in its appointment and promotion patterns.

To combine satisfying the manpower and promotional prospects of its own people with the fulfilment of its community obligations, the Bank has introduced a new concept by seconding members of its staff to local authorities, charities and other organisations for medium or long-term projects.

National Westminster Enterprises, as it is known, grew out of two requests for human, rather than financial, assistance. The first, at the request of the National Gallery, was for administrative assistance during the Titian Appeal. The second was for management help in connection with the re-settlement of Ugandan Asians.

Since these initial projects, other needs have been identified for administrators, organisers, fund-raisers, treasurers, co-ordinators, office managers and secretaries to assist in surveys, appeals, liaison, community service, publishing, training and a range of other projects where the skills of bank officers, managers and

assistants (the present composition of those taking part, with most of them in their early fifties) can be used.

While doing this work, all staff retain their status and pension rights and their salaries are paid by the Bank.

A review of the experiences to date shows that, for the community, there has been an infusion of skills and organising ability without cost and, for the Bank staff, an opportunity for service in new and satisfying fields. Other business organisations are now approaching the Bank to see whether they, too, can now initiate similar schemes.

#### International Business Committee for European Architectural Heritage Year

At the time of completing the core thesis, I became involved in a new public and social affairs project, starting at both national and European level. It was one of the first to involve a range of companies at international level.

Starting in 1974, and building up its momentum in 1975, the European Architectural Heritage Year was initiated by the Council of Europe to awaken interest in and preserve and enhance the common architectural heritage.

An overall planning function was located in Strasbourg and national committees have been set up throughout Europe. In addition to the range of government and non-government organisations already involved, an International Business Committee was also set up. Its task is to coordinate the role of business and commerce in the EAHY campaign; to promote EAHY within business and to develop programmes for business involvement. I was asked to write its terms of reference and help design its programme.

The many projects that were considered included a newsletter, a speech file, an international conference, a fund for local authority exchange programmes, a charter for "business responsibility practice" and a Foundation to continue work after 1975.

Certain clearly defined projects in the field of what may be termed "social architecture" were also being considered and these concentrated in areas where specific business skills can be brought to bear within the overall context of the goals

Summary

To many, the call to divert resources to such ventures at a time of economic constraint may seem improbable. The fact is that firms are beginning to recognise that, unless something is done now, of all times, to work on these constraints, the situation will become more hopeless. But this recognition comes for three reasons. The first is that, even at a time of struggle for short-term survival, investment in the future cannot cease. The second is that the signs of a drifting apart of business from the rest of society are too ominous to ignore. The third is that the investment of resources in this way is within the mainstream of normal business activity and is not peripheral to it. An acceptable face of capitalism is both a social imperative and a business necessity.

## Notes

- (1) As discussed in Section 1, the Action Resource Centre, which derived directly from the "Third Circle" theory, is now well established and successful, with branches all over the country. With hundreds of firms involved, it provides the best example in Britain of public and social affairs in action.
- (2) Business involvement in EAHY was considerable, particularly in the UK. The British Committee did not disband after Heritage Year was over but has remained as an Environment Committee with continuing commitment to the principles behind EAHY.