

# A personal (and profitable) journey through CSR

## Introduction

CSR stands for Corporate Social Responsibility, occasionally the C is omitted but the discipline remains – it is about governance and how well an organisation manages the stakeholders associated with that business.

The primary stakeholders comprise:

- Shareholders,
- Customers,
- Staff,
- Suppliers,
- Society
- Environment

Occasionally society and environment are linked but I think there is more to be gained by keeping them separate.

There are secondary stakeholders which include: past employees, future customers, the media and several others. For the purpose of this discussion they will be sidelined and I will stay with the primary stakeholders.

The long term goal of most organisations is sustainability which is achieved by managing the stakeholders well and with regard to their needs and wants – and also their evolving needs and wants. The driver being increased and increasing profitability.

I was recently invited to address an audience of students about to be involved in an exercise that would take a number of companies through a CSR analysis that compares how those companies manage their stakeholders today with how the company aspires to manage them.

The analysis provides a simple gap analysis that examines and quantifies the company's performance with each stakeholder.

As the audience and I were strangers I outlined my career using [deliberately] very selective aspects of my commercial background to elaborate the various elements of CSR and to demonstrate that CSR properly managed contributes to profit, growth and

sustainability – benefiting all who are associated with the organisation.

My aim was to demonstrate that tangible benefits can be delivered without getting bogged down in administration, systems, paperwork and compliance.

## Summary

Drawing on many years in corporate life and consultancy I developed an imaginary company that could deliver exceptional **shareholder** returns by addressing the various stakeholders with a positive attitude:

### *From P&L*

- Improved income by closer **customer** understanding
- Reduced costs by better **environmental** management
- Increased productivity by improved **staff** management

### *From the balance sheet*

- Improved asset base for the owner manager (major **shareholder**)
- Reduced overheads by challenging the procedures (Owner manager)

### *Cashflow*

- Faster time to market by strong **supplier** relationships

## My personal journey

### *1. On graduation*

I graduated as an ecologist in the late 1960's from Liverpool; flower power, love-ins and all that stuff, and still have a lasting interest in the environment.

There is now a drive to sustainable timber and recycling plastic which removes a number of stages from the production process, and in removing those stages removes cost.

One of my interests was in fish stocks and from memory, cod begin to breed at about eight years old. At about 12 years old they are the right size to be caught in the fishermen's nets which had a mesh size of 109mm.

If the mesh in the net had been increased to 114mm. it would catch cod 16 years old, or older – twice the breeding time, twice the numbers of fry, twice the catch; and fish & chips would still be a cheap meal<sup>1</sup>.

There are a great many initiatives that could be taken to increase availability, improve the environment and reduce costs – 10% is probably the minimum that could be expected. Regrettably we choose to do the opposite<sup>2</sup>.

## 2. *On entering commercial R&D*

One of my first jobs was to develop, and intellectually protect, new products or copy existing ones (finding ways round others' patents was quite a challenge)

In a number of projects I involved suppliers quite closely and developed their interest; they weren't in a position to pass on proprietary information, but were in a position to become enthusiastic.

By getting the suppliers close to the project it was easy to get products re-specified to save production time, to get deliveries out of schedule and [where confidentiality was not an issue] to get technical support.

These impacts, plus others, considerably shortened the 'time to market' for new developments; in some cases by as much as six months for products adding 5% to sales.

With a FMCG product or product variation, six months represents a significant improvement to cash flow, in a company that is production-driven.

---

<sup>1</sup> Probably a bit simplistic, but identifies an issue over 50 years old.

<sup>2</sup> "We do not inherit the earth from our ancestors, we borrow it from our children" Red Indian adage

## 3. *On entering marketing*

After some eight years in R&D I was invited to join a week-long intensive marketing workshop when my team won a bottle of scotch and I was invited to join marketing.

One of my responsibilities was to manage the sale of many tons of cheese to mid-sized contract customers – hotels, airlines and also the prison service.

During this period we joined the Common Market and ousted Australia and New Zealand as preferred suppliers of dairy products. However, we left about four weeks grace before closing the door to them.

The impact was about 18 months of cheese stocks 'dumped' into the UK market which caused the inevitable price depression across the industry.

I was lucky in that most of my client base didn't spend excessive sums of money on cheese, concerned more about quality and availability.

My task was to ensure that every client was treated as special, any queries, however trivial were addressed and resolved – even to the extent of sending a couple of hundredweight of cheese to one hotel in a taxi.

I made a 4% profit on turnover that year, which sounds quite modest, until you realise the industry as a whole made a net loss of 8% on turnover – 12% better than standard, simply by looking after the customer properly.

## 4. *On entering production*

Coming with a career change was one of my more demanding tasks – looking after a production shift from time to time "to keep me in touch with reality" – poppycock.

The shift I was given was considered to be the most difficult; in reality they were the most creative, but held back by processes and procedures.

By letting the shift get on with things, provided good practice wasn't compromised, and treating the staff as adults we always got an excellent yield from that shift's production, often as much as 5% above the company average.

On one occasion they decided to set a new record; left to get on with it, other than the checks for good practice, they achieved the record which I believe still stands.

#### 5. *On entering consultancy*

As a consultant I have worked [and do work] with many companies of different shapes and sizes. Many of which are owner-managed, who is the majority shareholder.

Those owner managers who have the ambition to want their companies to do well will respond to suggestion and challenge, and will listen – as a consultant I've seen many companies at different stages in their life cycle and can see potential pitfalls and unlikely opportunities.

By working with the major shareholder, ambitious companies have grown by over 25% per annum for several years; significantly increasing the asset base for the company.

An additional impact of consultancy (someone else challenging assumptions) is that new efficiencies can be spotted and overheads reduced<sup>3</sup>. These efficiencies can be between 3% and 15% depending on the need for intervention.

#### 6. *On becoming involved*

One of the projects I have become involved in is a social initiative which seeks to re-integrate young people at risk (YPAR) with society and with the police.

---

<sup>3</sup> Not just inventory but also rework and time between operations.

The outcomes have been very gratifying, with youngsters who were considered to be 'beyond redemption' finding their feet again. One of the many spin-offs for the company has been the willingness of youngsters to work as interns during the days the workshops are delivered, usually for less money as a thank-you to the team, and for the opportunity to participate again in a stimulating workshop.

Typically a workshop involves three directors, three supporters and three interns. The wage savings are about 3%; and despite urging, the youngsters will not take more.

#### **In summary**

##### ***From the P&L***

- Income can be increased
- Costs of goods can be decreased
- Productivity can be increased
- Wages (selective example) can be reduced

##### ***From the balance sheet***

- Assets can be increased
- Liabilities [inventory] can be decreased

##### ***From the cash flow***

- Goods faster to market improves cash flow and reduces borrowings

#### **Conclusions**

There are savings and gains to be made in every aspect of commercial business by the sensible application of CSR.

None of the examples noted above needed any increase in the amount of administration, compliance or reporting; and all reflect good governance at every level.

My experience is that most of the examples above are practiced by many companies, but not considered as CSR; with a little application and logic, CSR can be used as a mechanism to develop brand strength as well as provide opportunities to increase profitability and ensure sustainability.

An imaginary company turning over £100 p.a.

	No action	Potential	Section	Example	Stakeholder involved
<b>P&amp;L</b>					
Income	100	112	3	Cheese	Customers
Cost of Goods	20	22	1	Fish, recycling and renewables	Environment
<b>Gross Margin</b>	<b>80</b>	<b>90</b>		<b>10% improvement</b>	
Yield improvement	20	19	4	Production management	Staff
Other O/H's	50	50			
<b>NPBTI</b>	<b>10</b>	<b>21</b>		<b>Profit doubled</b>	
<b>Balance Sheet</b>					
Asset Increase	100	102.5	5	2.5% reinvested in assets from 15% growth (imaginary figure)	Shareholder Community
Liability decrease	75	65		c.12.5% reduction in inventory	
				<b>60% improvement</b>	
<b>Cash Flow</b>					
Time to market	18 mo.	1 year	2	Product Development	Suppliers
5% additional volume		£2.50		<b>Equiv. 2% increase in profit<sup>4</sup></b>	

<sup>4</sup> Assumes 10% interest rate