



WHITE PAPER

Profiting by “Giving Back”
Aligning Business Strategies with Community Needs

by

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This White Paper presents the core concept of the book, *Profiting by “Giving Back”: Aligning Business Strategies with Community Needs*. Service-Growth Consultants Inc. has helped over 10,500 small business owners succeed through strategies that create abundance for us all.

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Profiting by “Giving Back” Aligning Business Strategies with Community Needs

Is it possible for businesses to be profitable and also address social and environmental needs? For over 50 years, we have promoted competition and profit maximization as the model for doing business. Societal welfare was considered the concern of civil society, not the business world. As we became more aware of environmental issues, we added the idea that businesses should accept responsibility for the consequences of their actions (corporate social responsibility). As a result, the idea of reporting against a “triple bottom line”¹ – people, planet, profit – started to gain momentum.

Then an international network of business leaders, known as the Caux Round Table, proposed a set of Principles for Responsible Business “rooted in three ethical foundations for responsible business and for a fair and functioning society more generally, namely: responsible stewardship; living and working for mutual advantage; and the respect and protection of human dignity.”² These Principles acknowledged that the single-minded pursuit of profit without regard to the consequences for other stakeholders would ultimately lead to economic disaster...which it has in the financial meltdowns we’ve experienced.

New initiatives such as servant leadership³, netweaving⁴, paying it forward⁵, shared value creation⁶, Not Just For Profit⁷, and holistic business models urge us to change our assumptions about appropriate business strategies. Each of these frameworks helps us move from a competitive profit maximization focus to a focus on collaboration and mutual wellbeing.

Gradually the business community is recognizing that profitability is intricately tied to a sustainable approach, one that looks beyond customer needs to the needs of communities as a whole. After all, businesses can only survive and thrive within a vibrant community, and communities themselves benefit from businesses that are commercial successes. So the question becomes what to do about broader societal needs. In many instances, businesses see attention to societal welfare as an add-on, something done through a charitable foundation or through volunteer activities without affecting actual business operations.

The concept of “giving back” as proposed in this paper is fundamentally different. Instead of seeing societal needs as an issue of humanitarian concern to be addressed in addition to running a business, “giving back” requires that meeting societal needs becomes integral to the way in which a company does business. “Giving back” assumes that a business will design its business



operations so as to enhance the community(s) in which it operates while it leverages its core expertise.

Opportunities for “Giving Back”

So how can a business integrate “giving back” into the way that it operates? There are at least six areas where business strategies can be aligned with community needs:

Mission and objectives. The first and most important step is to expand the focus of strategic planning to include an analysis of community needs along with the usual analysis of customer needs and competitive opportunities. Once a company has defined its “community” and what that community’s top needs are, then it can identify which need(s) could be addressed through the design of business practices. For example, Dame Anita Roddick, founder of The Body Shop, intentionally built her soap factory near Glasgow, Scotland because she wanted to address the high unemployment rate, urban decay, and general demoralization in the Glasgow area by hiring people previously considered “unemployable.”

A challenge in this approach is how to become aware of critical social needs and what strategies might make a difference. One of the best ways to ensure ongoing awareness and evaluation is to solicit regular input from the full spectrum of stakeholders, not simply the shareholders, by diversifying representation on governing and advisory boards.

Marketing messages and sales strategies. Advertising plays a critical role in shaping customers’ beliefs about what they need. Businesses can play a role in ensuring that scarce resources are spent appropriately by not creating a false sense of need. Instead, they can align themselves as part of the solution to meeting the genuine needs of individuals and communities.

In addition, marketing messages can contribute to, or detract from, a sense of personal dignity and respect by the language and imagery used. In terms of potential negative impact, the documentary, *Generation M*⁸, gives an excellent critique of the growing hyper-sexualization of commercial products aimed at girls, the explosion of violence in video games aimed at boys, and the harsh, patronizing caricatures of femininity and feminism in today’s mainstream media. As an example of how marketing messages can support positive life choices, the Co-operative Group in the U.K. has set as an objective that at least 30 percent of food promotions will be for healthy eating.

Operational design and service delivery. Environmental awareness has had an impact on a range of business practices, and every business has opportunities to adopt environmentally friendly practices. While many businesses are now



recycling and using recycled paper products, some have gone further. For example, the Gap has launched a “Denim Clean Water Program” to ensure that water from washing its jeans is specially treated to make it safe and clean for local communities, as well as a “Recycle Your Blues” campaign that converts the recycled jeans into housing insulation that is then donated to Habitat for Humanity.

Human resources. A focus on the education and training of the local labor force can be particularly rewarding in terms of increased employee productivity and an expanded pool from which to recruit employees. For example, the Marriott has as one of its core values helping its workforce develop professionally and personally by providing on average 78 hours of training and 34 hours of professional development a year for each associate.

Investment in employee wellness also benefits both the business and the community at large. Johnson and Johnson, for example, has demonstrated a significant return on investment from their “Live for Life” employee program.⁹

Strategic alliances. One of the ways in which a business can influence community wellbeing is through the suppliers and strategic partners it works with. The fair trade movement was an early example of strengthening producer communities. The Body Shop was one of the earliest proponents of “Trade, Not Aid” by ensuring that suppliers (especially in developing countries) were appropriately compensated for products purchased.

Some businesses are purposely diversifying the suppliers that they use, going beyond the traditional framework of supplier relationships. Best Buy, for example, has created a mentoring program for potential suppliers in order to train them in how to successfully bid and work with large corporations like itself.

Finance. What a business measures and what it does with its profits reflects what that business considers to be important. A number of initiatives propose target figures for the percent of net profit that might flow to charitable causes. For example, 1% for the Planet is an alliance of businesses that donate at least one percent of annual revenues to environmental organizations.

There is one expense, however, that can significantly reduce the profits available for distribution: executive compensation. At a time when income disparities are growing rather than shrinking, some top executives are being paid more than the gross national product of a small country and often more than 300 times what their employees make on average. Peter Drucker, a well-known business guru, has long advocated that it is responsibility not privilege that comes with authority and has proposed a 20-to-1 ratio - i.e., that the top executive should be paid (including associated benefits) no more than 20 times as much as their average employee is making.¹⁰ So, if the executive wishes a higher



compensation package, employee compensation in general would need to increase.

In the table below, we can see the differences in emphasis between the traditional business model and a “giving back” model:

Item	Traditional Model	“Giving Back” Model
Objective	Maximize profits	Create both profit & social value
Responsible to:	Shareholders	Stakeholders
Directors selected based on:	Powerful connections	Representative of stakeholders
Strategic planning based on:	SWOT analysis	Community needs analysis + SWOT analysis
Employees hired based on:	Existing skills & experience	Existing & potential skills, with opportunities to gain experience
Employee benefits	Minimal	Training & wellness programs
Supplier selection based on:	Most competitive terms	Diversify & strengthen the supplier base
View of other businesses	Competitors	Potential partners
Marketing focus	Heighten urgency of filling an unmet need	Support informed choice
Use of profit	Executive & shareholder compensation	Reinvest in employees & community

The Consequences of “Giving Back”

Traditionally, economists have warned that focus on societal needs rather than only on core competency and profit maximization will lead to a loss of competitiveness. But research on companies that have broadened their mandate to include societal welfare and sustainability shows that these companies are actually more profitable than their traditionally-run colleagues. Ethisphere, for example, provides a graph showing that the 2011 World’s Most Ethical Company



honorees consistently outperform the Standard & Poor's Top 500.¹¹ Each of the corporate examples in this paper is a profitable and growing company.

Some businesses, in tough economic times, retreat into a traditional competitive model. But if you want your company to be profitable, including societal needs and shared benefits in your focus is key. What are you already doing? What more could you be doing? If you would like help in assessing where you are in aligning business strategies with community needs, Service-Growth Consultants can help you. And you may find that the book, *Profiting by "Giving Back": Aligning Business Strategies with Community Needs*, gives you valuable starting points to strengthen and shape your business in these exciting and rewarding directions.

¹ The concept of the triple bottom line was first articulated by Freer Spreckley in a 1981 publication called "Social Audit - A Management Tool for Co-operative Working," but the phrase itself was coined by John Elkington in his 1998 book *Cannibals with Forks: the Triple Bottom Line of 21st Century Business*.

² See Caux Round Table Principles for Business at <http://www.cauxroundtable.org/index.cfm?menuid=8>.

³ See www.greenleaf.org/.

⁴ See www.netweaving.com/.

⁵ See www.payitforwardfoundation.org/

⁶ See Michael E. Porter and Mark R. Kramer, "The Big Idea: Creating Shared Value," *Harvard Business Review*, at <http://hbr.org/2011/01/the-big-idea-creating-shared-value/ar/1>.

⁷ See www.notjustforprofit.org/.

⁸ See <http://www.mediaed.org/cgi-bin/commerce.cgi?preadd=action&key=234>.

⁹ Jenny Gold, "Johnson & Johnson's Corporate Wellness Program Could Be Model for Health Reform," November 4, 2009, <http://www.newjerseynewsroom.com/healthquest/johnson-a-johnsons-corporate-wellness-program-could-be-model-for-health-reform>.

¹⁰ See Rick Wartzman, "Put a Cap on CEO Pay," *Bloomberg Business Week*, September 12, 2008.

¹¹ See <http://ethisphere.com/wme2011/>.