

SPRING 2006

New Rules, New Plays in the Changing Game of Business

by Brian Nattress, Mary Altomare Nattress, and Alexander B. Horniman

There is a quiet revolution occurring in boardrooms, design studios, factories, and corporate offices across the industrialized world. This revolution has the potential to eclipse any industrial or commercial revolution that has come before. It goes by many names, such as sustainability, sustainable development, corporate responsibility, corporate social responsibility, global citizenship, and the triple bottom line. This multiplicity of terms, on the surface confusing, refers to a fundamental shift in the rules of the game of business—one rife with commercial opportunity as well as challenge.

In 1970, when Milton Friedman wrote, “There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits,” he added the caveat, “so long as it stays within the rules of the game.” Yet while Friedman was expounding that business rules were limited to engaging in “open and free competition without deception or fraud,” another dynamic was unfolding. Across the industrialized world, the public was becoming increasingly alarmed by the many destructive ecological and social consequences of business activities, such as the contamination of water and food from hazardous waste and the overuse of poisonous insecticides and herbicides, along with dramatic events such as the fire in Ohio’s Cuyahoga River, caused by high concentrations of flammable chemicals, and the toxic chemical contamination of Love Canal, New York.

In the United States, the unprecedented groundswell of grassroots support

in the 1960s for both social justice and a clean and safe environment led in 1970 to the staging of the first Earth Day as a series of campus sit-ins, the establishment of the Environmental Protection Agency, and, consequently, a myriad of new environ-



mental regulations. The initial business response was generally negative—compliance was often costly—but nonetheless, companies began to change their behavior.

The intervening 35 years have seen a further increase in the public’s expectations about how the game of business is to be played. Recently this process has been accelerated by business’s own excesses and rule breaking. Companies are increasingly being held accountable by the court of public opinion for the social and environmental consequences of their actions—as well as for those along their global supply

chains. Mere compliance with the law in all countries of operation is no longer sufficient. Stakeholders are demanding higher social and environmental standards and greater transparency in corporate activities.

Increasingly, a company’s value, and even survival, may depend on its intangible assets, such as brand reputation, the capacity to innovate, and the ability to attract and keep the best people. These assets are all affected—positively or negatively—by the way a company handles the social and environmental dynamics of its activities. As a result, the boundaries of corporate responsibility are not only expanding and evolving; they are becoming integral to strategy, operations, and success.

A Portfolio of Benefits

Friedman’s maxim still applies—companies are still expected to maximize profits—but the new rules insist that they do so without harming society and the environment. Many of the world’s leading corporations are expanding their notions of corporate sustainability because they recognize the shift in society’s expectations, and because they see the many commercial opportunities presented by the new rules of the game. For example, companies have begun to recognize that a proactive approach to environmental and social issues can yield a portfolio of benefits, such as reduced costs for resources through greater efficiency, more innovative offerings, more sophisticated risk management, improved morale, avoidance of



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liability, improved public perception, and a continued license to operate at home and abroad. Accounting for a “triple bottom line”—economic growth, environmental balance, and social progress—is rapidly becoming a mainstream business concept.

Nike provides an excellent example. In the mid-1990s, the company became a target for activists focused on the working conditions and treatment of workers in third-world sub-contractor factories. Calls arose to boycott Nike products, and as a result the company’s brand and reputation were tarnished. In response, Nike marshaled significant resources to explore what a triple-bottom-line strategy would mean for its business and how to derive commercial value from that approach. Today, Nike has a team of approximately 150 people, most embedded in business units, who work on corporate responsibility issues as their primary function or as a significant part of their workload. Every leader within the team has a reporting line both to the corporate responsibility group and to a business unit. In 2005, after several years of serious effort, Nike’s progress in this arena was publicly acknowledged when *Business Ethics Magazine* named Nike one of the 100 Best Corporate Citizens, in recognition of best practices in corporate social responsibility. Nike’s revenues and profits were also at an all-time high in 2005, further demonstrating that the company is learning well the new rules of the game.

Nike CEO Mark Parker and Charlie Denson, president of Nike brand, make clear the business benefits of playing by the new rules:

“We believe that a strong corporate responsibility effort will be good for business. It helps us deliver value to our five core stakeholder groups: consumers, shareholders, business partners, employees, and the community. It will help us build our capacity to achieve supply chain excellence, deliver superior and innovative products, and deepen our relationship with consumers. It’s why our sourcing managers are beginning to bring corporate responsibility data into their decisions about which

factories merit an increase, or a decrease, in production orders; it’s also why our corporate responsibility staff is spending time identifying future risks and opportunities for the company, and why they are calculating the return on our social and environmental investments. We understand that a well-managed company must reflect the society in which it operates, and it is through these social relationships that we will continue to evolve our efforts in years to come.”

Nike is not alone. More than half of the world’s largest corporations are now engaged to varying degrees in a process of more sustainable development and



issue voluntary performance reports on their social and environmental impact and progress. The 2005 KPMG International Survey of Corporate Responsibility Reporting finds that corporate responsibility (CR) reporting has increased steadily since the survey was first published in 1993. In 2005, 52 percent of the top 250 *Fortune* 500 companies (the Global 250, or G250) and 33 percent of the top 100 companies in 16 countries (the National 100, or N100) issued CR reports. If annual reports with CR information are included, the number jumps to 64 percent (G250) and 41 percent (N100). The survey also reports a dramatic change in the content of these reports: since 1999, the focus

has shifted from environmental issues to sustainability reporting that incorporates social, environmental, and economic aspects of business. Such triple-bottom-line reporting is now the norm among the G250 companies (68 percent) and is increasingly common among the N100 companies (48 percent).

The Evolving Mainstream

Who is creating the new rules of business? “Sustainability” and “corporate responsibility” are concepts still under construction. In the scientific and international development communities, “sustainable development” and “sustainability” tend to be the more common terms. In the business community, it’s “corporate responsibility” and “corporate social responsibility.”

The meaning and relevance of the various terms, and the obligations and opportunities for business, are coalescing as business, government, the academy, and civil society put these concepts into practice, building agreement about how to use them and how to evaluate and report on performance associated with them. For example, The World Business Council on Sustainable Development (WBCSD), a coalition of 180 of the world’s leading international companies with collective revenues of approximately \$6 trillion, is a global leader in realizing business value from sustainable development.

Expectations and norms evolve through social discourse and practice. To illustrate how this happens, it is instructive to look at a related process: the historic creation of common law. The common law—the legal rules for the conduct of civil society—evolved over hundreds of years of social behavior and commercial practice, and developed primarily from judicial case decisions based on custom, usage, and precedent. Similarly, the rule set relating

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to sustainability is evolving through the interplay of many forces; among them, advances in the scientific understanding of the environmental impacts of business practices, shifting societal concerns and expectations regarding corporate responsibility, commercial practice, and legislation. Concomitantly, the rules of the game are under continual interpretation and development through social discourse and in the courts.

Through their business practices, corporations help establish the rules by which other companies will eventually be judged. In the courts, when a company's behavior is in question, the judge looks at customary commercial practice as well as legislation. If that practice has evolved, and the company's actions have not, the company may well find itself the unsuccessful defendant in a lawsuit. In other words, evolving commercial practice becomes one of the key standards by which companies are judged in court. The growing integration of environmental and social factors indicates that leading companies are not waiting for a legal ruling or legislation to define sustainability and corporate responsibility; they are taking action—and cumulatively these actions are writing the new rules of the game for all of us.

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