

What Is The Business Of Business?

- A paper for the event 'Kshitij', TISS

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1. Executive Summary

To illustrate the gist of our thought process behind this paper, let us consider the following case of a business house that faces a certain management dilemma:

“You are the CEO of ABC Beverages Company that has a strong presence in urban markets. XYZ Times, the national daily, has just reported that affluent discharge from one of your factories in rural south India has been found to be untreated. Soil testing in the discharge zone has revealed presence of toxic elements. There is hue and cry. Local habitants are up in arms at the prospect of imminent health hazards. Regulatory and administrative authorities are alarmed. Employees too, mostly derived from local areas, face embarrassment and insecurity amidst rumors that the plant might be ordered shut. Brand image stands shattered and sales plummet.

After a few days, further scientific examination reveals that the situation is not as drastic as reported.”

As the CEO, what steps will you take to:

- Stave off the negative impact of the scandal from affecting the business?
- Prevent such negligence in future?
- Ensure that the reaction attracted to such situations is not as drastic in the future?
- Reverse brand damage?
- Re-install faith in all stakeholders?
- Grow the business further?

The paper attempts, through its arguments, to solve the above case and other issues in general that come under the purview of ‘Business of Business’. It takes the view that the business of business is after all to:

- Maximize stakeholder value

- Ethic based commercial transaction
- Corporate Governance: Transparency and Accountability
- Discharge of regulatory obligations

The paper also takes the view that any activity undertaken by the organization using the ‘business-money’, must necessarily be justified under the four pillars of business enlisted above. A business house should and can sustain social investments in the long-run, only if the investments contribute eventually to the business growth.

The paper’s intent has been to strike a theme that makes a case for businesses to consider social sensitivity as a part of the business of business. Therefore the paper uses the *Balanced Scorecard* to illustrate from the business’ point of view, how investments that are socially sensitive, contribute to the business of business.

Giving back to society should not be interpreted as a type of corporate charity. The paper argues that business houses with a social conscience should in-fact interweave social contexts with their stated business goals. That’s because emotional reasons alone cannot justify investment of stakeholder money even if the cause is worthy. Therefore, such “*Business Enabling Investments (BEI)*” should deliver business results, at the same time causing social benefit as an integral by-product. The process thereby attaches sustainability to the socially-sensitive business model. The more business value accrues, more the social investments get ploughed in.

This concept of mutual benefit forms the backbone of our paper. We call it “*The Business – Society Handshake*”.

2. Defining Business

- Business is a mutual exchange of goods/services between parties
- Business results in net increase in value for all stakeholders. This value addition is one of the major incentives for doing business
- Value is a measure of benefit derived from a transaction

3. Then, What Should and Is the Business of Business?

– *Maximizing value for all the stakeholders*

- The stakeholders: Investors, Consumers, Employees, Business Partners, Society, Government. It is *obligatory* on the part of any business house to see that the stakeholders are kept satisfied
- Investors have pooled in their monetary investments into the company. Return on Investment (ROI) is their major motive. It is in their interest to monitor if the business progresses on the path of making higher profits. If enlisted on stock exchanges, the scrip value should be on the way up
- Consumers are the end receivers of the business offerings. Their interest is to derive maximum benefit from the product/service so as to fulfill their needs effectively
- Employees are crucial to a business house meeting consumer needs efficiently. Their interest is to receive healthy compensation, benefits and rewards for their inputs, challenging responsibilities and participation in business decisions
- Business partners are an important cog in the wheel for any business. They want rewarding business relationship in terms of profit margins and consistent business policies
- Society can no longer be taken for granted. After all any business uses up the resources of the society in some way or the other to do business. Be it the environment, essential infrastructure etc. of which all members of the society are equal stakeholders. *Therefore, though not an obligation, businesses must replenish the society*
- Government demands that legal and administrative regulations framed by it be respected and obeyed. It also has an interest in seeing that businesses do pass on a portion of their legitimate profits to the state kitty in terms of taxes. Governments also will ensure that any activity undertaken by a

business that goes against the state, politically/economically/socially is suitably punished

- *Sustainability*: A business must be sustainable to be in business. The moment it runs out of fuel to boost its own run, its existence becomes doubtful. It has to earn adequate profits to counter growing input costs and tackle competition
- *Growth*: It's alright to suggest that a business is sustainable, i.e. it can provide for its own existence. But it can't run too long on these legs. The motive of participation for all stakeholders in the business decreases with time. It is growth which can satisfy the motive. All stakeholders want to renew participation in a growing business, because it directly translates into their personal growth too
- *Ethic based commercial transaction*: The team believes that it is in the business of business to not take its consumers for a ride. One encounters many cases where consumers are duped because of their ignorance or lack of awareness of certain aspects of the business transaction. In such cases the business stands to gain if the time period of folly-realization for the consumer is large enough for profits. However, in the long run, once consumers realize the trick, they are likely to wash their hands off. Thereby removing any chances of repeat business
- *Corporate governance and accountability towards stakeholders*: In most nations they are no longer desirable expectations from business. They are enforced. But even otherwise, to ensure that stakeholders take participative involvement with the business, this transparency can bond relationships for a better future
- *Discharge of legal obligations*: This is a major requirement from the business' principal stakeholder, the government. Being in the bad books of the government could bring in sanctions that could hurt business interests

4. Introducing *The Business – Society Handshake (BSH)* concept

We ask ourselves, “*If sustainability, growth and maximizing value for stakeholders are the prime objectives of a business, doesn’t it indicate a cut-throat race for businesses for profits, more profits and even more profits? Profits are a legitimate right for a business, but is there no scope of societal benefit? Can’t business and society progress together for overall upliftment?*”

For this to happen, we cannot expect investments from businesses into social concerns unless there is a strong motive. Socially conscious businesses might pool in the odd contributions into social initiatives, but to attract sustained involvement emotional appeals may prove inadequate. *A strong commercial motive is more pragmatic.* To preempt this, we propose the *Business – Society Handshake (BSH)*.

BSH is a mutually beneficial relationship which is pragmatically based on a firm commercial motive – ‘Bigger Business’ for the business and ‘Social Development’ for the society. Unless tangible, preferably, or intangible benefits are shown to a business, it gets extremely difficult for a business to invest stakeholder money in non-core activities. Therefore the idea is to align social concerns to the business ‘core’ itself so that the two become inseparable.

BSH would typically mean:

- Businesses identify areas of social concern, that it thinks, its offerings are somewhat related to
- Adopt the social concern
- Interweave it with the business model
- *Never compromising on the business aspects*
- Plan, communicate and implement an integrated venture
- Ensure that social alignment adds a beneficial edge to the business
- And, in return, society benefits directly or indirectly

How can a business initiate BSH?

- Start with immediate stakeholders
- Identify immediate areas of displeasure for investors (say corporate governance, share scrip performance), consumers (say offering quality, value for money), employees (training, children's education, health, compensation), partners (business policies) and the government (legal issues, taxes)
- Attempt removing above irritants
- Steps up to this would ensure sound home-footing and high stakeholder morale. We call it the *Inwardly BSH*
- Now, BSH should take it's next logical leap
- Identify broad social concerns to which offerings can be rationally aligned
- Create a business model involving planning, financing, communication and implementation towards a tightly-coupled mutual objective
- Make justifiable investments for mutual benefit
- Engage tight monitoring for cost-benefit analysis
- Re-invest if necessary or withdraw effort if deemed non-profitable
- This could be termed as *Outwardly BSH*

BSH Advantages to business:

- Enhanced brand image
- Emotional appeal to all stakeholders
- Boosting stakeholder morale
- Media attention
- *All above factors combining into tangible business benefit (say increase in sales, more investments, higher productivity from employees, government concessions etc)*

BSH Advantages to society:

- Social concerns adopted by business
- *Investments required not seen as charity by business, but in fact as Business Enabling Investments (BEI)*
- Impactful implementation in place of showy involvement
- Spiral investments and not one-off. As business grows from social involvement, more investments get ploughed in
- Efficient use of corporate resources, management expertise and communication advantages for solving social problems

5. BSH in Practice – HLL's Project Shakti

Hindustan Lever Limited (HLL) believes that:

"To succeed requires the highest standards of corporate behaviour towards our employees, consumers and the societies and world in which we live".

HLL's corporate social responsibility philosophy is embedded in its commitment to all stakeholders -- consumers, employees, the environment and the society that the organization operates in. HLL believes that it is this commitment which will deliver sustainable, profitable growth.

HLL's key social initiatives are undertaken with a long-term view. *Initiatives that are sustainable, have long-term benefits and have an ongoing business purpose linked to them are accorded priority focus. As early as in the 1950s, HLL focused on import substitution when balance of payments was an issue.* Since the 1980s, most of HLL's investments have been in designated backward areas and zero-industry districts, spreading industrialization. HLL has revived sick industries and has developed local entrepreneurship

Furthering this rich tradition of contributing to the community, HLL is focusing on health & hygiene education, women empowerment, and water management. In addition to these important platforms, HLL is also involved in a number of community support activities, like providing audio-visual packages for basic education in primary schools, education and rehabilitation of special or underprivileged children, care for the destitute and HIV-positive, and rural development.

In recognition of these initiatives, HLL received the prestigious TERI-CSR Special Award for the year 2002-03 from The Energy and Resources Institute (TERI). As is well-known, TERI, which was established in 1974, is world famous for its commitment to and initiatives in every aspect of sustainable development.

HLL – Project Shakti: Changing Lives in Rural India

Project Shakti is HLL's rural initiative, which targets small villages with population of less than 2000 people or less. It seeks to empower underprivileged rural women by providing income-generating opportunities. Project Shakti also aims to improve the standard of living of the rural community, by providing health and hygiene education.

In general, rural women in India are underprivileged and need a sustainable source of income. NGOs, governmental bodies and other institutions have been working to improve the status of rural women. Project Shakti is a pioneering effort in creating livelihoods for rural women, organized in self-help groups, and improving living standards in rural India. Project Shakti provides critically needed additional income to these women and their families, by equipping and training them to become an extended arm of the company's operation.

Started in 2001, Project Shakti has already been extended to about 20000 villages in 196 districts in 11 States - Andhra Pradesh, Karnataka, Gujarat, Madhya Pradesh, Tamil Nadu, Chattisgarh, Uttar Pradesh, Orissa, Punjab, Rajasthan and Maharashtra. The respective state governments and several NGOs are actively involved in the initiative.

Project Shakti already has about 6200 women entrepreneurs in its fold. A typical Shakti entrepreneur earns a sustainable income of about Rs.1000 per month, which is double their average household income. Project Shakti is thus creating opportunities for rural women to live in improved conditions and with dignity, while improving the overall standard of living in their families. In addition, it involves health and hygiene programmes, which help to improve the standard of living of the rural community. The project's ambit already covers about 15 million rural population. Plans are also being drawn up to bring in partners involved in agriculture, health, insurance and education to catalyze overall rural development.

HLL's vision for Project Shakti is to scale it up across the country, covering 100,000 villages and touching the lives of 100 million rural consumers by 2005.

Some other HLL initiatives: Lifebuoy Swasthya Chetana (Health and Hygiene Education), Greening Barrens (Water Conservation and Harvesting)

Team Comments: HLL stands at a position to transform the lives of millions of rural folks in India. Although it requires a business house to have an entrenched social conscience to involve itself in such a venture, emotional elements alone could not have justified the investments. HLL actually saw an attractive commercial proposition in doing what it did. As a result, HLL stands to gain a huge competitive ground by gaining access to the virgin Indian rural market. It is a win-win situation.

And, it is not a solitary specimen.

ITC through its e-Choupal initiative has struck the combined benefit of Supply Chain Benefits for its Agri-business on one hand, and ridding the Indian farmer of market bottlenecks.

Apollo Hospitals has launched an aggressive tele-medicine programme. It stands to benefit the rural healthcare situation by making available urban physicians' expertise. Simultaneously, it forms a secondary revenue stream for the business.

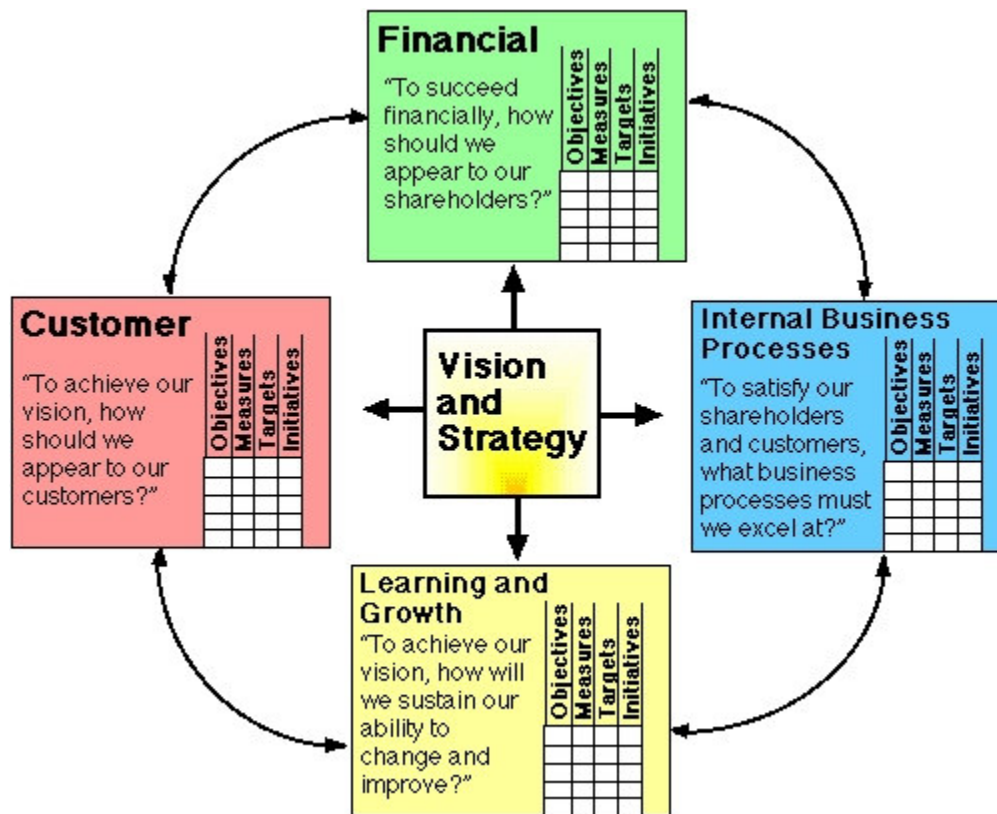
*In our eyes, the examples validate **the practicality of the Outwardly BSH concept introduced in the paper.***

6. *The Balanced Scorecard system to monitor BSH*

Balanced Scorecard: The balanced scorecard is a *management system* (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise.

Why use the Balanced Scorecard system?

The paper's intent, right from the outset, has been to strike a theme that motivates and encourages businesses to consider social sensitivity as a part of the business of business. Therefore the paper uses the Balanced Scorecard to illustrate from the business' point of view how investments that are socially sensitive contribute to the business of business. The paper deliberately refrains from using other auditing models like the Triple Bottom Line which effectively audits the social and environmental outcomes of an organization's activities, i.e. from the society's point of view.



Financial:

- **Objective:** Reaping higher profits in the long term by undertaking activities that are socially responsible as well as aligned with stakeholders' interests
- **Measures:** Monitoring the impact of Business Enabling Investments (BEI) on sales, profitability, visibility and brand awareness
- **Targets:** Allocating a certain percentage of annual growth to BEI based on the impact that it has had in the past
- **Initiatives:** Undertaking initiatives that fully support the growth plan and promise business enhancement. Social concerns should be interwoven inseparably with the business model

Customers:

- **Objective:** Customer satisfaction for retention of existing customers and attracting new ones
- **Measures:** Continuous monitoring over brand switching and market share
- **Targets:** Increase consumer base in proportion to the growth plan and ensure repeat sales
- **Initiatives:** Sound relationship enhancing system that is transparent, efficient and responsive. Also showing the '*Company Cares for You in particular and Society in general*' face to customers

Learning and growth:

- **Objective:** To remain in a continuous learning mode in this dynamic business environment. To find revenue growth streams by using a socially integrated business model
- **Measures:** Increase in productivity, effective use of technology, self-improvement
- **Targets:** Both dissatisfied and ambitious employees
- **Initiatives:** Continuous Employee Training, ease of communication, transparency

Internal processes:

- **Objective:** To continuously satisfy stakeholders by excelling in the existing business
- **Measures:** Sustaining and improving expertise in the existing business through innovations and productivity benefits
- **Targets:** Business performance and in-house practices
- **Initiatives:** Quality standards, cost saving plans, efficiency enhancing initiatives

7. Conclusion: Solving ABC Beverages Company's Management Dilemma (Introduced in the Executive Summary)

The team concludes that the dilemma faced by ABC Beverages Company is borne of a complete negligence for social sensitivity. Its relationship management programme is in a mess. Its immediate stakeholders have low image of the company. They are either unhappy or just about satisfied with ABC, thereby leaving them vulnerable to negative propaganda about the company.

We recommend that the business re-look at its overall corporate strategies:

- Firstly, rectify technicalities involved in the affluent discharge episode. Enforce strict compliance with environmental guidelines
- Apologize for the negligence, explain remedial actions in detail to the immediate stakeholders and other affected parties
- Order a comprehensive stakeholder survey to know reasons for their dissatisfaction
- Implement the *Inwardly BSH* to tackle immediate stakeholders for a sound footing
- Since urban sales have plummeted with brand erosion, it now has to balance two acts. Namely, on one hand increase sales (urban as well as rural, where it has low presence) on the other hand restore the brand image
- An aggressive *Outwardly BSH* is suggested
- ABC should take a leaf out of HLL's Project Shakti and evaluate if the Self Help Group concept can work to add distribution muscle in rural areas. The local region where the factory is situated should be the pilot area
- Rural families stand to add to their incomes, rural society benefits
- It will remove negative notions, breed positivity and enhance brand image
- Tangibly, ABC will also earn the fruits of better market penetration

- Therefore: Ideal BSH implemented. ***Business grows, with society developing in harmony and not one at the cost of the other.*** That is perhaps the best way in which one can describe the '***Business of Business***'!