

# **Inclusive Partnership: The Key to Business Success in the 21st Century**

**Terry Thomas**

Many commentators have said stakeholding is dead. But I would argue that it has not yet been born. I would like to set out my ideas on how stakeholding or as I prefer to call it, the Inclusive Partnership Approach, offers companies the blueprint for success in the 21st Century. I believe the shortcomings in our business culture were amplified by the prevailing values of the 1980s. Foremost among these was the misinformed idea that selfish behaviour - whether as an individual or a company - was in the public interest. Companies were perceived as short term profit maximisers above all else and their sole role was to enhance shareholder value (often referred to as the Anglo-Saxon approach). Worse still it was claimed there was no such thing as Society. Freedom was defined in simplistic terms as the ability to buy and sell in the market without Government interference. However the excess of capitalism has always needed restrictive legislation and freedom for the consumer always depended on the amount and accuracy of information available to them. Consumers were perceived in narrow terms, choosing products and services based on price and quality, not on a company's social, ethical or environmental record.

Although these values served an ideological purpose, they also reflected immense changes in society. Consumers became far more powerful, indeed shopping arguably became the number one leisure pursuit, and even perhaps a definition of existence - 'I shop therefore I am'. This was partly a product of Government devolving responsibility to consumers on the sole principle of buyer beware. At the same time business, particularly multinationals controlling 30% of the world's production, grew stronger.

However, by the end of the 1980s this anodyne version of consumer sovereignty lost its attraction as the recession bit. Cynical consumers began to reject these individualistic values disillusioned by businesses which externalised social and environmental costs, exploited their customers, the environment

or society. Consumers started to be influenced by ethics and ecology as well as price and quality, leading to the growth of, for example ethical and green consumerism. Since 1989 this trend has hardened as the cynical consumer has quickly turned into the vigilante consumer willing to protest against companies with poor social, ethical and environmental records. These vigilante consumers do not see business as neutral players simply abiding by regulatory framework set by Government but as part of society with responsibilities as well as rights. This trend is also supported by pressure groups who are very effective at articulating their concerns.

One of the symbols for this change was the humbling of Shell by Greenpeace. Shell pursued Government-orientated public relations to secure support for the dumping of the Brent Spar oil platform. Despite Government approval the power of Greenpeace succeeded in putting the story in the headlines and consumer anger stopped the dumping despite inaccuracies in the Greenpeace claims. This campaign showed that the power of corporate reputation, a key driver of competitive advantage, is a double-edged sword, as big brands can suffer serious damage if they do not respond effectively to the concerns of Society. Corporates who desperately want to eliminate uncertainties in the pursuit of profit are finding these developments difficult to manage. They are searching for a new business methodology which enables them to deal with these campaigns and establish a less confrontational dialogue with pressure groups and vigilante consumers. It is clear that as we approach the 21st Century these pressures will only increase. I believe that increasingly all consumers will be driven by a complex mix of ethics, ecology, price and quality. The companies that will retain their competitive edge are those which are quick to respond to these changing needs and values.

Businesses are now facing increasing pressure from a variety of environmental concerns. There is an increasing legislative burden, for example the ban on CFCs; increasing operating costs, such as the landfill tax; shifts in the marketplace, for example, the growth in demand for recycled paper, and restriction of access to financial funding with banks now routinely restricting access to borrowing for industries and particular companies with a history of pollution. Business is clearly failing to respond to

these pressures effectively. The general public are reacting against this failure; research we have carried out shows that over the last ten years, people believe that British companies have become more ruthless. Seventy per cent of the thousand people we surveyed believed that, British business over the last ten years has become more focused on profit and less concerned about their wider responsibilities to their customers, staff and society at large.

So what business model should we turn to? The Anglo-Saxon model is clearly flawed since it inevitably leads to short termism in decision making and a lack of responsiveness to consumer concern. Many business people, who subscribe to the Anglo-Saxon view, have been downsizing as one way of meeting the competitive challenges of the future. And indeed selective downsizing has been necessary as we face constant technological change. However, often it has been used as an excuse for radical short term cost cutting which has improved short term profitability whilst reducing employee motivation and damaged service to customers. There is now a consensus that you cannot downsize yourself to long term success.

Many thinkers on the left, such as Will Hutton, have looked for inspiration to the "Rhine" model, initially the more successful of the two capitalistic models, (note Germany and Japan's economic development since the 2nd World War). However, now it is becoming increasingly clear that it so protects itself from the rigours of the market place that it eventually becomes inefficient, incestuous and even corrupt.

### **Robert Owen and the Inclusive Partnership Approach**

During my school days and in my later reading I was struck by the work of a rather unusual guru, Robert Owen, a fellow Welshman, who was born in Newtown in 1771 and died there in 1858. His writings show him as a man several centuries ahead of his time, an industrialist, an educationalist and a social reformer who came to be regarded as the founder of the Co-operative Movement. I believe Robert Owen's theories set out a middle way between the uncontrolled capitalism of Adam Smith and the failed communist experiment of Karl Marx.

Interestingly the lives of these three influential activists overlapped. All of them were heavily involved in communicating their particular theories on how to develop the economy in the interests of the people, so they no doubt influenced each other, particularly as they were all based in Britain. We all know what has happened to communism, and equally we are aware that all democratic countries, whilst adopting capitalism, have had to pass laws to safeguard citizens from the excesses of capitalism. The Factories Acts - Weights and Measures, Purity of Food, Slavery, Child Labour, Monopolies and Protectionism being some examples that come to mind. By comparison, Robert Owen's business model combines the rigours and disciplines of the marketplace with a focus on nurturing co-operative relationships with the company's natural partners - those groups who are directly or indirectly affected by its activities. It also sets out a long term view for managing the financial and non-financial aspects of a business that can produce long term success.

Robert Owen's experimentation (apart from New Harmony in Indiana) was entirely within corporate organisations. Indeed he was an industrialist who successfully demonstrated at the textile mills in New Lanark that by embracing all the natural partners of an enterprise one could increase profitability and enhance shareholder value. In his essays setting out "A New View of Society" Robert Owen examined how his then progressive management techniques, which emphasised good treatment of staff, their families and the community, could 'co-operate to produce the greatest pecuniary gain to the proprietors'. He claimed that his investment approach would 'return you not five, ten or fifteen per cent for your capital so expended, but often fifty and in many cases a hundred per cent'. As a result only 'ignorance of your self interest can in future prevent you from bestowing care on the living machines which you employ'. At heart, he argues, business people should be motivated by enlightened self interest; 'the happiness of self, clearly understood and uniformly practised; can only be attained by conduct that must promote the happiness of the community'.

Robert Owen's values can be used to define the partners crucial to business success. I have applied his approach and have identified seven partners to whom companies have a responsibility. The partnership model is illustrated in the diagram

below. The first of these partners is the **shareholder**. We are all familiar with the prevailing view about shareholders in the UK and most particularly in the City of London, sometimes referred to as the Anglo-Saxon business culture. It holds that as servants of shareholders, managers are only allowed to participate in business if they concentrate on a single objective. That objective is "to enhance shareholder value". Everything else is subservient to that objective. Any activity not directly designed and authorised to enhance shareholder value is a waste of resources and should not be entertained.

Interestingly this view does not prevail elsewhere in the world - in Germany, for instance, in Japan, or even to some extent, in France; sometimes referred to as the "Rhine" view of capitalism where the company is perceived as operating within a wider social context. Robert Owen's model proposes a new relationship with shareholders. This involves meeting all the normal financial criteria and the disciplines of the marketplace as this model is not a soft option or an excuse for avoiding hard decisions. However there are also expectations of shareholders to understand how managers can deliver long term success. And those expectations include continuity of the enterprise and respect for the other partners in the organisation who help to deliver this success. Each partner must be treated in balance - not equally, not in preference but in balance and across time. The skill of management is to ensure that each partner co-operates together to produce the appropriate returns to the shareholder over the short and long term. Unlike George Orwell's *Animal Farm*, some partners are not more equal than others. Each partner must be treated in balance - not equally, not in preference but in balance and across time.

The second partner is the **customer**. I believe that in the next decade companies will have to become much more accountable to their customers and more responsive to their ethical and ecological demands. Managers will have to shift from a top down perception of customer relationships to a more decentralised approach based on a partnership of equals. If you look at customers as partners who have a genuine say in how you can develop your business you will see them in an entirely new perspective. It becomes very important to know them better. To understand their values and their objectives. To

get right in alongside them, supporting their values and aspirations. This more mature relationship also demands greater openness - admitting your successes and failures - and a willingness to set out who will address these failures, how and when.

The third partner is the **staff**. It is clear that Robert Owen had some very strong ideas about this particular partnership. That is evident from what he did. From the beginning he engaged in an active working partnership with his 'leaders' (what we would call managers), his staff and their families. Robert Owen, at his own expense, took children from 5-10 years old out of his factories and into schools he built and paid for. He also built houses for his employees, complete with clean water and drains. This approach created more skilled operators, less absenteeism and higher productivity. It also offered the ability to move up-market and increase the quality and margins on his products. He actually made more profits and, unforgivably, he was more successful than his peers. These goals are the same for companies today. They want high quality staff, high productivity, and low absenteeism. To achieve this we must involve them, motivate them and harness their potential. We want staff to have fun and be proud of what they do, to nourish the whole being. But we must also recognise that the concept of a job for life has gone and in its place we need to offer staff the concept of employability through continuous high quality training and work experience.

Robert Owen also argued that if staff are to become true partners then responsibility for them includes their families as well. That is why companies need to adopt "family friendly" policies. Forcing staff to work long hours on a regular basis is bad for productivity and the family. Management has a duty to ensure that business life does not damage family life.

The fourth partner is the **supplier**. It is vital to strengthen co-operation with the supplier chain to meet the competitive challenge of the future. Every organisation has to buy in resources and services. It cannot run the risk of buying rubbish, shoddy workmanship or poor service or buying from unethical companies exploiting others. If companies buy badly they will pass on this cost to their customers. In fact they will bear the brunt of the company's mistake. That is why it is necessary to develop long term contracts, three to five years into the future

- contracts that guarantee a company's use of their service as long as they continue to meet the standards set out in our service level agreements.

These are the obvious partners but it is important to look into the softer areas - areas that hard-headed bankers or accountants may feel is not their territory. It is necessary to move from the tangible, conventional measures of the bean counters to the more difficult areas to measure and manage. Take the **community** for instance - when Robert Owen talked about "the community" he meant the place from which he drew his labour force or the place where he sold his goods and made his profits. Now why should a company develop a partnership with the community? Staff travel from that community to get to work and go back into it afterwards. Their personal security when travelling is naturally vital as are the quality of the transport links. A company has to think about the security of its offices or factories. It must be concerned with the quality of the young people leaving local schools, colleges and universities. It needs to nurture the local networks that create genuine trust in its operations. Crucial to this involvement are staff - if they are seen to be involved in the community, if they are active in it when the day's work is over, they are sending a positive message to the community. It is a message that will always be well received.

The sixth partner is **society**. Robert Owen said that running a successful business also meant being concerned about the wider society. That could mean a region or a country or it could even be the whole planet if we are considering ecological issues. The best way to demonstrate that an inclusive partnership company can be more successful and more profitable is by example. What it does and what it does not do is crucial. At first these changes may only be at the margins of society but eventually, when others see how successful inclusive partnership companies are they will start to copy this business model. Robert Owen has demonstrated that it is entirely logical and commercially advantageous to have a cause outside and greater than the company. You will be familiar with Maslow's theory on what makes us tick as people - the "hierarchy of needs". Starting with factors like food, clothing and warmth until the spirit or ego requires a challenge outside of and greater than ourselves in order to experience fulfilment. This common cause can unite all

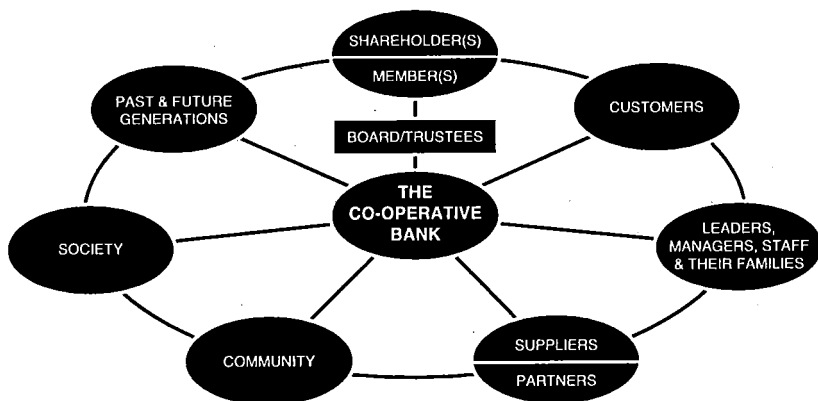
the partners and thereby increase job satisfaction and morale, and nurture well being or self fulfilment.

The final partner is **“past and future generations”**. For companies to look to past generations does not mean that they are backward looking organisations. Companies should respect the past and try to learn from it. Some of a company’s “past generations” remain with it. For example, several thousand pensioners are still part of The Co-operative Bank’s family. However, companies exist today - not in the past, and not yet in the future - so they should approach their business on the basis that they have inherited the past. Their job is to build on it and to hand over something better to future generations. What is handed over should be substantially better than our predecessors could have achieved in their time. It is a reminder not to be greedy - not to exploit all the things that could be exploited on this planet or within our business, within one generation.

These are the seven partners but, as you will see on the diagram, directly below shareholders there is the Board of the organisation made up of both today’s non-Executives and Executives. The members of the Board are trustees, responsible on a day to day basis for balancing the needs and aspirations of

### THE SEVEN PARTNERS CONCEPT

Developed from the writings and successful activities of Robert Owen 1771-1858



As our predecessors realised, a balanced long term relationship with all our partners is one of the keys to business success and longevity

each partner against each other and across time. However, co-operation with partners is still not sufficient to ensure the long term success of a company. These social relationships depend on the productivity and diversity of nature - the net creator of wealth on this planet. This is being destroyed as our linear economy converts resources into waste, overloading our eco-system, damaging its capacity to produce the resources that drive our economies. That is why companies and their partners together need to nurture a sustainable economy based on the cyclical flows of nature which constantly turn waste into new resources.

### **The new business model: Inclusive Partnership plus sustainable development**

This is the basis of the challenging new business model; inclusive partnership plus sustainable development. Developing the new business model requires a seismic shift in current business processes. Firstly, it is necessary to build consensus with partners on what they expect from the company and what the company expects from them. This needs to be set out in a clear agreed policy with each partner or the mix or make up of partners needs to be changed. The company must have a clear mission statement on sustainable development and how they will assist their partners in achieving this goal.

Policy documents will not be enough. Staff will only be committed to partnership and sustainable development if the company's culture is genuinely inclusive. The 'leaders' need to use social and ecological auditing as the tool for changing this culture. Annual audits - assessing performance against the partnership and ecology policy - will define areas where change or improvement is needed or where tangible progress has been made.

The company must be open with their partners concerning the actions necessary to improve performance. This also means that if something is happening in society that both the company and its partners are concerned about then a proactive engagement will be necessary. For example, last year The Co-operative Bank published a Landmines Declaration which received support from

politicians, charities and celebrities but most of all our customers. We made clear our support for a ban and the need for banks to take a lead on this subject.

Essential to the development of the partnership policy and auditing is the ability to acknowledge to your partners where the company has succeeded and failed. This requires a significant shift from the enclosed nature of many organisations to a more open but inclusive approach. However openness and transparency will not come easily to corporate organisations. That is why the processes for creating policy and measuring performance through audits must be open to independent scrutiny.

I am happy to confirm today that The Co-operative Bank intends to continue to lead the way in implementing the Inclusive Partnership Approach. We have used focus groups and market research to develop our partnership policy. We will publish the results of the consultation when totally assimilated - the full Partnership Approach against which we will in future be measured by our partners. In conclusion it is clear to me that Robert Owen's middle way, so ridiculed by Marx and Engels as being "Utopian" has in fact proved to be the most successful formula, and market forces will actually ensure its continued success in the 21st Century. Robert Owen combined the disciplines of the market place with a company's natural partners to provide a blueprint for the successful business. In fact tomorrow's company or tomorrow's co-operative.

**Terry Thomas is Managing Director of The Co-operative Bank plc. This paper is taken from a speech at the Fabian Seminar on March 12 1997.**

## References

### Books

1. Robert Owen - *A New View of Society and other writings.*
2. John Butt - *Robert Owen, Price of Cotton Spinners.*
3. Will Hutton - *The State We're In.*
4. Eugene Kamenka - *The Portable Karl Marx.*
5. John Kay - *Foundations of Corporate Success, The Business of Economics.*

6. Craig Smith - *Morality and the Market*.
7. Adam Smith - *Wealth of Nations*.

### **Reports**

1. *Tomorrow's Company: The Role of Business in a Changing World* (Royal Society of Arts)
2. *Promoting Prosperity: A Business Agenda for Britain* (Commission on Public Policy and British Business).
3. *Business as Partners in Development* (The Prince of Wales Business Leaders Forum).
4. The Body Shop's Value Report.