

The background is black with several white geometric elements. There are three large triangles, each filled with horizontal white lines. One triangle is in the top-left, one is in the bottom-left, and a larger one is on the right side. There are also three solid white circles: one in the top-left, one in the bottom-center, and one on the right side near the large triangle.

The Uprising Report

Time for a new lens –
how an ethical business
vision can help SMEs

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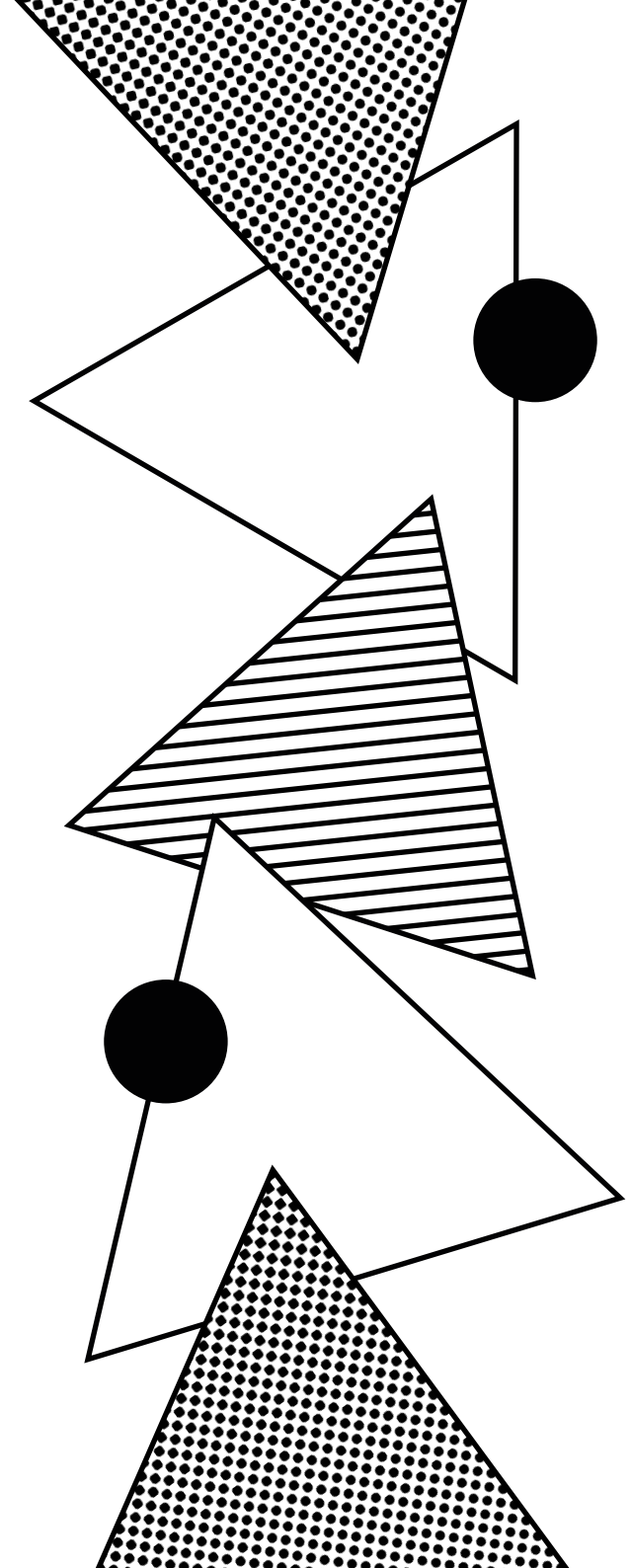
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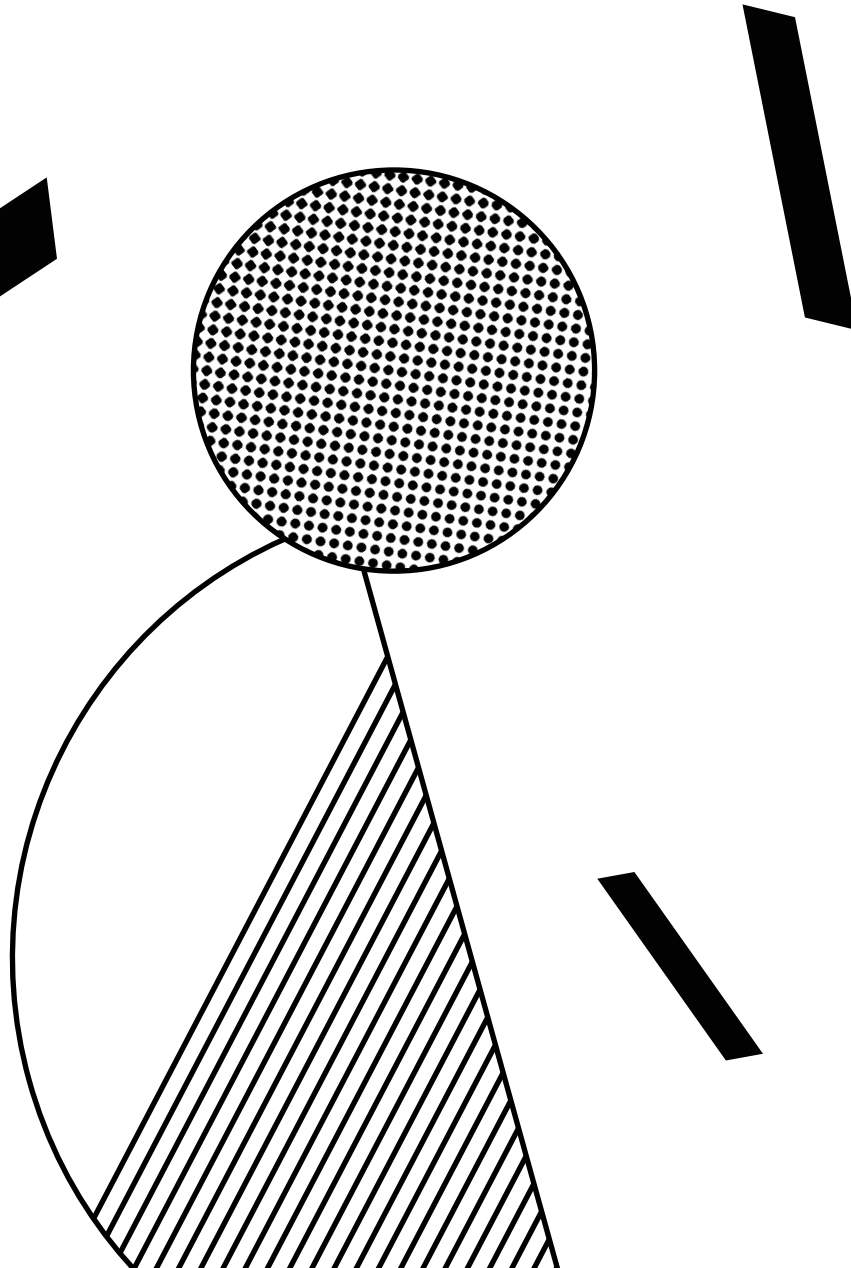
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INTRODUCTION



Small and Medium-sized Enterprises, start-ups, scale-ups and all sizes in between, are the backbone of the UK economy. SME contributions to the UK economy across the top 10 UK cities are forecast to hit £217 billion by 2020 and businesses in this bracket are a catalyst for dynamism and innovation.

The combined annual turnover of SMEs in 2016 was £1.8 trillion - 47% of all private sector turnover in the UK and those companies capable of going the distance would be destined to become the business titans of tomorrow, in normal circumstances.

However, there are headwinds today that did not impact the aspiring businesses of yesteryear. SMEs are operating in a fast-changing societal and cultural environment and in a landscape of flat economic growth. Futurists and analysts observe that the capitalist-consumer model familiar to the Western world for decades is in a period of upheaval; many studies suggest that people are transitioning from identifying themselves chiefly as consumers to creating a sense of self based on more than owned possessions.

We've already seen this idea surface in the media via references to "peak stuff" and there are a number of studies worth perusing on this issue.

The signs point to SMEs needing a new framework on which to base business strategy if they are to stay relevant and prosper - one that takes these societal changes into account. How can they align with the new dynamics at work? There is mounting evidence that critical decisions and actions in the future will need to be made via the lens of 'positive impact' - meaning the social and environmental impact of how the company operates becomes its foremost consideration.

Hard-pressed owner/managers trying to stay afloat may not see immediate value in pursuing ethically and socially-minded business practices. However, an exclusive poll of CEOs at SMEs shows 88% of respondents do believe it is important for ethical business practices to be incorporated into everything they do.

This study provides a snapshot of what small businesses currently think is possible, what they don't think they can manage and their understanding of the benefits that might accrue from such radical change, including differentiation, lower costs and loyal customers.

It includes advice from companies that have blazed the trail and after reading the insights and inspiration contained within, we hope SMEs will see that investigating a new approach to business will prove an investment rather than a cost. The price of inaction may well ultimately determine if a business scales or fails.

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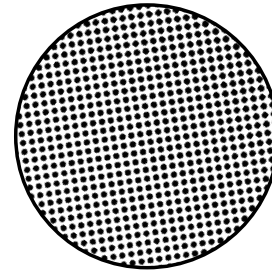
DON'T IGNORE THE ROAR

Calls for businesses to begin thinking about how their actions effect both society and the environment are getting louder. However, the language surrounding the issues can be confusing.

The immediate default is to think ethical business practice means environmental sustainability – but positive impact covers a wide breadth of action, from putting an ethical lens on your supply chain to implementing energy efficient practices, ensuring a work/life balance for employees and championing diversity in the workplace.

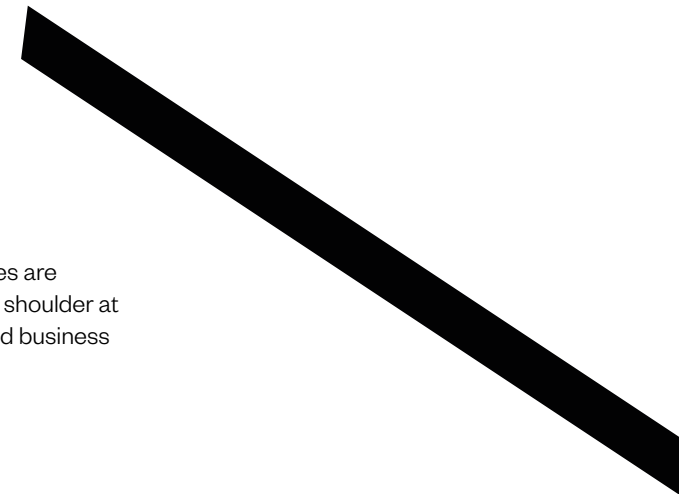
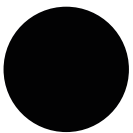
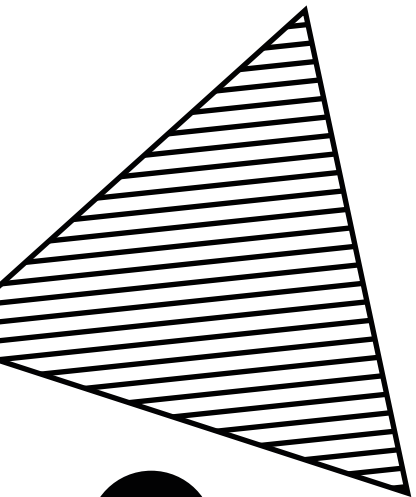
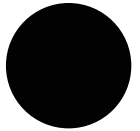
A poll of 100 CEOs at small or medium-sized enterprises (SMEs) shows that treating employees fairly, sourcing manufacturing materials responsibly and being energy efficient rank high in their consciousness when presented with list of possible ethical business practices.

But less than a third believe such practices should include listening to stakeholders other than shareholders and financial backers. This is not surprising in entrepreneurial companies that have been built and bootstrapped in many cases by the person still in charge. It's their single-minded vision driving the company - but ultimately listening to other opinions beyond shareholders and financial backers can prove invaluable.

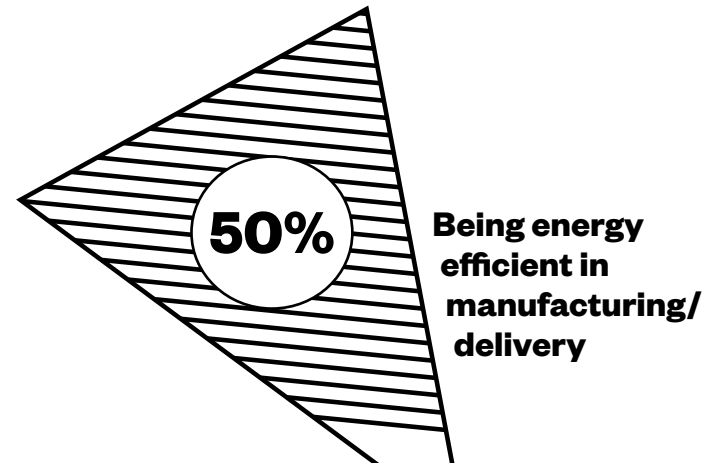
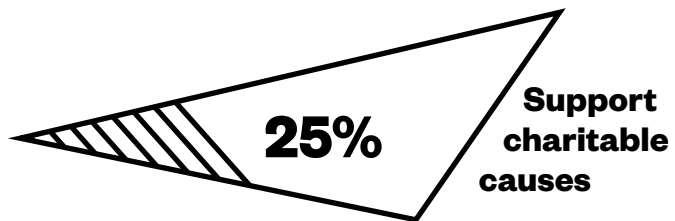
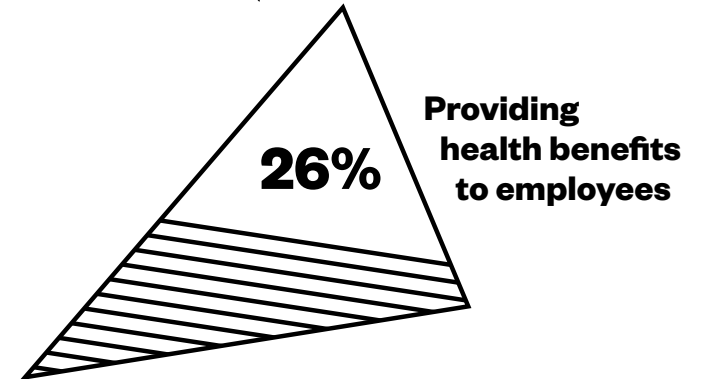
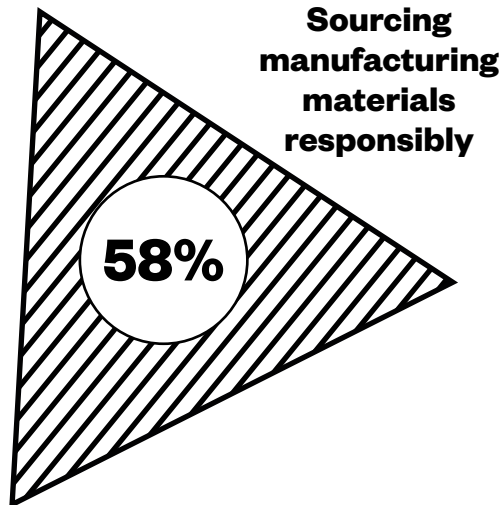
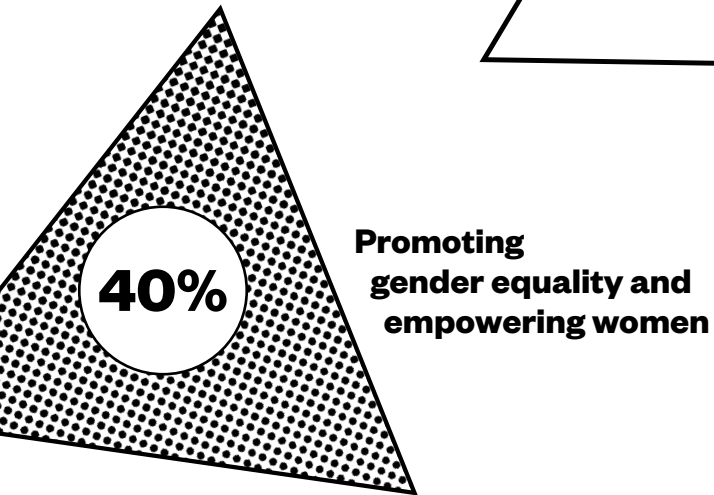
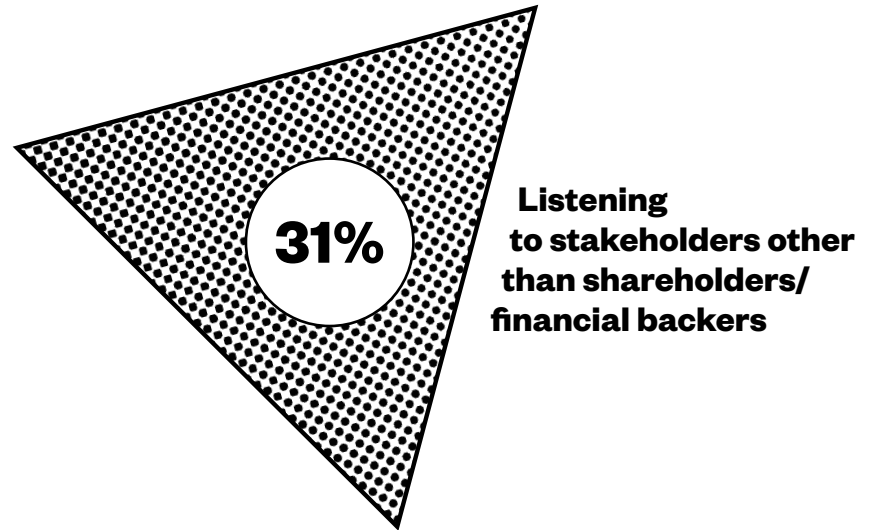


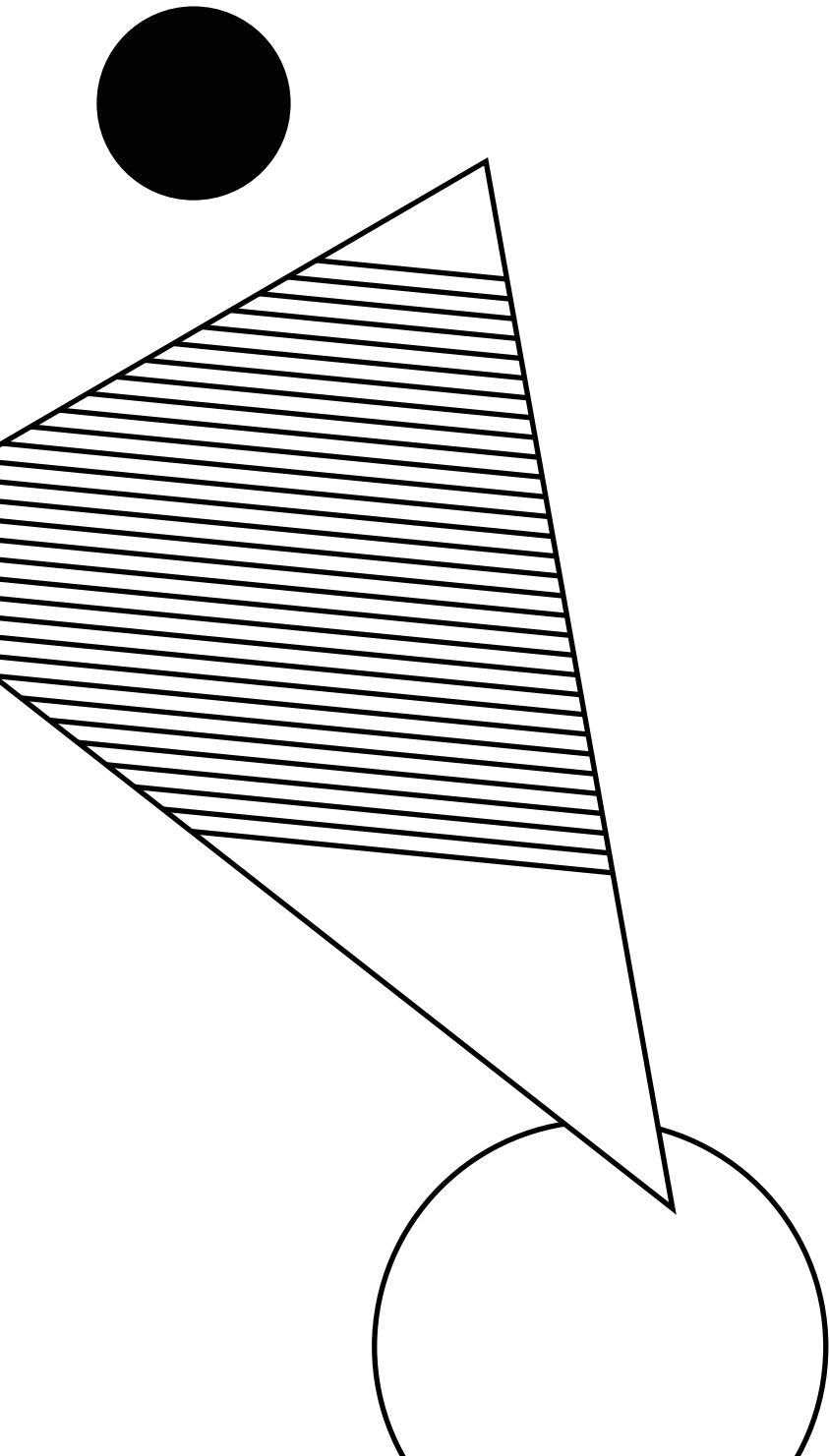
In uncertain, economically-straitened times, when companies are operating on ever thinner margins and are looking over their shoulder at the next 'disruptor' that may steal their lunch, is there a sound business basis for introducing such ideas?

The answer is a resounding yes.



What do ethical business practices mean to SMEs CEOs





Sir Martin Sorrell, CEO of leading UK business WPP Group, said in the company's annual report: "Today's business leaders understand that social responsibility goes together with sustained growth and profitability. Doing good is good business."

It is evident that people are beginning to demand that their products and services are developed and delivered with a reduced negative impact on society and the environment.

71% of respondents to a World Economic Forum survey say they want brands to act in an environmentally friendly and ethical way and 61% want to connect with a cause or social issue. The millennial generation is particularly inclined to hold companies accountable to positive values. This highly educated, tech savvy cohort account for approximately a third of retail sales and nearly 75% say that they are willing to pay extra for sustainable offerings.

By 2025 millennials are expected to make up 75% of the workforce and businesses should be tapping into and harnessing their attitudes to help shape company culture rather than resisting new ideas and approaches. If smaller companies need an incentive, note that a Sodexo survey shows that 47% of people aged 16 to 24 believe SMEs are the right size company to work for - 5% more than those over the age of 40.

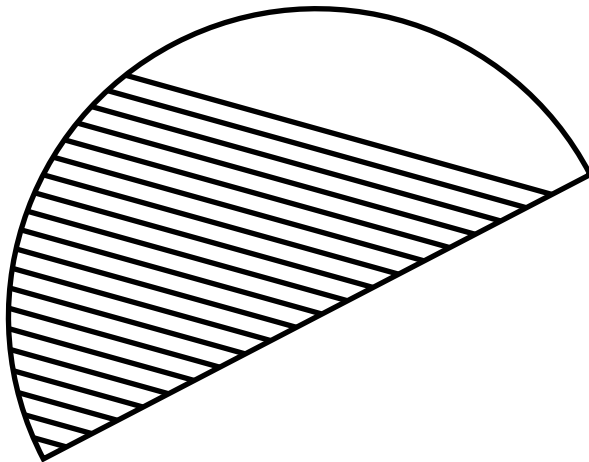
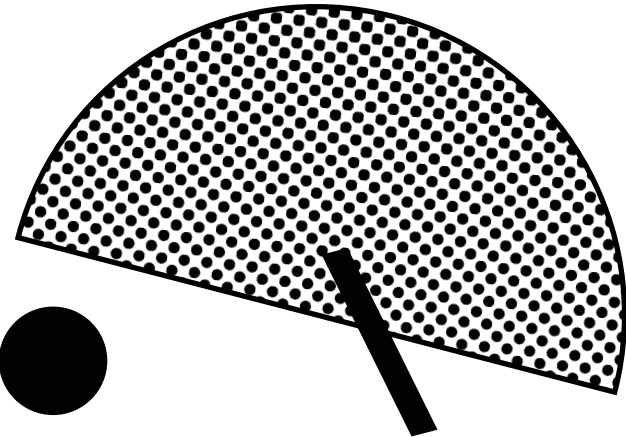
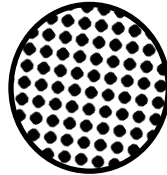
If you can operate your company in a way that is more helpful to society and the environment, then you are aligning with a growing consumer trend. Only 15.5% of the SMEs we polled doubt that their customers are interested in positive impact business practices.

Multinationals are already paying attention and changing their Merger & Acquisition strategies in recognition of this new reality. If corporate giants like Unilever, Danone and Johnson SEC start prioritising investment in companies pursuing a positive impact agenda, then the direction of travel is clear.

84.5% of CEOs at SMEs believe their customers are interested in seeing businesses acting in a sustainable fashion

THE POWER OF FIVE

Why it pays to look at positive impact



There are solid commercial reasons for companies to adopt ethical practices, but the challenges need to be acknowledged. The requirement to reevaluate how you do business, audit supply chains and listen to opinions from employees and elsewhere can be time-consuming, when SMEs feel all their efforts should be concentrated on building sales and scaling up.

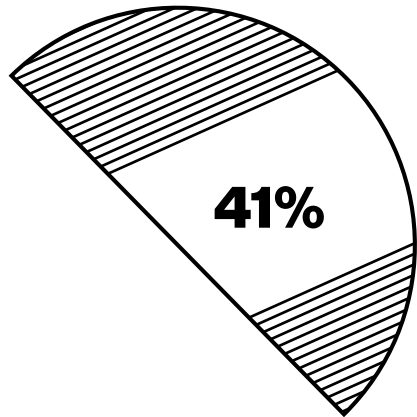
The perceived cost of implementing change is the biggest hurdle with 41% of CEOs at SMEs believing adopting ethical business practices will be too expensive. Fewer (17.5%) are concerned about how they measure the impact of such practices – but measurement should matter and are key to convincing financial controllers and investors.

On the other hand, 88% of respondents believe it is important to incorporate an ethical dimension into everything they do as a brand – and a similar percentage stress the importance of consumers seeing them act in this way. Nearly a third see no barriers at all to embracing ethical business practices.

Each company will have to weigh their concerns against the potential benefits of a positive impact strategy. But the arguments to adopt a new business lens if you want to develop and retain a competitive edge in an increasingly fast-moving world are becoming stronger.

We have identified five key and interlocking advantages.

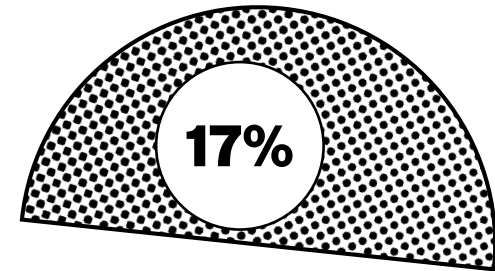
Biggest barriers to SME's embracing ethical business practices



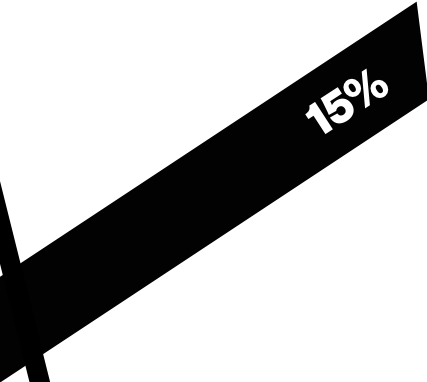
Too costly to implement



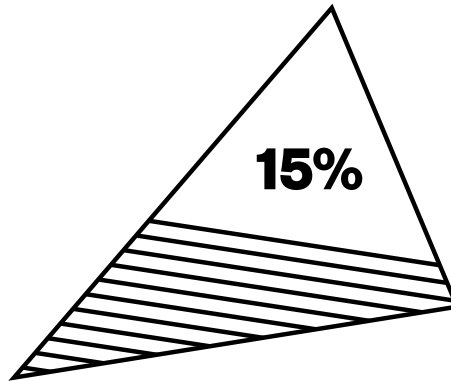
Too time-consuming to research



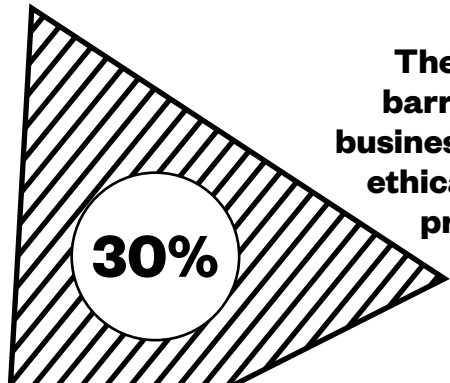
No metrics to assess impact



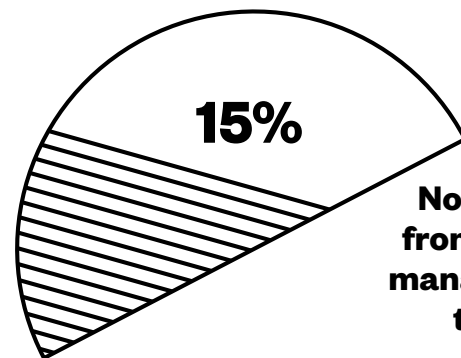
No immediate ROI



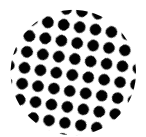
I don't believe my customers are interested in these issues



There are no barriers to my business embracing ethical business practices

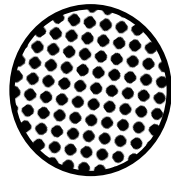


No buy-in from senior management team



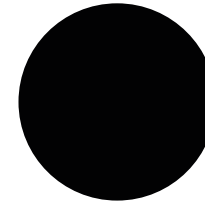
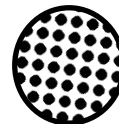
(i) **Differentiation**

Products and services are becoming commoditised. Think of utility suppliers or banking services for consumers – there is very little to choose between them. And there is the concern that people in the Western world are reaching ‘peak stuff’ and leaning more towards wanting brands to provide satisfying experiences rather than ownership. Accelerated automation of the research and buying journey means there’s even less opportunity for a brand to inject a tone of voice or generate loyalty. Adopting ethical business practices can bestow a point of difference and can help a company stand-out from its peers.



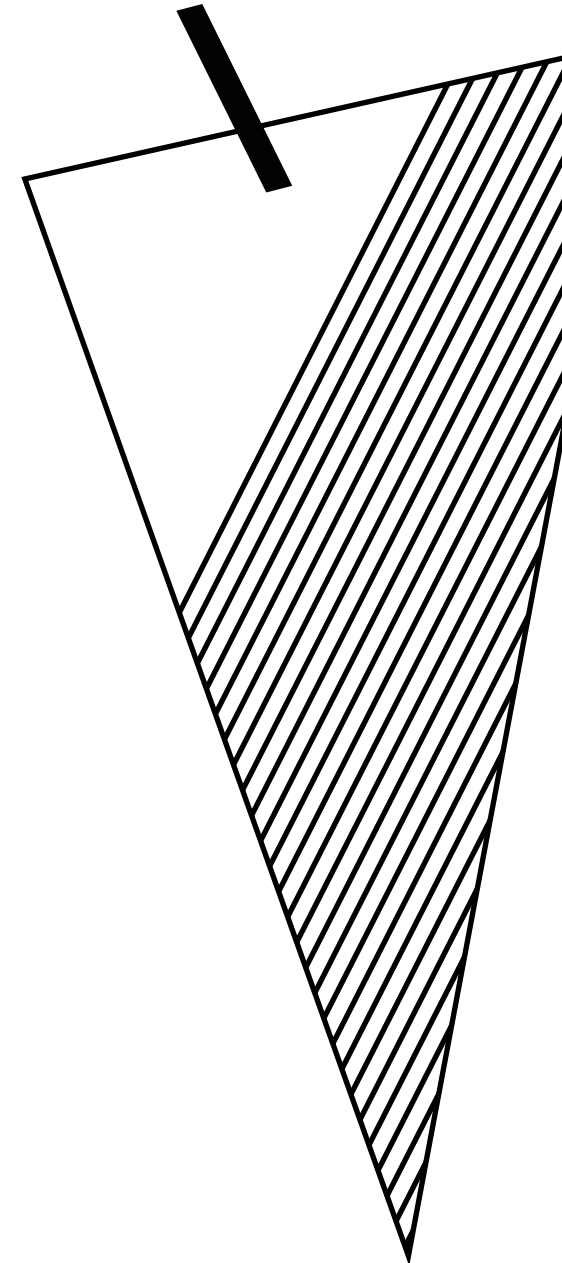
(iii) **Innovation**

There is no time to stand still. Research and development phases are being telescoped so products and services can be brought to market quicker. This requires the kind of agile, collaborative and curious mindset exhibited by the new generation coming into the workforce. Innovation depends on incubating the right company culture.



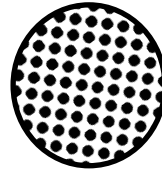
(ii) **Recruitment + Retention**

“In the new economy, competition is global, capital is abundant, ideas are developed quickly and cheaply, and people are willing to change jobs often. In that kind of environment all that matters is talent. Talent wins.” This claim was made by McKinsey at the end of the 20th century and the battle for competitive advantage is still largely the battle for talent. We have already highlighted how millennials in general would rather buy from and work for companies that exhibit ‘good purpose’ traits. If you can demonstrate that your company values reflect those of job-hunters, you are more likely to attract the kind of talent you need to help drive your company forward. And people are likely to stay longer as a result, thereby reducing recruitment costs.



(iv) **Consumer appeal**

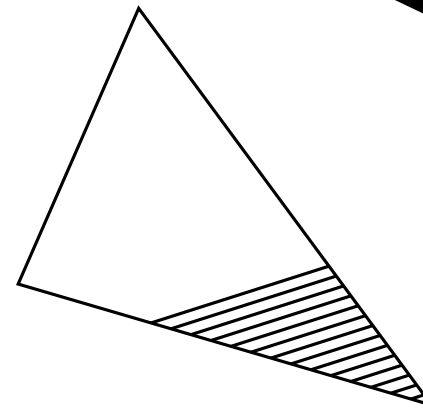
Consumers are starting to look to purchase products and services from companies who operate in an ethical manner. There can be a disjunct between what consumers say and what they do – many people profess to be relaxed about status but still purchase the latest sportswear or trainers. However, there is the hope that the next generation, having grown up in a time of flat economic growth, are less defined by possessions. They will swing between purchasing brand-status goods and buying via an ethical lens but the momentum should move towards the latter.



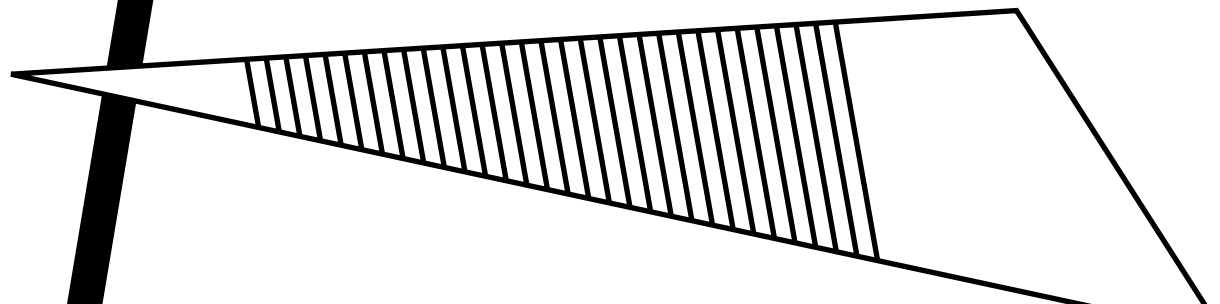
SMEs say the prime motivator to adopt ethical business practices is to attract customers (43%) followed by being impelled 'to make a difference in the world' (39%), and finally to differentiate the business (32%).

(v) **Attraction**

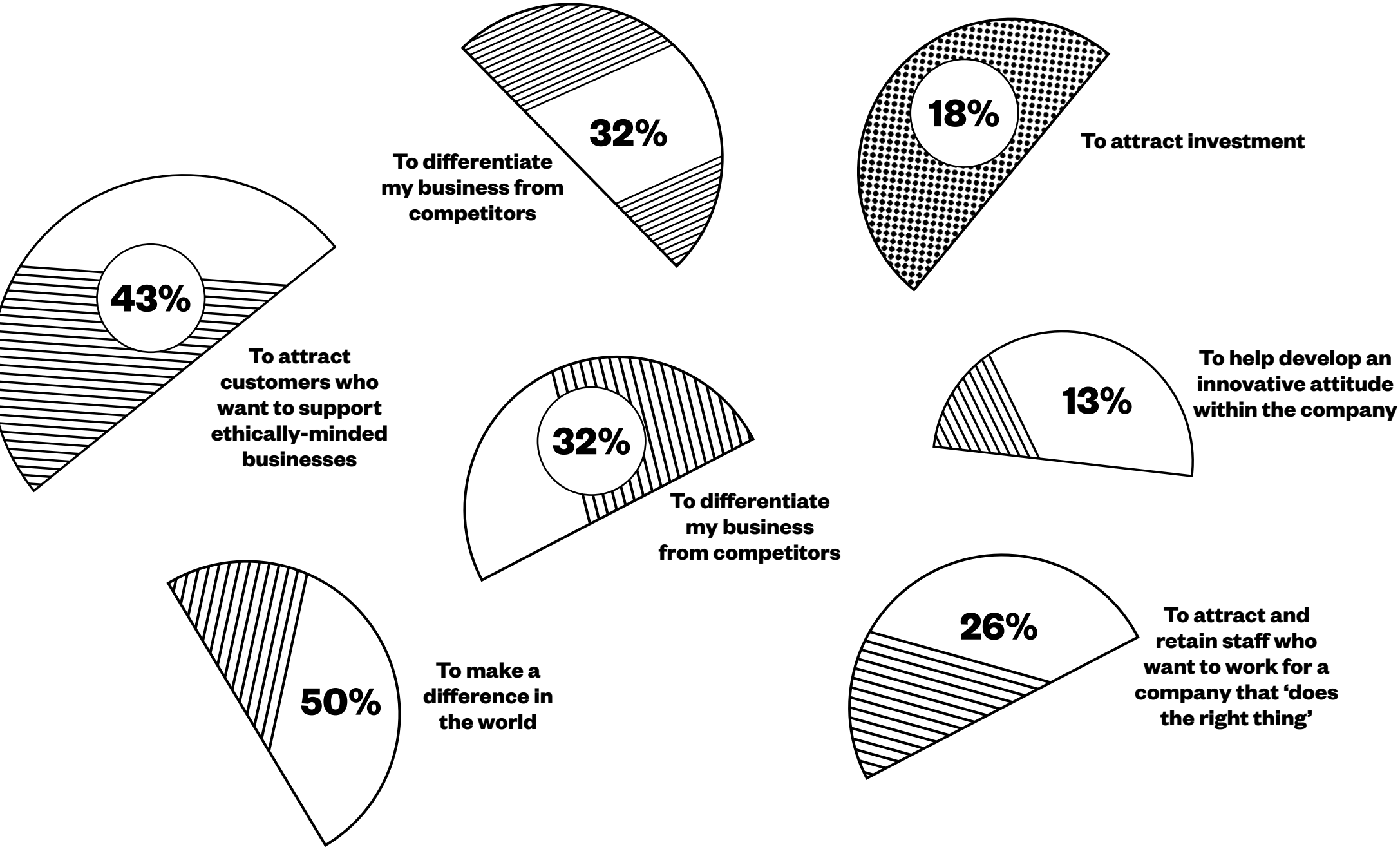
Most entrepreneurs start a business with the goal of building up to a sale and along the way they need to attract investment. SMEs that have differentiated themselves and grown by adopting positive impact strategies have business value and are attractive acquisition targets for multinationals, for precisely the reasons already set out. Organisations like Unilever and Procter & Gamble are making investments with one eye on consumer trends, one eye on innovation and talent, and both eyes on living out the tenets of their oft-stated CSR pledges. The former recently bought Brazilian wholefoods brand Mae Terra while P&G acquired supplements brand New Chapter.



It is surprising that only 13.5% of respondents thought operating via an ethical lens would help develop an innovative attitude within the company. Innovation is the lifeblood of business. For the multinationals, buying a start-up/scale-up is an investment in innovation and an outward-looking perspective, and SMEs need to give more thought as to how nurturing the right culture can help them retain their dynamic energy, adaptability and responsiveness to the market.



Prime motivators for SMEs adopting sustainable practices

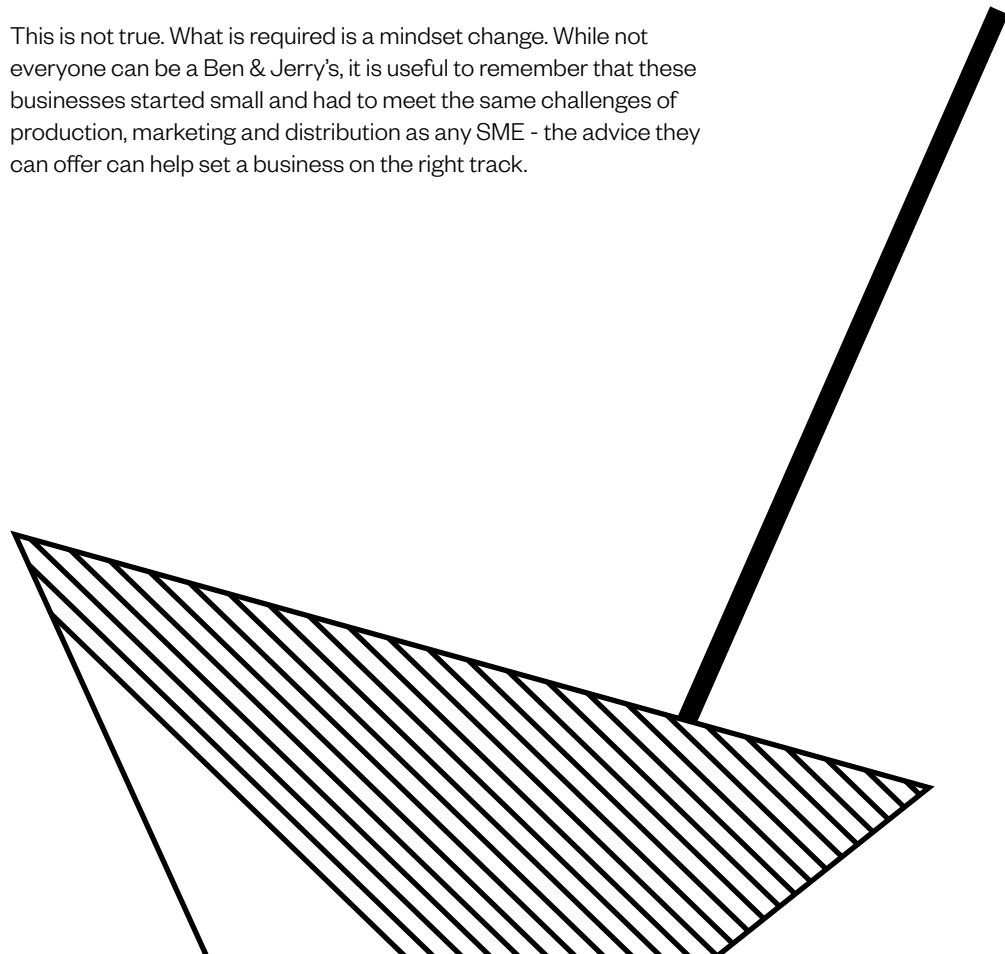


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PERSPIRATION + INSPIRATION

Figuring out how and where to start changing the way you operate to be more socially and environmentally conscious can seem overwhelming. The poster children for positive impact are those companies that manufacture and sell environmentally sustainable products – be it swimwear, shoes or confectionery (for instance, Adidas, Patagonia and Divine Chocolate). A company that manufactures paint, components for bicycles or stationery may feel the bar is set so high they cannot make the first steps.

This is not true. What is required is a mindset change. While not everyone can be a Ben & Jerry's, it is useful to remember that these businesses started small and had to meet the same challenges of production, marketing and distribution as any SME - the advice they can offer can help set a business on the right track.



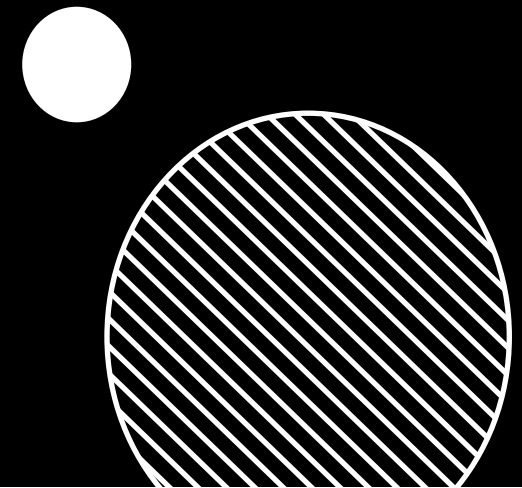
WHAT IS A B CORP?

B Corp is a “whole company” assessment that sees business as a force for good and that requires – by legal articles of association – that a company acts to drive profit as if people and place matter. It’s a certification that means an organisation has been put under scrutiny and rigorously assessed on their societal and environmental impact. B Corps must consider all stakeholders alongside shareholders and the Board. Examples of B Corps include, Ben & Jerry’s, Divine Chocolate and recent Unilever acquisition Pukka Herbs.

B Corp accreditation can:

- i) Provide a framework to help a company focus on acting in an ethical way.
- ii) Help consumers identify a company that may be aligned to their own values.
- iii) Serve as a flag to global companies and financial institutions looking for investment opportunities.

Find out more at <http://bcorporation.uk/meet-b-lab-uk>



The logo for Marks & Spencer, featuring the brand name in a white, serif font on a black rectangular background.

MARKS &
SPENCER

Marks & Spencer launched Plan A, one of the first corporate sustainable business plans, in 2007. It set out 100 commitments for the company to meet and was overhauled in June 2017 when the retailer launched Plan A 2025. Metrics show the initiative has saved the company £700m via energy and supply chain efficiencies alone.

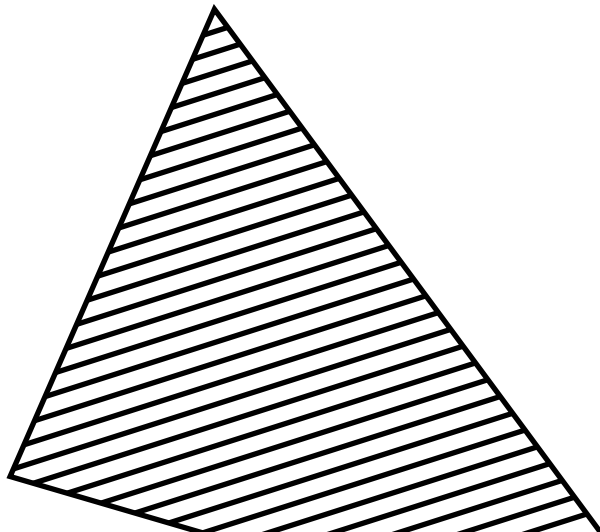
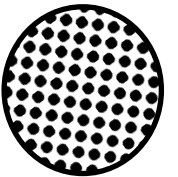
Think about what type of business you are and take a strategic approach aligned with your core purpose as a company. Establish your key social and environmental impacts along the value chain. You need to understand where your interactions are with the world. Changing your practices means having an integrated approach across the business and systematic management of the process - have shared accountability across whole business. It should not be the job of just one or two people siloed in a particular department to manage.

We are now an efficient, leaner company, we have protected our brand and we know that having a pro-active and ethical approach to developing products and managing the supply chain establishes a quality benchmark for our products. It delivers brand enhancement and gives us a greater depth in our relationship with customers, so we can move from a more transactional to emotional engagement.

Jo Daniels

Sustainability Manager
Foods for Marks & Spencer

**Changing
your practices
means having
an integrated
approach across
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and systematic
management of
the process**





Divine Chocolate is the first farmer-owned Fairtrade chocolate bar aimed at the mass market and launched in the UK in 1998. It is 45% owned by Cocoa Farmers in Ghana and its board includes representatives from Unilever and Diageo.

We entered a market that was enormously competitive and mature, we had no money, no scale and no awareness and had to break that cycle. We needed things to happen simultaneously and we needed to get people to behave in an unusual way –to go in and demand a product that was not there.

We mobilised networks, specifically Christian Aid, by sending out a booklet to its membership with two vouchers; one was 50 pence off the product at Sainsbury's and the other was a Stock the Choc postcard saying "Dear manager, please stock this chocolate and if you stock it we will buy it here" to hand in at the store. We were the first people to do that in a commercial environment. We ultimately got a call from the Sainsbury's buyer who said that turnover was going well and the retailer was going to increase our listing to the full estate. So, the lesson is, use people who care about what you do to spread the word and drive distribution.

We got there by passion and persistence. We kept on knocking on the door and made a compelling argument when buyers saw us – we had a good product with good margins. To be successful, it's not good enough that you are trying to do something good.

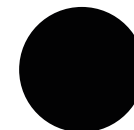
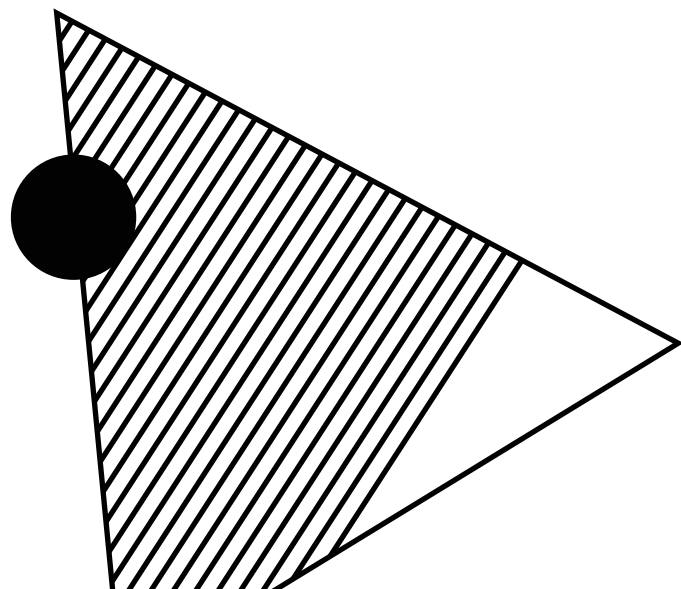
Positive impact thinking needs to be built in from the beginning before the business reaches break-even. Owners and shareholders say 'We'll get to that point and then do some good things' but by that point you have taken money from all sorts of people. They want a rate of return and you'll never build in the extra initial cost to the business.

Really invest in how to communicate your goals in a way people can understand. You need to work with your staff, board, wider stakeholders and consumers, and if you get the messaging right it will help you recruit and retain talent and it will help you sell things in a competitive market and generate loyalty.

Sophi Tranchell

CEO
Divine Chocolate

Use people who care what you do to spread the word and drive distribution





18 Feet & Rising offers advertising services – it is an independent agency operating in a sector where margins are under pressure and clients are incredibly demanding. It has chosen to pursue a positive impact strategy and believes the effort to meet the strictures required for B Corp accreditation [See box out What is a B Corp?] is a worthwhile investment.

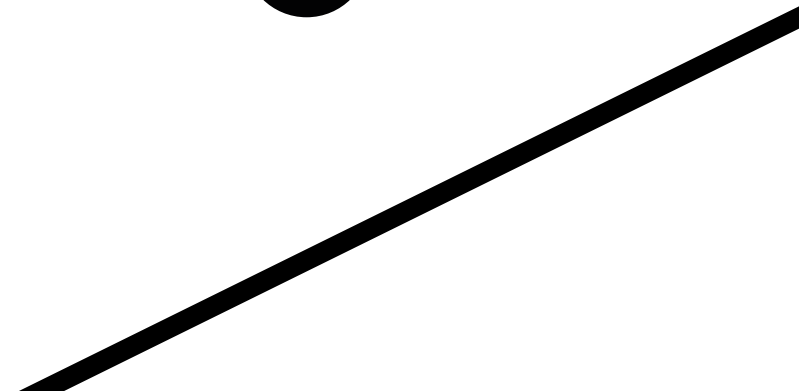
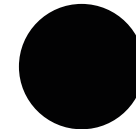
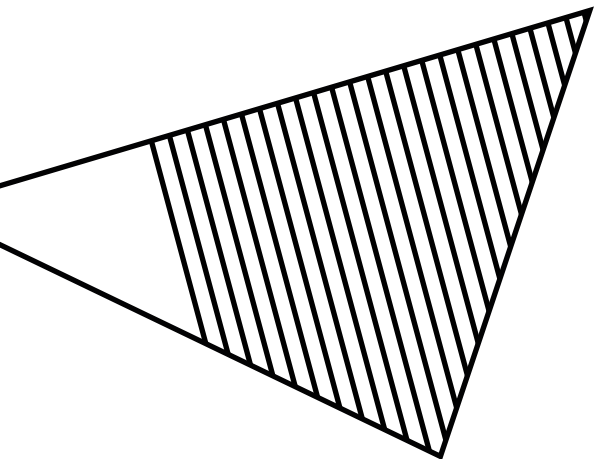
Our business depends entirely upon people and the creative interactions between them. So if we want the best people and for those interactions to be as interesting as possible, we need strong company values. There's an increasing decline in the calibre and number of people who want to join creative agencies - particularly among the younger generation. They don't want to join because the long-term goals of agencies fail to be aligned with their own outlook on the world. They are looking for meaningful, self-enhancing experiences and companies that allow them to bring their whole selves to work. B Corporation requires us to act as if people and place matter. At a red-blooded level, by doing this, we attract the best whilst reducing our hiring and retention costs.

It's of course much more than that. Growth is scarce and companies needs ideas. This means shifting the culture of companies to be more open to change and this can only happen if the pursuit is the creation of value and values alongside money. Start-ups and SME's have a great advantage in being able to set out new frameworks for business - they have fewer legacy issues to do with and often a strong founder and/or shared founding vision.

I have faith in the generation coming through that has not known economic growth like previous generations. They are far less interested in a digital dream of endless choice and convenience. They scrutinise the value exchange and are interested in companies that take a sustainable view of business, not just because it's efficient, but because it inspires creativity and ultimately better products, services and experiences.

Jonathan Trimble
CEO
18 Feet & Rising

Start-ups and SME's have a great advantage in being able to set out new frameworks for business





SSE is an investor-owned company created by the privatisation of the energy industry and is listed on the London Stock Exchange.

Its business is wholly focused on the UK and Ireland and it is the only FTSE 100 company to have the Fair Tax Mark accreditation.

The big question around our sustainable activity concerns the business benefit. In terms of domestic household customers, I am yet to be convinced of a compelling business case for sustainability. I don't believe they vote with their feet when faced with simple decisions on service and price based on whether we pay the 'right' taxes or the living wage – but I do think they will turn against those that abuse trust and power. However, there is evidence that our business customers might be voting with their feet. Whether blue chip, public sector or SMEs, they want to see our green credentials and buy our green energy product and they are also interested in social sustainability too.

The impact of culture and values is beginning to be fully understood by the corporate world. These big corporate crises – be they about emissions or financial reporting – come about because instead of a healthy corporate culture there is one where the bottom line is pursued at all costs. Rules alone are not sufficient to ensure wrong-doing is avoided – you need a combination of rules and values.

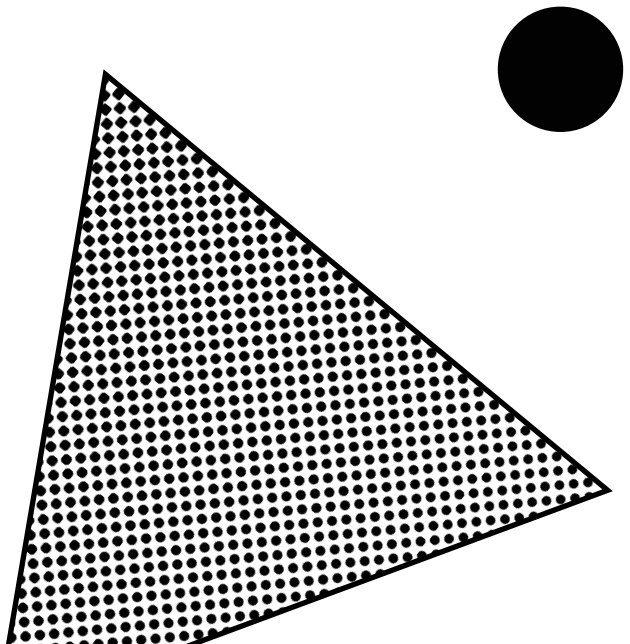
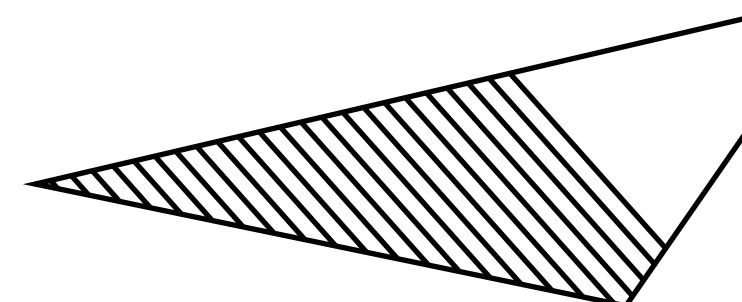
I'd urge anyone to start with ethics and values and we have learnt a huge amount from working with the Institute of Business Ethics. Start with the basics, such as defining what you stand for and create a space so that employees can investigate their own values. This is something to which people respond well.

Also, be connected to the outside the world. You need to watch what is going on outside and listen, otherwise you risk becoming inwardly-focused. And acting in enlightened self-interest is okay when 'doing good', if your customers value the result.

Rachel McEwen

Director of Sustainability
SSE

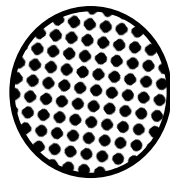
Rules alone are not sufficient to ensure wrong-doing is avoided – you need a combination of rules and values



HOUSE OF FRASER

SINCE 1849

House of Fraser aims to be the premium department store of choice and wants to make shopping with the company – and working for it – a premium experience. It wants to accomplish these things responsibly and introduced a Head of Sustainability position in 2016.



The fashion industry has a big societal and environmental footprint across the world, so our first step was to understand how we make an impact – positive and negative - and this informs the actions we take. We are lucky to have commitment from the top – having the right people in the right place makes such a difference to getting things done quickly.

I arrived just as House of Fraser was refreshing its five key values and we have added one more – “to respect people and the planet”. This means we want to reduce our environmental footprint, responsibly source our products and to engage positively with the communities we work in.

We have added four new metrics to our business measurements that deal with sustainability; they concern resources and waste, responsible products in relation to the supply chain and packaging, water, energy and climate change. We have managed a 5% reduction in energy usage over the past year which also brings cost savings with it.

Essentially, it's risk management – there are a lot of legal obligations that come heavy penalties and reputational damage if you get this stuff wrong. We have asked our customers if they are interested in sustainability and no matter how we research this, 8/10 expect us to be credible from a sustainability perspective and our actions inform their expenditure.

If you are looking at taking a positive impact approach the need for expertise cannot be underestimated. You don't have to get a full-time specialist, just someone who can assess the impact and the opportunities and give you advice on the topic. When you see there's a business case to take action then get the leadership right behind the project. In a way it's all about change management.

And be really practical – the old days of CSR really had nothing to do with what a business produced. It really makes a difference and is a win when the company responds to what it does, seeks to reduce the negative impact and manages to increase the positive. This can also bring cost savings and new revenue streams so can be a win-win.

Dorothy Maxwell

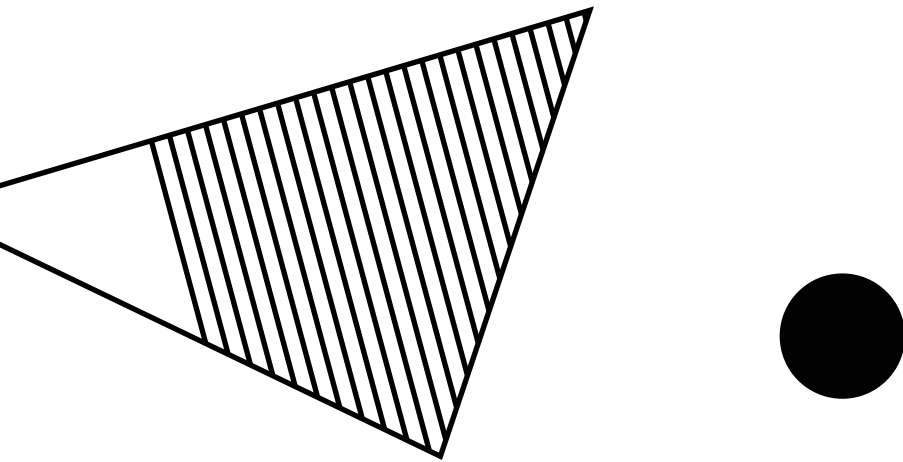
Head of Sustainability
House of Fraser

If you are looking at taking a positive impact approach the need for expertise cannot be underestimated

— 0.5

THE RING OF CONFIDENCE

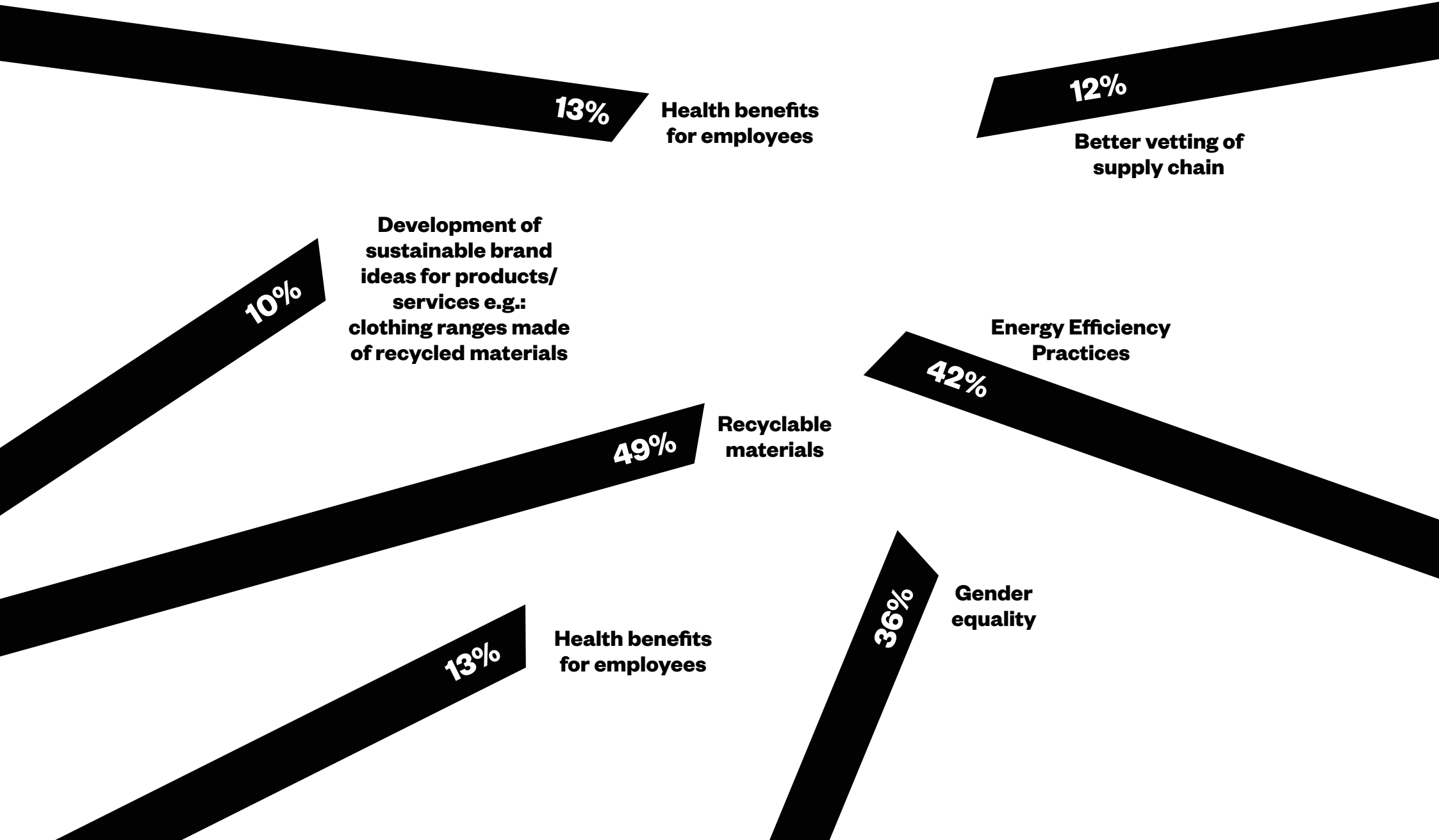
Preparing and implementing an ethical business strategy needs an integrated and planned approach. CEOs said recycling, energy efficient practices and water reduction were the easiest practices they thought they could introduce into their businesses with “better vetting” of the supply chain seen as a much harder challenge.



However, there are quick wins that will help build confidence in both employees and management, demonstrating that it's possible to make small changes that have a noticeable impact. These small steps will reduce costs, increase efficiency and promote staff well-being and will enthuse teams that bigger things can be achieved.

- i) Audit the work/life balance equation of the company with a view of less meetings and less presenteeism, ensuring what people do is more valuable. Analyse where employee time is spent, cut out all the things where no progress is made and divert effort into things that do matter.
- ii) Ask employees to suggest ways of increasing the price of your products rather than lowering the cost. It focuses the business on creating something that people naturally want rather than churning out commoditised items to a market where there is low demand.
- iii) Research your energy suppliers and see if you can switch to renewable energy – there should be little price difference between ‘good’ and ‘bad’ energy.
- iv) See if you can switch to Forest Stewardship Council certified paper, if fully-recyclable paper is not an option. This certification means the paper has been sourced in an environmentally-friendly, socially responsible and economically viable manner and it is competitively priced.
- v) Sign up to the Real Living Wage – this sends a strong signal to employees that you are an ethical business and understand that the problems of the world are created by inequality. Among companies that have signed, 86% say it has improved the reputation of the business and 75% say it has increased motivation and retention rates for employees.
- vi) Tackle the challenge around inclusion and diversity among employees by creating support groups and networks to link people together.
- vii) Involve the company in efforts to help the local community. Volunteering and fundraising moves people through a journey and once the business is comfortable at a certain level of activity it will realise it can work on harder issues within the community. It will be able to address more strategic issues and take higher impact actions.

Ethical business practices SMEs think they could introduce easily



13%

Health benefits for employees

12%

Better vetting of supply chain

10%

Development of sustainable brand ideas for products/ services e.g.: clothing ranges made of recycled materials

Energy Efficiency Practices

42%

49%

Recyclable materials

13%

Health benefits for employees

36%

Gender equality

— 0.6

CONCLUSION

SMEs can become hubs of innovation attracting talent based on their understanding of how people are changing what their value in their lives. Our findings suggest that businesses realise a sea change is underway and they have a role to play – seizing that role and putting other goals on a par (if not ahead) of profit should create a stable foundation for growth.

This will require a change in mindset and ditching the short-term approach to business characterised by a focus on the quarterly or half yearly profits, but the very concept of business value is changing.

What's to gain? Everything, including a continued existence in a world where so many traditional consumer models are failing. Companies willing to explore and create a new framework for doing business have the chance to do something very different – to scale and enable a more sustainable, higher margin set of cultures based on people and values.

“Businesses realise a sea change is underway and they have a role to play”

ADDITIONAL INFORMATION:

www.bcorporation.uk
www.newcitizenship.org.uk
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