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What does it mean to be a 'responsible business'? Moving the conversation forward

By Dr Marc Levy



Right thinking

In a recent HBR article, ESG scholar and integrated reporting expert Robert Eccles writes, 'At the core of the ESG debate is the fundamental question of the role of the corporation in society: What does it mean to be a responsible business?'

Inspired by Eccles' intriguing question, and ardent in the belief that his 3-point prescription isn't yet a sufficient answer to it, Right Lane founder and chair, Dr Marc Levy, proposes a list of 10 characteristics of responsible organisations.

What does it mean to be a responsible business? This is the question that Robert Eccles seeks to answer in his recent article, 'Moving beyond ESG' (Eccles, 2024). Eccles references attacks on ESG – environment, social and governance factors – from the left and the right: ESG doesn't go far enough for some progressives and it's 'woke nonsense' to some on the right.

I am an unapologetic cheerleader for ESG. I don't really buy the idea that we need to rebrand ESG or move past it to something else. As a discipline and a set of practices, it has focused the attention of companies, policy makers, institutional investors and other actors on the impacts on them and their constituents of climate change and biodiversity loss, of contravening labour rights and perpetuating

gender inequalities. It has also drawn attention to their roles in fixing these fundamental problems for the world.

In seeking to answer his intriguing question, Eccles proposes a new framework, comprised of 3 'strategies'; businesses should be clear about purpose, straightforward in their sustainability reporting and constructive in their engagement with stakeholders.

The question and his 3 strategies align more with what he believes corporate leaders should do to manage the conflicting pressures in the ESG political war, than with what it takes to be a responsible business. Nevertheless, I am very engaged by Eccles' work, and I think we all

should be grateful for his provocation. In using the term responsible business, he invites a different sort of conversation, one that transcends the ESG debate and goes to the role of the corporation in society.

There can hardly be a more important conversation. For most of us, businesses, organisations responsible or otherwise, educate and protect our kids, source our food and make the clothes we wear; they hold our money and grow our wealth; and they provide our medicines and the facilities in which we grow old.

Eccles 3 strategies are part of the answer to be sure, but in my opinion they aren't enough. A business can do these things and still act irresponsibly, unethically or unfairly. In this article, building on my recent work on business ethics, corporate giving and alternative forms of corporate ownership and control, I seek to move the conversation forward by advancing a more comprehensive list. This list of 10 factors is pitched at a 'level of abstraction' between Eccles' 3 strategies and ESG evaluations, B Corp assessments and the like, which are necessarily more detailed.

I will use the terms responsible business and businesses, and responsible organisations, interchangeably, as organisations of all kinds and forms – public and private for-profits, community organisations, public sector organisations, etc. – should act responsibly, and no type of organisation is immune from acting irresponsibly.



10 FACTORS FOR RESPONSIBLE BUSINESS

1. Make catalytic commitments to ambition

Eccles is right, 'too many mission, vision, and values statements are so broad that they could apply to any organization'. Responsible business is being more precise about these statements, including as they relate to social and environmental challenges; but specific intent isn't enough. Responsible organisations employ catalytic mechanisms to translate 'lofty aspirations into concrete reality' (Collins, 2002), putting paid to accusations of greenwashing, tokenism or virtue signalling.

Catalytic mechanisms are tangible commitments, related to an organisation's ambitions, and often involve actionable steps, clear metrics and accountability. Examples include explicitly aligning priorities and resource allocation with an organisation's purpose and vision; and setting public targets and hitching the remuneration of an organisation's leadership to them.

Collins references a US construction materials and contracting company, striving for product and service quality, that allows its customers to 'short pay', to reduce their invoice payments, if they are not completely satisfied. The consulting firm I founded, Right Lane, restructured into a foundation-owned enterprise, resolving otherwise irreconcilable trade-offs between profit and purpose. More on that later.

2. Agree on a holistic, long-term value creation thesis

Eccles argues for 'highlighting material ESG issues that directly affect value creation—but not including the broader positive and negative impacts a company has on the world.' In a rebuke of so-called double materiality, he contends that 'not all stakeholder issues are pertinent to shareholder value' and that 'trade-offs are inevitable'.

I would argue that an organisation's value creation thesis, or its strategy by another name, ought to face into both: how forces at work in the world will impact (improve, impair or interrupt) a business's pursuit of its ambitions; and how its choices, investments and operations affect the places in which it will pursue those ambitions. That is, organisations should consider the 'outside-in' and the 'inside-out' impacts (Husain, 2024).

As Eccles observes, there may have to be trade-offs in pursuit of value creation for most organisations,

in terms of, for example, waste, energy usage, quantum of community engagement or versions of labour arbitrage. And policy making and regulation are the primary ways in which negative externalities are mitigated. But these axioms do not let businesses off the hook.

Eccles says organisations' efforts in this regard should be bounded by shareholder value creation and the law. Organisations should be candid about negative externalities and try to reduce them, if doing so doesn't diminish economic profits; and they should be wary of new laws, like a tax on carbon, that may suddenly make them financially material.

We need to think holistically – more expansively – about value creation. It is essential for organisations to consider their impacts on the health of the planet, including the places in which they operate. They rely on those places for the quality of many of their inputs; the strength of their reputations and relationships; and the local 'business clusters' that sustain them.

Taking the inside-out view, to reduce environmental impacts, may also lead to product, service and business model innovations; improve an organisation's ability to anticipate and respond to potential risks; build trust with stakeholders; and align with the trajectory of regulatory compliance and reporting standards (Husain, 2024).

Responsible organisations ought to support the climate transition by joining industry initiatives, supporting strong public policy and actively reducing GHG emissions, including Scope 3 (business travel, purchased good and services, waste disposal, etc.). For public companies, and others, it is becoming untenable not to do so, even for those with limited environmental impacts, in the face of pressure from universal owners, civil society and employees.

3. Practise deep listening with stakeholders

The idea of practising 'deep listening' with stakeholders is inspired by the Australian aboriginal practice, called Dadirri in some languages. It is patient, empathetic, quiet, contemplative and reflective (Ungunmerr-Baumann, 2015).

Eccles calls for constructive engagement with stakeholders, with a focus on shaping and shifting narratives, including hostile ones, that will impact value creation. Can we go further than that though? There's a controlling overtone to shaping and shifting narratives. Stakeholders are the customers who buy our products; the people who work in our organisations; the regulators who define our competitive context; the

owners whose capital we depend upon. Ours is not to shape them.

I was lucky enough to conduct a materiality review for a major financial institution for some years. From my perspective, it was enriching for them for several reasons. Perhaps the most important was deeply listening to stakeholders' perspectives on topics that might impact long-term value creation – from financing heavy industry and renewable energy to addressing customer disadvantage and hardship; from the need for transparency in reporting and engagement to setting appropriate targets and thoughtfully remunerating executives. The CEO and board were deeply engaged in this work, which unearthed novel and valuable insights on strategic issues. Stakeholders said their approach to engagement was a competitive advantage.

4. Promote an ethical climate

If ethics is doing what is right, an ethical climate is a fundamental feature of a responsible organisation.

In [this article](#), I advanced the thesis that business ethics have lost prominence in recent decades. This has been partly due to ethics being displaced by other theories and practices of a virtuous kind, like organisational values. A lack of focus on ethics has contributed to all manner of ills, from the destruction of sacred aboriginal sites to fees for no service scandals. High profile ethical failings among professional services firms, financial institutions and mining companies, have had disastrous consequences for vulnerable consumers, public trust and economic value.

The right thing to do is not always obvious, and there will always be a strong element of judgement involved in acting ethically. Responsible organisations ought to promote ethical conduct: setting clear expectations of their people; modelling ethical conduct; mandating training in ethical decision making; acting emphatically on ethical failings; and creating a physically and psychologically safe environment in which people can raise concerns and challenge prevailing thinking.

Candid sustainability reporting – through which impacts and outcomes, positive and negative, can be documented and communicated – is one of Eccles' 3 strategies. I have chosen to include it here in the list as candour is reflective of ethical conduct, as is transparency.

5. Manage your workforce professionally and fairly

In very round numbers, organisations employ more than half of Australia's – and nearly half of the world's – population. Just one of our clients at Right Lane employees more than 100,000 people. Influencing how, and how well, people spend around half of their waking hours is an intimidating responsibility.

In an article titled 'Saving management from our obsession with leadership', academics from the universities of Virginia, Cornell and Erasmus (Detert et al, 2022) suggest that our focus on highfalutin notions of leadership has come at the expense of the valuable discipline of management.

Responsible organisations manage their people professionally. Their roles are well structured and interesting; they understand the expectations of them, and they know where they stand with respect to their performance, development and prospects. They are remunerated fairly and, where possible, share in the organisation's success; their input is sought on matters that impact them; they receive thoughtful guidance, feedback and coaching when relevant; and they receive essential supports.

6. Make decisions rigorously and mindfully

What is responsible decision making? Well, it is evidence-based, in that, prima facie, decisions based on reliable information are likely to be more effective in achieving desired outcomes. But responsible organisations are also conscious that effective decision-making requires a balance between adequate information and timely action (avoidance of procrastination), with intuition playing a key role.

Responsible decision making is actively engaged with the potentially perilous influence of decision biases. In our strategy work, we see instances of decision makers anchoring on the first compelling evidence that comes to them, searching for information that confirms what they already believe, or overestimating their insightfulness.

Frequently, we see clients wanting to act on single-minded conviction rather than thinking through scenarios and options and reflecting deeply on their choices. Responsible decision-making considers options. It also employs the organisation's resources productively and prudently, avoiding waste. And it 'circles back', making the link between decision choices, and the corresponding activity, and outcomes.

There is regulation in Australia concerning strategic and business planning in our superannuation system (APRA, 2019). It asks questions of its regulated entities that illustrate the point: What did you decide to do? Why? How did you decide to do it? How will you know whether it works? When will you see the impacts? Now that you know the impacts, did it work the way you thought it would? If it did or didn't work, what are you going to do about it?

7. Embrace diversity, equity and inclusion

I approach diversity, equity and inclusion (DEI) with an eagerness to learn and contribute thoughtfully. While I draw on my own experiences, I remain mindful of my limited perspectives.

Not more than 15 years ago I watched a very senior, formidable female chair suffering the indignity of arguing with male director colleagues about the need for gender balance in the company's management ranks. It wasn't more than 10 years ago that I was taken aback when a male colleague told me he refused to go on a conference panel because there were not enough women on it.

Expectations regarding DEI, and the minimum acceptable standards of owners, governments, regulators, customers and other stakeholders, have changed rapidly and they are continuing to do so. Within a few short years, it will simply be unfeasible to do anything but embrace diversity, treat people fairly and enable people to participate in organisational opportunities and decision making.

Australian Race Discrimination Commissioner, Giridharan Sivaraman (2024), notes in a webinar on building an anti-racist workplace, that discrimination must be approached at the structural level—for example, in sourcing candidates, recruiting, onboarding, work practices and remuneration; in creating culturally safe workplaces and providing leave for cultural needs; in addressing complaints, development, promotion and participation in decision making.

Project kick-off meetings present a routine but illustrative 'work practices' example. At these meetings, where the tone is set for the work of weeks and months to come, we can seek to understand whether colleagues have any needs we can accommodate in the team. These might relate to, for example, prayer, flexibility, quiet spaces, perspective-taking, communication and feedback. One of my senior colleagues used a instructive analogy to make the point, 'You wouldn't have a dinner without asking your guests whether they have any dietarys'.

This is just basic human decency, and there is clearly a moral imperative. If people are not compelled by that, DEI has been linked to higher rates of innovation and performance (Lorenzo et al, 2018); better problem solving and less group think (Eswaran, 2019); and higher levels of employee trust and retention (Brodzik et al, 2022).

Regardless, powerful stakeholders are not waiting for consensus that may never come. Responsible business will get ahead of the curve.

8. Take proportionate responsibility for your ecosystem and trade fairly

Organisations are part of complex ecosystems; their power in those systems comes from their size, profitability, reputation, relationships and other assets. Responsible organisations use rather than abuse their power, engaging other actors, including trading partners, within their ecosystems to make the broader system stronger, in ways that chime with their objectives.

Let's take the example of large super funds. These powerful institutional investors, at the apex of global capital markets, can improve their retirement ecosystems by engaging with policy makers, cooperating with regulators, scaling others' innovations and striking advantageous but sustainable deals with counterparties. Perhaps most significantly, they can engage with the private and public companies in which they are invested about the extent to which their value creation theses are robust to climate change; and whether these organisations are respecting human rights, trading fairly and governing their organisations in line with established good practices.

Responsible organisations, engaged with their ecosystems, ought also to work towards consistency between their own philosophies and commitments and the public positions of the industry bodies and lobby groups with which they align. We've seen instances of misalignment in, for example, mining, healthcare and financial services, with adverse company impacts and wider universal investor ramifications. The same principle applies to organisations' positions and those of internal stakeholders.

9. Pledge 1% to support the communities in which your organisation operates

I [wrote here](#) that in dedicating 1% of pre-tax profits to address social challenges responsible businesses could liberate billions of dollars to address homelessness, the mental health crisis, domestic violence, insecure work, and other intractable social problems.

More than 1,500 Australian firms like Atlassian, Canva and CultureAmp, have joined the Pledge 1% movement. Salesforce pioneered this model of integrated corporate philanthropy, through which signatories pledge 1% of their equity, profit, employee time or product back into the community. Fourteen of the ASX 50, including Coles, Woolworths, CSL and Telstra are giving more than 1% of pre-tax profits (Patten, 2023).

There are numerous strategic reasons why organisations give, from social license to reputation repair and from enhancing their customer and employee value propositions to strong industry norms. Organisations are part of the communities in which they operate in and benefit from. As Michael Porter and Mark Kramer (2002) observed, context-focused corporate philanthropy, where organisations use their giving to improve the places in which they operate, brings social and economic goals into alignment and '[unlocks] a vastly more powerful way to make the world a better place.'

10. Choose ownership and governance structures suited to your purpose

What are you in business to do? If it is to cure the sick, provide access to justice, or educate students, is a conventional shareholder owned structure the right way to go about that?

In his entertaining Ted Talk, 'Transforming Ownership to Create a Better Economy', Armin Steuernagel (2018) tells the story of a small German hospital his father ran when Armin was growing up. The hospital had happy employees, well cared for patients and healthy profits. After a series of ownership changes to larger and larger shareholder owned companies though, there was increasing pressure to drive down costs and drive up profits, to justify the acquisitions. Organic food gave way to an outsourced kitchen with less nutritious food. Armin's father was forced to 'fire half the doctors' and cut the time the doctors could spend with patients.

There are myriad alternatives to shareholder ownership that may be more suitable for some organisations, from steward and foundation ownership to mutuals and cooperatives and from social enterprise to employee ownership.

There are over 1,800 active mutuals and co-ops in Australia, and 12,000 social enterprises. In 2022, I transformed Right Lane into a majority foundation-owned enterprise. The Right Lane Foundation, a registered charity, has its own board and will get dividends from Right Lane Consulting. With these funds it will support consulting projects for organisations low on resources, and help build skills and knowledge

in the purpose economy. In adopting this model, we overcame an irreconcilable trade off between profit and purpose, which I explain [here](#). Most of our profits will go to our purpose, to help organisations that do good to do better.

In steward owned models, which are common in northern Europe, control of the company remains with people who are actively involved in the business – not thousands of kilometres away like the hospital group in Armin’s example – and there is a purpose-driven profit allocation (Steuernagel, 2018).

But you don’t need to change ownership structure in pursuit of more inclusive, transparent and stakeholder-accountable governance. Some of our clients in financial services and healthcare have advisory boards representing certain stakeholder interests.

A company’s constitution can reflect how an organisation considers stakeholder interests and perspectives. As part of our firm’s B Corp certification, we are currently being asked to change our company constitution to oblige directors to consider the likely consequences of any long-term decisions on employees and shareholders; customers and suppliers; the community, society and the environment. This push isn’t new. According to the Business Roundtable’s 1981 statement on corporate responsibility, ‘the shareholder must receive a good return but the legitimate concerns of other constituencies also must have the appropriate attention (Paine, 2023).’

In restructuring into a foundation-owned enterprise, Right Lane’s employees who are members of the Foundation will elect some directors to the firm’s ultimate governance body, the Foundation board.

Other methods responsible businesses are employing include participatory management (approaches such as employee councils); governance codes; and whistleblower protections (see, for example, Paine and Srinivasan, 2019).

Some of these approaches are emblematic of what Harvard Business School governance authority Lynn Paine calls ‘structural stakeholderism’ (Paine, 2023), whereby ‘advocates... seek to hard wire the interests of other stakeholders into the process, rather than relying on... business leaders to take them into account.’

There is a deep, though not entirely settled, literature on the positive link between ESG (and corporate social responsibility and adoption of the UN Sustainable Development Goals) and financial performance (see, for example, Whelan et al, 2021; Glavas & Visentin, 2024; and Saha et al, 2024). Regulators often make the link between responsible business practices and fair competition and the protection of public interest (see, for example, Eggers et al, 2023). Consumers increasingly prefer to deal with responsible companies and people want to work for them (Reichheld et al, 2023). Responsible business practices have been linked to improved risk mitigation, reputation and trust, operational efficiency, employee retention and business longevity (see, for example, Whelan & Fink, 2016).

This article suggests 10 factors that characterise responsible business, a novel and untested combination. There is no proven, direct link between this combination of 10 factors and business outcomes. But perhaps making the link between 3- or 10- point prescriptions and business outcomes is not the point. If you look at the 10 points individually, they are quite difficult to refute. Pay lip service to your purpose? Turn a blind eye to whether your strategy and business model will be robust to climate change? Ignore your environmental and ecosystem impacts? Eschew your stakeholders? Act unethically in pursuit of results? Mistreat staff and trading partners? Disregard individual differences? Obviously not. So, please join with me, and Eccles, in thinking, and talking and writing about responsible business, what it means, what it takes.



Want to know more?

If you would like to discuss this article in more detail, please contact

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About Right Lane

Right Lane is an ethical management consulting firm serving the purpose economy.

Our vision is to build a strong Australian purpose economy that delivers a fairer and more prosperous society.

We employ our distinctive ideas and processes, and our absolute commitment to delivery, to help clients we care about pursue their inspiring missions.

We work alongside clients who do great work in their sectors, and we are driven to create outcomes that truly make a difference.

Right Lane was established in 1997 to help private, not-for-profit and public sector clients to clarify and accelerate their future plans. Over the past 27 years, we have helped the executive teams and boards of around 500 organisations to define and adapt their direction and strategy, identify and clarify their priorities, align their efforts with their aspirations, get their major projects started and finished, and measure and improve their performance.

Right Lane became the first strategy consulting firm in Australia to be B Corp certified in 2015. Right Lane has since recertified as a B Corp in 2017 and 2021. Certified B Corporations meet higher standards of social and environmental performance, transparency, and accountability.

Taking this commitment one step further, in July 2022, we transitioned to majority foundation ownership – the first Australian consulting firm to adopt such a structure.

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Corporation

Right Lane becomes the first Australian management consulting firm to become foundation owned.

In recent times there has been increasing public focus on the role played by professional services firms. Important questions have been raised about the value firms have delivered, particularly on projects involving the use of taxpayer funds. We are deeply conscious of our role in society, and we believe a conversation on the public value delivered by professional services is long overdue. To that end, Right Lane Consulting remains committed to its purpose of contributing to a better society by helping organisations that do good, do better. We are a proudly ethical consulting firm demonstrated by our foundation ownership model, the clients we choose to serve, our commitment to our low and pro bono program, and a service model that reflects our ability to keep our rates competitive and add value to our clients.

We back our model and believe it provides a way of doing consulting differently and better.