



Inclusive Growth Analysis Unit



Promoting inclusive growth through responsible business in Greater Manchester

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Key points

- Responsible business activity is central to achieving inclusive growth, so engaging with businesses must be at the heart of inclusive growth strategies.
- Existing Environmental, Social and Governance (ESG) and Corporate Social Responsibility (CSR) frameworks are useful but need to be developed to reflect inclusive growth objectives.
- Greater attention must also be given to how Small and Medium Enterprises (SMEs) can be supported to contribute to inclusive growth.
- There are many activities to support firms on different aspects of inclusive growth but they need to be better coordinated locally.
- The new Productivity and Inclusive Growth programme is a major opportunity.

Introduction

Business activity is central to economic growth and wealth creation. This means that any genuine model of inclusive growth needs to engage businesses to encourage behaviour that supports inclusive growth. With this aim in mind this briefing summarises the findings and recommendations from two reports published by the Inclusive Growth Analysis Unit (IGAU) on the topic of responsible business. The first report considers how existing Environmental Social and Governance (ESG) and Corporate Social Responsibility (CSR) frameworks relate to inclusive growth and might provide ways to define inclusive growth for businesses. Taking the case of Greater Manchester, the second report looks at the different mechanisms and activities which engage businesses and suggests what else might be done. The research draws on a series of consultation workshops and in-depth interviews with stakeholders in Greater Manchester.

The Relationship Between Inclusive Growth and Responsible Business

The term 'inclusive growth' is used in many different ways by different people, including some who equate it with broader notions of social inclusion or social justice. Our work focuses on 'economic inclusion' in the prosperity created from economic growth.¹

We argue that this economic inclusion is central to the emerging agenda around responsible business. First, businesses and the people who run them and benefit from them are directly affected by economic inequalities. While it is right to target poverty and extreme disadvantage as a central aim of inclusive growth strategies, greater economic inclusion needs to be a majority concern, not just one for people who are currently on the margins of society. Inequality over the last four decades has seen the very richest move away from the rest in terms of their wealth – it is not just the poor who are being left behind.² Inclusive growth therefore also links to the topic of social mobility in terms of access to opportunities to economic advancement and inclusion. Moreover, paid work is no longer providing a guarantee of economic inclusion. There are more people in the UK living in poverty in working than non-working households. Future challenges such as the continuing technological displacement of jobs are also likely to affect an increasing proportion of the employed population. Inequalities and poor social outcomes (such as poor health and education) also affect productivity and growth potential. So building a more inclusive economy is in everyone's interest.

From this perspective, economic inclusion is concerned with the entire economic system of how wealth is both created and distributed in society, such as through profits, pay, taxation, and public expenditure and services.

The behaviour of businesses and other economic actors is central. Inclusive growth cannot be delivered by the public sector acting alone. We know many businesses already want to 'do the right thing' and make a difference. A commitment to inclusive growth objectives is a way in which businesses can fully integrate social and environmental responsibility into the heart of their practices with a genuine sense of purpose, engaging head on with the societal risks facing businesses in the 21st century.

Towards Responsible Business for Inclusive Growth (IG)

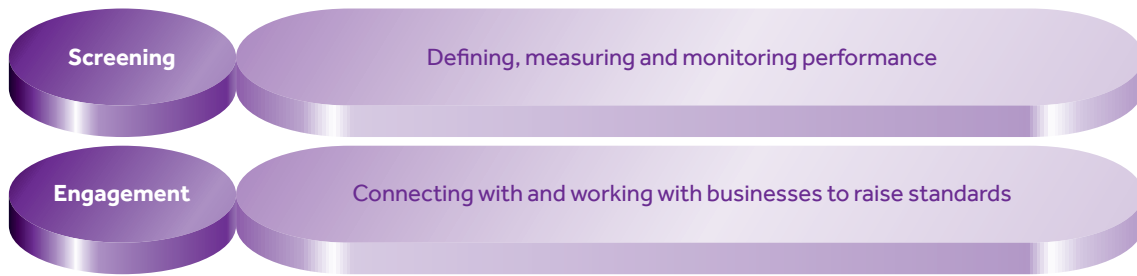
In terms of encouraging responsible business behaviour, current approaches to environmental, social, and governance performance focus on two core activities, **screening** and **engagement**. The former concerns the measurement and monitoring of performance. It requires a conceptual definition of what responsible business behaviour consists of. It also requires a data collection methodology, such as quantitative indicators and/or narrative reporting on activity. The latter concerns engaging businesses to raise standards.

In the reports underpinning this briefing, we looked at how well existing screening and engagement activities are suited to supporting an inclusive growth agenda, and how they might be adapted.

¹ Lupton, R. and Hughes, C. (2016) Achieving Inclusive Growth in Greater Manchester: What can be done? Consultation Report. <https://www.mui.manchester.ac.uk/igau/research/reports/>

² Grimshaw, D., Rafferty, A., & Whittaker, M. (2018) "Inequality and inclusive growth: The case of the UK" in B. Nolan (ed.) "Generating prosperity for working families in affluent countries," Oxford: Oxford University Press.

Figure 1: Current approaches to the environmental, social and governance performance of businesses



Screening: Defining an IG Responsible Business Framework

Based upon a review of existing corporate social responsibility monitoring frameworks and interviews with key stakeholders in Greater Manchester, we identified four pillars of a responsible business framework, from an inclusive growth perspective. These are:

- Economic inclusion in prosperity created by growth
- Inclusion of stakeholders in decision making and governance
- Inclusion through diversity and equality
- Environmental sustainability

Figure 2: An Inclusive Growth Responsible Business Framework



The **economic inclusion in prosperity created by growth** pillar considers the extent to which business practices facilitate the inclusion of the workforce in the prosperity achieved from economic growth. In our interviews some respondents considered inclusive business models as ones that have a 'positive growth mindset', seeking growth through workforce development and innovation whilst

avoiding excessive cost reduction strategies such as over-aggressive downsizing, asset stripping, workforce or R&D under-investment, or increasing profit through excessively squeezing labour costs. Here the consideration of performance beyond profit in terms of social and environmental responsibility was viewed as important to sustainable business practices. Such considerations raise issues of corporate governance and so both executive and investor behaviour. Fair reward management practices and minimum employment standards were further viewed as important.

Stakeholder inclusion & governance concerns the need for organisations to consult all stakeholders in developing ESG and risk management plans and when developing broader strategy. Stakeholders include investors, employees, customers, supply chains, third sector organisations and local and national government bodies. Without such mechanisms it is difficult for organisations to assess stakeholder views and identify business risks and opportunities linked to social responsibility. A strong and proactive commitment to **equality and diversity** extending beyond basic legal compliance was further viewed as an important dimension to economic inclusion. This also considers the effects of business activity on local communities. Finally, **environmental sustainability** was seen as important to minimise the inclusion of broader stakeholders in negative outcomes such as by minimising pollution impacts on local communities and more broadly.

Comparison to Existing ESG Performance Frameworks

A number of popular existing ESG Performance frameworks were examined to consider the extent to which they currently cover issues of inclusive growth and identify potential gaps.³ This brief review suggests that:

- ESG frameworks, which influence business behaviour at present, capture some but not all of the aspects of the four pillars of inclusive growth responsible business activity outlined above.
- Compared to existing ESG frameworks, the IG Responsible Business Framework places greater scrutiny on the entire business model of organisations.
- It also places greater focus on the behaviour of investors and not just managers to consider their influence on corporate leadership and business practices.
- An inclusive growth agenda also requires a stronger focus on minimum employment standards. This is important because many organisations may be constrained in terms of their capacity to seek inclusive growth through broader workforce investment and development.
- Rather than just focussing on investor needs, company reporting procedures need to be re-orientated towards wider stakeholders such as employees and consumers to improve broader stakeholder awareness.
- This also means greater financial transparency is required regarding how value created is apportioned such as through profit taking, reinvestment, wages and the distribution of total rewards within organisations, as well as in relation to equality and diversity issues.
- Such information is required to consider the extent to which organisations support inclusive growth, and for stakeholders to incorporate issues of economic inclusion into their ethical decision-making (e.g. consumer behaviour or when choosing an employer).

³ These were: FTSE4Good; Global Reporting Initiative; The European Federation of Financial Analysts Societies (EFFAS); and ISO (Social Responsibility).

Engagement – Influencing Change: The Case of Greater Manchester

It is one thing to understand how we might think about responsible business for inclusive growth, but another to think about how to influence it at a local or city-regional level. We investigated this through a small consultation exercise in Greater Manchester, which also mapped some of the existing mechanisms and services to support businesses.

Consultees recognised that in some cases **national regulatory change** may be required to bring about more meaningful behavioural change.

However, progress can be achieved through **voluntarist approaches**. Key stakeholders for businesses may include investors, employees, consumers, trade unions, employer bodies, local and national government, and the local community. Part of the approach to influencing businesses identified through our consultation was seen to involve increasing the support of such stakeholders, such as by developing the business case for investors, or raising the profile of domestic employment practices as an ethical consumer or choice of employer issue. The latter could be helped by empowering consumers and potential employees with better quality information regarding the ESG Performance of organisations. Raising inclusive growth issues such as regarding equality and diversity as an ethical investment issue in relation to 'impact investing' was a further approach considered. **Building a broader business case** and **harnessing the local business support infrastructure** to support the delivery of inclusive growth objectives were seen as particularly important to influencing change.

Building a broader business case

Beyond ethics and 'doing the right thing', the business case for social responsibility can be built around two interlocking issues. These are identifying opportunities to build competitive advantage and the need for risk management. In terms of competitive advantage, the ISO26000 guidance on social responsibility highlights a number of potential benefits that may be obtained from CSR activity:

- Improved reputation.
- Increased ability to attract and retain workers or members, customers, clients or users.
- The maintenance of employees' morale, commitment and productivity.
- Improve the views of investors, owners, donors, sponsors and the financial community.
- Improved relationships with companies, governments, the media, suppliers, peers, customers and the community in which it operates.⁴

Whereas social responsibility may provide opportunities to create value, risk management concerns avoiding negative impact on these factors, such as reputational or brand damage that may result from ESG violations or the adverse effect on employee engagement and morale of poor employment practices. There was a perception, however, that the current corporate social

⁴ <https://www.iso.org/obp/ui/#iso:std:iso:26000:ed-1:v1:en>

⁵ <https://www.htb.co.uk/news/details/id/483/smes-forecast-to-contribute-241-billion-to-UK-economy-by-2025>

responsibility (CSR) agenda is more orientated towards large and publicly listed organisations that have greater public visibility, although issues of business responsibility are also important to private and small and medium size enterprises (SMEs). This issue is particularly important given a large proportion of expected future business growth in Greater Manchester is in SMEs.⁵ In terms of creating a business case and engaging SMEs a number of potential issues were identified:

- Non-listed companies do not have 'enlightened investor' pressure to motivate CSR and social reporting.
- Small businesses may lack resources (including time) and know-how to pursue responsibility objectives including expertise regarding human resource management practices. A lack of training may mean managers do not have the necessary skills or understanding to implement policies.
- Small businesses often lack the PR and communication power to translate their ethical activity into consumer value.

Harnessing local business support infrastructure

The difficulty in engaging SMEs raises the question of how the local support infrastructure of organisations can be used to increase levels of engagement and raise the capabilities of SMEs to engage with a responsible business agenda. This could be achieved if different support actors in the locality were to mainstream inclusive growth practices in their activities.

Businesses interact with a variety of support services in Greater Manchester (GM). In addition to compliance with 'hard' legislative regulation, behaviour is also influenced by 'soft' regulatory pressures within the business ecology, such as from employer confederations, industry accreditation bodies, or trade unions. There are also business accelerators and hubs that assist entrepreneurs in developing and upscaling their businesses that can influence behaviour. Within GM a number of networks focus on specific social issues, such as the Black, Minority and Ethnic business or LGBTQI networks. Charities campaigning and providing services in the area on employment and environmental issues provide another source of influence.

In terms of an accelerator hub, The Growth Company in Greater Manchester forms the primary contact point. They represent the main referral body for Greater Manchester local authorities when local companies seek business support services. The Growth Company has already made considerable movement towards adopting an inclusive growth agenda through training core staff members on inclusive growth issues.

Limitations of current arrangements

Within the consultation exercises a number of limitations were highlighted regarding the ability for companies of different types to utilise the available support:

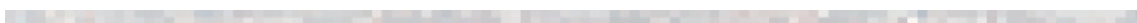
- Support remains siloed rather than integrated meaning different organisations when seeking support focus on specific issues rather than a more holistic conception of inclusive growth.
- The breadth of topics means that it is fairly time and resource intensive to address each of the support areas that contribute to responsible business.

- A large proportion of practical training is restricted to paid-for activities or membership bodies presenting cost barriers to smaller businesses particularly.
- Many services are geographically centred in Manchester city centre rather than surrounding municipalities. Some of our interviewees suggested this could restrict take up and the potential need for greater outreach.

Consequently, one message that is clear from the consultation is that **there is a need for a greater convening role to be played within the city region on this agenda**. There is a wealth of business support in Greater Manchester that currently promotes responsible business practice or has the potential to do so. One problem is that a large proportion of this support is topic specific rather than offering integrated solutions to organisations. The Growth Company presents a central hub for business information and support, which takes a more integrated approach, and is ideally positioned to play a greater coordinating role for this agenda. The new Inclusive Growth and Productivity programme presents a major opportunity here. Another option suggested was coordination through the Local Enterprise Partnership (LEP). Part of the role of a convening body would be to help shape a unified vision of what inclusive growth means from a responsible business perspective and link the business case for such an agenda up to broader national productivity and industrial strategy issues to foster policy support locally and nationally. This role could further be to facilitate the resources and communications infrastructure required by SMEs to overcome some of their engagement barriers.

In order for this to happen, a unified framework is required outlining what responsible business means from an inclusive growth perspective in Greater Manchester. Our consultation suggests that it is still unclear to many people what 'inclusive growth' actually means, suggesting the need for greater conceptual clarity. The reports summarised here offer some suggestions on what such a framework could look like. Although the development of an employment charter could help cover the definition of minimum employment standard issues, the inclusive growth business framework discussed extends towards a wider consideration of the business models and activity of organisations. Rather than a blanket approach, meaningful engagement will also mean **different businesses require a tailored approach** that identifies priorities and specific needs, meaning breadth but also flexibility will be required.

The business case for inclusive growth could also be increased through combining services with other business support or providing incentives, financial or otherwise, for organisations to go beyond their initial topic of engagement with services on to broader inclusive growth objectives. An integrated approach would allow the mainstreaming of inclusive growth across the wider business support work that goes on in the locality. At the same time, it must be recognised for some organisations that a business case for IG objectives will not always be able to be made. An additional convening role will also incur costs to the convening body requiring additional funding. Current business support funding is also partly fragmented around different projects and objectives potentially presenting barriers to greater integration.



What can be done?

- The proposed GM Mayor's Employer Charter provides a potential platform to increasing engagement with many of the issues raised, particularly in relation to minimum employment standards.
- However, a Charter cannot do everything. The Mayor, Combined Authority and LEP together need to develop a broader agenda of business engagement for inclusive growth, and a stronger convening role around this agenda.
- They could adopt a responsible business framework to help guide business support services and investments, working with the framework proposed here but involving a wider consultation with stakeholders.
- The Growth Company, in developing its new programme on Productivity and Inclusive Growth, could adopt the same responsible business framework.
- They could use the opportunity of this programme to bring greater coordination and strategic planning to business support services for inclusive growth.
- Coordination could further occur through the Local Enterprise Partnership.

How to find out more

This is the eighth in a series of policy briefings exploring how to promote inclusive growth in the context of devolution. Other papers cover city leadership for inclusive growth, employment charters, community banks, planning for inclusive growth, education and skills, indicators of inclusive growth, and tackling ethnic inequalities in the labour market. All of these can be found on IGAU's website: www.manchester.ac.uk/inclusivegrowth.

The two reports underpinning this briefing can also be found on the website.

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