BOOK REVIEW

ALL BUSINESS INVOLVES TRADE-OFFS — THE KEY IS HOW TO INNOVATE AND THRIVE AROUND THEM

BY ANTONIA CUNDY

When Sarah Kaplan started teaching at the University of Pennsylvania's Wharton business school in the early 2000s, the students aspired to a mantra: "Learn, earn, return."

"That is," Kaplan writes in her book *The 360° Corporation*, "get your MBA (learn), go out and make a lot of money (earn) and then, later in life, give back to society through volunteering and charitable giving (return)."

Nowadays, the kids aren't so keen to stick to this well-worn path. As concerns rise over social and environmental problems, fewer people think of "earn" and "return" as separate concepts, Kaplan says. Millennials want to work for companies that align with their social values; investors want to support companies that meet environmental, social and governance criteria; consumers want products to be responsibly made.

But what to do when these increasingly popular ethical demands conflict with financial performance? Or when a consumer wants workers to be paid more but the product they make to stay at the same price?

Addressing these paradoxes is at the heart of Kaplan's book, a guide that aims to topple economist Milton Friedman's dictum that "the social responsibility of business is to increase its profits". Instead, Kaplan urges us "to look at the stakeholders that surround companies from all directions, all 360 degrees", from the workers in a clothes factory to the community exposed to its waste products. Only then, Kaplan argues, will companies be able to consider innovative ways to respond to these seemingly intractable trade-offs.

The 360° Corporation's title comes from a course Kaplan started nine years ago at the University of Toronto's Rotman business school, which developed the ideas in her book. Like any good course, *The 360° Corporation* has a solid structure, focused around four modes Kaplan outlines for the modern business to follow: 1) know your trade-offs; 2) rethink trade-offs; 3) innovate around trade-offs; 4) thrive within trade-offs.

If that sounds too much like business school jargon, do not be put off. Though Kaplan's weakness for repeating her key points can sometimes make the reader feel they are being treated like a petulant student, the case studies she uses to bring each stage to life are richly researched and full of nuggets that will fascinate leaders, both established and aspiring.

Take Nike's pyramid business model. When a 1992 Harper's magazine article showed how the trade-off between the sportswear company's low production costs and exorbitant marketing expenses (basketball player Michael Jordan was paid $20m in endorsement fees) led to poor working conditions in Indonesian factories, Nike faced a crisis. The company could have made the business case for better working conditions, which can improve productivity. But, says Kaplan, this "win-win" thinking (mode 2) is restricting. The challenge is to go further (into mode 3) and rethink the business model, to innovate around the trade-offs.

"Sometimes you can make a business case for taking into account new sets of stakeholders," Kaplan says. "Sometimes there is no business case to be had. Thus, leaders must mobilise an organisation's innovative abilities to create the business case and cope with the unresolved tensions that arise when the needs of stakeholders compete with each other."

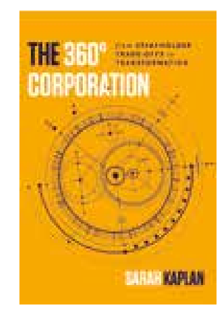
That was Nike's approach. When the company pulled production out of sub-standard factories, manufacturing costs rose. But rather than accepting this, Kaplan writes, "Nike leaders began to focus on understanding the root causes of such problems as excessive overtime, work without breaks, and toxic chemicals in the workplace".

They found that decisions at the company's headquarters — in product design and order processes — had a huge effect on these conditions. Nike therefore overhauled its production; it designed shoes that required stitching rather than toxic glues and created a more efficient order system that was less stressful for workers, saved money and reduced waste. "Thus," says Kaplan, "the win-win is achieved through the innovation."

The 360° Corporation does not dodge the question of cost. Rethinking business models and experimenting with innovation can be hugely expensive — there is no easy way to become a "360°" corporation.

"The costs are often seen as prohibitive," says Kaplan, giving an example from 2011, when a group of retailers met worker activists to discuss improving electrical and fire safety in factories. At the meeting, directors from Walmart and Gap wrote a memo that said: "It is not financially feasible for the brands to make such investments." As with any big business decision, there is a risk the investment might not pay off — it took half a decade after Nike's overhaul before it saw any improvement in factory conditions.

But for those keen to try, with Kaplan's detailed guidelines and compelling examples of how companies such as Nike have benefited themselves and stakeholders with this approach, what is left, as she says, is "a leap of faith". ●



The 360° Corporation: From Stakeholder Trade-offs to Transformation by Sarah Kaplan (Stanford University Press, £22.99/$28)

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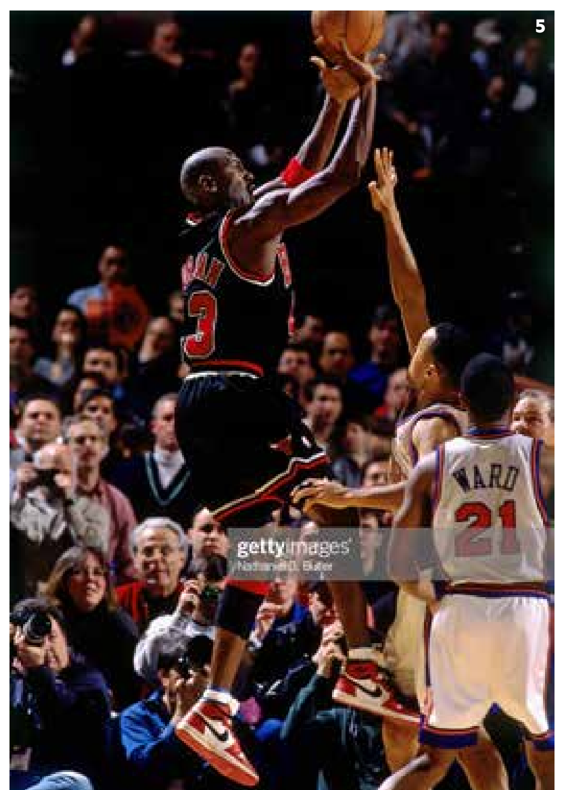

1 A Nike shoe factory in Indonesia

2 Garment-making in Bangladesh

3 Striking garment workers in Dhaka, Bangladesh, in January

4 Millennial shoppers outside a New York fashion store

5 Michael Jordan in action for the Chicago Bulls

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