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Ivey On... Best practices in Corporate Social Responsibility

By Tima Bansal
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Welcome to Ivey On..., a new, regular feature in Ivey Business Journal. Each installment will feature an interview with an Ivey faculty member. It will spotlight that professor's research and give readers a window on leading-edge management thinking in a particular business discipline or on an especially topical issue. As with the feature articles that appear regularly in Ivey Business Journal, Ivey On... is intended to equip business practitioners with the practical knowledge they need to make sound, informed decisions. **Our second installment features Professor Tima Bansal on corporate social responsibility**

Incorporating corporate social responsibility into all strategic decisions is, arguably, one of the most difficult challenges a manager faces. Below, Ivey Professor Tima Bansal discusses a research project that investigated how Canadian businesses manage that challenge. She was assisted by Tom Ewart and Merrilyn Earl.

With Professor Tima Bansal

Tima Bansal is the Shurniak Professor of International Business and Director of the Building Sustainable Value Cross-Enterprise Leadership Centre, Richard Ivey School of Business.

1. Q. Why did you undertake this study?

A. When I was asked to develop a curriculum that would incorporate social issues in to our core MBA program, I knew that I was dissatisfied with the existing, conventional approaches of most MBA programs. Corporate social responsibility was treated as an appendage of strategic decisions: managers were assumed to think about the financial and competitive issues first, and then, if they felt like it, they would consider the social issues. I was convinced that this is not how managers really make strategic decisions. Based on my prior research and personal insights, I expected that managers in most successful organizations weaved social issues tightly into their strategic decisions. I needed to see how social issues entered into strategic decisions in the field before I could incorporate these issues into the business curriculum.

2. How did you decide which firms to include in the study?

A. We wanted to look at best practices, so we invited firms that had demonstrated social responsibility to participate in this study. However, there is no single perfect way of ranking firms for social responsibility. It is difficult to compare one activity with another – say, should an organization donate to the local hospital or invest in alternative energy forms – without a baseline measure of value. And, many businesses prioritize their responsibilities, while finding that they succeed in some areas, with some stakeholders, and are less successful in others. As a result, CSR rankings do not paint an accurate picture of a company's social responsibility. So, we used a number of different rankings and invited as participants those firms that ranked consistently high amongst those rankings. We were overwhelmed by their interest in the study. Much to our dismay, these firms did not even know why they outperformed their peers on these issues. We had hoped to include 6 to 10 firms in this study, but ended up including 19.

3. Q. Does this underline the difficulty of measuring intangibles such as social responsibility?

A. Yes it does. We know that most managers evaluate strategic decisions on financial and competitive criteria. But how do managers in socially and environmentally responsible organizations incorporate intangible, social criteria in to their decision making? In our research we discovered that a number of organizations in Canada were actually using a series of best practices to handle the intangible social aspects of strategic decisions. Some of these best practices are relatively common but others are

quite innovative. The latter are essentially the reasons that certain firms have become leaders in responsible decision making.

4. What are the best practices you identified?

The firms that we studied participate in some or most of these activities:

- Include social issues in risk assessment models
- Measure the cost or revenue impact of social issues and use that as criteria in numbers-based business models
- Lengthen decision time horizons
- Take advantage of internal stakeholders' creativity
- Involve external stakeholders formally and informally
- Build social capital within the top management team
- Show impassioned, not impersonal, leadership
- Apply values-based criteria to decisions
- Take the leap of faith

5. Q. Before we discuss some of the innovative practices individually, what general comments can you make about all of them?

A The overarching characteristic of these organizations is that they were able to incorporate social issues into the fabric of their organization and not treat them as a separate business issue. We're not just talking about value statements or leadership issues, which have been the focus of most prior research in this area. But, it was in engaging a wide, diverse group of people in discussions about decisions, both inside and outside of the organization. These organizations took the time needed to get people on side, and in doing so initiated activities that were sustainable over the long run and likely more profitable.

6. Q. You found that firms that are socially responsible take a longer time to make decisions than others. Why is this a best practice?

A. There are two issues here. First, these firms take a longer time to make decisions because they engage diverse perspectives in discussion. These perspectives ensure that risks are covered and expose new insights, making their products, services, and policies stronger and more innovative. Second, these decision-makers have a long-term mindset; they are able to see the *long-term* financial benefits of socially and environmentally responsible

projects. In the long term, social and environmental returns start to converge with financial returns. A longer time horizon widens the pool of possible alternatives to include projects for which the opportunity is not immediately obvious or which require innovations or technology not yet fully developed. Longer time horizons keep open options that would otherwise be rejected out-of-hand because they do not meet short-term hurdles.

7. Q. Your last point, about short-term hurdles, is interesting in that many CEOs are still criticized for focusing on the next quarter's financial results instead of the next few years'.

A. Absolutely. In another study, now under way, I am testing the relationship between the frequency of reporting earnings and social responsibility. My starting hypotheses are that firms that report earnings less frequently are more socially responsible and perform better in the long run.

8. Q. The leading firms make a point of involving internal stakeholders. Why is that a best practice?

A. Involving internal stakeholders who must implement strategic decisions is a powerful mechanism for ensuring that social issues are considered in strategic decision making. These are the people whose daily activities are impacted by social and environmental issues. While the process may not be the most efficient way to make a decision, involving front-line staff helps ensure that different stakeholder perspectives are considered. Involving staff also gains buy-in and trust for decisions that will likely have an impact on the working lives of staff. Finally, involving a diversity of employees in decision making often leads to more innovative solutions to problems.

9. Q. Your study also identified engaging external stakeholders as a best practice. Why?

A. Involving external stakeholders ensures that decisions will take account of relevant social issues. It is also a far more efficient way of uncovering issues than having staff identify, investigate and evaluate every possible implication of every decision. Engaging with internal or external stakeholders is a risk-management strategy that creates buy-in for a decision by involving those affected by it. That engagement also identifies problems before they escalate into crises that can delay or derail a project. As one interviewee in our study described it: "A stakeholder group can make or break a project, so why wouldn't you

take into account the stakeholders risk analysis...at the same time that you do the rest of the risk analysis?" In many ways, this is very similar to using focus groups for new product introductions. The difference is that stakeholder engagement is undertaken with trusted outsiders for most key decisions, by involving them in an advisory capacity, and not just as a market test for new products.

10. Q. Several teams you studied exhibited a high degree of social capital among top managers. Why is building that capital a best practice?

A. By their very nature, social issues have the potential for being controversial and even divisive. They can also test top management's commitment to social issues because they cannot always be measured against operational or financial criteria. In the firms we investigated, social capital, which resides in social relationships, enables managers to communicate candidly with each other. Managers could disagree and challenge each other on unconventional approaches. This would not prevent them from reaching their goal. As we observed, values-laden issues could be brought to the decision table and discussed without fear of recrimination. As one interviewee said: "Social capital allows the soft issues to get addressed and the right decisions to be made." In a culture where that isn't the norm, it's much harder for those issues to surface, to get a fair hearing and for good decisions to be made. ■