Social Impact: A Corporate Strategy and Responsibility

Helen Macpherson Smith Oration (April 13th 2011)

delivered by Dr. Ian O. Williamson
Helen Macpherson Smith Chair in Leadership for Social Impact
Director of the Asia Pacific Social Impact Leadership Centre
Melbourne Business School

To start I would like to acknowledge the traditional custodians of this land, the Wurundjeri people of the Kulin Nation, and pay my respects to the Elders both past, present and future for they hold the memories, the traditions, the culture and the hopes of Indigenous Australia. I would also like to thank Darvell Hutchinson and the other trustees of the Helen Macpherson Smith Trust for providing me this opportunity. It has and continues to be an honour to hold the Helen Macpherson Smith Chair. I would also like to thank Jennifer George, the Dean of the Melbourne Business School, for her unwavering support of the Asia Pacific Social Impact Leadership Centre. You don't need a Ph.D. in Management to understand that it is always a good thing when your boss believes in the vision and value of your department and I have certainly benefited from Dean George's support and advice in my role. I must also acknowledge the centre team Liz Gillies, Michele Evans, Muralee Das, Dr. Kulapa Pokasawat and Kate Brown for all the hard work they have put into developing the centre over the last year and a half. While I may have the title of Director, it is clear that very little would happen without them. Finally, thank you Megan, Laura and the rest of the events team for your help organizing tonight's event.

This is my first time giving an oration in Australia. When I asked around to find out what this entailed people suggested that a good oration should do at least 3 things: 1) challenge, 2) education, and 3) entertain. Upon hearing this I thought this was a pretty tall order and that I probably should have asked that question before agreeing to do an oration. Nevertheless, I had already committed so here we are and I guess we will find out what I can achieve.

The title of my presentation tonight is "Social Impact: A Corporate Strategy and Responsibility." The specific question I would like to focus on is "What is the role of the business community in driving social change?" This is a question that has received quite a bit of attention in the last 10 years as societies around the world have seen both unprecedented growth and wealth generation by for-profit firms and the unprecedented destruction of wealth during the global financial crisis by for-profit firms. Indeed in the post global financial crisis (GFC) era many in the public domain have openly questioned the role of companies in society, the role of business leaders and even the role of business schools.

It is perhaps an over simplification but traditionally it has often been stated that the primary role of business leaders is to maximize shareholder value – which in many cases equates to maximizing financial return. Conversely, there is growing sentiment that business leaders have a much broader responsibility and that their focus should be on maximizing the well-being of stakeholders. Stakeholders could be owners, employees, customers, and community members which may directly or indirectly support or be impacted by a firm's activities. While this last perspective seems very noble, it is important to recognize that these different groups often have very different needs and expectations. Thus, the question can be legitimately asked if and how any business leader could maximize anything across such a broad and diverse group. However, it is clear that society today expects more from those of us in the business sector than just the generation of financial wealth.

This shift in expectation was clearly seen in the sentiments expressed by public leaders during and following the global financial crisis. For example: Former Australian Prime Minister Kevin Rudd, when discussing the global financial crisis in 2009 stated:

"If you want a definition of social injustice, this was it in living, brutal colour - millions of innocent workers losing their jobs because a few thousand financial executives around the world surrendered any pretence of social responsibility in their blind pursuit of absolute greed."

Business leaders, to their credit, have not been oblivious to the growing public debate on their role in society. Indeed, corporations across the world have continued to set aside a growing amount of resources to develop corporate social responsibility initiatives. According the 2008 KPMG Corporate Social Responsibility Report, in 2008 80% of the largest 250 companies worldwide issued independent CSR reports, up from about 50 percent in 2005. Closer to home here in Australia we also see this positive trend towards greater organizational attention to CSR. The same KPMG study found that 46% of the 100 largest Australian organizations reported having a formal CSR report, up from 23% in 2005.

Looking closer at Australia, recent research by the Australian Centre for Corporate Social Responsibility (ACCSR) has examined the priorities, activities, and outcomes of firm CSR behaviour. Based on their 2010/2011 report the most frequently mentioned priority for CSR by Australian firms was managing regulatory impact. The main type of CSR activity reported was reporting and stakeholder engagement/dialogue. The primary outcome of interest for CSR activities was strengthening firm reputation.

So what does this data tell us? It is clear that both globally and here in Australia business leaders are adopting broader perspectives on their roles as leaders in society as reflected by the increase in CSR activity. However, while there is an increase in activity the question can be raised is this activity leading to social impact?

Now I am an academic and academics like to define things so I guess I should share with you my definition of social impact. In our centre the definition of social impact we have adopted is "the creation of a positive, lasting change in the well-being of a community's constituents." There are three keys points in this definition. First the word <u>positive</u>, we believe social impact is about enhancing someone's situation. Second, the word <u>lasting</u>, for social impact to occur the positive change must be lasting change. Ideally this might even mean the removal or solution of a particular social issue. Third, the word <u>constituents</u>, we use the plural form of this word purposively because it is a fundamental tenant of our centre that social problems, regardless of their source, are issues that impact individuals and organizations in every sector of a community, rich or poor, educated or uneducated, for-profit or not-for-profit, private or public. However, due to their complexity and magnitude no one group of people or type of organization is often able to solve a social issue by themselves.

Given these attributes of social issues it is my contention that for social impact to happen two things must occur. First and foremost we need innovation. Simply put you cannot solve today's social problems with yesterday's ideas. There is a need for new approaches and initiatives and most importantly, experimentation. Second these innovations must be implemented in a way that is sustainable. Social problems are not like business cycles. You cannot ride them out. Without a sustained attack they will continue to cripple a community. It is these two requirements of innovation and sustainability that cause me to question the effectiveness of many corporate social responsibility activities. While there may be a rise in corporate activity, it is not clear to me that much of this activity is generating the innovation or sustainable effort needed for social impact.

I think it is worthwhile to take a step back and attempt to categorize firms' CSR responses to social issues and consider their outcomes. First there is a group of firms that adopt a **resistance** approach toward social issues. Indeed these are firms that may actual cause social issues or worsen social issue due to the adoption of exploitive management practices, such as wrongfully discriminating against segments of society when hiring employees. While not as overt, another type of resistance is firms avoiding situations where they will come in contact with or have to face a particularly difficult social issue.

One particularly salient example of this behaviour that stands out for me was the activities of a South African financial services firm. In 2009 I had the opportunity to visit South Africa and speak with several business leaders about doing business in that country. One of the major social issues the country is facing is how to address the poverty and economic devastation in the Black community created by decades of apartheid. In response to this issue the South African government has implemented the Black Economic Empowerment (BEE) policy which requires and incentivises firms to sell Blacks ownership shares in organizations, hire and develop Black employees, attract Black investment, and help develop Black communities. In a meeting with one leading South African based financial service organization I asked a top executive how the firm was responding to this issue. His response was that they viewed BEE as a threat to their business because the ownership and top executives were all white Afrikaans. As such, the firm had created an off-shore subsidiary and started to systematically send its capital overseas. In essence they were divesting their South African holdings. Ironically this same executive told me that the growth in the Black middle class represented a large market opportunity for his firm's products. However, instead of viewing BEE as a potential market opportunity, the firm was adopting a resistance approach.

A second type of approach to social issues is a **compliance** approach. Under this approach CSR is framed as a means to address the impact of existing or potential legislative requirements on firm operations. One example of this approach is the responses of many financial service firms post GFC. Concerns about calls for regulatory reform due to the GFC and issues around consumer protection have prompted many organizations to develop initiatives to negotiate with various activists groups. Indeed, due in large part to concerns about regulatory changes, the recent ACCSR 2010/2011 report found that the CSR budgets for the financial industry were the highest of any sector in Australia. However, while firms adopting this approach do at least acknowledge social issues, a compliance approach is not geared towards solving the social issue.

A third approach is based on obtaining **legitimacy or fulfilling a moralistic motivation**. Here firms are motivated to perform CSR in order to fulfil a perceived moral obligation. For example, a firm might creating a formal volunteering programs for employees or supporting an arts program based on the logic that it is simply "the right thing to do" and/or it is a personal value of a top executive in the firm. Firms also adopt CSR activities in this space because they want to be seen as legitimate or appropriate by their community. Thus firms engage with social issues out of a felt duty more so than because the social issue in and of itself has a direct impact on the organization's operations.

There is nothing wrong with "doing the right thing". Indeed, creating situations that encourage and allow leaders to have their behaviours shaped by their values can enhance both an individual's well-being as well as the well-being of those they help. However, even though this approach has the potential to create positive changes in the well being of others, it has important limitations. The fundamental limitation of a legitimacy or moralistic approach to CSR is that it often times leads to activities that are disconnected from the primary functions of a business. For example, if an electrical utility company supports a dance company this can clearly enhance the well-being of a community, however, this activity has no real bearing on the primary business of the organization. When this type of disconnect occurs it is often difficult to develop any type of sustained activity. If the attention from external constituents wanes or executives leave and new executives are hired with different values the CSR activity will likely fade away.

In the recent ACCSR study, participants were asked to identify the top obstacles to CSR success in their organization. The top 3 responses were: (1) lack of organisational buy-in/commitment to CSR, (2) difficulty integrating CSR with organisation values and practices and (3) difficulty making the "business case" for CSR. All three of these reasons speak to the dangers of CSR activities that do not directly build upon or directly link to the foundational elements of a company's business. Eventually, a lack of buy-in will lead to a lack of funding or effort, which leads to limited social impact.

Given the limitations of these three approaches to social impact, there have been several calls for firms to reconceptualise CSR. Prominent among these is noted Harvard Business School professor Michael Porter. When asked about the current and future state of CSR, Professor Porter stated:

[the next wave of CSR] "moves away from PR and branding, which was what a lot of early efforts were about, to asking 'What can we do actually to make a difference?' It moves from supporting many social causes with a little bit of money to focusing on two or three areas where they can make a difference."

I completely agree with Porter sentiment. **For us to achieve the innovation and sustainability needed for social impact, CSR must move from being an activity that we report on to a strategy that we develop.** Thus, in our centre we promote a fourth approach to CSR, **CSR as Firm Strategy**. This approach requires business leaders to internalize that their firms are embedded within a social environment that will either create opportunities or constraint firm activity. Thus, the role of CSR is to build and develop a firm's capacity to navigate this social environment and by doing so change the social environment is a positive manner, which in turn can enhance firm competitiveness.

Framing CSR as Firm strategy carries with it some important implications. First, strategy is just as much about what you don't do as it is about what you do. Thus, a CSR strategy should curtail and constrain the breadth of activities in which a firm engages. This is often times a tough thing to implement. Which is more important, child welfare or refugee employment, supporting the arts or helping individuals with disabilities? The answer of course is that they are all important. But a good strategy should guide a firm's priorities and help the organization focus on those issues that most directly impact the firm and that the firm can offer meaningful assistance.

Second, a CSR strategy must be built on a firm's actual capabilities not desired capabilities. While it might make moral sense for a water company to support an organization like Vision Australia that provide services to the blind, what are the capabilities of that organization which will facilitate needed innovations? Conversely, this is a different story for an information technology company which can provide not only labour and financial resources to an organization like Vision Australia but also technical skills necessary for developing new technologies that enhance the well-being of blind individuals.

Finally, a CSR strategy must create new capabilities that enhance the core business functions of an organization. Keeping with the Vision Australia example, if an organization like Microsoft were to work with this organization, this interaction should enhance Microsoft's ability to develop new products for a potentially underserved market, thus, increasing the competitiveness of Microsoft. When CSR is treated as firm strategy this is a fertile ground for both innovation and sustainable effort. Thus, we believe this approach is the most likely to create social impact.

I appreciate that this approach to CSR might sound great in theory, but in practice it is hard enough for a company to develop the proper expertise needed to generate products that meet market demands. Indeed the entrepreneurship research clearly tells us that most for-profit firm fail, largely because they can't figure out a good market strategy. Thus, asking business leaders to develop strategies that account for and address both market and social issues is likely to be very difficult. It is not even clear that not-for-profit organizations often times figure out how best to address social issues or provide services to constituents, which is why we have so many not-for-profits. It is typically the case that a founder starts their not-for-profit because his/she is unsatisfied with the services being provided by another not-for-profit. So how can firms successfully implement a CSR as Firm Strategy approach? I believe cross-sector collaboration is the key.

There are several reasons why cross sector collaboration promises to address to important barriers to social impact. First, research on innovation suggests that most innovation is not generated by a single moment of eureka. Instead most effective innovation is stimulated by the combination of different types of existing knowledge to create something new. This combination is most likely to occur and be successful when there is some level of complementarity between the combining parties, meaning the parties have some common interest or share some common understanding of each other's capabilities. Second, most innovation fails, not because the ideas are bad, but because of a lack of sustained implementation. Ideas supported by multiple stakeholders typically allow more resources to be used for implementation, thus, increasing the likelihood that the innovation will succeed.

This logic lays the foundation for why cross-sector partnerships are so important to addressing social issues. For-Profit, Not-for-Profit, Government, and Philanthropic organizations bring different sets of expertise and resources to the table. Philanthropic organizations are the drivers of social R&D. They facilitate experimentation by supporting new ideas and approaches. Not-for-profit organizations bring an expertise and understanding about a particular social issue that is typically unmatched by other organizations. For-profit firms bring skills in operational execution honed by their market experiences. Government brings the capability to scale ideas, which is necessary for sustainable outcomes. Ideally the combination of these resources allows each enterprise to be more successful at achieving their particular goals while concurrently creating a sustainable solution to a social issue.

So what might this look like in practice? Typically in business schools when we introduce new concepts it is common to use a case study. I would like to follow this tradition, however, with a slight twist. I would like to use an example of a cross-sector collaboration that had a strong lasting impact on my life and indeed allowed me to become professor. The example is a USA organization called the Ph.D. Project.

It might be helpful if I provide some details on my personal background. I am originally for the inner-city of Chicago, IL USA. I grew up about 20 minutes south of the Chicago downtown in a neighbourhood that has many of the stereotypical characteristics of a USA inner-city environment; large ethnic minority population (80-90% African American), high levels of crime, high levels of poverty, high levels of unemployment, low access to education. My point is not to suggest that I had a bad childhood. I certainly grew up in a loving household. However, what I do want to point out is that my childhood neighbourhood will never be mistaken as a fertile ground for future business professors. Nor is it the case that my neighbourhood is that unique. There are dozens of neighbourhoods like mine across Chicago and in every major city in the USA. So the question is how can someone from this background surrounded by these various social issues have an opportunity to become a professor?

For me and for many others like me the answer was a program called the Ph.D. Project which started in 1994. The Ph.D. Project was created with the mission of addressing a particularly challenging social issue in the USA, increasing the diversity of corporate America. Numerous studies have found that ethnic minorities (e.g., African Americans, Native Americans and Hispanic Americans) are under-represented in business-related professions. Given that business careers often provide access to higher paying positions relative to other professions, this has a negative impact on the economic well-being of minority communities. In addition, the lack of minority candidates reduces the pool of domestic talent corporations can tap into constraining the operations of these enterprises. Thus, the weakness of the minority business talent pipeline represents a threat to both minority communities and the overarching economic well-being of the USA.

In an effort to address this issue, not-for-profits, philanthropic organisations, local, state and federal governments and corporations have implemented numerous programs in an attempt to increase the number of minorities receiving university degrees in business. Examples of these programs include university scholarships, training programs and practitioner mentoring programs for undergraduate students. However, despite these efforts the minority business talent pipeline remains problematic. The Ph.D project represents an innovative cross-sector approach to dealing with this issue.

Instead of focusing on programs for undergraduate student, the PhD Project developed a different theory of social change. The premise of the organization is that the best way to change the demographic make-up of American businesses is to change the demographic composition of the professors training future business leaders. Business school faculty serve as role models for students, thus increasing the diversity of business school faculty should increase the attraction and mentoring of minority business students while improving the preparation of all students for being an effective contributor in a diverse workplace and society. Thus, the goal of the Ph.D. Project is to increase the number of African-American, Hispanic American, and Native American business school faculty.

At the outset this was a very challenging goal. In 1994 when the Ph.D. Project started out of over 10,000 business school faculty members in the USA only 294 were African Americans, Native Americans or Hispanic Americans (less than 3%). From the outset the Ph.D. project recognized that addressing this issue would require insights and resources from a variety of sectors. The founding partners of the Ph.D. Project included philanthropic, not-for-profit educational institutions, government-funded colleges and universities and for-profit corporations. This cross-sector partnership provided the organization with expertise on how to support the training of Ph.D. students as well how to prepare doctoral students with the skills needed for successful careers as business faculty members. Drawing on this expertise the organization launched a series of programs designed to enhance minorities' awareness of business faculty careers, support minorities in the doctoral program application process, provide professional socialization through the formation of minority doctoral student associations and enhance professional development by facilitating interaction with leading business scholars and practitioners.

At a personal level, I would have never considered a career as a business school professor had it not been for my participation in the Ph.D. project. Prior to participating in the organization I had no idea what it meant to be a professor and I certainly did not perceive that as a plausible career option. The organization exposed me to the profession and provided me access to representatives of doctoral programs, leading to me enrolling in a doctoral program. During my time as a student the doctoral student organization provided me with the socio-emotional and technical supported needed to successfully complete my degree. Upon my graduation the organization facilitated the formation of mentoring relationships that helped me transition into the profession. Quite simply, there would be no Dr. Ian Williamson without the Ph.D. project.

Fortunately, my story is not unique. Since 1994 the Ph.D. Project is responsible for more than tripling the number of minority business faculty from 294 to 1043 with an additional 343 individuals currently in doctoral programs. The Ph.D. Project has literally changed the talent pipeline of business doctoral education in the USA. Furthermore, consistent with their social mission, this increase in minority faculty members is starting to impact the attraction of minority business students into undergraduate and graduate programs. Overall the Ph.D. Project provides an excellent example of how cross-sector partnerships can facilitate the creation of innovative solutions to social problems while also providing the human, social and financial capital needed for sustainable implementation.

The Ph.D. Project also illustrates under what conditions effective cross-sector partnerships may be most likely to occur. First, there needs to be recognition of potential partnership opportunities. This is most likely to occur when there is an appreciation that the interest of different parties overlap. For example, improving the minority business talent pipeline has implications for how businesses perform, the way students are educated, the economic well-being of society and the social well-being of individuals. These are issues that impact the interests of for-profit, not-for-profit, government and philanthropic organizations. The recognition of this shared fate is critical to motivating the formation of cross-sector partnerships.

Second, partners must identify and appreciate the complementary skills they bring to the table. For example, shaping the minority business talent pipeline requires an understanding of the skills needed for effective business leaders, how to attract students to careers, how to support the training of students, how to socialize individuals for a profession and the creation of a neutral space for all this to occur. For-profit, not-for-profit, government and philanthropic organisations each bring different but complementary expertise to address these issues and it is the combination of this expertise that generates an effective solution.

Finally, an underlying requirement for effective cross-sector partnership is interaction. Even at the early phases in the development of the Ph.D. Project the founders were careful to create forums that brought together representatives from the different sectors to discuss the challenges associated with increasing the diversity of corporate America. These interactions were necessary for people to learn the interests of different parties and gain an appreciation for the different types of expertise possessed by different parties. Without this interaction it is unlikely a sustained partnership will develop.

The Ph.D Project example provides an excellent example of how business schools can have social impact by playing a role in fostering these three conditions for effective cross-sector partnerships. Here at the Melbourne Business School we are extending upon the example of the Ph.D. Project to develop cross-sector partnerships that address key social challenges in Australia and across the Asia-Pacific region. I would like to conclude my oration with a brief overview of these activities with the hope that it will allow you to learn more about our centre and hopefully excite you to work with us on these issues.

In our centre we have made the strategic decision to focus on three key social challenges: (1) The development of the Aboriginal Business Sector, (2) Capacity Building in the Third Sector, and (3) Developing “Pathways to Work” for Under-represented Populations. Within each of these initiatives we have worked to develop cross-sector partnerships that spark the innovation needed for long-term solutions.

In the case of Aboriginal business development, our goal is to improve the well-being of Aboriginal community by supporting the developing of a strong Aboriginal entrepreneurship sector. Prior research tells us that successful entrepreneurship is a key component of a successful community, however, today there is a dearth of successful, growth-oriented Aboriginal businesses. As a business school we know that we can train people to develop and run successful businesses, however, we as a school have never focused our resources on doing this in the Aboriginal community. To be successful, however, we need partners. As such we have developed partnerships with the Victorian state government organization Koori Business Network, the Victorian Aboriginal chamber of commerce “Kinaway” and Indigenous Leadership Network of Victoria a Victorian based not-for-profit. Through this partnership we have created several initiatives design to support the professional development of Aboriginal entrepreneurs. Our flagship activity is the creation of a “master class” business acumen series targeted towards leading Aboriginal entrepreneurs. This series, scheduled to launch in 2012 will provided Aboriginal entrepreneurs training from leading business school faculty as well as facilitate research on the challenges and effective practices used by Aboriginal business leaders.

The second focus of our centre is capacity building in the Third Sector. Our aim here is to enhance the organizational acumen of Third Sector leaders with the belief that this will enhance the ability of their organizations to achieve their missions. Our work in this area has three branches. First, we are committed to supporting the development of social enterprises. We view social entrepreneurship as a key source of innovation for addressing social challenges. As such, we have partnered with the not-for-profit organization Social Traders to support the development of social entrepreneurs. In addition to conducting research on the factors influencing the success of social enterprises, we have also created MBA courses that allow our students to work one-on-one with Victorian social entrepreneurs to refine their business models. This interaction injects new skill sets and expertise into social enterprises while also increasing our students’ understanding of how business and social issues intersect.

Second, we have developed a Graduate Certificate for Social Impact. This four course certificate is targeted towards not-for-profit, government, and business professionals and focuses on the topics of social entrepreneurship, corporate responsibility, leadership and social investment. Our goal is to create a classroom environment that draws together leaders from multiple sectors to discuss the issue of social impact. As such, we see this certificate as a breeding ground for the creation of cross-sector partnerships. Our third branch is the development and hosting of events that facilitate cross-sector knowledge exchange. We aim to increase the capacity of Third Sector organizational leaders by providing greater exposure to new trends and practices. One example of such an event is our partnership with Oxfam to host forums on sustainable mining. These annual forums bring together resource company executives, not-for-profit leaders, and government leaders to discuss the social challenges present in the mining industry and how the various sectors can partner to address these issues.

The third strategic focus of our centre is creating “Pathways to Work” for under-represented populations. Our goal here is to develop research that provides new insights into how companies can effectively attract, develop and retain employees from marginalized segments of society. For example, we have developed a project with the Brotherhood of St. Laurence examining the transition of the long-term unemployed into work. We are particularly interested in understanding the managerial competencies and organizational accommodations needed to make the transition into employment successful over the long-term.

This is just an overview of the aims of our centre. If perhaps any of these topics excite you please let me know. We would love to discuss ways we might partner with your organizations. As I conclude the presentation I would like to leave you with three points. First, I hope that my presentation tonight has convinced you that social impact is far too important of an issue to be left solely to the CSR unit in a business. Indeed, for social impact to occur it must be viewed as key to a business’ strategy because addressing the key social challenges of today is just as critical to the survival of for-profit companies as it is the well-being of the communities they reside within. Second, social impact requires innovation and for this to happen we need effective cross-sector partnerships. Cross-sector partnerships, by combining complementary sets of resources and knowledge, create unique opportunities for developing and implementing lasting social change. Finally, business schools can and should play a leading role in forming cross-sector partnerships. Our position in society provides us with a unique space to bring together, educate and join leaders from across society. The only question is whether business schools are willing to embrace and celebrate this responsibility.

I thank you for your time and attention this evening.