CHAPTER

7 Designs for Societal Impact: Dual-Purpose Organizations, Corporate Sustainability, and Ethics

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Learning Objectives

After reading this chapter you should be able to:

1. Describe how a hybrid organization differs from a typical nonprofit or profit-seeking organization, including the two major "logics" that are embraced in hybrid organizations.
2. Describe how organizations implement corporate social responsibility using the green movement, the triple bottom line, conscious capitalism, and the bottom of the pyramid approaches.
3. Identify important stakeholders for an organization and discuss how managers balance the interests of various stakeholders.
4. Discuss how ethical norms can be maintained through organizational structures and systems.
5. Compare the various sustainability approaches organizations can adopt.

Chapter Outline

REMEMBER THIS

- A hybrid organization is one that pursues both profit and social missions within a single organization.
- People hold different assumptions, values, and beliefs, called *logics*, that they think should guide how the organization behaves.
- The commercial logic considers company products and services for economic gain as the primary goal.
- The social welfare logic sees company products, services, and profit as a means to achieve a higher social purpose and not as a goal in themselves.
- These opposing logics can clash. Keeping them evenly balanced is a major challenge for managers in a hybrid organization.
- Effective structures and techniques managers can use for organizing people who hold opposing mindsets and values about an organization's purpose include separating people into distinct departments, careful employee selection, and a strong leadership role.
- Companies in the United States can now incorporate with a legal structure that recognizes social and environmental missions as equally important to financial goals. This legal structure, called a benefit corporation, is now authorized in at least 21 states and the District of Columbia.

7.2 Corporate Social Responsibility

Even companies that do not incorporate as benefit organizations are paying greater attention to being socially responsible. The notion of **corporate social responsibility (CSR)** refers to management's efforts to make choices and take action so that the organization contributes to the welfare and interest of all organizational stakeholders, such as employees, customers, shareholders, the community, and the broader society.[22] There has been a worldwide explosion of corporate interest in CSR over the last decade. For example, MAS Holdings, a family-owned apparel manufacturer in Sri Lanka, has made a commitment to contribute to economic development while also improving the lives of employees, their families, and the community. In an era when clothing manufacturers are frequently in the news for another ethical, labor relations, or safety violation, MAS Holdings is making the news for its owners' belief that businesses have the power to make a positive difference in the lives of employees and the community. MAS, South Asia's largest manufacturer of lingerie, provides transportation to and from work, free meals, and medical care to all 45,000 employees in 28 plants. More than 90 percent of its workers are women, so MAS builds factories in rural areas with easy access so women can work close to their homes and families.[23]

CSR was once seen as the purview of small, offbeat companies like Patagonia or The Body Shop, but it has moved firmly into the mainstream of corporate thinking and behavior. IBM's Corporate Service Corps sends teams of volunteer employees on month-long assignments to work with projects such as reforming Kenya's postal system or designing an online education program in India. Campbell Soup gave a local food bank in Camden, New Jersey, access to its production lines to turn wilting food donations into jars of salsa that raised $100,000.[24] Whirlpool donates a refrigerator and range to every home built by Habitat for Humanity in North America. PepsiCo made a commitment to voluntarily remove high-calorie sweetened drinks from schools. More than 1,000 companies around the world have published reports proclaiming their concern for employees, the environment, and their local communities.[25]

Companies can now be assessed and measured on their performance along environmental, social, and governance (ESG) dimensions. Investors can invest in companies based on ESG performance. Elaborate checklists and scorecards are available for companies in most sectors and industries. ESG scores can range from 0 to 100 on items such as:

- Environment (e.g., water use, fuel management)
- Social capital (e.g., customer privacy, community development)
- Human capital (e.g., diversity opportunity, compensation and benefits)
- Business innovation (e.g., product societal value, quality and safety)
- Leadership and governance (e.g., business ethics, executive compensation)

One issue not often discussed in the light of corporate progress on ESG factors is the trade-off that exists between a firm's financial performance and its performance on ESG-type dimensions. Improving one may involve a cost to the other. Installing expensive solar energy equipment is good for the environment, for example, but it may be bad for the bottom line. This trade-off is similar to the need in hybrid enterprises to balance social and financial goals. Corporations, however, are legally chartered with profits as the primary goal, and their leaders may have to learn how to allocate resources away from contributing directly to profits in order to achieve ESG objectives.[26] In addition to the ESG framework, there are various approaches and models that businesses can adopt to facilitate and organize their socially responsible activities. These include the green movement, the triple bottom line, conscious capitalism, and stakeholder mapping.

ASSESS YOUR ANSWER

1 The best way for an organization to positively address a societal problem while at the same time succeeding as a business is to incorporate as a benefit corporation.

ANSWER: *Disagree.* Although incorporating as a benefit corporation allows the company to prioritize a social or environmental goal over financial benefit to shareholders without risk of lawsuits, this legal form is not yet available in every state. Organizations can positively contribute to society in many ways, such as by making a commitment to corporate social responsibility and measuring performance along environmental, social, and governance (ESG) dimensions.

7.2a The Green Movement

Most corporations are embracing an idea called *sustainability* or *sustainable development*. **Sustainability** refers to the ability to generate wealth without compromising social stewardship or responsibility for the environment. This means meeting the current and future needs of stakeholders while preserving the environment and society so that future generations can meet their needs as well.[27] With a philosophy of sustainability, managers weave environmental and social concerns into every strategic decision so that financial goals are achieved in a way that is socially and environmentally responsible.

When Jeff Immelt, former CEO of General Electric, first presented a plan for a "green" business initiative to 35 top GE executives in 2004, they voted it down. But Immelt, in a rare move, overruled them, and Ecomagination was born. Today, GE's Ecomagination is one of the world's most widely recognized corporate sustainability programs. It has not only cut GE's greenhouse gas emissions by more than 30 percent, but also added innovative products that are generating billions in annual revenue.[28]

Over the past 15 or so years since Immelt's decision, managers in many other organizations, from small, local companies to giant corporations, have also been going green to preserve the environment, spurred on by shifting social attitudes and the influence of social media and the Internet, which can quickly spread news of a corporation's negative impact on the environment. A survey found that 90 percent of Americans agree that there are important "green" issues and problems, and 82 percent think that businesses should implement environmentally friendly practices.[29] Since 2009, *Newsweek* has published a ranking that assesses the environmental performance of the 500 largest publicly traded companies in the United States and the 500 largest publicly traded global companies, which reflects the widespread interest in how companies are treating the environment. The top six companies on *Newsweek*'s 2018 U.S. Green list and Global list are shown below. These lists show the diversity of organizations embracing a green philosophy.[30]

United States	Global
Cisco Systems	L'Oreal SA (France)
Ecolab, Inc.	Centrica PLC (U.K.)
Hasbro, Inc.	Enbridge, Inc. (Canada)
PG&E Corp.	Siemens AG (Germany)
Sealed Air Corp.	Cisco Systems Inc. (U.S.)

7.2b The Triple Bottom Line

Managers in organizations that embrace sustainability measure their success in terms of a triple bottom line. The term **triple bottom line** refers to measuring an organization's social performance, its environmental performance, and its financial performance, as illustrated in Exhibit 7.3. This is sometimes called the three Ps: People, Planet, and Profit.[31]

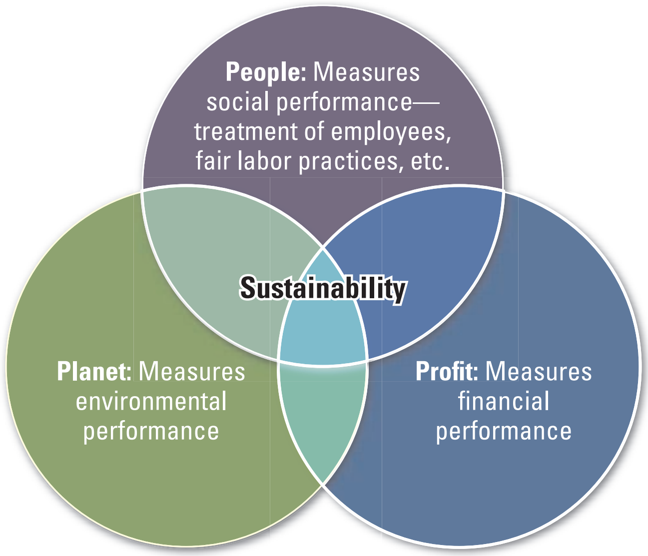
The "People" part of the triple bottom line looks at how socially responsible the organization is in terms of fair labor practices, diversity, supplier relationships, treatment of employees, contributions to the community, and so forth. The "Planet" aspect measures the organization's commitment to environmental sustainability. The third P, of course, looks at the organization's profit, the financial bottom line. Based on the principle that what you measure is what you strive for and achieve, using a triple-bottom-line approach to measuring performance ensures that managers take social and environmental factors into account rather than blindly pursuing profit no matter the cost to society and the natural environment. One company emphasized the people dimension by giving everyone a raise.

BRIEFCASE

As an organization manager, keep these guidelines in mind:

Make a commitment to corporate social responsibility and sustainability. Assess performance along environmental, social, and governance dimensions. Apply the concept of the triple bottom line by measuring social performance, environmental performance, and financial performance.

EXHIBIT 7.3
The Triple Bottom Line



IN PRACTICE

Gravity Payments

Gravity Payments went all out on the people dimension of the triple bottom line, raising everyone's salary to a minimum of $70,000. Gravity's 120 employees were stunned when Dan Price announced a few years ago that every employee at the Seattle-based credit-card processing company—even the lowest-paid clerk or assistant—would earn at least $70,000 a year. To cover part of the cost, Price cut his own $1.1 million compensation to the same level.

AP Images/Ted S. Warren

When asked why he did it, Price said in an interview that it was "so people who are giving their blood, sweat, and tears for our clients can live a normal life and pay their bills." Employees say he met that goal. They describe leading more comfortable, less stressful lives that allow them to better focus on their work. "I'm able to afford the small things that put my mind at ease," one employee who is a single mother said. "It really just cleared my mind."

Happier, more focused employees have helped Gravity grow. In 2018, the company processed $10.2 billion in credit card transactions, more than double the $3.8 billion in 2014, before the salary increase was announced. Gravity continues to add new clients, and profits are higher than ever. The company has grown to around 200 employees, some of whom joined because they wanted to be part of a company that doesn't just focus on profits. Tammi Kroll was climbing the corporate ladder and making $1 million annually when she heard about Gravity's pay increase. "My whole goal when I went to school was to make more money," said Kroll, who grew up in a working-class family. Yet, she said she came to realize, "Money doesn't make you happy, doesn't make you a better person." Even though it meant taking an 80 percent pay cut, Kroll, now Gravity's chief operating officer, says she was happy to move to a company that puts values first.[32]

7.2c Conscious Capitalism

Conscious capitalism, which has also been referred to as a *shared value approach*, refers to organizational policies and practices that both enhance the economic success of a company and advance the economic and social conditions of the communities in which the company operates.[33] Hindustan Unilever, for example, uses a direct-to-home distribution system for its hygiene products in parts of India, whereby women from low-income households in villages of less than 2,000 people are given micro loans and training to start their own small businesses. The system benefits communities by giving women skills and opportunities that sometimes double their household income, as well as by reducing the spread of disease by bringing hygiene products into isolated areas. It also benefits the company by extending its market and building its brand in hard-to-reach areas. The project now accounts for five percent of Hindustan Unilever's revenue in India.[34]

Conscious capitalism means having a higher purpose besides just making money by focusing on employees, customers, suppliers, and the community as well as on shareholders; seeking to bring out the best in people; and fostering trust and respect. Companies that embrace a conscious capitalism philosophy include Whole Foods Market, Costco, Pedigree, Medtronic, and Trader Joe's. The BookMark further describes the philosophy of conscious capitalism.

BOOKMARK 7.0 HAVE YOU READ THIS BOOK?

Conscious Capitalism: Liberating the Heroic Spirit of Business

By John Mackey and Raj Sisodia

In *Conscious Capitalism*, John Mackey, founder and co-CEO of Whole Foods, and marketing professor Raj Sisodia start with the premise that business is "fundamentally good and ethical" because it enables people to live more vibrant and fulfilling lives. In just 200 years, they say, we have gone from 85 percent of the world's population living in extreme poverty to just 16 percent. But they challenge business leaders to open their eyes, minds, and hearts and understand the perspectives of their stakeholders so that "the truth, beauty, goodness, and heroism of free-enterprise capitalism" can be realized.

FOUR TENETS OF CONSCIOUS CAPITALISM

To practice conscious capitalism, business managers have to embrace the right beliefs. Here are the four tenets of conscious capitalism:

- *Have a higher purpose.* No business can practice conscious capitalism without a higher purpose. It is purpose that enables managers to transcend a narrow-minded focus on profit, infuse the organization with energy and relevance, and create engagement among employees and other stakeholders.
- *Recognize each stakeholder group as important and interdependent.* The authors refer to this as *stakeholder integration*. Conscious businesses strive to satisfy the needs of all stakeholders, including investors who seek profits. Trade-offs are not necessary, the authors say: "Together we can create our future reality, so we should do so consciously, collaboratively, and responsibly."
- *Conscious businesses need conscious leaders.* Leaders of conscious capitalism businesses embrace "decentralization, empowerment, innovation, and collaboration." Leaders are motivated by service to the higher purpose and the goal of aligning the interests of all stakeholders. The authors offer practical advice on how to evolve into a more conscious leader.
- *Embrace conscious business values.* The conscious capitalism culture embodies trust, accountability, fairness, love, transparency, integrity, caring, loyalty, personal growth, and egalitarianism.

IT *DOES* PAY TO DO GOOD

Money is one measure of value, but it is by no means the only measure. Mackey and Sisodia believe the primary business model will eventually be one of conscious capitalism rather than profit. They say hard data show that, in the long run, conscious businesses outperform traditionally run organizations by a wide margin.

Conscious Capitalism: Liberating the Heroic Spirit of Business, by John Mackey and Raj Sisodia, is published by Harvard Business Review Press.

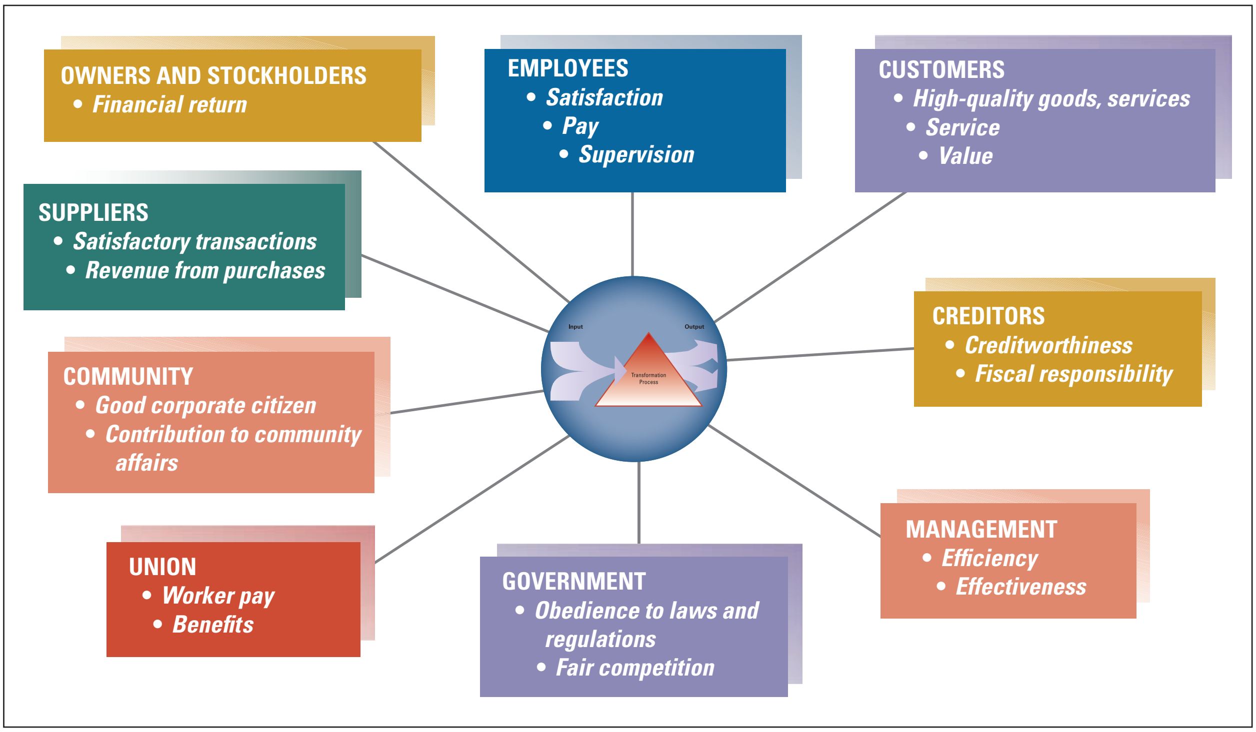
7.2d Serving Organizational Stakeholders

Another approach to expanding the concept of corporate performance beyond financial profits is to consider that different people and organizations want different things from the organization. For customers, the primary concern is high-quality products and services provided in a timely manner at a reasonable price, whereas employees are mostly concerned with adequate pay, good working conditions, and job satisfaction. Managers carefully balance the needs and interests of various *stakeholders* in setting goals and striving for effectiveness. This is referred to as the **stakeholder approach**, which integrates diverse organizational activities by looking at significant organizational stakeholders and what they want from the organization. A **stakeholder** is any group within or outside of the organization that has a stake in the organization's performance. The satisfaction level of each group can be assessed as an indication of the organization's overall performance and effectiveness.[35]

For example, in contrast to the view of government offices as bureaucratic quagmires of inefficiency run by lazy managers, the Hudson Street passport office in lower Manhattan gets glowing reviews on Google, Yelp, and other online rating sites. Michael Hoffman, director of the Hudson Street passport office, has a goal of giving customers exactly what they want. Even though he has to deal with some degree of specialization and standardization, he also has discretion in how he manages employees and runs the office. Hoffman has organized the office waiting and work areas in such a way that people and work flow smoothly. He also coaches and supports employees and gives them the resources and discretion to do their jobs without approval from managers when possible.[36]

Exhibit 7.4 illustrates various stakeholders and what each group wants from the organization. Most organizations are influenced by a similar variety of stakeholder groups.

EXHIBIT 7.4
Major Stakeholder Groups and What They Expect



Investors and shareholders, employees, customers, and suppliers are considered primary stakeholders, without whom the organization cannot survive. Investors', shareholders', and suppliers' interests are served by managerial efficiency—that is, use of resources to achieve profits. Employees expect work satisfaction, pay, and good supervision. Customers are concerned with decisions about the quality, safety, and availability of goods and services. When any primary stakeholder group becomes seriously dissatisfied, the organization's viability is threatened.[37]

Other important stakeholders are the government and the community, which have become increasingly important in recent years. Corporations, for example, must operate within the limits of safety laws, environmental protection requirements, antitrust regulations, antibribery legislation, and other laws and regulations in the government sector. The community sector includes local governments, the natural environment, and the quality of life provided for residents. For many companies, trade unions and human rights organizations are highly important stakeholders. Special interest groups may include trade associations, political action committees, professional associations, and consumerists.

2 The most important stakeholders for any corporation that wants to succeed are its shareholders.

ANSWER: *Disagree.* Although shareholders are important, organizations must respond to a variety of stakeholders. Investors and shareholders, employees, customers, and suppliers are considered primary stakeholders, without whom the organization cannot survive. However, other stakeholders such as government and the community have also become increasingly significant in recent years.

ASSESS YOUR ANSWER

Stakeholder interests sometimes conflict, and organizations often find it difficult to simultaneously satisfy the demands of all groups. A business might have high customer satisfaction, but the organization might have difficulties with creditors or poor supplier relationships. Consider Walmart. Customers love its efficiency and low prices, but the low-cost emphasis has caused friction with suppliers. Some activist groups have argued that Walmart's tactics are unethical because they force suppliers to lay off workers, close factories, and outsource to manufacturers from low-wage countries. One supplier said clothing is being sold at Walmart so cheaply that many U.S. companies could not compete even if they paid their workers nothing. The challenges of managing such a huge organization have also led to strains in relationships with employees and other stakeholder groups, as evidenced by past gender discrimination suits and complaints about low wages and poor benefits.[38] More recently Walmart has raised wages and improved working conditions. The example of Walmart provides a glimpse of how difficult it can be for managers to satisfy multiple stakeholders. In all organizations, managers have to evaluate stakeholder concerns and establish goals that can achieve at least minimal satisfaction for major stakeholder groups.

There is growing interest in a technique called **stakeholder mapping**, which provides a systematic way to identify the expectations, needs, importance, and relative power of various stakeholders, which may change over time.[39] Stakeholder mapping helps managers identify or prioritize the key stakeholders related to a specific issue or project. For instance, when reports surfaced that a contractor in Lesotho, Africa that made clothing for Gap Inc. and other U.S. companies was dumping toxic materials into local landfills and discharging chemicals into the Caledon River, managers at Gap were able to swing into action immediately. By using stakeholder mapping, Gap had identified key stakeholders and carefully cultivated open relationships with labor groups, human rights organizations, trade unions, nongovernmental organizations, and other groups. In the past, managers' approach would have been to deny responsibility and blame the subcontractor. With the Lesotho incident, however, Gap's top leaders immediately stepped forward to declare the company's commitment to fair and safe conditions and outline the steps Gap would take in dealing with this contractor. Because of the relationships Gap had developed with numerous stakeholder groups, the company had the support of labor and human rights organizations, which praised managers' commitment and actions.[40]

BRIEFCASE

As an organization manager, keep these guidelines in mind:

Balance the needs and interests of the organization's various stakeholders, different people and groups who may want different things from the organization. Use stakeholder mapping when appropriate to identify and prioritize the key stakeholders related to a specific issue or project.

The global supply chain is a source of ongoing challenges for managers. As Dan Rees, former director of the Ethical Trading Initiative (ETI) said, "It is not a crime to find child labor in your supply chain. What is important is what you do about it when you find out."[41] Many companies retract their orders and stop doing business with companies that are found to use unsafe or unethical practices. A more recent approach some are taking is to work closely with overseas factories to improve their conditions, which managers say benefits both sides of the equation.[42] By using stakeholder mapping and cultivating open, trust-based relationships with key stakeholders, companies such as Gap are trying to ensure that managers are able to do the right thing swiftly, sometimes with the result that crises can become opportunities.

7.2e Serving the Bottom of the Pyramid

Another approach that combines business with social responsibility is referred to as *serving the bottom of the pyramid*. The **bottom of the pyramid (BOP)** concept proposes that large multinational corporations can alleviate poverty and other social ills, as well as make significant profits, by selling to the world's poorest people. The term *bottom of the pyramid* refers to the more than four billion people who make up the lowest level of the world's economic "pyramid," as defined by per-capita income.[43] Exhibit 7.5 illustrates the world's economic pyramid. The top of the pyramid (Tier 1) is composed of middle- and upper-income people in developed countries. The middle of the pyramid (Tiers 2 and 3) is made up of poor people in developed countries and the rising middle classes in lesser developed countries. Tier 4 contains the four billion people at the bottom of the pyramid. These people earn less than US$1,500 a year. Well over one billion people, roughly one-sixth of the human population, have per capita incomes of less than $1 a day.

EXHIBIT 7.5
The World Economic Pyramid

Annual Per Capita Income*	Tiers	Population in Millions
More Than $20,000	1	75–100
$15,000–$20,000	2 & 3	1,500–1,750
Less Than $1,500	4	4,000

* Based on purchasing power parity in U.S.$

Source: United Nations Development Reports, accessed at "Bottom of the Pyramid Report," Institute of Developing Economies Japan External Trade Organization, https://www.ide.go.jp/English/Data/Africa_file/Manualreport/bop03.html (accessed May 11, 2019).

Traditionally, the world's poorest people haven't been served by most large businesses because products and services are too expensive, are inaccessible, and are not suited to their needs; therefore, in many countries, the poor end up paying significantly more than their wealthier counterparts for some basic needs. A number of leading companies are changing that by adopting BOP business models geared to serving the poorest of the world's consumers. Consider this example from India's Godrej & Boyce.

IN PRACTICE

Godrej & Boyce

The India Today Group/Getty Images

By one estimate, a third of India's food is lost to spoilage, but in 2007, refrigerator market penetration was just 18 percent. Godrej & Boyce managers decided it was time to do something about this. "As a company that made refrigerators for more than 50 years, we asked ourselves why it was that refrigerator penetration was just 18 percent," said G. Sunderraman, vice president of corporate development. The first major insight was that many people not only couldn't afford a refrigerator, but they didn't *need* a large refrigerator that took up too much space in a small house and used a lot of electricity. What they needed was the chotuKool ("The Little Cool"), an innovative appliance introduced by Godrej & Boyce in 2010. The chotuKool, a mini-fridge designed to cool five or six bottles of water and store a few pounds of food, was portable, ran on batteries, and sold for about 3,250 rupees (US$69), about 35 percent less than the cheapest refrigerator on the market.

To sell the new product, Godrej & Boyce trained rural villagers as salespeople. The villagers earn a commission of about US$3 for each refrigerator sold, and the system reduces Godrej's distribution costs. Godrej & Boyce managers spend a lot of time working directly with consumers and are now testing ideas for other low-cost products aimed at rural markets.[44]

Other companies are getting in on the BOP act too. For example, DSM Food Specialties, a Netherlands food-science company, developed a Nutrition Products of the World food program to reach 31 million people every year in Africa and the Middle East. Leapfrog Investments, based in the United Kingdom, launched a $135 million social-impact investment fund aimed at emerging markets in Asia and Africa. The fund invested in 17 companies that reached more than 111 million low-income people with financial and health services. The giant U.S. firm Johnson & Johnson collaborated with a nonprofit to set up a "mobile friend" free cell phone service in India that sends pregnant women and new moms voice messages with health updates and helpful information about raising children.[45] Procter & Gamble (P&G) researchers are visiting homes in China, Brazil, India, and other developing countries to see how the company can come up with entirely new products and services for consumers living at the bottom of the pyramid. However, P&G is late getting into marketing to the poor. Rival Unilever, for instance, introduced Lifebuoy soap to India more than a century ago, promoting it as the enemy of dirt and disease.[46] "P&G is still very U.S.-centric," says Unilever's CEO, Paul Polman, a Dutchman who is a P&G veteran. "Emerging markets are in the DNA of our company." Unilever, described previously in the section about conscious capitalism, gets about 58 percent of its sales from developing markets, up from just 20 percent in 1990.[47]

Proponents of BOP thinking believe multinational firms can contribute to positive lasting change when the profit motive goes hand in hand with the desire to make a contribution to humankind. Companies can use their profit motivation to solve many societal problems by creating products that serve the poor and disadvantaged.

REMEMBER THIS

- Corporate social responsibility (CSR) refers to the obligation of organizational managers to make choices and take actions so that the organization contributes to the welfare and interest of all stakeholders, such as employees, customers, shareholders, the community, and the broader society.
- Managers can assess and measure the organization's performance on environmental, social, and governance (ESG) dimensions.
- Many companies are going green, embracing the concept of sustainability, which refers to the ability to generate wealth without compromising social stewardship or responsibility for the natural environment.
- Companies that place a high value on sustainability and CSR measure their success in terms of a triple bottom line—social performance, environmental performance, and financial performance.
- The term stakeholder refers to any group or person within or outside the organization that has some type of investment or interest in the organization's performance. Different stakeholders have different interests in the organization and thus different criteria for social responsiveness.
- Shareholders, employees, customers, and suppliers are considered primary stakeholders, without whom the organization could not survive.
- Managers sometime use stakeholder mapping to identify the expectations, needs, importance, and relative power of various stakeholders.
- Some large corporations take an approach called serving the bottom of the pyramid, combining business with social responsibility by creating products and services for the world's poorest people.
- Godrej & Boyce created an innovative battery-powered refrigerator called the chotuKool for rural markets in India.

7.3 The Consequences for Doing Good

The relationship of CSR to an organization's financial performance concerns both managers and organization scholars and has generated a lively debate.[48] Hundreds of studies have been undertaken to determine whether heightened social responsiveness increases or decreases a company's financial performance.[49] Studies have provided varying results, but they have generally found a positive relationship between socially responsible behavior and a firm's financial performance. For example, one study found that the top 100 global corporations that have made a commitment to sustainability had significantly higher sales growth, return on assets, profits, and cash flow from operations in at least some areas of the business.[50] Another review of the financial performance of large U.S. corporations considered "best corporate