

## **Socially and Environmentally Responsible Leadership**

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### **Abstract**

To address increasing calls from stakeholders of all types, companies need to infuse social and environmental responsibility into their missions and strategies. More commonly referred to as corporate social responsibility (CSR), these actions help an organization ensure a more balanced approach toward meeting the needs of all stakeholders. Higher education institutions have an important role to play when preparing future business leaders to face unprecedented challenges in a new global business environment. An effective approach for teaching CSR to business students consists of five parts: (a) examining ethical models to clarify the relationship between an organization and its stakeholders; (b) creating a sense of urgency regarding the impacts of business on society and the environment; (c) identifying and managing stakeholders; (d) implementing triple bottom-line (TBL) leadership; and (e) infusing CSR directly into an organization's strategy at the time that it is drafted to ensure that all operational and tactical actions are driven from a plan that has CSR at its core.

### **Corporate Social Responsibility**

Sustainable development and corporate social responsibility remain important issues both in business and in the education of future business leaders. To address many of the pressing environmental and social problems attributed to a traditional singular focus on corporate profits, businesses today must consider the needs of their stakeholders. In the developed western world, this expanded focus is leading to an increasing number of programs at the corporate and governmental levels to foster environmentally and socially responsible leadership. It is also leading to an increasing number of business schools and, specifically, MBA programs that are teaching students the importance of

integrating sustainability and corporate social responsibility directly into an organization's strategy. It is clear that, in western developed nations, the economic benefits of responsible business are driving a slow and steady change in perspectives and behavior among established and future leaders (Weybrecht, 2010). However, the rest of the world may be addressing the issue of CSR, from both a business and education perspective, at a pace that differs from the developed west. This chapter will present an approach for teaching CSR in business programs from a strategic perspective that also respects cultural differences in attitudes.

### **CSR in Business**

The need for CSR in business is driven by many factors. Companies are recognizing that old ways of doing business, focused on profit maximization and shareholder value, are not sustainable given the changing nature of global business (Weybrecht, 2010). A singular focus on economic factors produces business leaders who maximize profits at the expense of the environment and society (Kirstein & Diamond, 2011). Extreme examples of this singular focus are seen in the news and have become case studies for how not to run businesses. But these examples do not represent the struggles that most business face when they decide to become more socially responsible.

Business leaders are pressured to become more environmentally and socially responsible from many fronts, including customers and investors. Customers often consider the social activities of companies when making purchasing decisions. Investors seek the financial benefits of good governance, a favorable reputation, good partnerships, lower financial costs, and minimized legal risks. Investors now recognize the potential impact to an organization's reputation if it fails to consider its social responsibilities (Weybrecht, 2010). To make CSR activities more visible, many companies are including sustainability or CSR assessments in their marketing and annual reports. CSR is considered standard strategic practice for many businesses because of its contribution to financial performance and to market value (Sharp & Zaidman, 2010).

The problem is that many companies do not know how to proceed from their current position to one that would be regarded as socially responsible by their stakeholders. The fact is that most business leaders were taught how to maximize profits and often don't embrace CSR, which can be perceived as running counter to the financial interests of the organization (Pies, Beckmann, & Heilscher, 2010). Many leaders are uncomfortable leading their businesses in a way that is not founded on the practice of maximizing value for the shareholders. This is where education on CSR can have its biggest impact.

Educators can first dispel the myth that CSR will hurt corporate profits. Properly done, CSR will not only save companies money, it will help companies earn more money (Sharp & Zaidman, 2010). Once business leaders can embrace this paradigm shift, they are more open to learning how to implement CSR. Higher education institutions can affect social change by providing opportunities for leaders to learn how to implement CSR in their businesses (Angus-Leppman, Metcalf, & Benn, 2010).

### **CSR in Higher Education**

Traditionally, most business schools have provided a nearly exclusive focus on the financial, economic, logistical, and strategic factors associated with a traditional business education (Webrecht, 2010). Many students expect this type of traditional focus in their business programs as, in many cases, the primary motivation for attending business school is to earn a degree that will teach students how to enhance their economic well-being. Given these factors, how can academic institutions work to expand the perspectives of their students and community leaders in regards to CSR? How can they get them to see the need to focus as much of their energy on social justice and environmental protection as they traditionally have dedicated to economic factors? Furthermore, how can business education evolve to link the environmental and social aspects, embedded in CSR, to economic drivers in a way that students can see a clear business case for all three?

Universities in the United States are recognizing this need. Werther and Chandler (2014) cited an Aspen Institute study that showed that 79 percent of business schools

“required students to take a course dedicated to business and society issues” (p. 100). Werther and Chandler also cited growing membership in Net Impact, an organization of graduate students and professionals who focus on responsible business. Yet, despite this increased focus on CSR among U.S. universities, there remain some serious challenges to socially responsible education. There is still a great deal of debate in the academic literature as to how socially responsible business education can be achieved and whether it is desirable in the first place (Pies, Beckmann, & Heilscher, 2010). Some believe that CSR is poorly defined and therefore does not belong in business education. Still others feel that incorporating ethics and CSR in business education will undermine its capitalist foundations. Despite these challenges, CSR has gained a solid foothold in higher education institutions in the States as evidenced by the number of institutions that include topics related to social responsibility in their curriculum.

But what about the developing nations of the world? In today’s global economy, geographical boundaries are becoming increasingly obsolete due to technology-enabled connections (Werther & Chandler, 2014). Companies are addressing a number of aspects of globalization and universities are educating increasing numbers of students who come from, or live in, regions that may not have the same awareness or attitudes toward responsible business as has materialized in many areas of developed nations in recent decades. Students in developing countries may not consider CSR important in an environment where the standard of living and availability of good jobs is not equal to that of the west; their nations’ lower level of affluence forces them to focus on more immediate needs. Considering cultural and national differences in values, power distance, and attitudes toward the purpose of business, how can American and European institutions design education for social responsibility when they may be serving a highly diverse population of students with different interests and motivations?

The remainder of this chapter describes a method of teaching CSR to diverse populations of students. The process begins with a primer on ethical models, continues with an examination of the need for CSR, and concludes with specifics about how to integrate CSR directly into organizations’ strategic plans.

## **Teaching Corporate Social Responsibility**

For many business students, especially those in the developing world, CSR is seen as an add-on to their business education and, for many, one that runs counter to the business concepts they are learning. To give CSR its proper consideration as a business practice necessary for any high-performing organization, it needs to be seen as enhancing the competitive value that the organization provides. To do this, the fundamental tenets of CSR need to be reconsidered so that CSR is not seen as a deterrent to effective business, but rather a conduit to effective business. And this must be done in a way that accounts for differing cultural perspectives.

One effective way for an instructor to incorporate CSR into business education involves three phases. First, establish a universally understood model for responsible business behavior by connecting business vision and mission to common ethical models. Second, establish a sense of urgency for businesses to act responsibly by presenting the current impact that businesses are having on both the environmental and social aspects of global societies. Lastly, present a practical process of infusing CSR into an organization's strategy. Each of these three phases and their role in CSR education are described in more detail below.

### **Ethical Models**

Given the likelihood of significant cultural differences on dimensions such as power distance, uncertainty avoidance, and long- versus short-term orientation among varying populations of international business students, it is important to establish a socially based norm for interpreting business behavior. One effective way to do this is to utilize some of the more common ethical models. Students need to be able to acknowledge the differences between what is accepted as universally ethical behavior as opposed to behavior that is relative to the norms of a culture. Thus, a conversation about universalist versus relativist ethical models can be an effective way to begin this discussion. It is also important to acknowledge both the Deontological and Consequentialist approaches, with the former being focused on ethical nature of the act

itself without regards to the consequence and the latter being focused on the ethical nature of the outcomes of personal or business activity. From there, the real discussion of the impact of business actions, relative to society and the environment, can begin.

Perhaps the clearest ethical model that can be used to support CSR is utilitarianism, which pushes for the greatest good for the greatest number (Frederiksen, 2010). Using this model, an instructor can illustrate the shortcomings of the profit maximization motive, which tends to favor a small group of shareholders, often at the expense of a larger group of stakeholders. Utilitarianism is an effective way to introduce the concept of stakeholder management in regards to business strategy as it gets students thinking about the “greatest good” as being something separate from the highest profits. Once students’ attention is focused on the impacts that a business is having on stakeholder groups, they can begin to consider the relative influence that each group has on the organization. This leads to a deeper level of consideration about the relationships between stakeholders and the business when students have to potentially exclude certain stakeholder groups with lower priority from the “greatest number.” This process can help students to better focus corporate strategies.

To further the conversation about ethical models, both the rights- and justice-based models can be useful. The first focuses on the rights that are, or should be, allocated to every person simply by being a human. This model is useful to illustrate the ways in which a business can violate these rights. Second, the justice model can be useful in demonstrating how business can often deny justice to stakeholder groups through their environmental or social actions. Both models can be used to further explain the need for a utilitarian approach to stakeholder management.

### **Establishing Urgency**

Conversations about ethical models can set the stage for discussions that center on some key questions. Those questions include the following:

- What is the purpose of being in business? Is it to make money or it is to fulfill a social need with a secondary outcome of profitability?

- How can a business meet the greatest need of its significant stakeholders while remaining profitable?
- How can a business strive for sustained competitive advantage through practices that respect the long-term needs of the business, the environment that it operates in, and the societies that are affected by its actions?
- And, perhaps most importantly, why do businesses need to worry about this?

To address this last question, it is important to establish a sense of urgency regarding the nature of the world relative to environmental and social problems. Many students are shielded from the irresponsible actions of many businesses and, therefore, do not understand why CSR is important. Raising awareness of the traditional impacts of business, which have originated from, and are sustained by, a purely profit-driven model, helps to establish the need for more responsible business practices.

An effective way to establish this sense of urgency is to cite statistics. Well-selected statistics can tell stories that connect students to the need for environmental and social responsibility. A sampling of these statistics is listed below:

- Solid waste—The world produces billions of tons of solid waste annually and most of this goes into landfills.
- Plastics—Plastic waste is being found in many locations on land and in the oceans. Plastics take hundreds of years to break down.
- Electronic waste—More than 90 percent of computers, TVs, video and audio recorders, PDAs, and other electronics end up in landfills.
- Automobiles—About 20–30 million cars are taken off the road each year and most of these, in developing countries, end up in landfills.
- Industrial pollution—Giant clouds of industrial pollution are covering entire regions of the world. This is causing health problems for thousands.
- In early 2014, residents of Beijing, China, were told to stay inside because their air quality was dangerous.

- Water and land pollution—70 percent of the developing world’s untreated industrial waste is dumped into rivers, lakes, oceans, or just onto the soil.
- Oil and gas—World oil and gas reserves will be unable to keep up with demand in the next twenty-five years.
- Coal—The world has a good supply for coal, but it is the largest source of pollution. Much of the world uses coal to generate electricity.
- Drinking water—20 percent of the world’s population does not have access to clean drinking water. Much of what was once available is now polluted with fertilizers and pesticides from industrial farms.
- Fisheries—Over 70 percent of the world’s fisheries are chronically overfished. Many species are not likely to recover.
- Forests—More than one-third of the world’s forests have disappeared, and one-third is in danger. Forests are important in the absorption of greenhouse gasses.

But many of the world’s scientists agree that the biggest environmental problem that we face is from carbon dioxide. The Intergovernmental Panel on Climate Change (IPCC, 2013) stated in their most recent report that human-caused increases in carbon emissions are a direct cause of global climate change. According to the Earth System Research Laboratory (2014) at Mauna Loa, Hawaii, the current level of carbon dioxide in the atmosphere is about four hundred parts per million which represents a 43 percent increase since the start of the industrial revolution. As more carbon dioxide holds more heat in the atmosphere, a number of events are likely to occur. Both the air and water on the planet will increase in temperature, affecting the global climate and making significant weather events more common and increasingly severe. The large ice sheets on Greenland and Antarctica will melt, raising ocean levels anywhere from ten to one hundred meters. Snow in the mountains, which generates seasonal runoff for irrigation, will, in a warmer future, fall as rain and run through the water system long before it is needed, and eventually, areas where it is already warm may become too warm and dry to support life or agriculture (Senge et al., 2008).

In addition to the large number of environmental problems, business students need to be aware of a number of social problems that companies can influence as they choose how to conduct business. Following is a sampling of these social problems, cited by the United Nations:

- Poverty—Great progress has been made in reducing poverty. However, as of 2008, 1.29 billion people still lived on less than \$1.25 per day.
- Health—Significant efforts are under way to eliminate disease around the world. More work needs to be done especially to ensure the health of women and children.
- Education—Despite being guaranteed by the Universal Declaration of Human Rights, many global citizens do not have access to basic education.
- Development—Too often, the benefits of economic development are not shared with all members of the communities in which it occurs.
- Income disparity—In the past thirty years, there has been a significant increase in the difference in income between top earners and the middle class. This acts as a significant impairment to economic growth for an entire society.
- Peace and security—A good number of the world's citizens face threats both from inside and outside of the communities.

Combining these environmental and social snapshots underscores the need for leadership to help resolve these many issues. And, as has been clearly described by many, it is business that can have the biggest impact (Werther & Chanler, 2014). But to effect real change, each business must assess its place in and impact on the community and must ask itself to examine its mission, its reason for being in business, and the relationship that it has with its stakeholders. In short, it is to a business's great benefit to be seen as making a conscious choice to be part of the solution to the many social and environmental problems that have been created by business of the past. To do so, a business must make an intentional decision to structure its strategy so that a socially

responsible position is a key part of its identity. This is an important lesson for current and future business leaders to learn.

### **Teaching Leadership for Corporate Social Responsibility**

Business leaders who want to establish a strategic position with CSR need to learn how to design and implement CSR strategies. They also need to learn what CSR's proper place is in the organization and how to fulfill the organization's obligation to its stakeholders. A clear understanding of the needs of each stakeholder group, their relative importance, and the impact that the organization has on them, are all key in formulating a position on social responsibility that places the organization in a positive light. All of these topics can be covered in well-designed business education as a natural part of a student's process. It is important to integrate CSR into business education so that the two are understood as interwoven parts of the same whole. CSR is not an add-on to business education; it is the way that business should be conducted.

Three important parts of CSR that can be infused into a standard business education are stakeholder identification and management, TBL leadership, and socially responsible strategy development. Each of these three topics is reviewed in the sections to follow.

#### **Stakeholder Identification and Management**

Business students should be able to identify various stakeholder groups and their relative importance to the organization. Most students can easily identify customers and shareholders as key groups given their importance to the profitability and financial security of an organization. However, students should be encouraged to look beyond short-term profits in identifying those groups who can and will have a significant impact on the organization. Activities supporting the identification of stakeholders can be distributed throughout the business curriculum. These topics can first be introduced in a course on ethics, and can be further covered in courses on marketing, economics, entrepreneurship, organizational dynamics, operations and strategy. The goal is to underscore the importance of the increasingly symbiotic relationship between an

organization and all of its stakeholders as business students learn to create strategies that provide the organization with a sustained competitive advantage.

Questions that business students should examine, relative to an organization's relationship with its stakeholders, include the following:

- What is an organization's obligation to the many stakeholder groups with which it interacts?
- How can an organization create a corporate identity and position that includes considerations of social responsibility? How can the organization become known for responsible business to its stakeholders?
- Are there business opportunities linked to CSR that an organization can pursue that will resonate with key stakeholder groups?
- How should the business be organized to better respect the needs of its stakeholders?
- Are there changes that the organization could make to its operations to reduce any negative impacts it might be having?
- How can the organization incorporate stakeholder management into its forward-looking strategy?

Stakeholder management can be a part of all courses in a business program; there are ample opportunities to demonstrate the importance of this relationship throughout the business curriculum.

### **Triple Bottom-Line Leadership**

Running counter to traditional business education, students should be taught to lead an organization from three key perspectives: people, profit, and the planet. Triple bottom-line leadership is a different approach to the goal of profitability. Both the traditional and TBL approaches are concerned with profit maximization; they just use different methods to accomplish this goal. Traditional business approaches maximize profit at the expense of everything else and are focused on the short term. Triple bottom-line leadership maximizes profits but adopts a respectful perspective toward social and

environmental limits. It also includes the understanding that these profits may be realized at a slower rate.

The business program topics that are most likely to be affected by TBL leadership are those focused on accounting and finance. Such a focus may encourage students and instructors to ask the following questions:

- Is there a way to quantify the expenses and risks that are associated with a traditional approach to business?
- What will be the positive impacts of conservation-related actions intended to cut the organization's consumption of increasingly expensive key resources, such as energy and materials?
- In what ways can an organization capitalize on its socially responsible position to enhance its financial bottom line?
- To what extent will employees be attracted to and retained by an organization because of its socially responsible business practices?
- To what extent will investors be attracted to an organization because of its socially responsible business practices?
- Can a business depart from short-term financial thinking and, instead, embrace longer-term financial plans that could, in the long run, help it realize a larger return?

Triple bottom-line leadership can be integrated into nearly all aspects of business education including leadership, organizational dynamics, economics, operations, and strategy.

### **Applying a CSR Filter to Strategy Development**

Understanding the needs and influence of stakeholders along with a triple bottom-line approach to leadership is a good place to start. But every organization needs a strategy, and this is where CSR can have the largest and most sustained impact. Teaching CSR as a core part of a business program's focus on strategy will ensure that CSR is an integral part of students' understanding of how businesses should be run.

There are a number of ways that business graduates have been taught how to design corporate strategy, but one of the most common is to conduct a SWOT analysis and utilize the findings to determine a course of action that uses a company's strengths to capitalize on opportunities in the marketplace by creating a sustained competitive advantage. Such lessons are taught in all levels of business education where the vision, mission, strategy, and operational tactics continuum are used to help business students understand an effective way of devising strategy. Students are taught that an organization's vision is the reason it is in business; the mission is how the organization expects to realize its vision; the strategy is what the organization will plan to do to enact the mission that supports the vision; and the operational tactics are the daily actions that managers and employees will take to make everything come together.

So, where does CSR fit in? In most organizations, there is an effort to add CSR to the operational tactics, once they are defined. Organizations often attempt to alter their annual plans to try to make them more socially responsible, but this approach is often an afterthought since both the strategy and the tactics have already been defined. Attempting to make an organization's actions more socially responsible is often a departure from the original plan and it can be seen as a distraction from the initial strategy.

A better way is to consider socially and environmentally responsible business practices at the point in the process where the strategy is first being considered and drafted. As each strategic initiative is considered, it can be run through a CSR filter to determine the extent to which it (a) considers the needs of the stakeholders and the impact the organization is likely to have on key groups if it pursues a particular course of action and (b) whether the initiative being considered follows TBL leadership practices to ensure that it will lead to profits without a negative impact on people and the planet.

Subjecting each initiative in a strategic plan to this filtering process will create both a strategy and a list of operational tactics that have CSR infused directly into them. CSR is not an afterthought if it is an integral part of the strategy that is driving the

organization. This is the way that business school students can be taught to incorporate social and environmental responsibility directly into strategy.

Another way to consider strategic CSR is to view it using the SWOT tool. Students can be taught to identify corporate strengths that will allow the organization to capitalize on external opportunities in a way that is socially and environmentally responsible to create sustained competitive advantage. Again, social responsibility is inserted into the process, as a filter, to ensure the key strategic initiatives that are intended to drive corporate action for the next one, three, or five years have corporate social responsibility built into their core.

### **Conclusion**

The process of educating future business leaders in regards to CSR can be broken down into five steps. The first is to begin the conversation about CSR within the context of commonly taught ethical models and to use these to show how current and future business leaders have an ethical obligation to strive for the greatest good for the greatest number while, at the same time, respecting the rights of key stakeholders in all of their business practices. The second part of the process is to show, through statistics and examples supported by science, the impacts of irresponsible business practices which, in many cases have been encouraged by a traditional, profit-driven approach to business education. Students need to see the link between a short-term emphasis on profitability and the many environmental and social programs that this can cause. Understanding this relationship helps students see the need for socially responsible business practices.

The process of infusing CSR into business education makes up steps three, four, and five. In step three, students are encouraged to consider who an organization's stakeholders are and how influential each will be on how the organization should be run. Examining stakeholders and their importance helps business students better understand just who CSR is for. Using the ethical models introduced earlier helps clarify what the relationship between the organization and its stakeholders should be. In step four, students are

asked to consider a different way to consider how an organization earns its profits. While the end point of profit maximization is the same, a triple bottom-line approach helps to ensure that those profits are not earned as a result of unnecessary exploitation of people or the environment. This approach also asks students to consider a longer-term approach to profits with the trade-off being that, over the long run, profits may be greater than those that were earned quickly using a traditional and irresponsible approach to business. Finally, in step five, students are taught to develop a corporate strategy for sustained competitive advantage by applying a CSR filter early in the strategic development process to ensure that all long-term strategic initiatives, and the operational tactics that will be used to implement them, are grounded in socially responsible approaches to business.

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