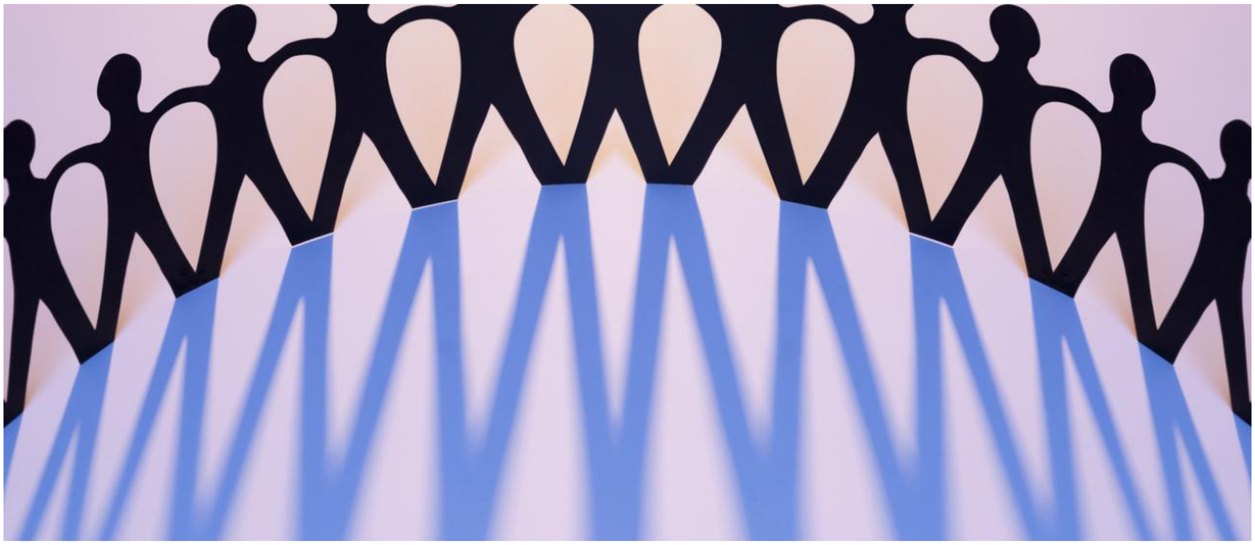
Identifying Social Norms Makes for Better Business



By N. Craig Smith , INSEAD Chaired Professor of Ethics and Social Responsibility, and Markus Scholz, Endowed Chair of Corporate Governance and Business Ethics at the University of Applied Sciences for Management & Communication, Vienna

How to make good business choices and maintain your firm's moral legitimacy, when "win-win" decision making is not an option.

The concept of **Creating Shared Value** (CSV) triggered a major leap in the global movement to redefine the role of business in society. Based on the premise that a company's competitiveness and the health of the community in which it operates are mutually dependent, the CSV framework has led hundreds of companies to successfully develop "win-win" initiatives that create social value as well as economic value. Nestlé, for example, has embedded CSV ideals into projects such as its Nestlé Cocoa Plan. Through it, the firm has improved living conditions in farming communities, introduced farming practices boosting yields, quality and farmers' incomes, all the while securing a supply of high-calibre cocoa.

Even detractors who deride CSV as “wishful thinking” will admit that, as a strategy tool, the framework shines when there is an obvious “win-win” for both business and society. Unfortunately, such “win-win” scenarios can be all too rare. Managers often find themselves having to make decisions that result in either the company or community being worse off. In these cases, the traditional CSV framework offers little guidance. Indeed, it leaves managers in an ethical quandary as to how to advance a company’s competitive advantage while maintaining its legitimacy in the eyes of stakeholders.

It was this void that, with Gastón de los Reyes Jr., a professor at George Washington University, we set out to fill in our recent paper: "**Beyond the “Win-Win”: Creating Shared Value Requires Ethical Frameworks**".

Finding moral guidance

“Win-lose” or “lose-win” interactions between business and society regularly occur in global value chains where companies operate under multiple jurisdictions and cultural value systems. The ramifications for the loser can be severe.

For managers navigating uncharted legal and ethical waters, it is not enough to trust solely in existing legislation and regulations. Local laws, if they do exist, may not be enforced, or may be at odds with more general norms, as apparel brands discovered when Rana Plaza, a garment factory in Bangladesh, collapsed in 2013, killing more than 1,000 textile workers inside.

A safer path for managers faced with ethical issues is to adopt the norms that exist within a community. When norms don’t exist or are somewhat ‘stale’ – as the pharmaceutical industry saw when the AIDS epidemic reached crisis levels in developing countries - new and appropriate ones should be developed for that situation.

Norm takers – when and from where?

Economic communities around the world are often bound by powerful norms that apply to anyone wishing to be part of the community. The New York Diamond District, for example, strongly expects its members to act with the utmost honesty and integrity. When seeking guidance from these microsocial norms, managers must first make sure the norms are legitimate. For instance, the norms should be well-established and fully accepted by the community. All members should be able to weigh in and influence the norms. And members should have a meaningful right of exit if they choose to leave.

The norms must also be consistent with the hyper-norms that apply across communities. This refers to the fundamental norms that concern human well-being and rights, such as those found in the U.N. Universal Declaration of Human Rights.

Microsocial norms have been successfully adopted in the forest industry. The **Forestry Stewardship Council** (FSC), a global body made up of timber companies, environmental NGOs and forest certification organisations, established a set of principles which, while not legally binding, are well-accepted. The principles give timber trade managers a framework to refer to and the assurance that by meeting FSC certification standards, they can maintain their company's legitimacy in tricky, often controversial, situations.

Norm making

But identifying relevant norms is not always straightforward. Sometimes they just don't exist. If they do, there is the possibility that they are out of touch with the dynamic business environment. This happened in the **taxi industry** when Uber entered the scene, or the extraction industry with the introduction of **fracking**.

Up until the 1990s, pharmaceutical companies operated within a web of well-established, industry-based norms. These norms reflected the primacy of research and the industry's rights to recoup R&D costs and profit through monopolistic pricing of patent-protected medicines. However, when HIV spread worldwide, these norms were questioned and antiretroviral drug makers were under pressure to revise their price and distribution strategies in developing countries.

When faced with changing situations like these, business managers may find themselves having to throw off the mantle of "norm taker" and become "norm makers".

Individual companies can make norms with strategic innovation and leading through example. This is what CVS did in 2014 when it became the first U.S. pharmacy retailer to pull cigarettes off its shelves. The company's actions initiated a dialogue which led to the push for **tobacco-free pharmacies** in many communities.

More often, however, norms are created when companies work together either at the industry level (through business roundtables or associations such as chambers of commerce) or across industries. Examples would be the **U.N. Global Compact** initiative or **ISO 26000**.

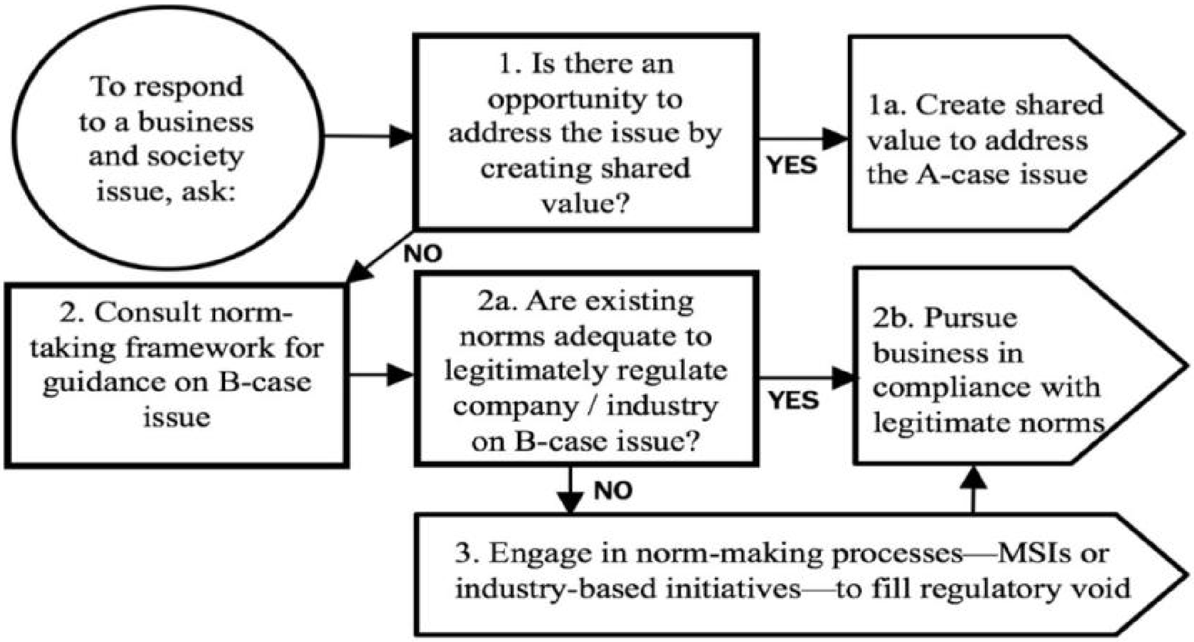
In the aftermath of the 2013 Rana Plaza disaster, media and stakeholders raised serious questions about brands' supply chain practices, including their monitoring of suppliers and promotion of safe work environments. Numerous brands responded with collaborative norm-making processes. In Europe, companies founded the **Accord on Fire and Building Safety** in Bangladesh; U.S. firms formed the **Alliance for Bangladesh Worker Safety**. The two bodies issued different sets of norms, with different modus operandi. The European accord collaborated with NGOs and labour unions, gaining knowledge and legitimacy in their diverse membership but exposing themselves to possible increased legal liability. The U.S. alliance acted as an industry-based initiative, its legitimacy depending ultimately on how well the norms functioned on the ground.

While multi-industry initiatives generally have stronger claims to legitimacy and benefit from involving stakeholders in the norm-making process, industry-based initiatives, such as the FSC, can facilitate agreement between parties and be more agile.

Bolstering the CSV framework

Adopting a CSV mindset trains managers' attention on opportunities to take on social and environmental challenges in innovative ways. By taking the traditional CSV framework and bolstering it with ethical frameworks—what we call "CSV+"—we have developed a decision tree to help companies when a "win-win" (A-case) scenario for business and society seems out of reach.

Decision tree for the CSV+ framework



By identifying existing norms, or indeed becoming a norm maker, firms can maintain their legitimacy and manage business profitably while contributing to societal progress.

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