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Doing Business in a Changing Society: Part I

Authors: Rajat Panwar and Eric Hansen

Description: Discussion of the changing societal expectations regarding company responsibilities and identification of several important environmental and social issues upon which companies should focus.

Methods: Personal interviews

Data Source: Thirteen forest sector experts

Key Points: 1) The societal mandate regarding the role of business in society is changing

2) Companies must respond to such changes by embracing broader social and environmental responsibilities

3) Six social and six environmental issues are identified that US forest products companies must address in order to be socially responsible

Introduction

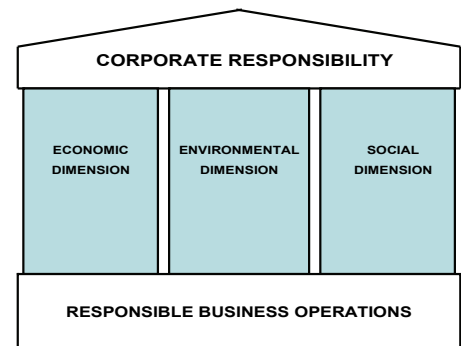
Business is a social institution and all societies have always had expectations regarding the role business should play in a society. Societal expectations related to this type of role are changing as values and paradigms evolve within societies. Contemporary business organizations in the US operate in a society that is markedly different from the one that expected business to fulfill only traditional economic responsibilities by producing goods and providing jobs. Today's organizations are expected to assume broader social and environmental responsibilities as well. The notion that business must transcend an exclusive economic role and assume broader social and environmental responsibilities is commonly referred to as corporate social responsibility (CSR). Thus while business has always had some responsibilities, the modern connotation of the phrase "corporate social responsibility" commonly refers to business assuming responsibilities in economic, social and environmental realms (Figure 1).

CSR aligns well with sustainable development suggesting that any economic development must integrate social and environmental considerations. It follows then that

many people define CSR as commitment of business to sustainable development.

Relevance and acceptance of this view regarding the role of business in society has been increasing and is especially important for sectors such as the forest products industry. While it has been suggested in the past that CSR helps companies in numerous ways such as mitigating the likelihood of future regulations, enhancing marketplace image and brand building, specifics relevant to particular industry sectors have largely been discussed only at the margins of existing business literature. This is especially true of the US forest products sector.

Figure 1: The multidimensional construct of CR



CSR in the Forest Sector

Societal expectations of business differ not only by country and culture but also from one industry to another. While most other industries are scrutinized only for production-related environmental impacts, the forest products industry is expected to be environmentally responsible both as a manufacturer (processing stage) and as a raw material purchaser. Further, the forest products sector operates under more intense public scrutiny than other extraction-based industries because wood comes from forests and forests are increasingly being seen by the public as natural places that should be relatively untouched by humans. Forest certification and eco-labeling are tools to ensure that wood is sourced from sustainably managed forests. But CSR can go further. The environmental re-

sponsibilities of forest products companies extend to how forests are used beyond harvesting interests. Specifically, multiple-use of forests has become a standard in many countries. Multiple-use implies that many different entities and interests can benefit from forests. Additionally, there has been much public debate on the industry's responsibility to protect forests.

Of the 100 largest forest products companies in the world, 61 are reported to have produced sustainability reports,¹ and this trend is increasing. It is observed that these reports primarily emphasize economic and environmental dimensions of CSR, whereas the social dimension receives relatively less attention. In addition, most of the social (e.g., health and safety) and environmental (e.g., emissions) indicators that these companies use in their sustainability reports are already part of legislative requirements. As such, a majority of these reports do not indicate any commitments beyond mere legal compliance that these companies may be making to help society and the environment. Consequently, comments such as, "sustainability reports are nothing but marketing pieces" are commonplace.

It has previously been noted that various stakeholder groups have pressured the forest products industry to address issues such as practicing sustainable forestry; enhancing wildlife habitat; providing jobs; etc. While these issues are rather general in nature, it must be kept in mind that many scholars have argued that CSR is a context-specific phenomenon. Embracing this line of thought, we propose that CSR activities that a particular industry sector might undertake must be defined after detailed examination.

Implementing CSR

A company interested in embracing CSR is confronted with a choice of approaches and methods, for example, stakeholder management (focusing on those groups that are affected by or can affect a company's decisions), corporate social performance (focusing on outcome) and issues management (focusing on problems rather than groups), are some of the mainstream approaches to CSR.

In this study we used an issues management approach where identification of issues is the first step. This can be done by interviewing key stakeholders to identify issues that they consider important and worthy of managerial attention. To narrow the list of issues, a group of neutral and informed participants can be used to provide controlled feedback in an iterative process until consensus is reached. A concise list may be useful for companies that desire to start implementing CSR in small steps. A longer list may be useful for companies that have already taken some initiatives to adopt CSR and are ready to further invest.

Methods

In this research, thirteen interviews were conducted with key stakeholders including representatives from non-governmental organizations interested in the forest sector, government offi-

cers in the Forest Service, political office holders, representatives of industry associations and university extension officers that routinely interact with industry.

Results

In all, 12 social and 20 environmental issues were identified. A two-round group consensus process was conducted with faculty members dealing with forest products business from different US universities to shorten the list. Consensus was reached among participants regarding six social and six environmental issues that should be addressed by responsible forest products industries in the US.

Social issues

- 1) Encourage public scrutiny of environmental and land management practices
- 2) Invest in surrounding communities
- 3) Promote responsible consumption among consumers
- 4) Stem declining employment in the sector
- 5) Engage with the surrounding communities
- 6) Improve industry's public image

Environmental issues

- 1) Promote sustainable forestry practices
- 2) Increase the use of renewable resources
- 3) Adopt environmentally sound purchasing policies
- 4) Mitigate global warming
- 5) Reduce overall energy consumption
- 6) Improve waste management

In the next Research Brief we will explore how these issues can be used to identify gaps between the perceptions of industry managers and the general public.

Conclusions

While the external environment in which modern companies operate is creating unique challenges, assuming broader social and environmental responsibilities, among other factors, will be a key proposition both for surviving and thriving in the marketplace. The proposed process for identifying social and environmental issues can help forest products companies to decide where to focus in their pursuit of CSR.

Literature Cited

¹PricewaterhouseCoopers. 2007. *Growth: global forest, paper & packaging industry survey*. 2007 edition: Survey of 2006 results. Available at: www.pwc.com/fpps survey07

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Doing Business in a Changing Society: Part II

Authors: Rajat Panwar and Eric Hansen

Description: Perspectives on the environmental and social responsibilities of corporations and family-owned companies by industry managers and the general public.

Methods: Mail Survey

Data Source: Two sources within the states of Washington, Oregon, Idaho, and Montana: i) the general public and ii) forest products industry executives.

Key Findings: 1) The general public's expectations of corporations and family-owned companies are significantly higher than their perceptions of current industry performance along social and environmental issues

2) Executive's perceptions of current social and environmental performance of corporations and family-owned companies are significantly higher than perceptions of the general public

3) Executive's perceptions of expected social and environmental performance for corporations and family-owned companies are significantly lower than the perceptions of the general public

Introduction

A changing global business environment has necessitated that companies transcend an exclusive profit orientation by assuming broader social and environmental responsibilities for ensuring their survival and growth. This applies to all companies regardless of their size or ownership. A shift in company thinking for incorporating social and environmental considerations in their objective-setting is especially relevant and vital for the forest products sector since public scrutiny of forest products companies has intensified over the years.

Two significant challenges, however, that companies face are: (i) what activities to focus on as a part of social and environmental activities, and (ii) how to align with larger societal perceptions regarding company performance.

While the first part of this research outlined the social and environmental issues that the US forest products companies

must address in order to be socially responsible, our focus here, is on how forest products companies are viewed by the general public with regard to current and expected performance along social and environmental issues. Further, comparisons are made between the perceptions of the general public and that of industry executives. Results can help industry executives understand how their views may be misaligned with larger society and allow those executives to develop strategies for better aligning with societal values.

Methods

Mail surveys were conducted within the states of Washington, Oregon, Idaho, and Montana. For the general public, a random sample of 2000 total residents age 18 and above was selected. Over 275 usable responses were received for a response rate of 15%. For the industry sample, all forest products companies having 50 or more employees were selected. Top executives from 430 companies were contacted and 94 usable responses were received (22% response rate). A total of 12 items (six social and six environmental issues) were used from a previous stage of this research:

Social issues

- 1) Encourage public scrutiny of environmental and land management practices
- 2) Invest in surrounding communities
- 3) Promote responsible consumption among consumers
- 4) Stem declining employment in the sector
- 5) Engage with the surrounding communities
- 6) Improve industry's public image

Environmental issues

- 1) Promote sustainable forestry practices
- 2) Increase the use of renewable resources
- 3) Adopt environmentally sound purchasing policies
- 4) Mitigate global warming
- 5) Reduce overall energy consumption
- 6) Improve waste management

Respondents' rated their perceptions regarding industry's current and expected performance on each of the 12 items.

Each item (for both the current and expected performance categories) was separated for responses pertaining to corporations and to family-owned companies. Each issue was assessed in four different situations: (i) current and (ii) expected performance levels pertaining to corporations, and (iii) current and (iv) expected performance levels pertaining to family-owned companies. Results are presented as two composite scores, one representing social issues and the other environmental issues.

Results

Figures 1-3 summarize results. Figure 1 illustrates the gap between how the general public views current levels of performance by the forest industry and how they would like to see the industry perform.

Figure 2 illustrates the gaps between general public respondents and industry executives with respect to current performance. Industry executives consider industry's current performance to be significantly higher than general public respondents.

In terms of expected industry performance (Figure 3), general public respondents have higher expectations than industry respondents. For both corporations and family-owned companies, these results are statistically significant.

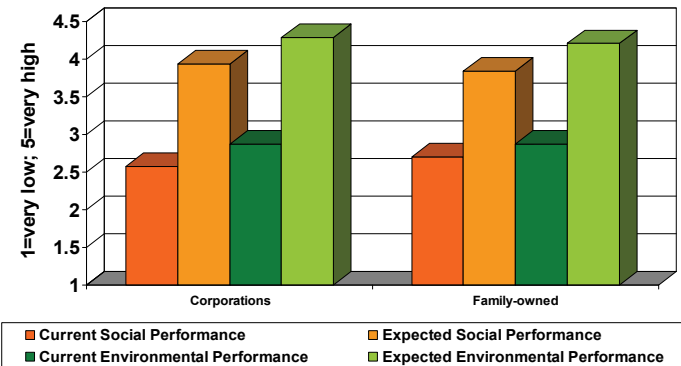


Figure 1: General public perspectives regarding current and expected performance by forest industry companies

Managerial Implications

Addressing important social and environmental issues is likely to enable a company to gain higher credibility. The differences between industry executives and the general public indicate that industry should not only focus on improving its performance along key social and environmental issues, but also improve its communication to the public about its performance. It is also important for industry to appreciate that the general public has higher

expectations regarding industry performance than they do as company managers/owners.

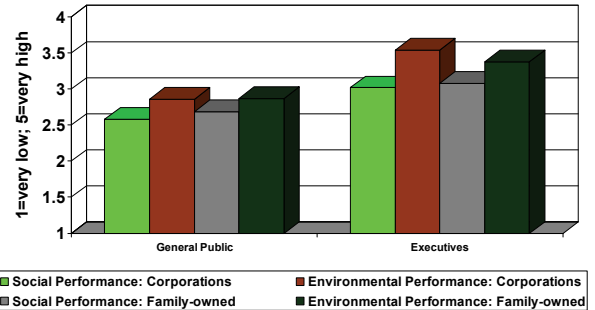


Figure 2: General public versus industry executive perspectives regarding current performance by forest industry companies

In order to enjoy increased social acceptance and reputation, US forest companies should aspire to higher social and environmental performance. There were no significant differences between corporations and family-owned companies suggesting that industry's performance is viewed as a "whole", countering a common perception that family-owned companies are seen differently than corporations. As social and environmental scrutiny of the forest products industry increases, it is important for industry to further align itself with a changing societal mandate as well as communicate its efforts more effectively.

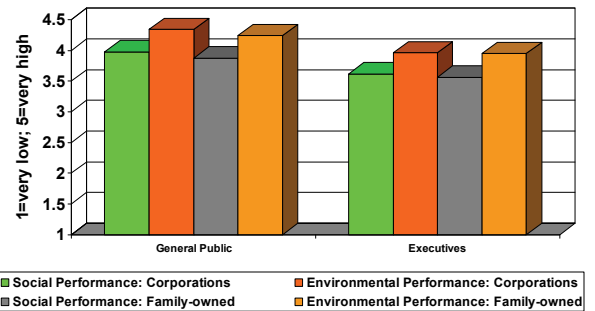


Figure 3: General public versus industry executive perspectives regarding expected performance by forest industry companies

Conclusions

The set of social and environmental issues developed in this research should not be considered exhaustive. However, it may be a useful starting point for companies since these issues have been suggested by a variety of sources and condensed by a neutral yet knowledgeable academic community. Each company must tailor its issue set to its own unique context, strengths, and weaknesses.



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