HOW MULTINATIONALS ACQUIRE SOCIAL ENTERPRISES

Can Corporate Social Responsibility Be Bought?

When large corporations acquire businesses with high levels of corporate social responsibility, they must decide which ethical practices to adopt, and which to reject. Depending on the organizational identity orientation of both firms, this attempt to "buy" corporate social responsibility can succeed or fail.

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"When you are led by values, it doesn't cost your business, it helps your business," said **Jerry Greenfield,** one of the co-founders of Ben & Jerry's ice cream. He obviously knew what he was talking about: **Ben Cohen** and **Jerry Greenfield** turned their small Vermont ice cream shop into a hugely successful multi-million dollar business. All the while, Ben & Jerry's made a point of working with sustainable, fair-trade certified suppliers, using environmentally friendly packaging and creating business opportunities in their community.

But when Unilever scooped up the ice cream manufacturer in 2001, fans of the brand were worried.

Could a multinational like Unilever continue Ben & Jerry's conscientious legacy? Would they care about corporate social responsibility (CSR) – or only about profits?

Fortunately, Unilever followed Jerry's advice and committed to ethical values that have greatly helped their business.

Since the takeover, Ben & Jerry's has gone from strength to strength, and has maintained its public image as a socially responsible business. In fact, a large multinational acquiring the brand may have been "the best way to spread Ben & Jerry's enlightened ethic throughout the business world," according to Unilever's then-CEO.

The Ben & Jerry's/Unilever story has a happy ending: the brand has increased both its profits and social impact.

ACQUISITIONAL MISMATCH

Meanwhile, The Body Shop – a brand known for supporting fair-trade, green and anti-animal-cruelty causes – was bought by industry leader L'Oréal. Yet afterward, L'Oréal failed to live up to The Body Shop's customers' standards.

The multinational continued various practices antithetical to The

Body Shop's values, such as testing on animals and prioritizing competitive pricing over environmental sustainability, and the brand suffered.

So what was the difference? Why did Unilever manage to "buy" corporate social responsibility through acquiring a socially responsible company, while L'Oréal failed?

And, more broadly, why do some multinationals so easily adopt ethical practices when they acquire socially oriented companies while others struggle to do so?

Managers at multinationals can buy CSR – if they acquire a company compatible with their own company culture

TWO MAIN FACTORS

It all depends on two main factors: the organizational identity orientation of both companies, and the ideological distance between them.

In short, the smaller the ideological distance between the organizational identity orientation of the multinational and the ethical company it is acquiring, the more likely it is that the multinational will adopt new ethical practices.

So corporate social responsibility *can* be bought – but only if multinationals focus on acquiring companies that have a similar orientation to them.

To really understand what motivates large corporations' actions after acquiring a socially motivated company, a deeper understanding of organizational identity orientation – and how it determines ideological distance – is necessary.

ORGANIZATIONAL IDENTITY ORIENTATION

To make decisions about practices and strategy, a company must have a strong sense of what kind of company it is.

Stuart Albert and **David A. Whetten** (1985) define a company's organizational identity as its answer to the question "who are we as an organization?" This includes members' shared perceptions of those attributes that:

1) Are fundamental (central) to the organization.

2) Capture its distinctive qualities.

3) Persist over time.

The concept of organizational identity orientation goes one step further. This recent idea describes how the company thinks of itself in relation to other actors.

The company's mission statements, strategies, shared interests and agendas – how it understands and presents itself to its stakeholders – are all determined by its organizational identity orientation.

Organizations use their dominant identity orientation as a frame of reference when they decide which practices to adopt. So, the kind of organizational identity orientation a company has determines whether or not they will introduce new CSR practices when they acquire a socially responsible company.

Empirical research conducted by **Shelley L. Brickson** (2005) shows that firms have three main types of organization identity orientation:

- **Individualistic**

Individualistic companies are primarily concerned with their own profitability, and view relationships with other entities as a means to achieve their own goals.

Multinationals are likely to be individualistic in nature, while the socially focused organizations they acquire are not.

Individualistic multinationals are primarily interested in CSR practices that will directly enhance their profitability. If there is a good business case, these companies will adopt practices that enhance employee empowerment or appeal to a new customer base that seeks ethical products.

- **Relational**

Companies with a relational orientation prioritize the wellbeing of stakeholders who have a relationship with the company, such as employees and/or local communities.

Large multinationals and small social enterprises may both be relationally oriented. Relational companies see CSR as a way of benefitting specific people and groups of people connected to the business. They frequently adopt CSR practices that address the particular needs of stakeholders, such as introducing worker benefits to build trust and supporting local environmental initiatives.

● **Collectivistic**

Companies in this category prioritize the wellbeing of stakeholders, but in a much broader sense than relational companies do.

These enterprises seek to benefit society in general. Multinationals rarely have this orientation, while socially responsible acquisition target companies are frequently collectivistic.

Collectivistic firms adopt practices that promote collective social change and social welfare. These firms typically seek to benefit the greater good through CSR, like promoting environmental awareness or eliminating human rights abuses.

IDEOLOGICAL DISTANCE

Borrowing a concept from political science known as "ideological distance" allows us to measure how close multinational acquirers and their target companies are in terms of their organizational identity orientation.

The ideological distance is the degree of difference that companies perceive between their identity orientation and that of another company – and it is extremely important in acquisitions where CSR is a key part of the purchase.

There are three basic scenarios that predict how much – or little – a multinational will incorporate CSR practices following an acquisition.

● **Symbolic adoption**

Individualistic multinationals (such as L'Oréal) who acquire collectivistic social enterprises (such as The Body Shop) tend not to change their policies, but may try to appear socially responsible or take on causes in a **symbolic** way. For example, The Body Shop's labels always proudly proclaimed "no animal testing." Pragmatic industry-leader L'Oréal noted that products with these labels could not enter China's lucrative market where animal testing is required by law, and changed them.

With such a wide ideological distance between the two companies, L'Oréal mainly used The Body Shop's CSR credibility for public campaigns rather than in changing its operational practices. However, that backfired. Customers were irate, and the brand was weakened by association with its new owner.

● **Selective adoption**

Better than symbolic adoption, **selective** adoption occurs when the acquiring multinational is moderately – but not totally – ideologically distinct from the company it acquires.

This can occur in two different ways. In the first case, an individualistic multinational buys a relationally oriented social enterprise. Typically, this level of ideological distance means the acquiring company will adopt socially responsible practices only if they increase profitability.

A classic case is Colgate's acquisition of natural dental brand Tom's of Maine. Colgate primarily used this takeover as an opportunity to expand its reach in the naturals segment. But they also continued some sustainable practices, like the Tom's of Maine 'stewardship model,' knowing that this would help them to retain the natural brand's customers.

The second case of selective adoption occurs when a relational multinational acquires a collectivistic business. Here, the acquiring company will adopt new socially responsible methods, but typically prioritizes practices that focus on particular stakeholders or communities rather than on wider social goals.

One example is Unilever's acquisition of Ben & Jerry's. Unilever committed to many of the latter's socially progressive practices, particularly those that directly benefited its local communities. But the multinational did not continue the politically motivated practices that were once also part of the Ben & Jerry's brand.

Wider political action was simply not appropriate to Unilever's sense of itself as a relational, but not collectivist, company.

● **Significant adoption**

If both the acquiring and acquired company are relationally oriented, the multinational is likely to **significantly** adopt many CSR practices.

This was evident in Danone's acquisition of Stonyfield Organic Yogurt. Danone used the takeover as an opportunity to develop its existing ethical practices. Even at the expense of the bottom line, the multinational was willing to incorporate new ways of doing things, like when Stonyfield convinced Danone to install expensive pollution-preventing production techniques. By significantly adopting many new ethical practices, Danone built a reputation for strong community relations and sustainability.

In all of these cases, the level of alignment (or "ideological distance") between the companies' organizational identity orientations helped predict how fully new CSR practices were taken on by the acquiring company.

For a new generation of consumers, corporate social responsibility is key. The case studies show that managers at multinationals can buy CSR – if they acquire a company compatible with their own company culture.

Making a perfect match requires research and effort, but can let CSR practices flourish and benefit both business and wider society.

MORE INFORMATION:
Wickert, C., Vaccaro, A. & Cornelissen, J. '"Buying" Corporate Social Responsibility: Organisational Identity Orientation as a Determinant of Practice Adoption.' *Journal of Business Ethics*, Vol. 142, No. 3, 2017, pp497-514