# Brief 1 – Barriers to the Adoption of Inclusive Business Practices

This brief provides an overview of key barriers to the adoption of inclusive business strategies or practices by employers as identified in the report *Poverty and the New Economy: Opportunities and Challenges for Ontario*.

## Organizational Motivation

The internal motivation within organizations to pursue inclusive business strategies or practices is a critical factor in their adoption and success. The following are key factors.

- ***Organizational Commitment***: The absence of commitment by senior leadership and a lack of internal buy-in are key barriers to inclusive strategy development. [1] If organizational leadership does not perceive a strong need for an inclusive business strategy this will inhibit its development. In a recent survey of Ontario business leaders, close to 1/3 (30%) said that a lack of perception of the need for inclusive growth is a key barrier to strategy development.[2] This can be related to a lack of clarity about relative social and commercial objectives, the absence of a common strategic motivation and vocabulary that limits collective buy-in across various groups of stakeholders and decision-makers.[3]

- ***Organizational Culture***. The culture of the organization can pose a key barrier to practice adoption. First, there are challenges that arise from existing assumptions regarding risk and profit that drive decisions, arising from a "scarcity mindset" which leads to short-term, profit-driven thinking rather than a strategic focus that seeks long-term gain. Secondly, lack of knowledge about inclusive business approaches leads to risk averseness arising from a fear of the unknown. These challenges may all be affected by, thirdly, a leadership gap which can produce a lack of will. A lack of diverse decision-makers can also impede progress. Finally, the competitive nature of most sectors and industries can stifle collective action between organizations.

- ***Organizational Confidence***: A lack of confidence in an organization's ability to make change poses a significant barrier to the adoption of inclusive business strategies. In its survey of Ontario business leaders, almost a third (29%) identified a

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[1] WBCSD, (2016); Jenkins and Ishikawa, (2010).
[2] Deloitte (2018)
[3] Chakravarti, MacMillan and Siesfield (2014)

lack of confidence in the company's ability to influence change as a key barrier to strategy development.[4]

- ***Profitability***: Many businesses have difficulty transforming current practices because they have trouble figuring out how to make money from the transition. Inclusive business initiatives usually don't yield the same margin as traditional business strategies, the return on investment and margins are lower, and the time required to realize both social and financial returns is longer.[5] There are also inherent risks associated with the development of new strategies, such as mispricing, which could affect profitability and create a low tolerance for failure.[6]

- ***Short-term Horizons***: Inclusive-business strategies require a long-term perspective as they require time to scale, need substantial marketing efforts and deal with imperfect or unpredictable regulatory environments. This often conflicts with short-term decision-making mechanisms in most corporations.[7] In its survey of Ontario business leaders, the most frequently cited barrier to incorporating inclusive business strategies was "short-termism / shareholder expectations".[8] This short-term time horizon also affects not only the adoption of strategies, but also leads to unrealistic expectations of the time required to scale.[9]

## Organizational Capacity

Many organizations lack the knowledge, skill and capacity to develop and implement inclusive strategies or practices. The following are key capacity constraints.

- ***Lack of Organizational Skill***: Successful strategies require appropriate internal knowledge and skill capacity, the lack of which can pose an important barrier. A recent survey of Ontario business leaders reported that 30% identified a lack of clarity about how to achieve the desired results as a key barrier to the adoption of inclusive business strategies.[10] Such strategies require a unique combination of knowledge and skills to conduct business in innovative ways and unfamiliar contexts, and finding staff with the right mix of business and development expertise can be a critical barrier.[11] In particular, there is a skill gap relating to the financial and / or social return on investment, as well as the ability to scale business innovation.

[4] Deloitte (2018)
[5] WBCSD, (2016)
[6] Jenkins and Ishikawa, (2010)
[7] Heierli, (2011)
[8] Deloitte, (2018)
[9] Jenkins and Ishikawa, (2010)
[10] Deloitte (2018)
[11] Jenkins and Ishikawa (2010)

There are further challenges with knowing how to assess the impact of strategies in the absence of credible and widely accepted measures.[12]

- ***Organizational Structure:*** Where the strategy resides within an organization influences the approach and there is often a lack of clarity about where in the organization leadership for such strategies should be held, whether in Marketing, the Corporate Office or within Human Resources.[13] To be effective, strategies eed to be deeply into, and engage people across, the organization in order to facilitate the cross-pollination of ideas and best practices. This can be difficult due to siloed divisions that inhibit internal coordination.

- ***Insufficient Best Practice Knowledge****:* There is a general lack of understanding of what inclusive practice actually looks like on the ground. In order to build the knowledge base there is a need for testing and refinement of existing models. Stakeholders in our research suggested that it would be helpful to know what other organizations are doing that is effective as that would support continuous improvement. As one stakeholder noted, "*we've picked the low hanging fruit already.*"

- ***Imperfect Market Knowledge:*** Organizations attempting to have influence in the local economy often lack information about the purchasing power, consumer needs and behavior, and the skills and capacities of suppliers, distributors and retailers.[14] This can result in difficulty adapting the organization's original business model to new markets and scales.[15]

**External Environment**

In addition to the internal organizational factors (motivation and capacity), the external environment in which an organization operates can affect its ability to develop and implement inclusive strategies. The following are key environmental constraints.

- ***Local Capacity***: The success of any inclusive business strategy will be affected by the capacity of the community with which the organization seeks to engage as a lack of local capacity to engage can pose a significant barrier to success. One key aspect is the lack of critical infrastructure, such as transportation or communication.[16] Local capacity may also be weak due to a lack of consumer information about available

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[12] Chakravarti, MacMillan and Siesfield (2014)
[13] Chakravarti, MacMillan and Siesfield (2014)
[14] WBCSD, (2016); Jenkins and Ishikawa, (2010)
[15] Jenkins and Ishikawa, (2010)
[16] Heierli, (2011); Williams and Hays, (2013); Jenkins and Ishikawa, (2010); Chakravarti, MacMillan and Siesfield (2014).

products and services, as well as a lack of finance for low-income producers and consumers required for large purchases or investments.[17] Local human capital may also be a constraint due to a lack of qualified labour and / or suppliers with the requisite knowledge and skills.[18] Finally, the local context may present a challenge due to the lack of appropriate partners in the communities in which the organization seeks to engage[19] along with difficulties coordinating fragmented suppliers.[20]

- ***Policy and Regulatory Environment***: A weak policy and regulatory environment in the region where an organization is working can be a significant barrier. In a survey of Ontario business leaders, 31% of respondents cited "regulatory environment / government mandates" as a key barrier to the adoption of inclusive business strategies.[21] One interviewee noted that Canada does not have a very enabling regulatory framework for non-profits and that more could be done to modernize it. Without a strong regulatory framework, it was felt that the playing field will remain unequal and biased against socially responsible enterprises.

- ***Managing Expectations***: For organizations that do adopt inclusive business strategies, there is a challenge in managing stakeholder expectations. This can include increasing requests for donations[22] as well as unrealistic expectations of return.[23] There is a related risk that certain segments of the population that were expected to benefit remain marginalized, particularly the lowest strata of the population.[24]

- ***Paradigm***. It was suggested that the current competitive market system does not allow for the emergence of the values and ethics necessary to support change. When connecting poverty reduction strategies and business it is usually done more from a charitable or CSR focus rather than looking at it from the perspective of meeting business needs. This requires a shift in paradigm where business leaders, non-profit organizations and the general population understand the shared value concept. It is important to understand what the right framework is that can increase worker security without compromising profit. Meanwhile, within the non-profit sector, many organizations come from a service-oriented charity paradigm. Consequently, they focus on delivering on their mandate and downplay the role of workers. This mindset limits the willingness of non-profit organizations to advocate for more

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[17] WBCSD, (2016); Jenkins and Ishikawa, (2010); Williams and Hays, (2013)
[18] Williams and Hays, (2013); Jenkins and Ishikawa, (2010)
[19] Jenkins and Ishikawa, (2010)
[20] Chakravarti, MacMillan and Siesfield (2014)
[21] Deloite (2018)
[22] Hall et al, (2008)
[23] Jenkins and Ishikawa, (2010)
[24] Heierli, (2011)

funding, or for workers to advocate for better terms of employment out of a fear of seeming self-serving.

- ***Lack of Investment Capital / Financial Support****:* There is a need for more resources to support organizations to implement inclusive practices. This could include various forms of funding such as grants, tax credits or rebates or other government incentives. Also identified as important is the need for private investment. Often businesses require funds to both enable the innovation and facilitate the transition to scale. Related to this is the need for a willingness to take on risk, as models of inclusive business practices may be risky. Consequently, there is a need for social finance / venture capital to mitigate risk and support innovation that can be brought to scale.

- ***Societal Culture***. The culture of the community and society can be a barrier to adoption. It was suggested that the current competitive market system does not allow for the emergence of the values and ethics necessary to support change. As one stakeholder noted, "*inequality makes people conservative*" and this conservatism may account for a "*right turn in politics*." Another cultural factor that inhibits adoption is the lack of public knowledge about alternative economic models.

- ***Infrastructure***. Practice adoption requires a supportive infrastructure. This may be a knowledge infrastructure or an organizational one. The lack of a well-developed organizational infrastructure in the form of a Community of Practice inhibits adoption and the development of a shared understanding of concepts or the ability to build capacity through shared learning. The lack of business mentorship opportunities and the awareness and sharing of existing models was specifically mentioned. At the same time, there is a lack of a well-developed knowledge infrastructure. This includes a lack of definitions and no accepted / clear understanding of the concepts of "good" or "impact". Similarly there is a lack of lack of a community or social impact framework as well as a lack of solid metrics.

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