CORPORATE SOCIAL OPPORTUNITY: Business Case for Engagement

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Corporate Social Responsibility (CSR)

Corporations are a great human invention of our time. It is almost impossible to think of modern life without the goods and services provided by them. As societies develop and transform, corporations too must transform to suit the changing needs of societies in which they operate. As a result, a whole host of corporations with innovative products and services have emerged over the years. Likewise, they have become global players with an impact on the lives of people, environment and economy.

However, the old conviction that corporations are immoral has largely remained intact over the years. It has been established by way of teaching and practice to some extent that the 'business of business is business'- in other words, the role of a business is defined as to maximise the shareholder's value. It implies that private corporations exist to make money, whatever way they can. It is guided in someway by the 'fiction theory' whose origin is some four centuries old and is overtly religious.[1] The 'fiction theory' defined corporation as a fictional person lacking body and soul to experience the pain of punishment.

By the end of the nineteenth century limited liability became an essential attribute of corporations. Unlike in the past,

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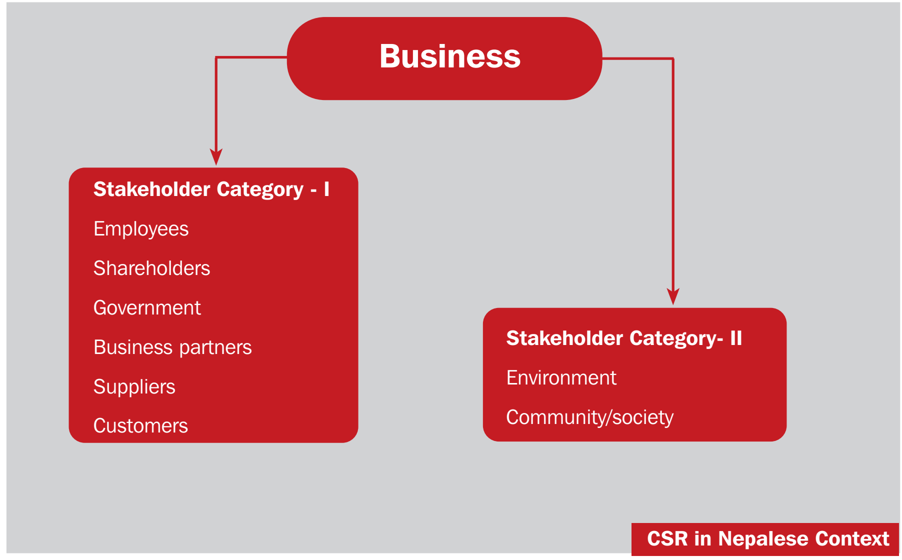
corporations became a creation of private agreements. Likewise, by the early twentieth century, with the significant rise in the numbers of corporations and their influence in society, the theory of 'natural entity' emerged. However, the label that corporations acted immorally remained largely unchanged. Milton Friedman, a Nobel Prize winner for economics, whose article on Business and Social Responsibility appeared in a guest column posthumously in December 2006, wrote "*Only people can have responsibilities*". Friedman argued that "*a corporation is an artificial person and in this sense may have artificial responsibilities, but 'business' as a whole cannot be said to have responsibilities, even in this vague sense*"[2].

There is no universal definition of Corporate Social Responsibility. Broadly speaking, it has been defined in various ways such as role of a business in society or a part of corporate governance- the way a corporation is directed, controlled and administered. Since almost all activities, processes and policies of a corporation are regulated by the law, the CSR becomes an important tool to gauge how such processes, policies and activities are conducted in practice and also what positive externalities beyond the requirement of the law a corporation has in its area of influence. In other words, CSR can be simplified in two verticals. First, how you conduct your business by satisfying the expectations of the stakeholders internal to your business functions (eg. employees, partners, government etc.) and secondly, apart from compliance, what value do you create in the society you operate in. A corporation has responsibilities towards both internal stakeholders to organisational functioning and external to it but both are not mutually exclusive.



Corporate Social Responsibility in Nepalese Context

Corporate social responsibility is a relatively new term in Nepal. There are more skeptics of CSR than champions. In most cases, CSR is understood to be a philanthropic act, which has ancient, Vedic, roots. The rich ones are supposed to contribute to the welfare of the deprived or the society in one way or the other. Wealth is a symbol of status. In pursuit of amassing wealth, how wealth is being made is seldom questioned by the society. Corrupt practices of making money, which is against the religious faith, though condemned by law and the public is seldom punished.

Though the corporate laws worldwide regard a corporation as a natural entity or a legal person, its characterisation as an artificial person still maintains a very strong presence among the business communities. In addition, owing to the low level of education and weak institutional capabilities, fraudulent business practices are rampant in Nepal. Businesses that want to practice ethical business, in some sectors where entry into business is easier and low cost start up possible, are bound to be the victim of competition of a non level playing field. Unfortunately, tax evasion is something of a national sport.

In such societies, private corporations are not trusted or not expected to be conducting business in the ethical ways. A private corporation is considered to be intrinsically consumer fleecing. A public sector provider of a service is preferred over the private as long as the public sector has resources and technical capabilities to satisfy consumer needs.

Most of the organised sector is private limited family owned businesses managed, often, by the shareholders themselves. Since private companies are not required to disclose their financial statements to public, it is difficult to differentiate a professionally managed business from others. However, it is generally accepted that professionally managed businesses are rather scarce. So far altogether 131 companies are listed public limited companies in Nepal[3]. Among all the sectors, the financial sector has stringent regulation. The central bank has been able to earn a reputation for the proper regulations of the financial sector and has amassed public's goodwill. As a result, the general public tends to trust this sector more than others.

Among the non-listed, professionally managed private companies included are the ones in joint ventures with foreign multinational companies. With the rise in competition and better consumer awareness due to free flow of information the situation is improving. The businesses managed by the managers who have exposure outside Nepal and are committed to ethical practices are transforming business practices. Some Nepalese companies have set the benchmark as high as their overseas counterparts.

Justification for CSR

Generally, activists-led media and governments are holding companies accountable for their conduct and social consequences of their activities. A morality associated with businesses in the past is no longer the dominant way of functioning but rather ethical behavior is. A corporation is required to work within the legal framework and also contribute to the betterment of society. A range of mandatory guidelines, standards and voluntary codes of conduct have emerged over the years on which companies are now ranked for their corporate social responsibility. A corporation is often judged by its relationships with particular stakeholders, which are based on conforming to legal requirements on one hand and expectations of the various stakeholders from within the corporation, usually not prescribed by the law, on the other.

All businesses have their own unique systems of internal administration and control. Depending on their capacity, they all try to satisfy the demands of the most important stakeholder constituencies; internal to business (i.e. category I), and external to business (i.e. category II). However, the weightage given to a particular category or a specific stakeholder within the category is largely business specific. Stakeholder priority of a company in mining, technological development or financial services respectively will be different due to the very nature of their business. Stakeholder prioritisation also depends on the likelihood of the impact of a company's operations on a particular stakeholder and vice versa.

Of all the stakeholders of businesses, communities become important constituencies specifically for companies involved in natural resources exploitation such as mining or hydropower. The companies in these sectors share natural resources with communities that have had, for generations, a free and first access to this richness. As natural resources formally belong to the state, companies in these sectors, secure their right to access them through government licensing.

Company's operations are highly dependent on the communities' cooperation without which it is almost impossible to be successful in the business no matter how well its category I (see figure) stakeholders are managed. A community is location specific and represents a small section of a larger society. Therefore, its community management is also location specific. However, the companies in these sectors, especially extractive industries, have impact on the environment not only close to the project but all over the world.

Managing Roles and Impact on Society

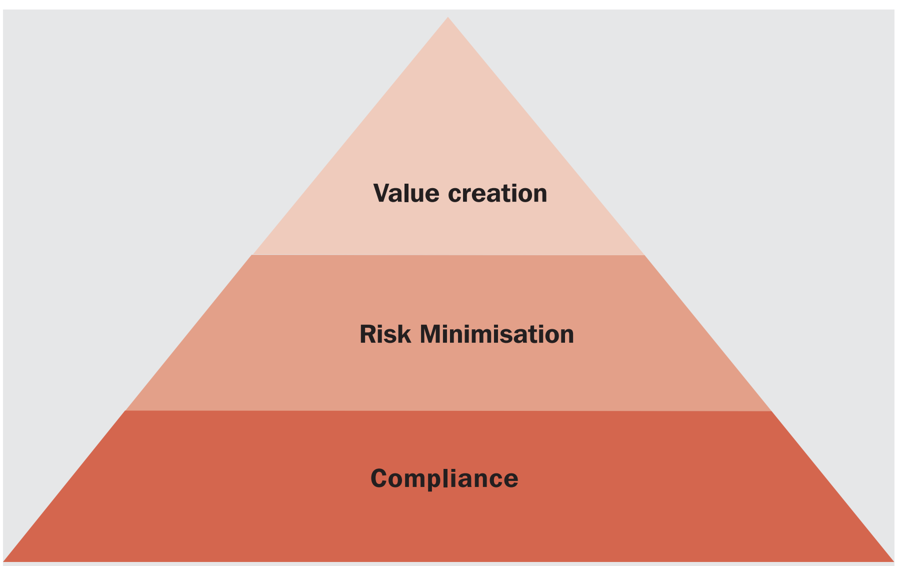
Society's expectations of a business change over time and this, in turn, changes the status quo of the relationships of a business with the stakeholders. A range of regulatory regimes are created and updated as the demand arises for regulating the new types of the relationships. Companies are not mere economic instruments but have become social institutions, which must operate within the ethical parameters applicable to a natural entity. Likewise, the leaders of these companies have become not only the leaders of the business but also the leaders within the society.

All business operations have social impacts, good or bad. The role of business or the impact of its operations is under increasing scrutiny from the government, politicians and the civil society. As a result, the business leaders are under tremendous pressure to maximise not only the shareholders' wealth but also the positive impact of the business on society. The discussion on the role of business in society has become an inescapable reality. Businesses must manage their role in society or risk reputation (e.g. acceptance), competitiveness, profit and growth. And there are no short cuts. Failure to address seemingly an insignificant issue may tarnish the businesses reputation thus their profitability.

Unethical businesses breed corruption, destabilise economic and social harmony and promote crime in the society. They are subject to universal condemnation. An ethical business has positive impacts on society by way of technology transfer, distribution of wealth along the value chain, operations and to some extent through voluntary contributions.

The positive role of business in society is not an additional cost burden placed on the businesses by the society. Rather it should be viewed as corporate opportunity to achieve social and economic benefits simultaneously. In the present context, businesses that are adept in prioritising the social issues and have a corporate social agenda to address those issues have competitive advantage over other businesses. Such a social agenda should be responsive to the stakeholders as well as supportive to the strategic interest of the business. Effectiveness of such a social agenda depends largely on understanding the relationship between the nature of business and its likely social impacts, which varies from company to company vis-à-vis the social setting of their operations.

Supporting healthcare and education in general may not be priority social issues for a hydro based energy company but an important part of competitive context when these public services are supported where the company is operating. Such initiatives will significantly improve the company's acceptability in the community and thus the company's license to operate.



Adapted from International Alert, Council on Economic Priorities

Strategy to manage impacts[4]

Corporations should demonstrate good corporate citizenship in every aspect of its conduct. Strategies to manage their impact on societies should be embedded such that its operations are compliant to appropriate standards and risks are minimised, while adding value to the stakeholders' ecosystem it is part of.

While compliance and risk minimisation of business operation is largely guided by corporate law, value creation is at the discretion of a company. Beyond compliance and minimising risks, companies that proactively value-add to their stakeholders' ecosystem by engaging in innovative social investment reap the benefits themselves. It is no benevolent act of a business but a strategy to differentiate from others and place itself in a competitive position to achieve profitability. Value creation here refers to building strategic capital by optimising the external multipliers of the business, which is an outcome of the corporate social agenda. Such an agenda needs a distinct delivery mechanism as opposed to orthodoxy - under marketing function - yet very closely in the know of issues and challenges facing the business.

Social Agenda Delivery Mechanism

Corporate social agenda is a relatively new idea, which is struggling to make footprints among the business managers trained in the corporate immorality doctrine. As a non financial arena of business engagement, it is usually hard for managers to buy-in the idea of social objectives on par with the financial objectives. Businesses today need the leadership capable of driving the companies to the next levels within the next decades rather than those practices which prevailed in the past century. This calls for a shift from seeing corporate social responsibility as a hurdle to an opportunity for enhancing business benefits (e.g. acceptability, brand loyalty, preference over competitors etc.) and depends largely on managing the issues of the category II stakeholders i.e. communities.

Since the social agenda is not a traditional business function, most businesses lack appropriate structure to deliver on this front. The idea of a social development unit, under the shadow of the marketing department, is beginning to be imported and tested in a handful of multinational companies. Most of the local companies of Nepalese origin are yet to follow the trend.

On the contrary, social agenda and its delivery mechanism is not entirely new to Nepali professionals. For example, Tara Management Private Limited has a full-fledged division called Private Public Partnership Program as a development arm of the company. Apart from being a pioneer "*knowledge centre*" in public private partnerships, this division manages the social investments - CSR - of the associated companies.

Usually businesses complain of communities being overly demanding. On the other hand, communities complain of business highhandedness or being non responsive. In this conflict situation, some issues raised by vested interest groups - often camouflaged in the garb of community -

CSR during conflict

Armed conflict in Nepal has affected the business environment most. In the most of the businesses, crisis management has become a major task for the managers let alone value adding through social agenda. However, the companies which have had sound administration and control system have apparently suffered less than those without. Armed conflict was targeted to grab the political power rather than to destabilise a business community/society relationships. Though the risk of extortion was very high, rebels also needed support of a larger section of society including businesses. In such environment a functional specialised unit dealing with the people and bridging the 'company think' and 'community think' would probably have had a cushioning effect in the overall operations. Its role would be even more crucial in the post conflict environment, when all parties including the former rebels are struggling to manage their importance in the changed circumstances.

In a rush to appear revolutionary and pro-poor, former rebels often behave irrationally, raise issues rhetorically and more heatedly than others. However, poverty of their rhetoric is, quite often, their ignorance of facts and failure to understand what works and how it works (e.g. business environment). In addition to a high standard of ethical conduct and transparency in business operations, a focal unit to manage a company's social agenda has become even more important, as a tool, to harmonise the company-community relationships in the post conflict environment.

can escalate to a level beyond the company's ability to address the issue. The divide between the '*company think*' and the '*community think*' can be bridged by public relations efforts. Ignorance of the divide can be costly for which the company can be held equally responsible for not communicating with the stakeholders effectively.

While the delivery mechanism is a vital corporate organ to connect with the communities where it is operating, creating value for the stakeholders in a sustainable way depends largely on the approaches and tools adopted to do so. For any value addition cannot be solely a corporate agenda. Rather it should be a need based expectation of the community and within the legitimate mandate and capacity of a business to deliver.

How to Engage: Partnerships

Ineffectiveness of the single sector approach to development is attributed to its very nature that alienates other sectors from contributing to the complementary resources and expertise. As a supply led approach, ownership of the initiatives is often questionable at the receiving end. In addition, lack of a business angle results in unsustainable use of resources leading to failure of the projects with the withdrawal of the wherewithal sooner or later.

Alternatively, public private partnership (PPP) approach provides opportunity to achieving the entrepreneurial and developmental benefits in a win-win situation. Partnership being a demand driven approach, whose benefits are cross-cutting in nature, the sustainability of the initiatives is highly enhanced. As a result, PPP is gaining popularity in the development cooperation. However, PPP itself is not an end but is a means to an end. Moreover, PPP is a generic term for the approach, whose application is unique in different circumstances and depends largely on the need for partnering (e.g. service delivery, poverty alleviation or infrastructure development). Partnership tools applicable in one sector such as service delivery may not be fully replicable in other sector. In a nutshell, PPP is not a product but a tool to develop a development product, which can be as simple as a service contract to as complex as concessions or Build Own Operate Transfer (BOOT) contract.

Private public community partnership (PPCP), also known as multi-sector partnership, is the mechanisms wherein the stakeholders representing various sectors (e.g. private- company, community based organisations or associations and public institutions representing the government) join hands to accomplish a shared objective. The intrinsic benefit of multi- sector partnerships is technology transfer, among others, from the corporate to the community. Partnership provides the company an opportunity to transfer the skills of business management (e.g. planning, reporting, auditing, etc.) in community development. In PPCP also, the types of partnership can vary from simple performance based grant supports to creating an institution to deliver public services such as health care or linking farmers and farm producers with agro enterprises.

The type of partnership will also depend on the nature of a business, value system of the company and that of the community it is operating in. At a given circumstance in Nepal, an initiative in health care delivery may not be considered as a strategic fit by a company, whose operations are managed remotely by an American company, while a local Nepali management is likely to consider it as a strategic value creation initiative. The rationale is that the multi-sector partnerships are more about managing the people and the social capital than the deal.

In her article on the art of alliances, Harvard Business Review, July-August 1994, Rosabeth Moss Canter writes '*...North American companies, more than others in the world, take a narrow, opportunistic view of relationships, evaluating them strictly in financial terms or seeing them as barely tolerable alternatives to outright acquisition. Preoccupied with the economics of the deal, North American companies frequently neglect the political, cultural, organisational* *and human aspect of the partnership. Asian companies are the most comfortable with relationships, and therefore they are most adept at using and exploiting them. European companies fall somewhere in the middle.*[5]'

Selecting and Structuring a Partnership

Selection of a partnership initiative, especially when engaging with the communities in the interest of the company, should be based on the likelihood of the partnership benefiting a large section of society. Criterion for selection should be communicated well in the community and should be coherent to wider stakeholder management policy. Otherwise, the chances of political risks might be high.

Community demand and strategic fit vis-à-vis business development are not mutually exclusive neither absolute criterion to form a community partnership. Community partnerships even without any tangible benefit to company may be needed as a response to community demand. This is particularly true for the companies that are based on natural resources. In that case, it is but natural for the communities - usually deprived of basic daily needs - to expect more from the company benefiting from the resources that originally belonged to them.

Likewise, selection of an initiative should also be based on how that partnership will be managed. It is common for the communities desiring mere financial support and no role of the company in management of the initiative, however poor their managerial skills may be. In a PPCP, managing partnership in human terms is more important than selecting a partner in financial terms. Success of a partnership will depend on how it is structured, which will differ based on the nature of partnership.

Key issues in structuring the partnership are ownership, management and sustainability measures. For example, a service delivery partnership is best managed on the lines of the corporate practices of separating ownership from the management. Roles and responsibilities, technical competency, resources, reporting mechanism, tenure of partnership are some of the critical factors in structuring the partnership. While a company - as a resourceful partner - is expected to contribute most of the financial costs to the initiative, it is critical - for the sustainability of the initiative - that the company provides management backstopping as well. How a partnership initiative will be structured depends much on the skills applied in brokering that partnership.

Brokering Partnership

Partnership brokering is as much a science as it is an art. Given the extent of interest in multi-sectorial partnerships as a vehicle of sustainable development, the partnership brokering is emerging to be a profession in itself. Brokering a successful partnership depends as much on the champions and their incentives for engagement as on the needs, priorities, capacities of individuals and the value systems of both the company and the community it is operating in.

Brokering begins with the demand for establishing a partnership. The demand may be company led, in a bid to preempt the risks before they even surface or a proactive approach to stakeholder management, or community led. While a huge body of literature is available on partnership building processes, it is difficult to keep the activities of a process on a linear curve. For example, what comes first, a common vision and shared outcome of the partnership or strategic interest of the partners? There is no definitive answer to this question but it is logical to think that in a partnership, partners may want to define the shared objective but they are unlikely to have same vision for it. Likewise, without the strategic interest and incentives to engage in a partnership, the partnership may not be considered for exploration in the first place.

My experience of partnership brokering in different capacities, as a consultant to a project unrelated to the company of employment and as a representative of my company is almost similar. Apart from the methodology adopted, it is the dialogue that keeps a partnership alive. Dialogue helps people understand, build trust and manage the partnership in human terms. Likewise, transparency and keeping promises strengthen the bond. For successful brokering, it is important to build on the agreements while minimising but not ignoring the disagreements.■

ENDNOTES/ REFERENCES

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