

THE CORPORATE ETHICS MONITOR

VOLUME 13, ISSUE 3, JULY-AUGUST 2001

PUBLISHED BY ETHICSCAN CANADA LIMITED

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The Role of Civil Society in Business Strategy

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Civil society organizations (CSOs) – the term used increasingly to describes a variety of organizations including religious, labour, non-governmental and community-based – are playing an expanding role in supporting business to reach its business goals. Of course from the CSOs' perspective, business is playing an expanding role in supporting CSOs to reach their developmental objectives. Consider the following diverse examples:

- Corporations, environmental groups and municipal organizations have formed the Clean Air Renewable Energy Coalition to identify and support implementation of actions that will improve air quality and reduce green-house gases. The Coalition includes Friends of the Earth, Pollution Probe, Suncor Energy Inc and Shell Canada. The NGOs are bringing lobbying power, citizen-driven visions and significant technical expertise generated from that perspective. The companies bring their own corporate lobbying power, sites for testing the visions, and substantial technical and business expertise.
- In the late 1980's community groups in Pittsburgh, Pennsylvania become exasperated with the continual decline of their neighborhoods. They laid a large part of the blame at the door of banks for weak lending and services in the inner city. Grabbing an opportunity provided by legislation when banks merge, the community groups formed a coalition and negotiated a deal with merging banks that developed into a rich relationship for both. In that relationship, the community groups play an integrated role in developing and delivering products. A decade later, 60 percent of the retail Pittsburgh market were clients of the bank and the neighbourhoods saw new and revitalized housing and economic development.
- The Global Reporting Initiative (GRI) is a collaboration whose major participants are major multinational businesses, unions, and environmentalists and shareholder activists. It is establishing for global use a corporate reporting framework that describes the impact of businesses' activity in environmental, social and economic terms. The NGOs are bringing their research expertise and civil society networks. Multinational businesses are providing sites for the framework's development and application.
- In the Philippines there is a collaboration between a local farmers' advocacy organization (TACDRUP), the government agency responsible for rice production issues (PhilRice), and Dolefil, a subsidiary of Dole Food Company. Together they are producing rice of sufficient quality to sell to the choosy Japanese market. PhilRice procures quality rice seeds; TACDRUP facilitates farmers' credit access, and provides training, processing and packaging; Dolefil buys the seeds and the rice produced at a guaranteed floor price, and profits are shared between Dolefil and TACDRUP on an equal basis.

Co-Production Brings Added Value

From these illustrations and other examples, some distinct roles emerge for civil society organizations in mutual gain collaborations with businesses. These are summarized in Table 1 by strategic goal.

A core element in the emerging organizational world is the concepts of "co-creation" and "co-production." As one organizational theorist commented in 1983, we have created lots of specialized organizations. The major challenge for us in the twenty-first century is learning how they can work together more effectively. CSO-business collaborations can be seen as relationships that generate added value for business customers and society more broadly.

The basic reason for NGOs and businesses to work together is that they can produce outcomes collaboratively that neither can produce on their own. The simple dynamic of collaboration involves coordination of action, such as is a common goal in business alliances, mergers and acquisitions. The more important dynamic of collaboration is development of synergies to produce the innovations necessary to both generate added value to business products and address complex questions that have no easy answers, such as environmental degradation, elimination of poverty, and provision of basic necessities such as clean water.

Dialogue and Information Sharing Key

The synergies can produce remarkable innovations across functional business lines, as noted in Table 1. A common element in producing these innovations is uncovering implicit assumptions that are so ingrained in business models that business people cannot see them. Assumptions are identified through the views of CSOs that challenge traditional business approaches. An in-depth analysis of the banking case can explain how this happens and develops entirely new markets that are producing ROEs similar to other bank business units. Many people point to the Community Reinvestment Act (CRA), a U.S. statute, as the compelling force that led to improved relationships. However, the CRA does not have prescriptions or targets. Rather, it only demands two things: that banks provide information to community organizations and that banks have meaningful relationships with communities. Failure to achieve this can influence regulators' decisions about mergers, acquisitions, and branch openings and closings.

Dialogue and information are critical to revealing assumptions and developing successful innovations. One assumption of the banks was that the poor simply could not be a profitable market. This assumption was based upon a couple of other assumptions: that services should be provided on a one-to-one basis, that branch banking was the proper delivery structure, that the banks had the right products.

The assumption that services be provided on a one-to-one basis was revealed when neighborhood CSOs formed coalitions that included enough people that they represented substantial market areas. In effect, NGOs aggregated poor people, allowing banks to develop profitable strategies that were impossible with poor individuals and small neighborhood groups.

The assumption around delivery structure was revealed as CSOs became involved in both product education and support

TABLE 1: NGO FUNCTIONS IN BUSINESS STRATEGIES: INTERMEDIARIES AND TRANSFORMERS

Strategic Goal (Functional responsibility)	NGO Function
Risk management and reduction (Management)	- providing stakeholder views as early warning of possible problems - integrating business and community goals - creating and enforcing popularly supported standards, codes, principles, or guidelines
Cost reduction and productivity gains (Management)	- negotiating community benefits and role - supporting transparent processes - educating publics - leveraging non-tax status - accessing altruistic energy
New product development (R&D, manufacturing)	- providing knowledge about communities - providing community land resources - lobbying for regulatory change - providing knowledge about technical issues - providing linkages to non-commercial creativity
New market development (Marketing & distribution)	- aggregating small and poor markets to profitable size - extending a trustworthy public image - creating demand through new business development - providing delivery support - educating communities about new approaches
Human resource development (Human Resources)	- teaching and training about specific communities - providing inspirational outlets for employees and boosting morale - monitoring standards
Production chain organizing (Management)	- organizing all the chain players for total quality improvement strategies
Building barriers to entry (Strategy and planning)	- building a distinctive image - linking a distinctive market
Creativity and change (Marketing, R&D)	- providing alternative viewpoints to reveal unrecognized assumptions and develop new integrative strategies

for people in risk of default. These things CSOs can do more effectively and on a much lower cost basis than banks because CSOs understand communities better, have much greater trust with them and because of the low-cost nonprofit structure and volunteer energy that CSOs can mobilize. For CSOs to play this role effectively, however, requires “education” rather than “marketing,” and collective peer-based support structures for building commitment to, and capacity for, repayment – in contrast to the traditional “disciplinary” approach of banks.

A third innovation evolved in response to the banks’ assumption that they had the right products and product development processes. In fact, the banks’ products were designed for middle- and upper-income audiences. Product development for poor people is complicated since generally they are not good participants in traditional marketing processes such as focus groups and telephone surveys. For one thing, poverty is highly correlated with weak language skills. Often CSOs become particularly skilled at articulating the interests of the poor, and doing so in a way that makes sense for business people. CSOs increasingly have on-going roles in product development processes, since they understand the short-falls of products from a community point of view.

Sources of Innovation

These innovations arise out of distinct core competencies that are embedded in business in contrast to those embedded in civil society. For example, the trust that a CSO can build with communities is much greater than that of a corporation. That is because CSOs’ and communities’ goals often overlap very substantially – many CSOs often describe their goals as empowerment of specific communities, for example. In contrast, businesses’ goals will always be seen by communities with suspicion, due to businesses’ accountability to its shareholders and financial objectives. A number of other critical distinctive competencies are:

- CSOs are skilled at mobilizing volunteer energy around inspirational goals, whereas business is particularly competent at creating financial reward systems to get desired results.
- CSOs are particularly good at creating citizen-based networks for communities’ common good, whereas businesses are good at creating production networks that generate profitable outcomes.
- CSOs can work well with poor communities, whereas business on its own works best with middle- and upper-income communities.

All this points to the importance of CSOs and businesses remaining firmly grounded in their own competencies. If one becomes like the other, the very rationale for the collaboration disappears.

Ingredients for Success

One key challenge for collaborators is to recognize the specialized understanding, structures and skills required. *Too often people simply start by putting everyone in the same room...which very often simply generates conflict. People’s and organizations’ capacity to collaborate must be built.* This includes understanding distinct goals and differences, how people use words differently, building common vision, defining outcomes that each party values and creating both mutual commitment to achieve the goals collaboratively and a management process to support their development.

Collaborations involving larger geographic reach have some particular challenges. One facing the Global Reporting Initiative, for example, is making a framework that speaks both to global and local aspirations.

Sometimes collaborations result in fundamental redefinition of a corporation’s business. For example, in the Philippine case, Dole had to move from being a grower to focus upon marketing and delivery network aspects. In a road-building case in Madagascar, the private contractors had to shift from being road builders to building the capacity of communities to maintain their roads. In South Africa, companies had to shift from defining their business as constructing water infrastructure to developing sustainable water systems that include CSOs building the commitment of communities to pay for the water and to maintain the systems.

Another aspect of successful CSO-business collaborations is that they tend to focus upon what they can actually do together, do it and refine the actions based upon real experience – rather than work on the theoretical level that so often engulfs public

policy debates. This is the core of the Partnership for Climate Action that the NGO Environment Defense has formed with a number of corporations. On the other hand, broad representation from both CSOs and businesses that develop a proposal for public policy represents a formidable combination that is very persuasive with governments, as the Clean Air Renewable Energy Coalition aims to be.

Although the relationships between CSOs and businesses can generate the key innovations, government also usually has a critical role by establishing the appropriate “enabling environment.” In the Clean Air example, providing appropriate tax and public policy structures are important both to achieve clean air objectives and for the group to function successfully. In the banking case, there are important government programs such as in housing and small business development that help support Innovative CSO-Business Interaction. The United Nations Environmental Program (UNEP) is involved in GRI both as a funder and as a disseminator and legitimizer of GRI’s activity. In the Philippines example, government land reform policies, agriculture programs and education support are important.

Summary

The work of business-CSO often amounts to large systems and societal change. The collaborations often are a key place where the social contract is negotiated, with the parties collectively defining a better future and their roles in bringing it about. This work is central to addressing the key environmental, social and economic questions of our day.

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