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Private, but Public: **How companies manage their** **quasi-governmental roles &** **responsibilities**

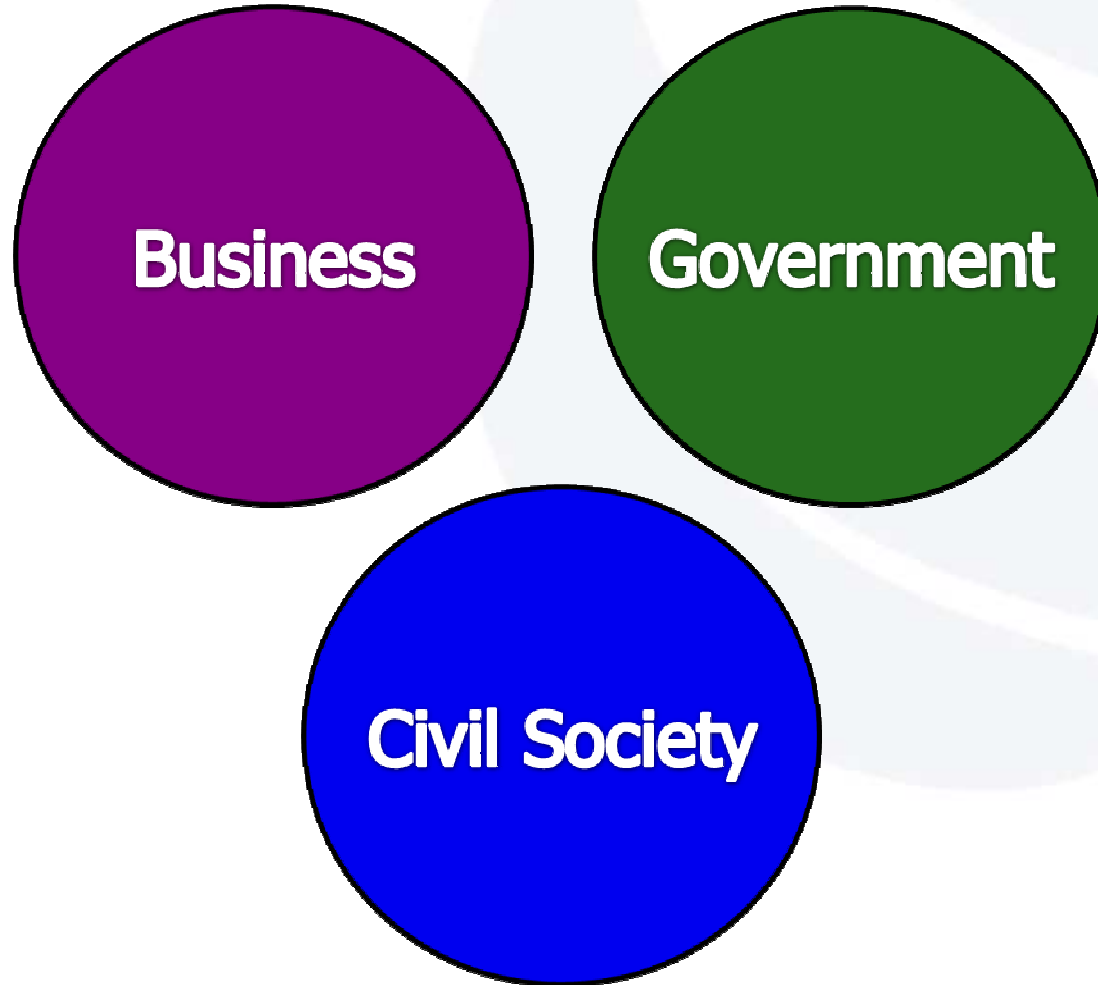
Andrew Crane
Schulich School of Business
York University, Canada

Politeia CSR Forum, Milan, May 2011



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Big picture: blurring boundaries

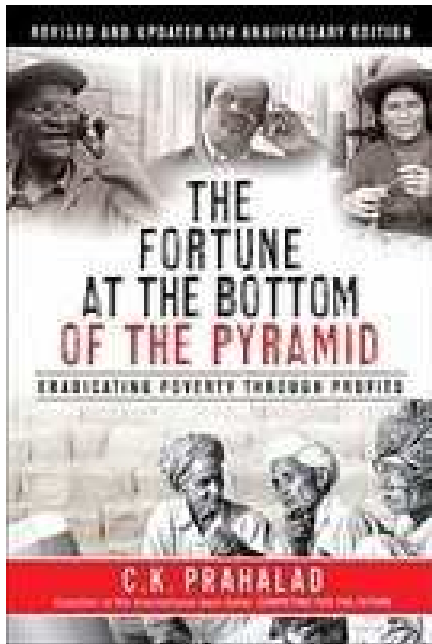




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On the one hand...

Google™
谷歌



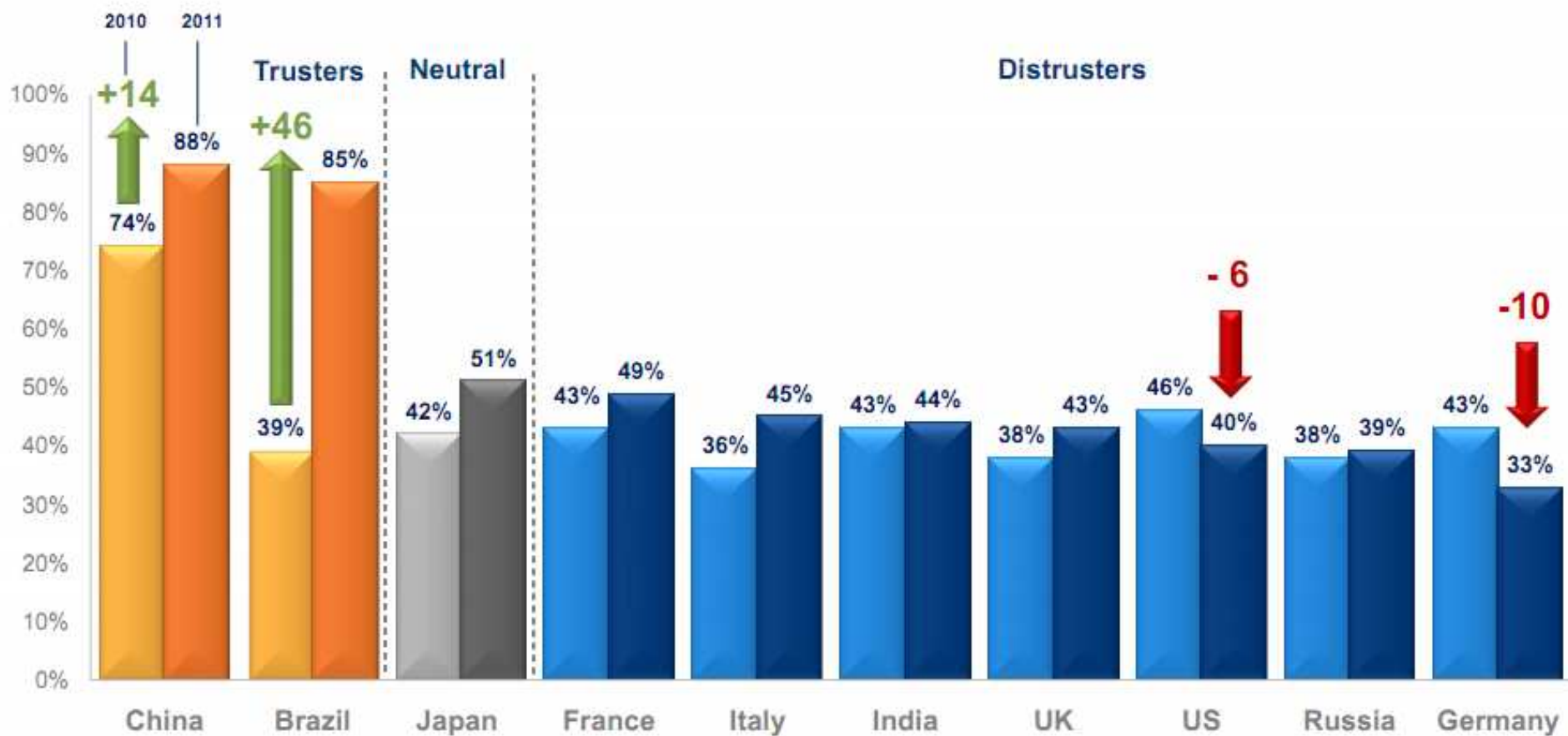
Speak2tweet



“In countries like India that lack basic government provisions, building schools and hospitals is something you simply *have* to do.”

Lack of public trust in government

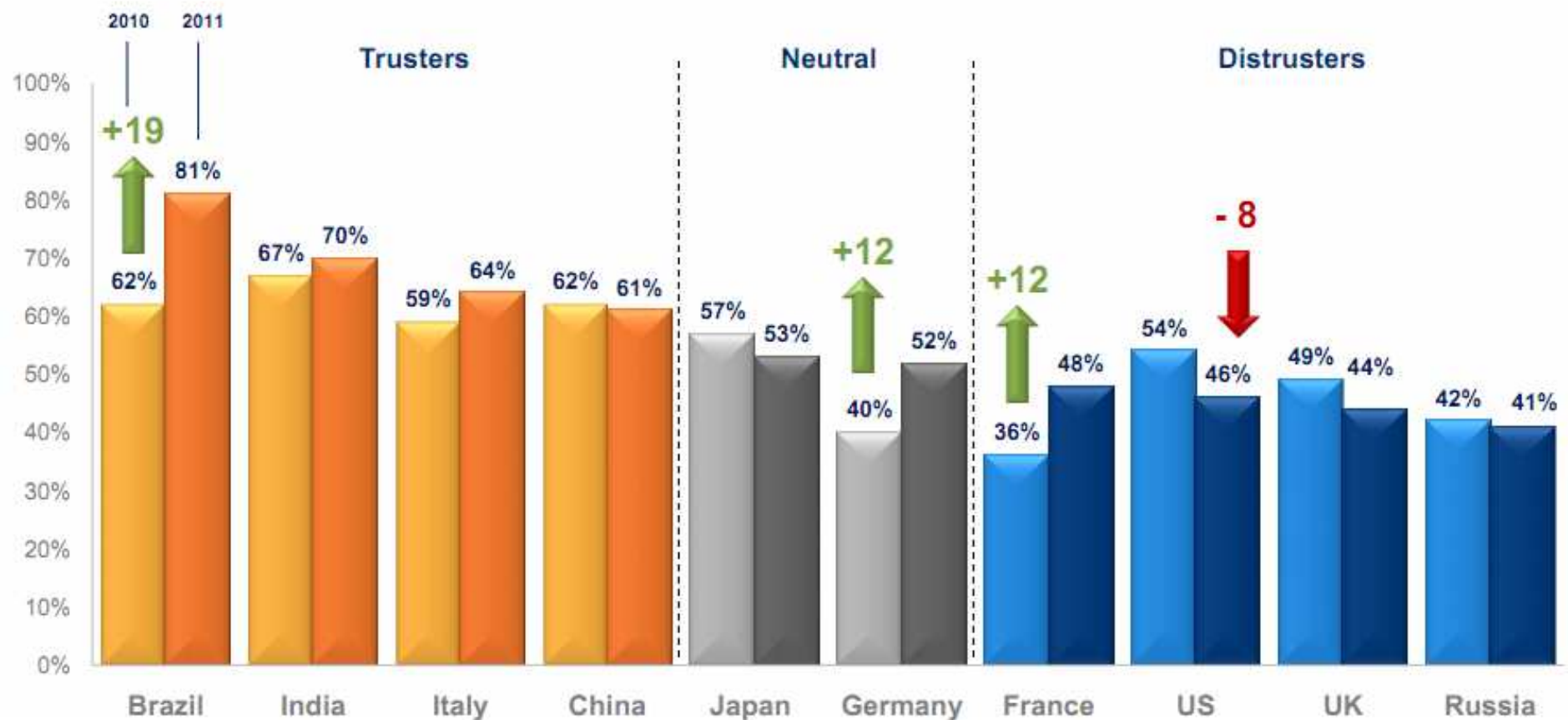
How much do you trust government to do what is right?



Source: Edelman 2011 Trust Barometer

Emerging economies enjoy relatively high trust in business

How much do you trust business to do what is right?



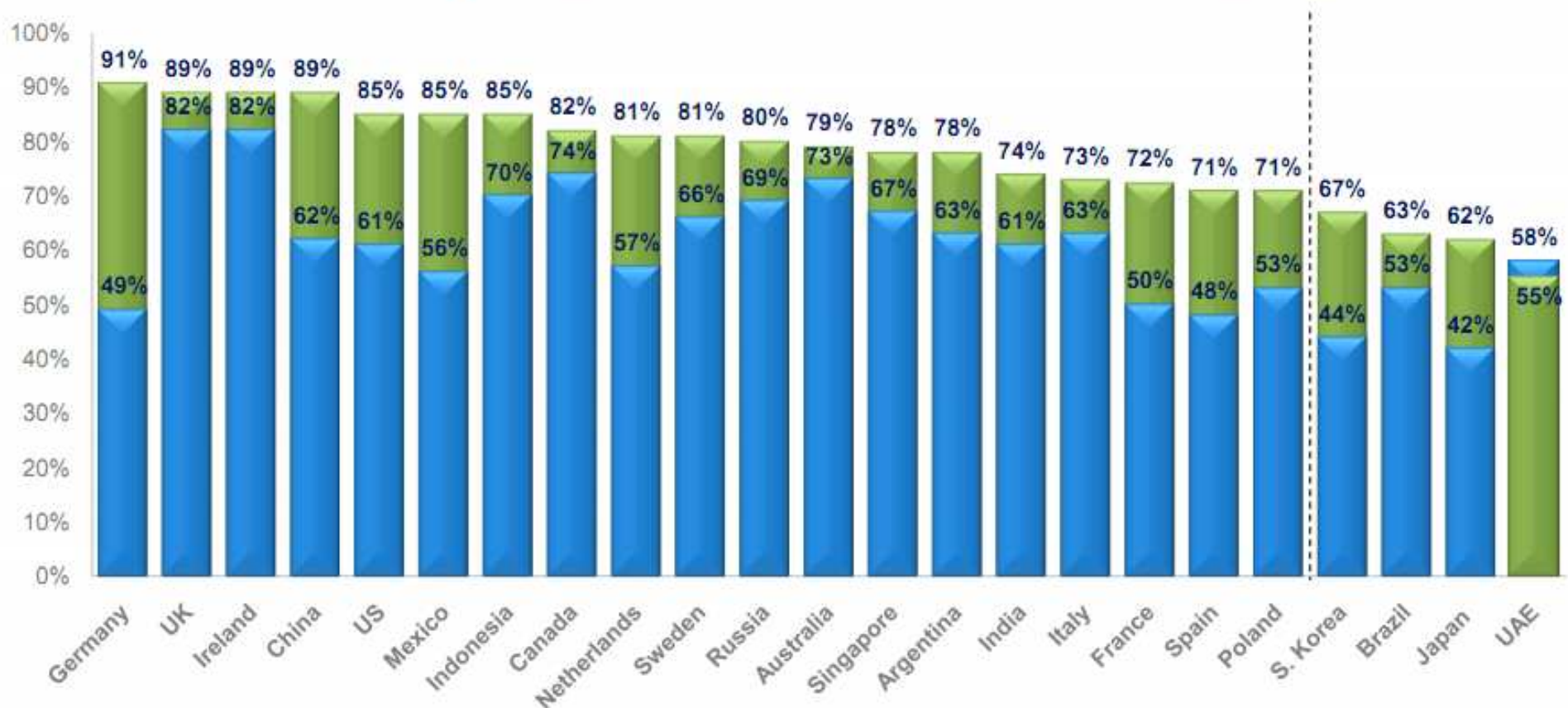
Source: Edelman 2011 Trust Barometer



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Business needs to align with societal interests

- Corporations should create shareholder value in a way that aligns with society's interests, even if that means sacrificing shareholder value
- Government should regulate corporations' activities to ensure business behaves responsibly



Source: Edelman 2011 Trust Barometer

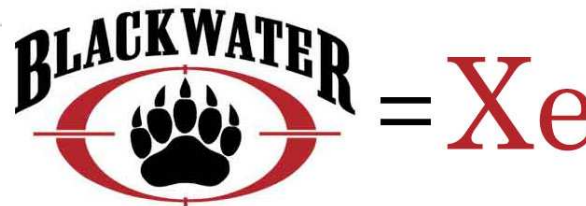
McKinsey's annual 'Business & Society' survey

- The majority of executives say that returns to investors should be balanced with contributions to public good
 - 55% of these say the main reason is because 'it's the right thing to do'
 - Only 29% say that the main reason is 'to gain competitive advantage'
- Only 52% of executives actually believe that corporations make a 'mostly' or 'somewhat positive' contribution to public good.



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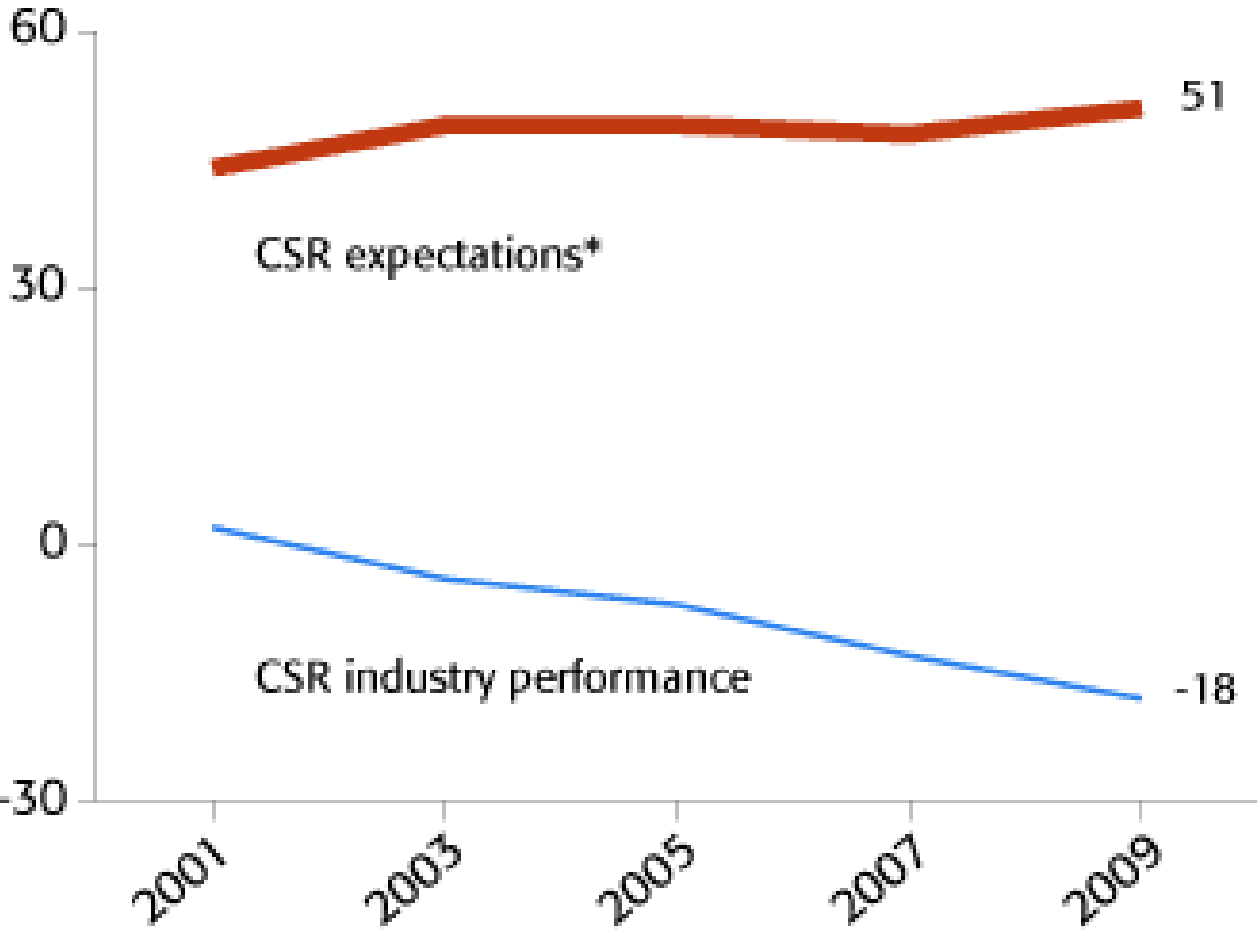
So on the other hand...



The idea that companies have a responsibility to act in the public interest and will profit from doing so is fundamentally flawed.

Expectations on CSR vs Industry CSR Performance

Average of 8 Countries, 2001–2009



Source: Globescan CSR Monitor

*Aggregate net expectations of 10 responsibilities of large companies

**Aggregate net CSR performance ratings of 10 industries



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Where we stand

- Facing deficit in social provision and protection in many countries, especially developing/emerging economies
- Trend towards private involvement in achieving public goals is unmistakable
- Private enterprise can make a major contribution in the face of incapacity or ineffectiveness of other sectors
- ... but effective positioning vis-à-vis 'public' responsibilities is challenging and even well-intentioned strategies can easily backfire

Public responsibility strategies

“Strategies that firms develop to address public problems in the absence of effective governmental infrastructure or processes”

- Includes some activities typically regarded as **CSR or philanthropy**, but only those concerned with providing basic entitlements to citizens
- Also includes **non-CSR activities**, e.g. utility companies delivering “public” services

Some recent research on developing countries

- Conducted with Mike Valente at Ivey Business School.
- Two-stage case study method based on depth interviews in agriculture, manufacturing and services
- Stage 1: 16 companies, 150 interviews with senior and middle managers + relevant public actors in 4 African countries
- Stage 2: 14 companies across Africa, Latin America and Asia, secondary data

Published as Mike Valente and Andrew Crane, “Public responsibility and private enterprise in developing countries”, *California Management Review*, 2010, Spring:

Sector	Africa	Latin America	Asia	Total by sector	Subsectors Included
Agriculture	5	1	1	7	Tea, Honey Cotton, Vegetables Fruit, Sugarcane
Manufacturing	7	2	2	11	Cement, Oil & Gas, Gold, Aluminum, Pulp & Paper, Forestry, Chemicals, Steel
Services	6	2	4	12	Financial, Health Energy, Waste Tourism, Telecoms
Total by region	18	5	7	30	

Public responsibility strategies

**Provision of
public goods and
services**

**Infrastructure for
achieving public
goals**

**Non-core
operations**

Supplement

Support

**Core
operations**

Substitute

Stimulate



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Supplement strategies

- **Contribution of resources** to supplement government & civil society efforts, e.g. through corporate foundations
- Deployment of **business acumen** to solve social problems and enhance **competitive context** – ‘philanthrocapitalism’
- **Employee volunteering** to enhance commitment and ‘put something back’

“We must act on social issues because of three reasons: first, because it is the right thing to do; second, because the issues are too complex for any one agency to handle; and third, because eventually these issues will directly affect business.” Azim Premji, 25/2/2011





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Supplement strategy: Magadi Soda Company



Africa's largest soda ash manufacturer



MAGADI SODA
Touching lives everywhere, every day

Supplement strategy: challenges

Key challenges:

- ❖ Addressing democracy & accountability
- ❖ Averting public dependency
- ❖ Avoiding f... sustained o...

Strategies to overcome challenges:

- ❖ Shared ownership of projects
- ❖ Tap into existing institutional/social structures



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Support strategy: Siberian-Urals Aluminum (now RUSAL)



Local self-governing bodies

Public council

Independent
NGO

Community
foundation



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Support strategy: challenges

Key challenges:

- ❖ Overcoming mistrust/superficial relationships
- ❖ Pressure for short-term contributions

Strategies to overcome challenges:

- ❖ Reciprocal understanding and collaboration
- ❖ Shift towards impact metrics

“We see better public relations benefits in philanthropy. Giving him the fish carries more clout for customers in the West than teaching him how to fish.” **Senior Executive, Global Forestry Products**

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Substitute strategy: &beyond



“We started to get signals from customers that community projects were something they wanted to see in their ecotourism experience. The traveler wants to know where they’re going and what’s being done for the surrounding communities. It really confirmed that this stuff is not philanthropic but really a strategic benefit” **Senior Manager, &Beyond**

Key challenges:

- ❖ Accommodating a public service agenda within core revenue generating business
- ❖ Legitimizing privatized governance

Strategies to overcome challenges:

- ❖ Sanity check through inclusion of other actors and/or outsourcing of non-critical elements
- ❖ One piece of the puzzle of actors

Public responsibility strategies

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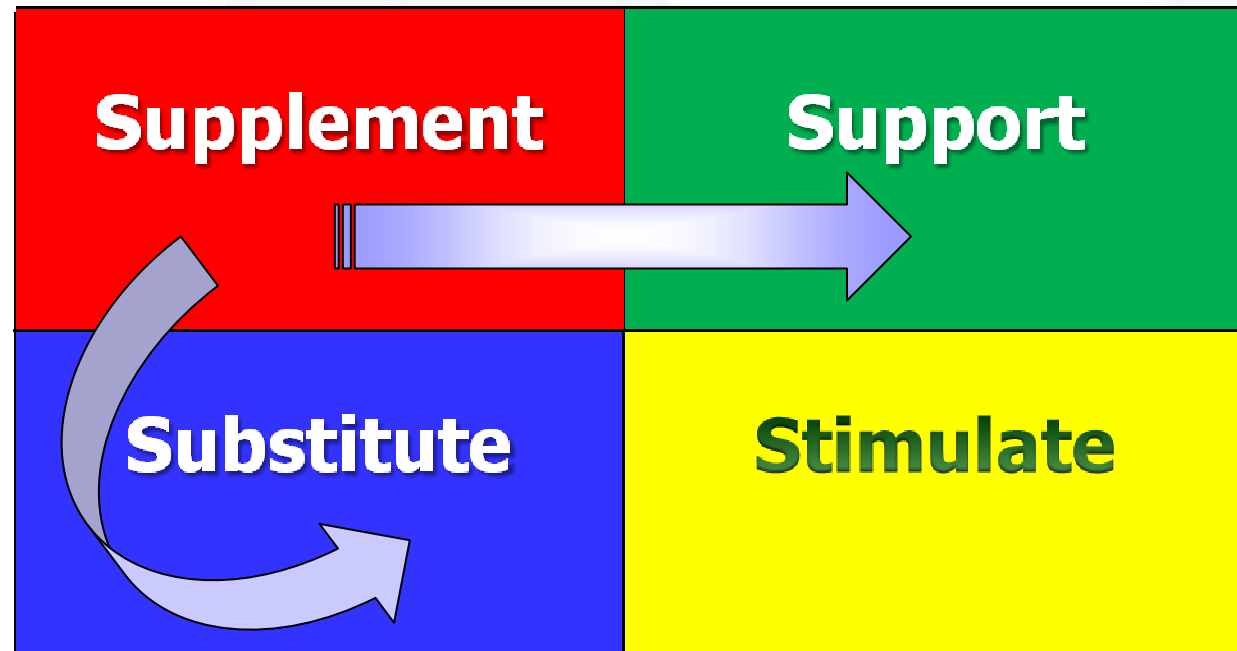
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Conclusion

- Pressure towards quasi-governmental roles is real and the challenges in undertaking them are substantial
- Firms, governments and civil society are waking up to the 'new normal' but important lessons still need to be learnt
- Current public responsibility strategies are largely unarticulated and emergent – even on the leading edge
- Major lack of attention to skill and competence development among senior managers – inadequate preparation for “CEO as diplomat”



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For
more...

The screenshot shows a web browser displaying the Crane and Matten blog. The page title is "Crane and Matten blog" with the subtitle "An informed and thought-provoking analysis of what lies behind the headlines and headaches of business ethics and corporate social responsibility". The main post is dated Tuesday, January 11, 2011, and is titled "Can the Canadian oil sands really be an 'ethical' source of energy?". The post features a photograph of a large industrial structure with a banner that reads "SEPARATE OIL AND STATE". The text of the post discusses the ethical implications of oil sands in Canada, comparing them to other countries and addressing concerns about environmental damage and the use of proceeds. The right sidebar includes a welcome message, author information for Andrew Crane and Dirk Matten, a "Pageviews Last Month" counter showing 3,557, and a "Recent Posts" section with links to other articles.

<http://craneandmatten.blogspot.com>