

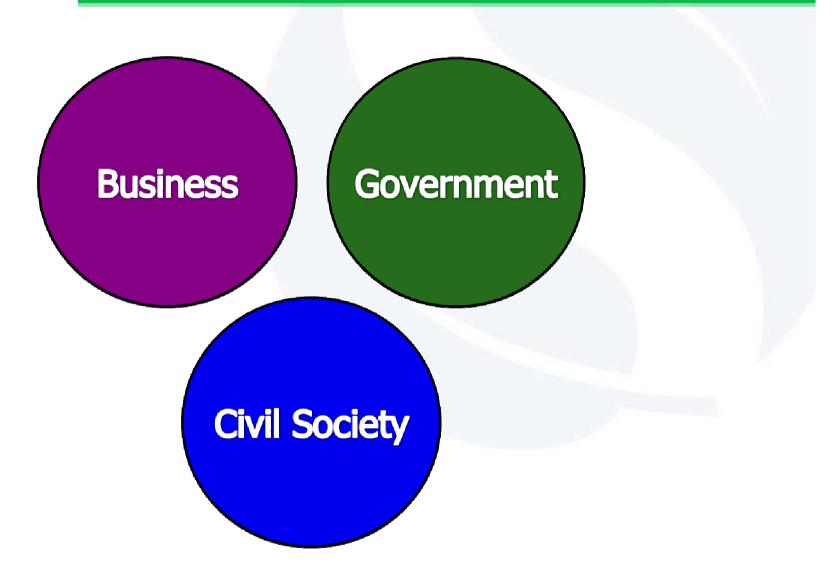
Private, but Public: How companies manage their quasi-governmental roles & responsibilities

Andrew Crane Schulich School of Business York University, Canada

Politeia CSR Forum, Milan, May 2011



## **Big picture: blurring boundaries**



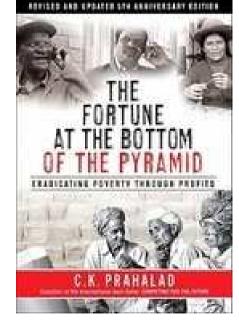


#### On the one hand...





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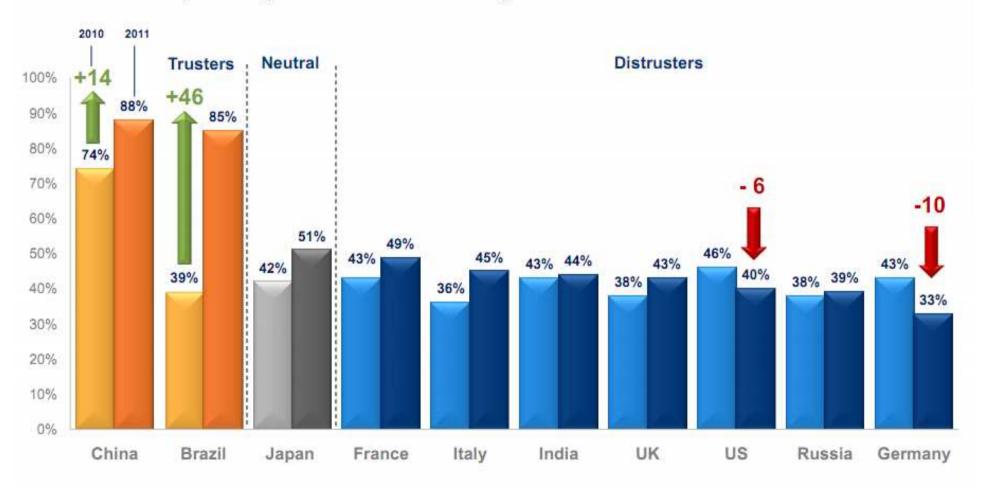


"In countries like India that lack basic government provisions, building schools and hospitals is something you simply *have* to do."



# Lack of public trust in government

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

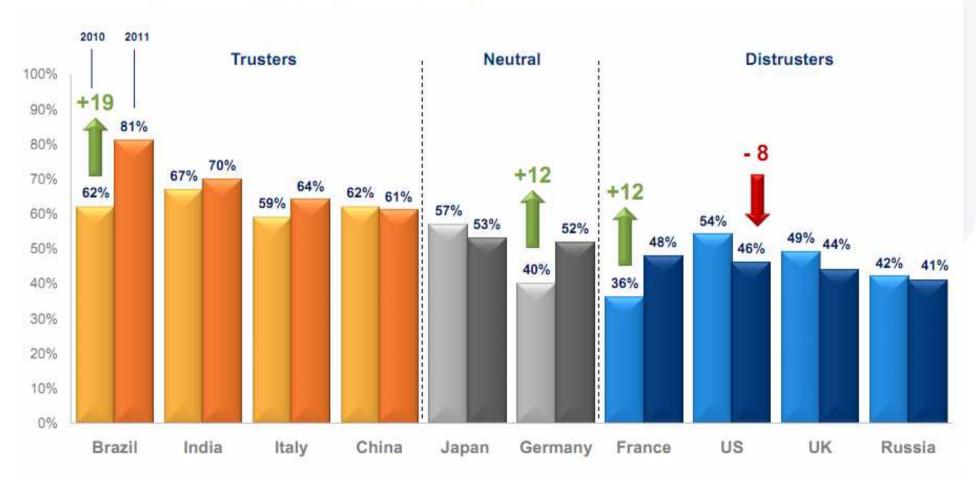


#### Source: Edelman 2011 Trust Barometer



### Emerging economies enjoy relatively high trust in business

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



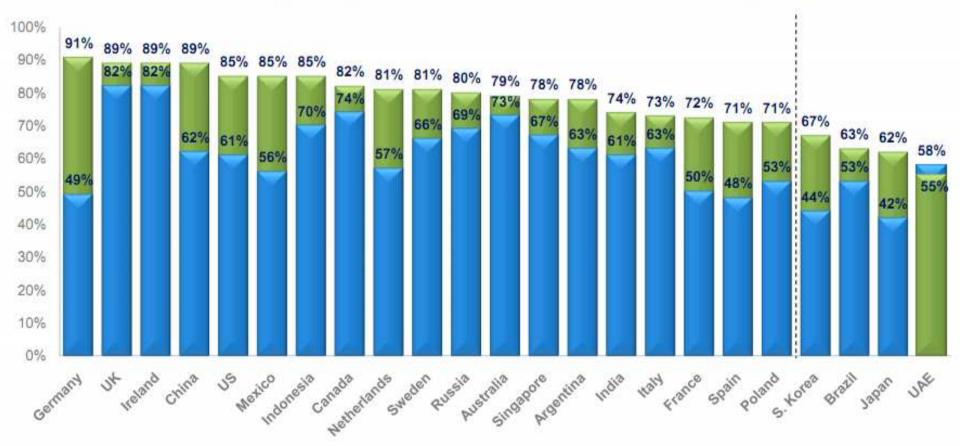
Source: Edelman 2011 Trust Barometer



# 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.



#### So on the other hand...

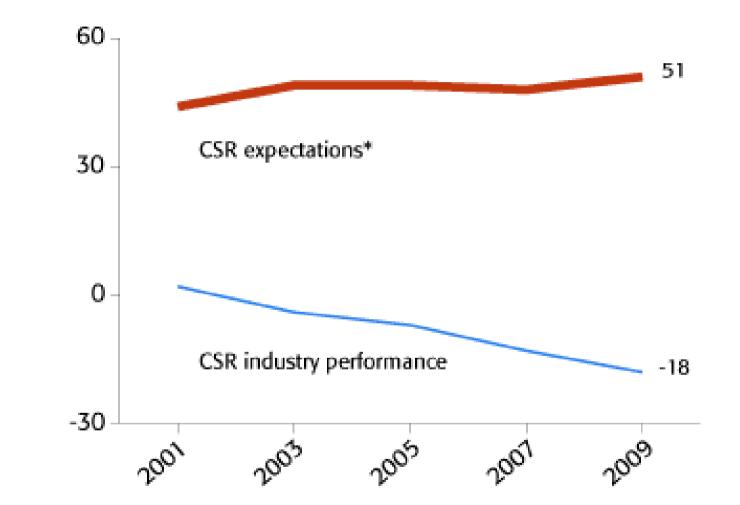
School of Business



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



\*Aggregate net expectations of 10 responsibilities of large companies \*\*Aggregate net CSR performance ratings of 10 industries



#### 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



"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 <u>agriculture, manufacturing and services</u>
- 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	Asia	Total by	Subsectors
		America		sector	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	



	Provision of public goods and services	Infrastructure for achieving public goals
Non-core operations	Supplement	Support
Core operations	Substitute	Stimulate



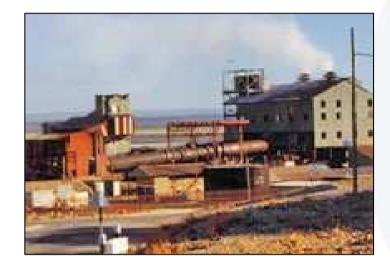
### **Supplement strategies**

- 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



#### Supplement strategy: Magadi Soda Company









#### Supplement strategy: challenges

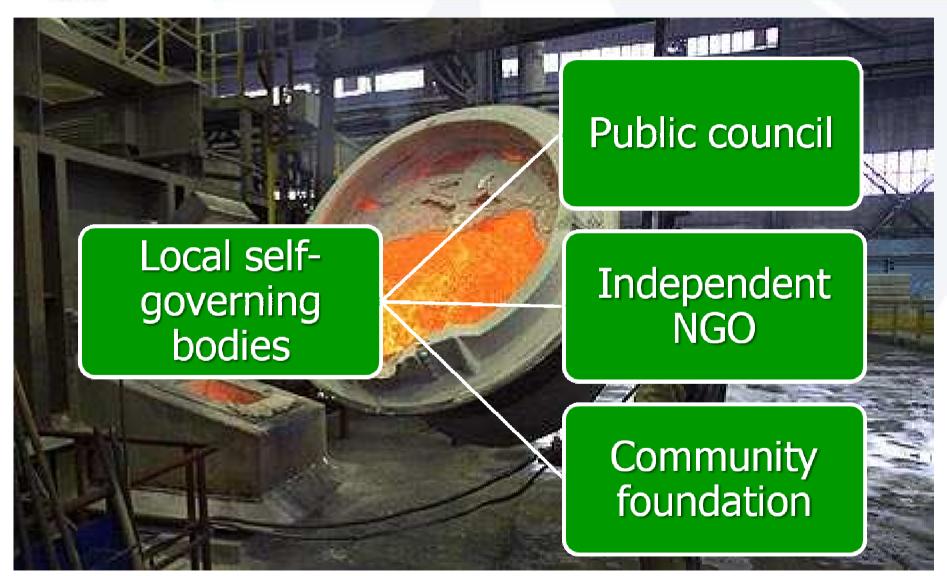
Key challenges:
Addressing democracy
accountability
Averting publicity
Averting publicity
Avoiding sustained comparison



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#### Support strategy: Siberian-Urals Aluminum (now RUSAL)







#### Support strategy: challenges

"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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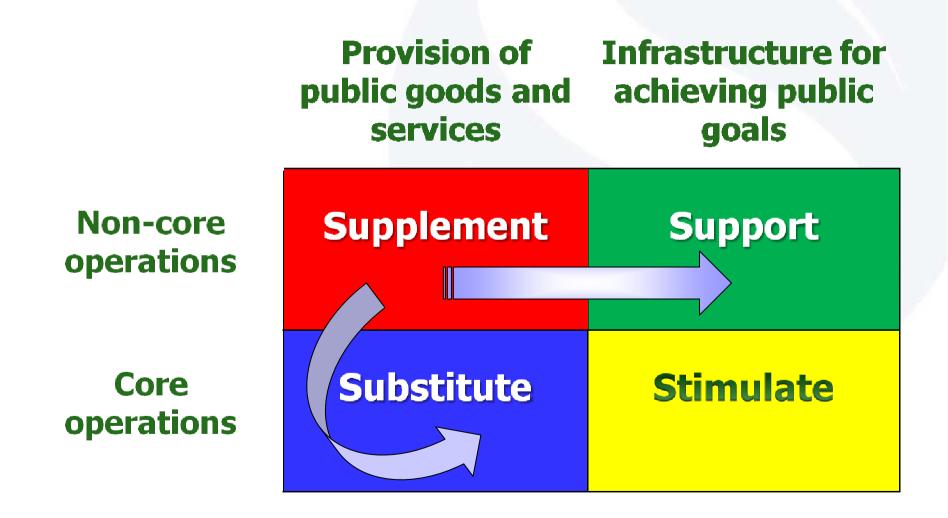
#### Substitute strategy: &beyond



"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







## 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"

Schulich School of Business York University

## For more...





An informed and thought-provoking analysis of what lies behind the headlines and headaches of

Crane and Matten blog

business ethics and corporate social responsibility

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The new year has not off to a hano in Canada with the new Emirnement Minister Peter Kent coming out of his comer fighting. According to Kent, the Albertan oil sands are not ental catastrophe we all thought they were. In fact, as he says, the oil the ensine cands are "an othical source of energy". Yes, that's right. Alberta is the new home of othical oil. Oh boy that's going to need some explaining.

low, before you slam your head into the computer screen in disbelief, lef's take a closer look at this claim and put it in a little bit of context. Kent's basic point is that because the nil sands are in Canada, they are reneedy and democratically versilated they do not fall foul of comption and abuses common in oil rich countries - and the proceeds don't go into funding terrorism. Compare that to the other states in the top 10 countries by proven of reserves and you can see that he might have a point. Saudi Arabia, Iran, Iran, Kuwait, Venezuela, UAE, Russia, Libya, and filigena - hardly a list of ethical hotopots it has to be said. As Kent outs it, "IO# sands off is a regulated product in an energy superpower democracy. The profits from this oil are not used in undemocratic or unethical ways. The proceeds are used to better society in the great Cariadian democracy."

OK, so let's not get into a debate about just how "great" the Canadian democracy is. After all this is a country that, under the current Government, has regularly taken to shutting down Parliament when things get a bit dicey. But against the rest of the countries with tig oil reserves. It still comes up looking pretty good by comparison. This s important for potential buyers of oil sands oil, especially the US which is concerned. with global energy security, and is looking to wean itself off its dependence on oil imports from countries that it would rather not have to go to war with again. In fact Kent's sthical makeover of the oil sands in all part of the major charm offensive that the Canadian government is pursuing to belater its reputation in the US and elsewhere where climate concerns have started making Canadian oil distinctly unpopular in recent Veare

In this context Kent is right to promote some of the vitures of the oil sands. All energy sources have their positives and negatives - yet the oil sands has become chiefly known only for its social and environmental downside. So a bit of rebalancing of the ethical eduation is not inappropriate. But claiming any sociole of non-remewable energy "ethical" and especially one that is traught with such problems as oil sands oil, is not too helpful in advancing the debate in a meaningful way. Such claims may get media attention but they also infurate critics and simply save to entrench existing ntagonisms. Climate activists are likely to target the oil sands even harder now that the Canadian government is drawing out the battle lines in this way. Greenpeace Canada for example had already started compaigning on a Separate of from state platform including an anonymous leak site for inside tip-offs about government efforts to promote the oil sands. This is all part of a concerted NGO response to what the Climate Action Network regards as. "Referal afficials ... systematically trying to kill clean energy and climate change policies in other countries in order to promote the interests of oil companies

Far better it would have been then for Kent to acknowledge the shortcomings of the oil sands along with proclaiming their virtues. Any keshman ethics student knows that a utilitation cred-benefit analysis of the athics of different energy sparses has to take into account more than just one factor. Country of origin is just one of a whole range of relevant issues. There is no way that the tar sands can be regarded as an ethical source of oil based on one factor alone. But country of origin "benefits" can be traded off with climate change "costs" if you subscribe to a utilitarian mode of thinking. He

ecome to the Grane and Matten blog - for nformed commentary and expert analysis on the everthanning world of corporate soonsihillh

We are two business school professors from the Schulich School of Business in Toronto, Canada, best known for our books and research articles on business ethics and corporate citizenship. We've been writing the Crane and Matten blog since 2008, offering unique insight on a range of asses from across the globe

Andrew Crane is currently the George R. Gardner Professor of Business Ethics.

Dirk Matten is currently the Hewlett Packard Chair in Comorate Social Responsibility

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