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REDEFINING CORPORATE SOCIAL RISK MITIGATION STRATEGIES

This note looks at how companies engage with stakeholders in areas with high social or political tensions. It argues that most social risk-mitigation strategies often exacerbate tensions and risks to the companies. The note offers a checklist of risk indicators and a set of questions companies can use to gauge the state of relations with communities and other stakeholders. The real risk to corporations is not whether they take measures to benefit local communities, but the types of relations they build—not so much what they do, but rather how they do it.

Unintentional Risk-enhancing Practices

Visits to corporate operations in areas such as Indonesia, Nigeria, Nepal and Myanmar and contacts with over 60 companies operating in difficult environments reveal strikingly similar patterns in the challenges these companies face.[1]

Most companies that work in areas of social or political tension aim to establish constructive relations with communities surrounding their operations. They engage in community relations efforts, employ staff from surrounding communities, fund community projects, and provide contracts to local operators—in some cases community relations budgets can be substantial. These efforts aim to mitigate the risks posed by communities that may negatively affect corporate activities such as sabotage, road blocks, kidnappings, or work stoppages. However, most companies design their social risk-mitigation strategies in a manner that may actually increase the risk to their operations. Some company policies and practices leave communities with few choices other than to behave in obstructive ways in order to access company benefits:

- The more "difficult" a community, the more community projects it generally receives;
- Companies generally respond immediately to threats, sabotage, and blockages; but not to letters and verbal complaints. Peaceful behavior is not rewarded, violent behavior is. When companies only respond to negative triggers, they can be sure these triggers will occur;
- A non-inclusive approach to benefit distribution (e.g., only to the nearest communities) means that groups and individuals have to compete to access benefits such as jobs, contracts and community projects. This competition creates conflict where it did not exist before; and
- When companies do not engage with communities on a long-term basis, communities pressure companies to obtain short-term gains.

In these ways, company policies inadvertently create conflicts among individuals and groups or with the company, over access to corporate benefits, rather than the company using its resources to build relations based on shared interests. Such strategies lead to fragmentation of society.

Patterns among Companies

Companies need to develop positive relations with three, often challenging, stakeholder groups: communities, outside critics (such as NGOs), and host governments. Across different contexts and companies, we have observed the following patterns in company actions that undermine positive relations.

Risk-mitigation approaches that undermine positive stakeholder relationships. When a corporation approaches its stakeholder relations solely as a risk mitigation strategy, it minimizes its contact with the risk—namely, the community (government or NGO). This approach causes the company to respond or react only when there is a "need," which is typically a crisis, thus increasing the risk that crises will occur. In addition, companies generally minimize information sharing with the source of the risk on the assumption that information will be used against the company. Evidence shows that: (i) lack of contact means there is no basis for anticipating or solving problems; (ii) a crisis-response mode conveys a short-term approach, reinforcing a community's sense that it must push for immediate benefits rather than engage in long-range planning and cooperation; (iii) limiting information-sharing leads to rumors, disinformation, and information manipulation; and (iv) when the company defines success purely in terms of "avoiding the negative," it misses opportunities to have positive social impacts.

The assumption that difficulties with communities or conflict derives only from external factors. Company staff are often quick to point out the inability or unwillingness of host governments to provide employment and services, and feel that there is little the company can do to have a positive influence in such environments. However, numerous day-to-day company policies and practices, and its corporate culture, can directly

[1] This note was prepared by Luc Zandvliet based on 12 field visits during 2 ½ years through the Corporate Engagement Project.

exacerbate, feed into, or create conflict in communities. Ignoring these daily impacts undermines or offsets any positive impacts of well-designed community projects.

Little alignment between responsibility and accountability. Unlike the case with technical problems, when it comes to stakeholder issues and community relations those responsible for unexpected outcomes are not held accountable. Unforeseen events are considered a crisis that can only be solved by a "specialized" department. By treating these as unexpected events that must be dealt by specialists, rather than relating to corporate culture, the company remains in a reactive mode and unlikely to learn from its mistakes.

Failure to acknowledge non-tangible impacts. Non-tangibles, such as trust, respect, neighborliness and caring, are seen by many company staff as murky, soft and un-measurable, and thus often treated as unimportant. Communities, on the other hand, define such notions in concrete terms. They speak about the value of transparency, being kept informed about corporate decisions that affect their lives, effective follow up on promises made, addressing problems without the use of security forces, and ensuring maximum benefits for local people. These are the expressions of how people *feel* as a result of a corporation's presence in their area. Recognizing the importance of non-tangibles can help a company understand why communities who have received many material benefits may still hold grievances against the company. The key to how a company operates is not only *what* it does but also *how* it operates.

Company-driven community-relations programs. Companies often base their engagement with communities on three assumptions: (i) doing something is better than doing nothing; (ii) more will produce better results; and (iii) communities want tangible "things". However, there is no evidence that good relations with communities are directly correlated to the amount of money spent on community-relations programs. On the contrary, there is evidence that too much spending can result in adverse effects. Costly community projects aimed at creating a positive community perception of the company will fail if community leaders, local people and government officials do not feel involved in the design of the programs. When they perceive company staff as arrogantly deciding what is best for communities, community ownership of activities is limited and does not yield the outcomes the company had hoped.

Advocacy NGOs seen as a nuisance or threat rather than as a resource to guide company actions. Companies are increasingly challenged by NGOs to live up to more demanding corporate citizenship standards. Many find it difficult to find the right tone and processes to engage constructively with these NGOs.

Ambivalence about engagement with local governments. Companies often face the consequences of being associated with a non-representative government (e.g., through reliance on state security forces). They are also pressured by communities to provide services that the government is unwilling or unable to provide. In trying to strike a balance between being "too close to" or "too remote from" government, companies feel caught between accusations of political interference and micromanagement. The challenge for companies is finding a constructive balance to engage positively with governments without either substituting for them or overstepping the bounds of inappropriate political involvement in host countries.

Indicators of Failure

A first step in addressing the challenges described above is to verify their relevance in any given context for any specific company. To do this, one needs to have signals that something is going wrong. Below, we outline some "indicators of failure" that we have consistently seen to reflect circumstances where company-stakeholder relations are negative. We have distinguished early from late indicators to highlight the relative intractability of the negative engagement or the existence of opportunities to transform negative into positive. Many companies will recognize these failure indicators, but they can also help to point toward indicators for success.

Listing these indicators explicitly can be helpful to World Bank staff (and to corporate managers) in diagnosing the extent to which the company is heading toward negative, or positive, stakeholder engagement. A combination of questions about staff perceptions, analyzing some existing management tools, and a visual observation of a corporate compound also provide significant insights on the degree to which a company is engaging positively or negatively with stakeholders.

Questions About Corporate Perceptions

Examples of questions about corporate perceptions and assumptions that provide insights on the quality of stakeholder engagement include:

1. Does the company speak about communities/advocacy NGOs/the government in terms of "risks" and obstacles or as potential partners? In Myanmar, companies that considered each discussion with the government an opportunity to make the business case for respecting human rights and democracy where able to provide human rights training to government officials. Companies that considered this kind of interaction to be political interference were less successful in convincing outside groups they have a positive influence on the environments in which they work.
2. Does the company see the links between its presence and events in the local context? Does it recognize its interactions with local problems or does it see itself as a victim of dynamics over which it has no control? In Nepal, companies that closely looked at their own activities in relation to their environment worked on creating local ownership for their activities (so that Maoist rebels would find little local support to stage an attack on company operations). Other companies felt like "sitting ducks" and invested little in establishing local ownership.
3. Who in the company is responsible for establishing and maintaining constructive stakeholder relations? Does ownership lie with every individual or only with the Community Affairs or the Government Relations department? Companies falling in the latter category see similar problems and issues coming up repeatedly.

Indicators of negative engagement with stakeholders

	Corporation-Community	*Corporation-Government*	*Corporation-Critics*
Early Indicators	▪ Community leaders, elders stating they do not feel respected ▪ Visits at the company gate/ people staying at the gate with complaints ▪ Reliance on 1-2 community spokespersons (few representatives indicate a narrow representation of interests) ▪ The same problem arising over and over ▪ Evidence that individuals, rather than the community, benefit from company-community interaction ▪ Staff feels unsafe visiting communities ▪ Cold reception in community during visits ▪ Accusations of company association with a repressive government ▪ Community accusations that the company is 'arrogant', 'not caring'	▪ Government presence in the area of operations is primarily through the military ▪ Government expects company to build community infrastructure ▪ Government disengages its services from the area of corporate operations ▪ Reliance on bribery to get the government to fulfill its duties ▪ Limited access of company staff to government officials ▪ Government interference with internal company policies (eg. staff hiring/firing) ▪ Both government and company state that the other party is responsible for community relations	▪ Questions are raised regarding company actions from home government ▪ Questions from local or international journalists on company activities ▪ International advocacy NGOs critical of company actions start establishing local branches ▪ Being mentioned on activist web sites (getting on their radar screen) ▪ Being accused of arrogant, defensive or legalistic tone ("we are right and they are wrong") ▪ Refusal of NGOs to meet with the company
Late Indicators	▪ Rising trends in theft (no reporting and company seen as target) ▪ Work stoppages ▪ Demands and hostile tone of community demands increases ▪ Bad press ▪ Increasing crime in the area of operations ▪ Increased conflict between communities or within communities ▪ Kidnappings, targeted assaults toward the company ▪ Sabotage ▪ Increasing reliance on police/army	▪ Government encourages communities to demand (and expect) provision of social services from company ▪ State security forces are involved in sabotage activities against the company ▪ State security forces are a risk to corporate staff and assets ▪ Security forces associated with the corporate presence commit HR abuses (risk of litigation) ▪ Government revenues are explicitly used for warfare or violence against the citizenry	▪ NGO's encourage community demonstrations against company ▪ NGO Advocacy campaigns against company ▪ Divestment campaigns ▪ Consumer boycotts ▪ Shareholder activism critical of company actions ▪ Web-sites against the company ▪ NGOs and lawyers actively seeking witnesses for court cases ▪ Litigation

4. What do staff think are the expectations of communities and NGOs from the company's presence? For example, if they believe that communities only want material things, they probably are out of touch with real community interests. How does the company claim to know what communities want?

Management Mechanisms

The presence, or absence, of certain management mechanisms determines to what extent the company is equipped to deal with stakeholder challenges and to establish positive relations:

1. Do scheduled informal meetings with communities, NGOs or the government take place where information is freely exchanged or does engagement only take place when there is a crisis? Are there mechanisms for communities to express grievances in a non-violent manner? One company in Nigeria found that when it organized regular information evenings, the frequency of sabotage decreased.
2. Are company policies and practices made transparent e.g., though bulletin boards, radio broadcasts, newspapers, an information booth? Does interaction take place in the community or at the company? Is such interaction in public or behind closed doors? Community leaders in Nepal state that if the company provides them with information about normal procedures (employment policy) they can use it to quiet the 'extremists' in their community. Lack of access to such information leads to immediate demands.
3. Are assessments of community relations programs based on inputs or impacts? For example, is the emphasis on the number of schools built or the number of community visits, rather than on whether the schools are used (do they have teachers, are they accessible, are there teaching materials?) or how visits occur and for what purposes? Do communities perceive the company positively or negatively?
4. Who controls the Community Relations budget? Is it based on long- or short-term objectives? Does it emphasize production objectives or community development? How is the budget divided between infrastructure projects, compensation and enhancing skills/business development? Is the community at large, or only a few key people, involved in the selection of projects?

5. Does the company have a local content policy aimed at maximizing benefits for local communities through employment and contracting? Is this policy mandatory, and enforced for contractors? An oil company in Nigeria found that an enforced local content policy led to a sharp decrease in down-days due to community unrest.
6. Do stakeholder engagement efforts focus on the nearest and most obstructive communities or individuals only, or on the wider area? A mining company in PNG decided to focus its exit plan on the wider region rather than on the nearest communities in order to prevent clashes between the "haves" and the "have nots" after it leaves.

Observations

Observations at or around a company site also provide indications of the quality of community engagement. For example:

1. What is the first visual impression of the company that communities get at the gate? Is there a dominance of security personal? Are they military, police or private security? Are they uniformed and/or armed? Is the security force proportionate to the security situation? An oil company in Indonesia used uniformed soldiers to guard its company gate. Villagers saw this as evidence of corporate arrogance and association with the former regime.
2. Does senior company staff reside in the community or on site? One oil company noted that when their staff relocated from the village to the corporate compound, this increased the distance between the company and the community. This relocation contributed to a confrontational relationship many years later.
3. What is the relative difference in quality of life between company compounds and adjacent communities? In Nigeria, when an oil company tied an electrification program to its flow station (using the gas it produced) it saw a decrease in violence around its site. People knew that if they attacked the station to stop production, they would lose their electricity.

The Real Risks

Of course the questions and observations cited above must be applied in a context-specific way, rather than as prescriptive formulae. They provide direction for companies to better gauge the impact of corporate activities on relations with stakeholder groups. They can help determine how and why the traditional definition of social risk mitigation strategies is insufficient—and often even counterproductive—to achieving constructive relationships. Communities do not suddenly start to assault corporate staff or corporate assets. Serious threats to corporate operations come only after the cumulative impacts of many, daily—often small—aggravations. The real risk to corporate operations arises from how corporate policies are implemented on a day-to-day basis in response to a local conditions.

The real risks to companies' operations arise from:

- Not engaging with communities, NGOs, and governments on a regular, often informal, basis;
- Not being transparent about company policies and procedures that affect people's lives; and
- Responding to problems rather than pro-actively working toward preventing them and defining shared interests; and seeing communities, NGOs, and governments as risks to corporate operations.

Community relations can be predicted and managed—it is not just about money and benefits. This may come as a surprise to companies. It implies that companies have much greater control over risk than is generally assumed. Many companies are only starting to comprehend this reality. Outside agencies such as the World Bank can play an important role in helping companies work toward understanding their options and opportunities for improving their businesses, by strengthening their stakeholder relations and building strong and mutually beneficial community relations.

Further Reading:

Anderson, Mary B and Zandvliet, Luc. 2001. *Corporate Options for Breaking Cycles of Conflict* http://www.cdainc.com/cep/archives/2004/02/CorporateOptions.php

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