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Adapting Corporate Social Responsibility Programs to Risk Management: A Model for Multinational Organizations in Nigeria

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Abstract
There is a growing recognition of the effects activities of businesses have on stakeholders. Business executives know that their long term success depends on continued good relations with a wide range of individuals, groups and institutions. Corporate Social Responsibility (CSR) can impact on risk management positively by providing intelligence about what these risks are and offering effective means to respond to them. This paper advocates that by integrating the business sense, learning and innovations garnered from CSR programmes, multinational companies in Nigeria can better manage risks and subsequently ameliorate the impacts of their economic, social and environmental activities successfully. The paper recommends that organizational leaders to proactively manage risks and take advantage of opportunities inherent in the environment to enhance stakeholders engagement and corporate reputation.
Keywords: Adapting, Corporate Social Responsibility Programs, Risk Management, Manufacturing Organizations.

1. Introduction

Businesses are an integral part of the communities in which they operate. There is a growing recognition of the effect that activities of these businesses have on employees, customers, communities, the environment, competitors, business partners, investors, shareholders, governments and others. It is also becoming increasingly clear that firms can contribute to their own wealth and to overall societal wealth by considering the effect they have on the world at large when making decisions (Hohnen, 2007). Good executives know that their long-term success is based on continued good relations with a wide range of individuals, groups and institutions. Smart firms know that business can't succeed in societies that are failing – whether this is due to social or environmental challenges or governance problems. Again, the general public has high expectations of the private sector in terms of responsible behaviour. Consumers expect goods and services to reflect socially and environmentally responsible business behaviour at competitive prices. Shareholders also are searching for enhanced financial performance that integrates social and environmental considerations both in terms of risks and opportunities.

Governments, too are becoming aware of the national competitive advantages to be won from a responsible business sector. At the same time leading industry associations such as the World Business Council for Sustainable Development, have also suggested that countries as well as companies might gain a competitive advantage from Corporate Social Responsibility. In some of the developing world, governments and businesses understand that their respective competitive positions and access to capital increasingly depends on being seen to respect the highest global standards (International Finance Corporation, 2002). As governments around the world continue to withdraw from operating business enterprises on the grounds that critics emphasize that government has no business in business (McGuire, Sundgren and Schneeweis 1988).

There is no way companies can avoid paying serious attention to Corporate Social Responsibility. This is because the costs of ignoring CSR are simply too high. Companies which have a good reputation risk losing their hard-earned name when they fail to put systematic approaches in place to ensure continued positive performance. The effect of a tarnished reputation often extends far beyond one company, entire sectors and indeed nations can suffer. Therefore business leaders need to understand better the dynamics of their operating environment in order to manage these related risks effectively. Corporate Social Responsibility (CSR) can play a central role in this context.

2. Conceptual Framework

Globally, Corporate Social Responsibility (CSR) is an evolving concept without a clear definition, yet it describes a set of corporate obligations and practices somewhere on the spectrum between traditional charitable giving on one hand and merely strict compliance with the law, on the other. While operating definition remains elusive, the term "CSR" generally refers to a company's efforts to explicitly involve social and environmental concerns in its decision-making along with a commitment to increasing the organization's positive impact on society (Surdyk, 2006). Wood (1991) states that Corporate Social Responsibility also called corporate conscience; corporate citizenship, social performance or sustainable responsible business is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in self-regulating mechanism whereby business monitors and ensures that its activities comply with the spirit of the law, ethical standards and international norms. Commenting on Corporate Social Responsibility, (Griffin, 2002:111) remarks that organizations do not have ethics, rather they relate to their environment in ways that often involve ethical dilemmas and decisions. These situations are generally referred to within the context of the organization's social responsibility. Specifically, he defines Corporate Social Responsibility as the set of obligations an organization has to protect and enhance the society in which it functions. Several inter-governmental bodies, company federations and non-profit organizations have advanced competing definitions. Among the most influential are: the World Bank (2004) which sees Corporate Social Responsibility as the commitment of business to contribute to sustainable economic development working with employees, their families, the local community and society at large to improve their quality of life in ways that are both good for business and good for development. For the World Economic Forum,

> "Corporate citizenship can be defined as the contribution a company makes to society through its core business activities, its social investment and philanthropy programmes and its engagement in public policy. The manner in which a company manages its economic, social and environmental relationships as well as those with different stakeholders, in particular shareholders, employees, customers, business partners, governments and communities, determines its impact" (2006:10-12).

Business for Social Responsibility (BSR) states that CSR is operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business. CSR is seen by leadership companies as more than a collection of discrete practices and occasional gestures or initiatives motivated by marketing, public relations or other business benefits. Rather, it is viewed as a comprehensive set of policies, practices and programmes that are integrated throughout business operation and decision-making processes that are supported and rewarded by top management (www.bsr.org).

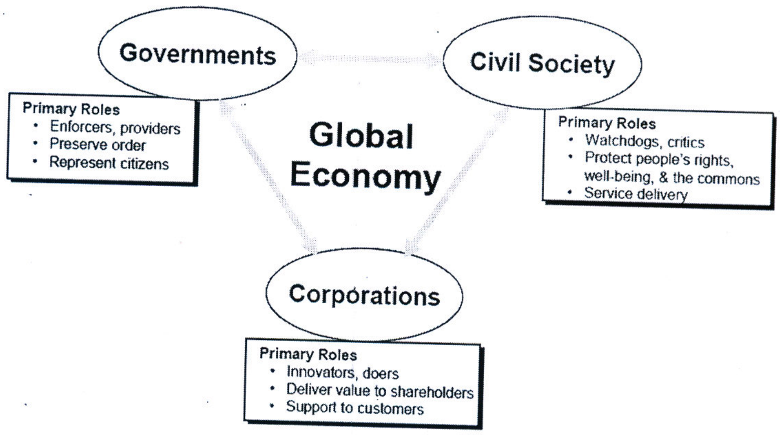

Figure 1: The Global Operating Environment
Source: Kytle, B and Ruggie, J. G. (2005:4)

In a developing country like Nigeria, (Ebhomielen, 2011) states that Corporate Social Responsibility is perceived as corporate philanthropy. It requires organizations to impact positively on their environments. Companies traditionally played this role by undertaking community development projects such as the award of scholarships to indigenes from the host community, donations to sports, charity, social interest works, hospitals, town halls, small and medium scale projects for employment generations, skill acquisition, etc. and support for ethical interest objectives. Most companies that spend on such projects usually report them in their annual report to show compliance. It has become fashionable for organizations in the Niger Delta region of Nigeria to use CSR projects as a form of advertisement. Such expenditures are often treated as appropriation of profit rather than a charge against profit suggesting that the company is not selfishly giving all its profit to shareholders alone after the government taxes. Basically, CSR implies that a company's business model should be socially responsible and environmentally sustainable. By being socially responsible, it means that the company's activities should benefit the society and by being environmentally sustainable, it means that the activities of the company should not harm the environment (Shumate and O'Conner, 2010).

The Kennedy School of Government's CSR initiative has defined CSR to encompass not only what companies do with their profits, but also how they make them. It goes beyond philanthroping and compliance to address the manner in which companies manage their economic, social and environmental impacts and stakeholder relationship in all their key spheres of influences: the workplace, the marketplace, the supply chain, the community and the public policy realm (www.ksg.harvard.edu/csri/home.htm). Given the dynamic interactions of the global economy, adopting a CSR programme is a natural extension of going global analogous to other adjustments of "scaling up" (e.g., forming strategic alliances, finding skilled staff in foreign countries). CSR, particularly for a global company, is related to corporate risk management through two means: by providing intelligence about what those risks are, and by offering an effective means to respond to them. Risk can be most simply understood in the context of a company's threats, vulnerabilities, controls and counter measures (Kytle and Ruggie, 2005). To mitigate risk, companies develop risk management systems. Risk management is the variety of activities undertaken by an organization to control and minimize threats to the continuing efficiency, profitability and success of its operations. The process of risk management includes the identification and analysis of risks to which the organization is exposed, the assessment of potential impacts on the business and deciding what action can be taken to eliminate or reduce risk and deal with the impact of unpredictable events causing loss or damage. For this study, risk management is seen as the process of analyzing, understanding and managing the risks that an organization is unavoidably subject to in its attempt to realize its corporate objectives. In this wise, risks can be divided into the following categories: operational, financial, legal compliance information and personnel. Risk management systems fundamentally aim to address uncertainty in the market place. Their primary goal is to create controls and counter measures that minimize or eliminate the disruption, loss or damage to business operations and shorten the recovery time from an unwanted event and thereby reducing its impact on the business.

Beneath these efforts is a realization that improved CSR reporting and better risk management systems generally promote the transparency and accountability essential to good company governance and improved financial performance. These systems in effect enable a company to anticipate and respond to opportunities when it senses that society's expectations are not being met by its performance.

3. Key Drivers of Corporate Social Responsibility

Organizations may exercise social responsibility toward their stakeholders, toward the natural environment and toward general social welfare. Some of the multinational corporations strive to acknowledge their responsibilities in all three areas, while a majority tend to emphasize only one or two areas of social responsibility. The organizational stakeholders are those people and organizations who are directly affected by the behaviours of an organization and they have a stake in its performance (Donaldson and Preston, 1995; Harrison and Freeman, 1999). Most companies that diligently strive to be responsible to their stakeholders concentrate on three main groups: customers, employees and investors. They then select other stakeholders that are particularly relevant to the organization's core business interest and then attempt to address their needs and expectations as well. Figure 2 shows key organizational stakeholders.

Figure 2: Organizational Stakeholders
Source: Griffin, R. W. (2002:112)

Without mincing words, the 21st century has witnessed growing societal demand for increased Corporate Social Responsibility and environmental accountability. No longer are companies obligated to do no harm. Instead they are being called upon to actively take responsibility for and positively engage with their communities, the global society and the environment. Consequently, today's business leaders are working hard to understand society's changing expectations of corporations in areas that were previously seen as the responsibility of government, or non-profit organizations. Some of the key drivers of Corporate Social Responsibility are highlighted below.

- **Need for enhanced market leadership:** A distinct justification for socially responsible behaviours on the part of organizations is that those that make visible contributions to society can achieve enhanced reputation and gather greater market share for their products.
- **License to operate:** Organizations need to have genuine relations with government of their host environment. This practice can lead to reduced shareholder activation and reduced risk of law suits which tend to place organizations in bad light in the public opinion.
- People who argue in favour of social responsibility hinge their claims that organizations by their activities create many of the environmental problems such as air, water pollution and resource depletion. Justice demands that they should be involved in solving them.
- **Business as private citizen:** Because organizations are legally defined entities with most of the privileges as private citizens, they should not evade society obligations as citizens. Advocates of this argument point out while governmental organizations have stretched their budgets to the limit but many multinational organizations often have surplus revenues that could potentially be used to help solve social problems (McGuire et al, 1988). For example, the Mobile Telecommunication Network MTN claims that they routinely build school laboratories, donate to old people's home and offer scholarships to indigent students in their host environment. Just recently (January 21–22, 2013) an independent television organization in Nigeria, the Channel Television attracted the attention of the President of Federal Government of Nigeria about the oldest dilapidated Police College Ikeja in Lagos State and caused him to be the first sitting President to visit the Police academy since inception. The Channel Television remarked it was her Corporate Social Responsibility (CSR) contribution to the nation.
- **Increased reputational capital:** Proponents of good Corporate Social Responsibility point to the fact that organizations that involve in CSR stand good chances of garnering unquantifiable reputational capital. This can be translated into reduced negative consumer activism/boycotts; positive media coverage/"free advertising": positive word of mouth advertising, and increased community support for the company's operations ("a bank account of goodwill").
- **Growth in Global Reporting Initiatives (GRI):** Launched in 1997 by the coalition of Environmentally Responsible Economies**,** the GRI reports contain 50 core environmental, social and economic indicators for a broad range of companies. The GRI also offers additional modules with distinct metrics for companies depending on industrial sector and operations. The price range for producing a report spans from 100,000 dollars for a basic GRI to more than three million dollars for complex organizations like Shell. Moreover, the continued growth of the socially responsible

investment movement especially in advanced economies of the United States and Europe is encouraging companies to adopt GRI and other instruments. For instance, in the United States alone, the capital available to socially responsible companies reached 2.29 trillion dollars in 2005 (Surdyk, 2006).

4. Impact of Corporate Social Responsibility Programmes On Risk Management

Managing risk is a central part of many corporate strategies; reputations that take decades to build can be ruined in hours through incidents such as corruption scandals or environmental accidents (Eisingerich and Ghardwaj, 2011). These can also draw unwanted attention from regulators, courts, government, civil society organizations and the media. Building a genuine culture of "doing the right thing" within a corporation can offset these risks (Bhattancharya, Sankar and Korschun, 2008). More often than not, it takes a crisis to precipitate attention to CSR. One of the most active stands against environmental management is the CERES principles that resulted after the Exxon Valdez incident in 1989 (Grace and Cohen 2006). Other examples include the Magellan Metalsin, the West Australian town of Esperance which was responsible for lead contamination killing thousands of birds in the area. The company had to cease business immediately and work with independent regulatory bodies to execute a clean-up. Odwalla, the giant Apple Juice Corporation, also experienced a crisis with sales dropping 90 percent and the company's stock price dropping 34 percent due to several cases of E.coli spread through Odwalla apple juice. The company ordered a recall of all apple or carrot juice products and introduced a new process called "flash pasteurization" as well as maintaining lines of communication constantly open with customers. Some of the emerging risks companies face today show up on their radar screens through well-recognized entry-points, for example the challenge of carbon emission and climate change is a good example. The number of shareholder resolutions demanding climate change risk management policies from US companies tripled between 2001 and 2002 and climate change related lawsuits against companies have recently been filed for the first time (Cogan, 2003). From a company's perspective, a social risk occurs when an empowered stakeholder takes up a social issue area and applies pressure on a corporation (exploiting a vulnerability in the earning drivers, reputation, corporate image) so that the company will change policies or approaches in the market place.

The increasing complexity of international business also means that risks at the global level are much more likely to crosscut different categories of risk (e.g. a social risk may also have political or economic implications) so that they need to be tackled from multiple perspectives simultaneously using CSR (figure 3.0 shows the STEP Perspective on Risk).

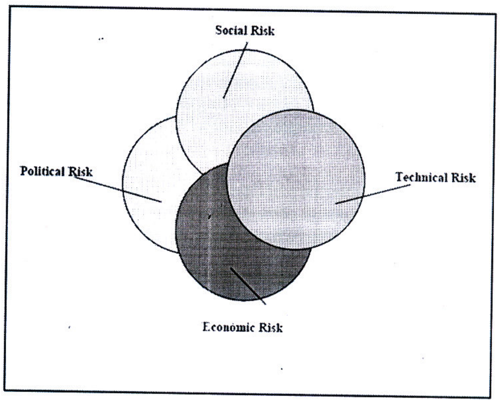

Figure 3: The STEP Perspective on Risk
Source: Kytle, B and Ruggie, J. G. (2005:9)

Corporate Social Responsibility (CSR) for a global company can impact on risk management positively through two main means:

- by providing intelligence about what these risks are, and
- by offering an effective means to respond to them.

The key to the above mentioned means is effectively managing stakeholder relationships. Managing stakeholder relationships is imperative for multinational companies because if they do not effectively manage those relationships, stakeholders like regulators and civil society organizations (CSOs) will likely engage them in the court of public opinion with little to say by the companies.

At this juncture, it is necessary to differentiate managing stakeholder relationships from simply managing stakeholder. The stakeholder management mindset embodies a mechanistic paradigm where the organization perceives itself as a closed system capable of autonomous action independent of the external context (www.collective wisdom initiative.org.). Its main objective is the dissemination of information to stakeholders through public relations or community relations on decisions already made without completing the feedback loop. This way of managing stakeholders is ineffective in global operating environments given networked value chains and the empowerment of global stakeholders. Managing stakeholder relationship requires closing the loop: it means truly engaging stakeholders (figure 4). The diagram shows a stakeholder engagement model developed by the World Bank group (Calow, Morris and Lawrence, 1999).

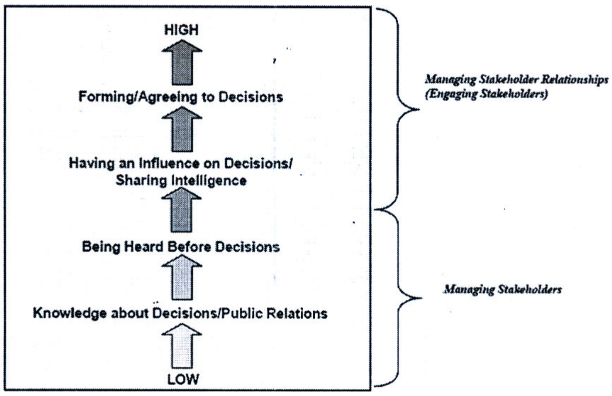

Figure 4: Stakeholder Engagement Model
Source: Calow, Morris and Lawrence (1999:25)

Managing stakeholders represented by information dissemination to groups is at the bottom while managing stakeholder relationships as represented by engagement strategies is at the top. The term "engagement" relates to the various mechanisms that have been used by organizations to listen to, and account for the views of stakeholders as well as involving them in the provision of solutions. One example is the dissemination of information to stakeholders of a company which may state before a decision is made. This can be done through joint workshops, task forces or the use of focused group discussion (FGD). At the next level, stakeholders gain some influence on decision makers in addressing a particular social risk. At the highest level, stakeholders are viewed as co-decision makers in providing the solution. These strategies are examples of completing the feedback loop: both informing stakeholders and having them inform top management about a particular social risk.

Effectively managing stakeholder-relationships pays attention to issues, problems/challenges and opportunities that go far beyond one organization and involve the whole global system. Learning, sensing and innovations are the keystone of such a strategy. By integrating the business sense, learning and innovations gained from CSR programmes, multinational companies can better manage their risks and subsequently their economic, social and environmental impacts successful. This strategy is similar to what their sales/marketing executives do from their customers: a form of business intelligence gathering.

Effective stakeholder-relationships-management can provide strategic intelligence regarding the organization's risk environment around particular economic, social, political or environmental issues. Stakeholder engagement strategies provide the antennae through which to pick up signals of impending threats, and possible response solutions. With time, these integrated-information-flows between stakeholders and top company management can form the base of knowledge bank about social issues and systematic nature of such problems. However, the information picked by these antennae has to be fully internalized by organizations. If it is merely encapsulated in a CSR programme its impact will be limited, but if it is linked to the company's strategic risk management paradigm, then it can be of considerable help.

Many global organizations have found these initiatives very helpful in generating strategic intelligence. Some of these organizations are organized within individual sectors: forestry, apparel, oil and gas industry. Even the United Nations Global Compact which has become by far the world's largest corporate citizenship initiative with more than 1,800 participating organizations involves companies, labour and civil society organizations in promoting ten UN principles in the areas of human rights, labour standards and environmental sustainability (www.unglobalcompact.org).

It should be observed without much gainsaying that a company's vulnerability and threat for any type of risk can be reduced to a great extent through internal and environmental scanning, reporting and monitoring. Gaining access to knowing the expectations of the stakeholder through amicable relationships management can help a global organization have increased knowledge of international standards/norms by which the organization should abide. All these can be achieved through linking a CSR programmes to risk management.

A CSR Programme Model Initiative for Organizations in Nigeria

To implement a successful CSR programme Multi-National Corporations in Nigeria should adopt the following

7 model steps:

Step 1:	Articulate a relevant CSR philosophy into the organizational guiding principle.
Step 2:	Put in place a well packaged reward and recognition system that applaud good responsible behaviour.
Step 3:	Make sure senior management team buys into the programme.
Step 4:	Include CSR programmes into the long-term strategic plan
Step 5:	Communicate to the relevant stakeholders and celebrate the result of CSR efforts.
Step 6:	Partner, if necessary, with other organizations, community groups or government agencies to multiply CSR impacts.
Step 7:	Implement CSR programmes with the same zeal and tenacity used for other organizational core competencies.

Source: The Authors

5. Conclusion

Since businesses play a pivotal role both in job and wealth creation in society and in the efficient use of national capital, Corporate Social Responsibility (CSR) is a central management concern. It positions organizations to both proactively manage risks and take advantage of opportunities especially with respect to their corporate reputation and the broad engagement of stakeholders, (shareholders, employees, customers, communities, suppliers, non-government organizations, international organizations and others affected by a company's activities. Acting responsibility towards these stakeholders can help companies build long-lasting values for themselves. Investors and financial institutions have recognized that Corporate Social Responsibility activities that integrate broad societal concerns into business strategy and performance are evidence of good risk management capabilities. In addition to building trust with the host communities and giving companies competitive edge in attracting good customers and employees, there are countless win-win opportunities waiting to be discovered. This is because every activity in a firm's value chain overlaps in some way with social factors. The job of today's business leaders is to start thinking systematically; adapt Corporate Social Responsibility to risk management and stop being defensive.

6. Suggestions/Recommendations

- All multinational corporations listed on the Nigeria Stock Exchange (NSE) should be required by an act of National Assembly to produce an integrated report in place of annual financial report and sustainability report. An integrated report includes environmental, social and economic performance alongside financial performance information.
- Government of developing countries, where these MNCs operate, should step up regulations with adequate enforcement and monitoring to ensure that MNCs behave in a socially responsible manner.
- It is necessary to include all stakeholder groups or constituents in managerial decision-making in matters related to the organization's portfolio of socially responsible activities. This is because CSR collaborations are positively accepted when they are in the interests of stakeholders without detrimental effects on the organization.
- Managers should understand fully the various ways in which business and government influence one another while it may be legal and appropriate to influence government and other stakeholders, managers should be wary to avoid crossing legal or ethical boundaries.
- Managers should understand that CSR is not something that just "happens". Instead, like other organizational activities, it must be actively managed.
- Social and environmental accountability cannot be meaningless words on a dusty mission statement or an after thought; they must be integrated into all aspects of everyday corporate life.

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