Corporate Social Responsibility a Mitigation Strategy for Social Risk

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Abstract

Social Risk (SR) is a relatively new field in business management. However, social impacts are visible and can lead to operational, legal, regulatory and financial risks. Local incidents can be magnified locally and globally. Fully internalizing social risk issues is an evolutionary process for many companies. A key issue is how to ensure institutional commitment, consistency across the enterprise and in varied contexts, and durability overtime with regard to social performance. This study considers CSR as a tool companies can adopt to reduce SR and argues that if business managers are known for their impressive performances by way of delivering profits from operations within their operational environment to shareholders, they have also a responsibility to contribute to the development of the local communities they operate in; developments that would create positive impacts on the people and society and thereby reduce youth restiveness and other vices seen as SR drivers. Therefore, the paper concludes that the effective and efficient application of corporate social responsibility by companies operating in a community would go a long way in reducing the level of social risk drivers, improve infrastructural development and sustainable peace in that community.

Keywords: *Social Risk, Mitigation Strategy, Corporate Social Responsibility*

1. Introduction

Today, Companies working in the extractive industries, especially those in the oil and gas sector, need to be aware of the impact of their operations on local communities. Corporate social responsibility is perhaps one of the most dynamic, complex, and challenging issues in modern day business management (Singh, 2006). Modern business managers are constantly exposed to the dilemma of matching contributions to the development of the environment within which they live in to operate from, and meeting the requirements of the small but powerful group, the shareholders (Singh, 2006). No doubt, there is an enormous flow of capital, goods and services across borders. This trend had placed businesses as global institutions or potential global institutions.

Interestingly, governments around the world are appreciating the need to allow private sector be the driving force of any economy. This stand is to enable government perfect on one of its primary role, which is creating the enabling environment for business and society to interface fairly (Bateman and Snell, 2002). This is to say, governments around the world are continuing to withdraw from operating commercial business enterprises and private sector companies are increasingly under pressure to become alive to their responsibility in contributing to betterment of the society they live in, and not only for themselves (Nwachukwu, 2007; Sharma, 2004).

In fact, some multi-national companies are so massive that they have overtaken many nation-states as entities with the power and resources necessary to positively impact positive change within their areas of operation (Saale, 2010). In Nigeria for example, the oil companies operating in the Niger Delta Region are no exception. Yet, unlike governments in the region that have been freely elected and perhaps accountable to a localized set of voters, the management of these multi-national companies are only answerable primarily to their shareholders for most of their actions.

In most of the times, shareholders are afar off thus do not understand the peculiarities of the environment within which these companies live in to do business, therefore fail to appreciate the demands of the people to effectively contribute to the development of the locality in which they live and operate in (Nwachukwu, 2007). On the other hand, Nwachukwu (2007) observed that even if they do appreciate the demands of the local people by reasons of their make shift visits, they prefer to assume that the people are not aware of their rights in the enterprise - society relationship. To this end, not to offend shareholders, local management of these multi-national companies are tempted to engage in activities and actions they consider would give them the space to operate successfully within the locality.

To douse pressure, they most of the time claim that the instruments regulating their operations bars them to engage in some sort of activities thereby using bureaucratic bottlenecks to sigh away from social responsibility (Carrol, 1999). The combination of enormous wealth and limited accountability to the people of the immediate environment within which they live in to do business makes these multinational companies extremely powerful.

The continuous search by these multinational companies operating in the community for the space to successfully do business have in no doubt ended up in planting the unwanted seed - conflict - among members of a community, community versus community, clan versus clan, and perhaps ethnic group versus ethnic group. This seed of conflict thrown on a fertile ground germinated, flourished to bear fruits (Ajayi, 2007). This fruits thus constitute a volatile community characterized by youths carrying arms, conflicts and other social ills. The central question to ponder upon in the midst of all this is; is there any need for multinational companies or any other company operating in a community whose primary reason to be in business is to maximize profits for their owners be concerned with becoming good corporate citizen? This paper seeks to proffer an answer to this important question.

2. Literature Review

The Concept of Corporate Social Responsibility

Gustafson (2002) state that the concept of corporate social responsibility is relatively old in the business world spanning over seven decades; there is no generally accepted worded definition. This notwithstanding, the nucleus of the concept hovers on an on-going call on businesses not just to behave ethically but to equally contribute to the socio-economic development of the immediate society the live in to carry on their business activities and the world at large while demonstrating respect for the people, the community and the environment. In the burden of this concept, multi-national companies operating in local communities need to understand that corporate social responsibility marries the concept of global citizenship with environmental stewardship and sustainable development.

Nickles, McHugh and McHugh (2005) posited that good corporate social responsibility in practical terms must be considered from the point of view of how local/regional managers of these multi-national companies operating in the region:

— Are sensitive to the issues that affect the lives of the people they live and work with

— Are able to understand the conditions in the environment that they could contribute positively to influence the lives of the people

— Have a fair understanding of what social changes that their operations in the area brings to the lives of the people

— Have a fair understanding of what social impact their financial and business decisions may have in the different groups that do business with the company or do just have contact with the company as well as the environment

— Are able to co-exist peacefully with the people within the locality of their operations

— Do not sow the seed of conflict by influencing the rise and fall of community leaders of all class

— Are not only conscious about what the company produces, extracts or does but on also how the product is produced, extracted or work done

— Must always be in a cordial relationship with the people and the environment they live in to work with

Interestingly, to be socially responsible goes beyond just having awareness of the above social impacts but the company's willingness to act on them timely without being forced into it as a basis of crisis management.

To whom are companies operating in the community socially responsible?

Social responsibility is the concern businesses have for the welfare of the society they live, operate in and work with. According to Williams (2007), corporate social responsibility is a "business's obligation to pursue policies, make decisions, and take actions that benefit society". Scholars on Corporate Social responsibility propose two schools of thoughts;

1. The Shareholders model

2. The Stakeholders Model

Under the shareholders model, proponents argue that the only social responsibility businesses or companies have is to satisfy their owners (the company shareholders). This school of thought suggests that the only social responsibility businesses have is to maximize profits. In their opinion, by maximizing profits, the firm maximizes shareholders wealth and satisfaction. They further argue that, while shareholders are likely to agree on what investment issues concerning the company, they are unlikely to agree on what social issues a company should or should not support. Thus, they concluded that, since companies cannot effectively function as moral agents for all shareholders, it would be socially irresponsible for companies to divert attention, time and money from maximizing profits to social causes and charitable organizations.

The proponents of the theory are right in their position. However, in putting forward this argument, they failed to agree to the fact that once shareholders pool financial resources together to form a registered company; whether limited or unlimited in liability, with goals and objectives to accomplish and a mission statement. The firm is automatically a separate legal entity from it owners. This presupposes that a company must take decisions, carry out actions and activities that would engender smooth operations provided such actions, and activities do not negate its profit-making role to make adequate returns to shareholders and further increase the value of the firm.

Proponents of the shareholders model also argue that, diverting time, money and attention to social causes undermine market efficiency. They argue that, in a competitive market, companies compete for raw materials, talented workers, customers and investment funds. Therefore, they opined that, diverting these resources to social causes would undermine the companies' ability to take opportunities thus threatens the long-run survival of the firm.

Again, in putting forward this view, proponents may be right. However, they again failed to appreciate the fact that, the external environment, especially, the people and the community (ies) in the immediate environment they live in to do business do exert some influence in certain aspects of business decisions. In addition, proponents seem to undermine the fact that, businesses are aware of some of the expectations from people in their operating localities.

Companies can only operate to maximize profit in an atmosphere that is conducive in terms of both security and relationships. If these ingredients are absent, the company among others risks its name and operational efficiency. This also threatens its continuous operations and profit maximizing ability.

More also, proponents fail to appreciate the fact that, the world is made up of diverse regions, cultures, and beliefs; a position which suggests that what is acceptable and applicable in certain regions, cultures and beliefs is not acceptable thus not practicable in another region or area. The dynamism in the business world was in my opinion not taken into consideration. Proponents confined their argument on the business culture at the time without looking into the future. The idea was based on the belief that the main aim of business was to make profit for shareholders and that anything that would eat into business profit, which is not to bring return, is un-business like and therefore need not be contemplated. Interestingly, the major contributors to business profit are the consumers of the products, which are part of the society, thus businesses must not indulge in any action or activities that would make consumers to divert attention from company products or services.

However, in modern day business culture, businesses, especially, multi-national companies are continually appreciating the new values and the dynamics in the business world. This suggests that, business managers have the chance to study the immediate environment they have chosen to live and work with, make the necessary input to the development of such areas without undermining the profit motive of the firm with attendant wealth maximization to shareholders. Therefore, local/regional managers of multi-national companies operating in communities, especially, those that move from one region to another, country to country, or continent to continent have ample opportunity to contribute to global development based on the peculiarities and needs of each environment they station and operate.

On the argument that the use of company fund for social causes undermines market efficiency is equally a short-sighted argument. This is a statement of fact. Even if multinational companies garner all the monies needed, hire all the most talented workers, acquire all the necessary tools and equipment required for their operations and activities, but fails to keep the peace, maintain a reasonable cordial relationships with the people of the locality they live to do business; they risk room for normal operations. This also threatens the profit making ability of these companies hence their continuous existence.

This perhaps is one major characteristic of the oil rich Niger Delta Region in Nigeria, where kidnapping of expatriates and indigenous skilled workers became the norm of the day in the past years. There are no doubt companies and governments spent unimaginable sums of moneys to secure the release of kidnapped workers, a bitter truth that is never acceptable publicly. It is a fact that, if companies operating in the region initiated and accepted genuine proactive corporate social responsibility policies with commitments, there is this likelihood that vital information may have always filtered to management of these companies for prompt action intended to avert these ugly trend.

It is also an agreeable fact that these massive companies, especially, oil, mining, etc. companies operating in the local communities claim, they annually spend substantial amount of moneys in corporate social responsibility related projects, yet it may not be translating positively in the lives of the people of the immediate communities within which they live to do business. Several factors may be the root cause and includes

- In their projects selection for corporate social responsibility, the benefiting people are not widely consulted to determine their prioritized needs

- There is no genuine commitment on the part of local managers of these multi-national companies to contribute to the development of their host communities with an attendant claim that by their instruments of operation, they are constraint to embark on certain projects

- Their desire to seek for space to operate peacefully usually ends them working with a niche in the community thus the root of conflicts.

From the above, one could suggest that, it is the approach employed by these multi-national companies operating in these communities on issues relating to social responsibility that makes one to think they do not meant well for the people. Still in the Niger Delta region of Nigeria, it was witnessed and are continuing to witness situations where multinational companies can urgently create access roads to oil-well sites no matter how swampy the terrain. They bring in the best Earth moving equipment and technology to work in the midst of rainy season to achieve pipeline construction; yet, the same terrain is inhibiting development when it comes to projects meant to benefit the local people. They can afford to provide the best security on matters relating to achieve their purpose but when it comes to projects earmarked for the benefit of the local people, youth's unrest is a major excuse.

There are obvious cases to mention to indicate that some of these multi-national companies are actually reluctant to contribute to the socio-economic development of the localities they live to do business. Where these companies enjoy constant electricity within their locations propelled by gas turbine plants; yet, they prefer to provide electricity by means of generating sets. In addition, these companies prefer to ship drinkable water to their locations for staff consumption from elsewhere instead of providing drinkable water stations for both the community and their location use. The question is, should multi-national companies operating in the region ignore the people they live with to do business with two essential necessities in life, are they socially responsible? The answer is simply, No.

The second school of thought under consideration is the Stakeholders Model. Proponents of the model argue that, managers of business most important responsibility is the firm's long run survival and that the best way to achieve this is to work hard to satisfy the interest of the multiple stakeholders and not the shareholders alone. Williams (2007) stress that it is certain that shareholders constitute only one constituent in the stakeholder's model and that business managers attempt to ignore the interest of other groups in the model and concentrate solely on one group - shareholders - is dangerous to the long-run survival of the firm.

Under this model, the term stakeholder refers to all persons or groups with legitimate interest in the affairs of the company and includes: (1) Shareholders, (2) Government, (3) Employees, (4) Customers, (5) Suppliers, (6) Local Communities, (7) The Media, (8) Special Interest Groups and (9) Trade Associations.

There is no gainsaying that all the above group of persons are one way or the other interested in and affected by a company's action, hence they have a stake in

what these actions translate into. Interestingly, all these interest groups struggle to influence business decisions and actions to suit their purpose. To this end, one major task of business managers is to try to balance the needs of the different stakeholders, especially, the primary stakeholders as identified in (1) to (6) above.

The important and often question one may be tempted to ask therefore is, to what extent has multinational companies operating in local communities are socially responsible to the local communities they live in to work with - a segment of the primary stakeholders'. The often answer is simply "not encouraging".

The Case for Corporate Social Responsibility to Local Communities and Youths' Restiveness

There is a growing demand for increased social responsibility and environmental accountability within the companys operational region. The trend now is, companies are not only obligated to do no harm but are called on to actively take responsibility and actively engage with their local communities, the environment and the global society. This trend no doubt places today's business managers to work hard to understand society is changing so the expectations of their presence in a community in terms of projects conception and implementation which were and are seen as the responsibility of governments and other interventionist agencies. If business managers are known for their impressive performances by way of delivering profits from activities/operations to shareholders, they also have a responsibility to contribute to deliver on development of the local communities they live in to do business - developments that would create positive impact on the people and society.

The World is a global village by privilege of information technology, especially, the World Wide Web (internet). The internet keeps people in every nook and cranny informed of the developments around the world. People are more conscious of their rights, as well as the duties of others including corporate organizations. In addition, there is also a massive movement of people around the World. This exchange of people by way of movement across the world exposes people to the happenings in the developed world. Therefore, in their homecoming, they expect similar companies operating in their communities do the same things and practices they are doing and practicing elsewhere. This trend has fuelled the increased demand for more corporate social responsibility from companies operating in local communities. In anything, there is always a class to champion the cause.

Therefore, in this new awareness of corporate social responsibility, the youths are the vanguards and the nucleus of the heat, a situation that has found itself a fertile ground for manipulations and thus conflicts. The result is youth's restiveness. This hydra-headed worm must be dealt with carefully for there to be sustainable peace and development. All parties in the equation must willingly accept to respect each other for the benefit of peace, profits and sustainable development.

Corporate social responsibility is the obligation towards society assumed by businesses. For a business organization to be classified socially responsible, it must be able to maximize its positive impacts on the people and minimize its negative effects (Carrol, 1999). Corporate social responsibility towards the community is voluntary.

This notwithstanding, businesses inability to take proactive corporate social responsibility policy measures and innovative actions seem to be a more dangerous step in relating with the people and the environment. Voluntary corporate social responsibilities are those additional behaviours and activities that society finds desirable and the values of business support. Gustafson (2002) observed that such activities may include the following :

— Wealth Creation

— Promotion of Social Justice

— Building the Community

— Ensuring Safety Environment

Voluntary corporate social responsibility is contributing business resources to the development of the community intended to improve the quality of life and the environment. Despite the fact that corporate social responsibility is voluntary, it requires companies operating in local communities as a matter of policy to engage the people constantly aimed at packaging the types of projects for implementation, projects that would have positive impact on the people and the society. Yes, companies no doubt oftentimes claim they are spending various sums of moneys on corporate social responsibility related projects annually but the projects though acceptable may not be having significant positive impact on the people. Projects most a times considered include among others:

— Three classroom blocks instead of standard school building for conducive teaching and learning

— Mono-water pump schemes that are relatively inefficient and not lasting

— Provision of generating sets to generate electricity instead of connecting these communities with existing turbines in their operational base or with the national grid

— Payment of little stipend to students and undergraduate in the name of scholarship awards

— Provision of Water-Front Toilet Facilities instead of building standard public conveniences with attendant facilities to reduce environmental pollution

— Provision of mini public announcement system usually called community radio, etc.

— Making donations to sponsor community social activities and festivals

— Award of petty contracts to few notable persons among

It is a fact that some companies even prefer to maintain a list of pay group, and pay such list of person monthly stipend without engaging them productively. Even though, the intention of the managements of these multi-national companies is to keep the peace and enjoy smooth operations, it is an action, which fuels conflict in communities.

One primary purpose of corporate social responsibility is to create new wealth. This act of creating new wealth must not be misconceived and further encourage laziness. Rather, this role of creating new wealth should be a means through which multi-national companies operating in local communities engage the youths positively as productive elements in society. This role of new wealth creation should be tailored toward training the youths to acquire skills, skills that would be useful to the companies, the youths, and the community and by extension the society. If the new wealth creation process were approached with commitment, active and productive youths would not be encouraged to dabble into criminal activities in the disguise of fighting for their rights.

Corporate social responsibility entails contributing resources to the building of the community. Governments around the world are appreciating the fact that companies can positively contribute to the development of the communities they live in to do business (Carrol, 1999; Post, Lawrence and Webber, 1999; Williams, 2007). With the increased expectations from the people and the community, multi-national companies need to engage the people constructively at the point of entry into the community. In this engagement process, companies should be able to build the needed rapport and make the people appreciate the possible areas they can contribute to further the development of the community. This engagement process must be transparent enough for all to appreciate the commitment of the companies in their corporate social responsibility role (Bateman and Snell, 2002).

In this role of building the community, most multi-national companies are said to be passive despite committing substantial resources. This is attributable to the type of projects packaged by these companies for their host communities. The positions these companies take when there is a misunderstanding in implementing memorandum of understanding entered by both parties goes further to underscore the above fact.

Encouraging Corporate Social Responsibility: The Role of Government

Corporate Social Responsibility is the extra burden businesses shoulder to better the lot of the people and the community within which they live to operate (Gustafson, 2002). Corporate social responsibility is not only limited to the contributions made to the people of the immediate environment to improve quality of life, it is intended to make further contributions to the physical development of the communities, which is a responsibility of government thus needs special attention from the government (Gupta, Gollakota and Scrinivasan, 2007).

It is an appreciable fact that some of these companies are massive in resources even sometimes more than state governments in the region they operate; therefore need to compliment the effort of governments in the development of the communities they operate in. This fact propels the call for them to contribute to the development of

the communities they live to carry on their business activities. The motive behind this call is for these companies to compliment government efforts in the development of every nook and cranny, especially, provision of basic essential amenities within the areas of their operations.

One role of corporate social responsibility is to contribute business resources to build the communities within which they live in to carry on their activities (Andabai, Ayakeme and Egoro, 2010; Nwachukwu, 2007; Sharma, 2004). This role is to compliment government effort in the areas of physical and economic development. This emphasizes government need to appreciate this position and extend certain benefits to companies that are very effective in this their new role. Therefore, it is my view that governments need to do more to increase corporate social responsibility acceptance by businesses. Governments role should include among others:

— Setting the legal framework for corporate social responsibility standard in line with acceptable international standard based on peculiar environmental circumstances

— Grant Tax reliefs to companies that are effective in corporate social responsibility acceptance, especially, those that engage in physical development of the communities they live in to do business

— Effective monitoring of compliance by companies as set out in the standards

— Ensure grass-root awareness of existing corporate social responsibility standards for effective and productive dialogue and business - community relationship

— Ensure conducive environment for companies to operate successfully, especially in the area of security of lives and property

It is worthy of note, governments role on corporate social responsibility is not limited to the above enumerated. However, since governments are beginning to accept the fact that businesses have a role in the development of the communities they live in to carry out business activities, governments must have the will to do the necessary acts that would enable businesses to accept the new value of corporate social responsibility (Gupta, Gollakota and Scrinivasan, 2007).

Governments collaborating with businesses in the provision of basic essential amenities for a community is a new look in modern day business management and are continually putting pressure to business management. According to Post, Lawrence and Webber (1999), modern day business managers therefore must take decisive steps to implement corporate social responsibility by:

1. Incorporating corporate social responsibility into the long range strategic planning of the business

2. Clearly articulating a corporate social responsibility philosophy based on the scope and reach of the business, which must not have deviations from the standards as set by government

3. Putting in place a mechanism to constantly communicate the results of the organization's ongoing efforts to all stakeholders and to celebrate achievements/successes publicly

4. Seeking collaboration with other companies, institutions, community groups, nongovernmental organizations, international and interventionist agencies or governments to multiply the benefits/impacts and expand same

5. Attending to the issues with same energy and commitment

Businesses ability to take these steps would bring in the desired working relationship not only with the immediate community but also with governments.

3. Concluding Remarks

There is no gainsaying on the fact that most multinational companies do have more capital and technically skilled human resources at their disposal than many governments. This trend had given these companies enormous power and influence not only in the polity of the local community they have their operations, but also at the centre of national governments. The realization of this fact by the people had also increased the people's expectation in the area of contributions to the development of the communities within which they live to work or do business. As a result, business managers are beginning to realize that this new awareness, shift of power and resources also requires a new look in social responsibility in becoming good global citizen. Corporate social responsibility is becoming a new business risk mitigation value and global expectation that is not only the right thing to do but will bring in the expected fast development to compliment government effort in transforming the rural communities and improve the quality of life as well as ensure business continuity and sustenance.

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