

Strategic Alliances Between Business Groups and Civil Society Organizations

It takes more than good intentions to succeed

S. Prakash Sethi, Ph.D.*

Copyright @ 2008

This paper is in the nature of work in progress. It may not be quoted, in whole or in part, without the express written consent of the author. Constructive criticism and comments are invited and would be gratefully accepted.

* University Distinguished Professor Baruch College, The City University of New York, and President, International Center for Corporate Accountability, Inc., New York.

Strategic Alliances Between Business Groups and Civil Society Organizations

The number and variety of private sector and civil society organizations (CSOs) has witnessed enormous growth in the last 10+ years. There are at least four important reasons for this phenomenon:

- (a) A large number of societal issues of concern to CSOs invariably involve private sector organizations, notably multinational corporations, as important players. These issues emanate from the activities of the companies either as direct impact, i.e., negative externalities, or, through unintended consequences.
- (b) There is recognition that while we might perceive private sector organizations as part of the problem, we cannot escape the fact that they must also be part of the solution.
- (c) Even if the problem set does not directly involve private sector players, their participation in addressing those problems could add significantly to the probability of success.
- (d) CSOs acting alone do not have the skills or financial wherewithal to fashion feasible solutions to the societal issues either at the macro or micro levels.

In my remarks today, I do not intend to include other players in discussing strategic alliances, e.g., governments and multilateral organizations. The extent and the manner of their participation would significantly alter the landscape of

private sector-CSO alliances, but would not necessarily impact the parameters that define the problems and challenges of such alliances.

I must emphasize that from my perspective, and my own experience, private sector-CSO alliances are still at a formative stage. Therefore, it would be foolhardily to espouse broad principles or operating strategies. We have not yet gone beyond the stage of finding common ground to define goals or the endgame, and, mutually agreeable principles that must underlie operational strategies, notions of feasibility, efficiency, and acceptable performance outcomes.

For these reasons, I am reluctant to address the issue of business-CSO alliances only in the context of “partnerships,” because it assumes away difficult problems as having being dealt with. Instead, I look at the current state of strategic alliances as a step-wise progression, where potential partners are developing shared understanding, one step at a time, and building toward a more lasting and binding relationship that might be best described as a partnership.

As I view the hype and enthusiasm about corporate-CSO alliances, I am struck by the willingness of all concerned to downplay or even ignore most of the “nuts and bolts” problems in the hope that they would be resolved in the spirit of goodwill and mutual trust. We talk of such alliances as “constructive engagements” which must always lead to a higher level of desired outcomes.

However, a hard-nosed reality check of some of the most visible and highly praised current alliances would suggest that in a large number of cases, these alliances end-up being neither constructive nor engaging. An analysis of a number of such alliances – both that succeeded and those that – would suggest that failed in our eagerness to enhance the feasibility and desirability of such alliances:

- (a) We tend to treat private sector as if it were a homogeneous group, with shared common goals, common means, similar competitive positions, and similar resources. In other words, we assume that given a common set of external challenges, all private sector entities would respond in a similar manner.

- (b) We also discuss CSOs as if they were a homogeneous group with undifferentiated goals, means, and above all, their vision of a better world to which they aspire to.

- (c) We assume that private sector-CSO alliances are not only the best, but perhaps, the only viable means of solving society's problems. In other words, rather than seeing these alliances as a means to an end, we treat them as if they were an end in themselves.

I believe that a note of caution is necessary to deal with the reality of private sector-CSO alliances. Let's accept *a priori* that private sector organizations have considerable experience with all types of strategic alliances and partnerships. Therefore, if partnerships with CSOs were such a good idea, private sector would have pushed for them a long time ago as its preferred solution to resolving business-society conflicts. Instead, the fact of the matter is that most of the current strategic alliances or partnerships are a form of forced marriages where the partners hope eventually to fall in love and live happily ever after.

MAKING STRATEGIC ALLIANCES WORK

It might sound overly negative, but from my experience of over 20+ years studying business-CSO alliances, and even working with some of them, I would have to state that with few exceptions, these partnerships or strategic alliances have failed to deliver on their promises. I do not suggest that this poor record is due to lack of commitment or good faith on the part of the parties involved.

Instead, it comes from the eagerness of the two groups to proclaim success and in the process:

- (a) promise more than could possibly be delivered;
- (b) gloss over the real difficulties of managing conflicting goals, acceptable level of performance and the means employed to achieve it; and,
- (d) an inability to manage heightened expectations from the constituencies represented by the two parties.

MODES AND TERMS OF ENGAGEMENT

Interaction between for-profit business organizations with their financial interests, and CSOs with their emphasis on creating “public good” are often complicated and become even more so when the two divergent interests must work together for a common goal, which both parties assiduously try to avoid describing in specific terms for fear of antagonizing their respective constituencies. Also glossed over are considerations of how policies and priorities for the new organization would be set; how decisions as to program priorities and allocation of resources are determined; what would be the measures of success of the new enterprise and measures of public accountability and transparency. These issues fall into the category of modes of engagement and lead to the challenges of creating a governance structure that is acceptable to the two groups, and also lend credence for the new enterprise among other segments of society whose acquiescence and support is critical to the success of the enterprise.

The second challenge lies in the area of the terms of engagement. These include, among others: implementation of various organizational functions,

determination of appropriate means of undertaking various activities, evaluation of appropriate costs, and measures of accomplishments at the operational level.

GOVERNANCE ISSUES

The governance structure of a strategic alliance between a commercial enterprise and a CSO is infinitely more complex and difficult to manage despite its somewhat simpler goal than that of a large corporation or an industry group with multiple product groupings and diverse areas or geographical regions. For example, while a corporate board may contain a number of independent outside directors, they all share a common allegiance to the company's shareholders. However, a partnership between a corporation or industry-group and a CSO does not have a shared vision in practical terms. While the new entity may espouse a joint vision of creating an eco-friendly environment, sustainable development, or human rights protection, the fact remains that any reforms would have to come through changes in the corporation/industry's current practices; may involve higher costs; and, carry an implicit admission on the part of the company/industry that its prior practices were socially unacceptable – a proposition which the company is loathe to accept and would find considerable resistance among its managers, employees, shareholders, and even customers. Therefore, the corporate partner would make every effort to control the governance structure – either through procedures or through financing – to ensure that its lofty commitments of “social good” are suitably tempered when applied to specific activities and targets of achievement.

The CSO partner faces an entirely different set of challenges, which unfortunately puts the CSO in a weak bargaining position both at the beginning of the new relationship and as it progresses into successive stages of implementation.

- (a) In its efforts to gain legitimacy, the corporate/industry partner seeks the cooperation of the most respectable and highly recognizable CSO partner. Such a partner would have (a) a high level of credibility among its constituencies, and (b) expertise on the social issues to be addressed by the new partnership.

- (b) The large CSO entering into such a partnership also recognizes that it must accept certain risks of less than promised delivery of performance, in order to engage the corporation/industry in a new mode of cooperation. Thus it accepts highly lofty public promises of the new organization's potential.

- (c) In a similar vein, the CSO accepts a secondary role in the governance structure, although in appearance it might seem otherwise. For example, the CSO may hold the chairmanship of the board, but the CSO membership may be in minority. Moreover, my experience and knowledge of a number of such partnerships suggests that corporate/industry partners also gain an upper hand because their representatives can devote enough corporate resources to argue more successfully in support of certain positions and policies, which CSO representatives would be hard pressed to reject for fear of appearing dogmatic, unreasonable, and not accommodating of the real limitations and operational constraints of the corporate partners.

- (d) As the new partnership progresses over time and in its activities, the balance of power shifts toward the corporate enterprise, because:
 - (i) corporations have extensive knowledge of operational practices, and through subtle financial controls, delay or accelerate certain changes that would beneficially impact corporate goals;

- (ii) corporations count on the reluctance of the CSO to openly challenge corporate conduct and risk declaring the partnership a failure;
- (iii) this situation continues to exacerbate with time because the CSO partner feels increasingly helpless to admit failure and risk diminished credibility with the CSO community.

The above-mentioned scenario is not an “extreme case” but a more commonly observed phenomenon. One has only to examine a number of industry-wide codes of conduct where CSOs provide oversight, work from within as strategic partners, and provide certification and reputation branding for the company/industry’s products and services. I also do not put the entire blame on corporations or industry groups for this state of affairs. I believe it is embedded in the structure of governance and operations of the corporate-CSO partnerships that are currently *en vogue* and give the commercial partner both the opportunity and incentive to exploit its competitive advantage in the partnership.

The CSO partners must also bear some responsibility for this state of affairs. In their anxiety to make progress, and show concrete results, they often yield to corporate entreaties for diluting acceptable levels of conduct, which should be determined on the basis of long experience and mutual trust. Instead, it is presented as a necessary pre-condition to make the new partnership possible.

SOME CONCLUDING REMAKES

Despite a large number of business-CSO alliances, it would be difficult to assert that we have made substantial progress in addressing business-society conflicts or in making a dent in coping with the underlying problems whether they

pertain to sustainable development, environmental protection, human rights, or worker exploitation. A large number of such cooperative projects have been in the form of industry-wide codes of conduct. With few exceptions, most of these codes have not gone beyond the rhetoric stage and have created an even larger residue of public distrust.

Corporate-CSO alliances may be quite desirable under certain circumstances, while in another set of circumstances these may be counterproductive. It would depend, among other things, on the nature of the partner, the type of issues to be resolved, and the industry's willingness to make meaningful commitments to modify its conduct. Some industry-CSO partnerships carry a higher risk of non-performance because of inherent heterogeneity among industry members, and problems of free rider and adverse selection.

CSO bargaining leverage, however acquired, must be large enough to resist pressure to dilute performance standards and achievement targets. Industry members would always have the temptation to seek such dilution because of internal pressures. Moreover, it should be recognized that CSO leverage generally diminishes with time while the corporate partner's reputation increases if for no reason than that the partnership has survived. Therefore, to protect their bargaining leverage and their reputation:

- (a) CSOs must choose their industry partners carefully to avoid the problem of adverse selection. Similarly, they shouldn't be caught in the industry's entreaties to involve the maximum number of industry participants. This would cause the alliance to suffer from the free rider problem. As a matter of fact, industry insistence toward maximum participation is often used as a ploy to postpone meaningful reforms. A requirement of maximum participation tilts

the balance of power to the most recalcitrant members of the group and gives them effective power against reform.

- (b) CSOs should take a stepwise approach where there is greater emphasis on “quantifiable deliverables” and less dependence on mutual trust until it has been earned.
- (c) All such alliances should be created with a degree of skepticism and initial “unbridled optimism” must be curbed.
- (d) Like in any good strategic alliance, CSOs must develop a cold-eyed, calculated exit strategy, which depends on a careful cost/benefit analysis of gains achieved and expected risks and rewards for further steps toward strengthening the partnership.
- (e) Contrary to industry’s desire to keep most activities of the new partnership confidential, timely and full disclosure must be an integral part of the terms of engagement. CSOs should insist on maximum transparency and regular disclosure to sustain public pressure for deliverable performance, and also to maintain their own credibility among their constituencies and public at large.

Thank you.