

Chapter 2: Assess the Business Context for CI

“The ability to demonstrate good social and community development practices makes us an attractive partner for governments, opening up new business opportunities.”

—ArcelorMittal³

FOCUS ON THE BUSINESS CASE

In a strategic approach, making the link between a company’s community investment objectives and its business objectives is essential. This step is often bypassed, however, due to a general assumption that anything “good” done for communities—such as building a clinic or donating to a local cause—will translate into goodwill with the local population (which, in turn, will benefit the company). In reality, this outcome cannot be taken for granted. As many companies have discovered, it is quite possible to invest considerable resources in CI and yet have little to show for it (e.g., in terms of improved local support or less social risk).

Increasingly, leading companies are able to articulate internally and to their shareholders a clear business case for pursuing a CI program. Yet not all companies are comfortable doing this. Depending on their corporate cultures, some companies may be reluctant to make their underlying interests explicit. They may even object to the notion that community investment needs a business case.

In the past, separating CI from business interests was done so that, in theory, CI programs could focus on “doing good” without being seen as “self-serving.” In practice, however, the separation from core business weakens CI in terms of its relevance, sustainability, and effectiveness. Experience suggests that closer alignment between business operations and CI programs produces better outcomes for both the company and local communities.

WHY COMMUNITY INVESTMENT PROGRAMS PERFORM BETTER WHEN THEY ARE ALIGNED WITH THE BUSINESS

- When CI is aligned with a company’s business strategy, it is likely to receive more internal support and resources from management and shareholders
- When CI programs are integrated with business operations (rather than implemented separately), this enables more effective coordination with other business units on the day-to-day interactions and issues that can impact the company-community relationship
- When the link between CI and business objectives is understood by staff and management, core competencies and resources across the business can be more readily accessed and leveraged for the benefit of local communities
- When CI is geared toward specific business objectives, activities tend to have greater focus and direction than when the purpose is not well-defined
- When CI has a clear business case, the program is more resilient to budget cuts (versus pure philanthropy, which tends to disappear during economic downturns)
- When a company is clear about why it supports CI and what it hopes to achieve, the “return” on investment can be more readily measured and articulated

Link CI Strategy to Business Drivers

Channeling development benefits to local communities through CI can generate a wide range of direct and indirect business benefits. The pursuit of these benefits, or “business drivers,” is what motivates companies to support CI programs. Once a company identifies the key business drivers to which CI can most readily contribute (such as gaining a “social license” to operate in the case of a mine or a hotel, or meeting global certification standards in the commodities sector), these can then be used to drive the strategy.

It can be argued that many of the business drivers for CI are the same as those for “sustainability” or “social performance” programs more broadly. This is true, because in most cases CI will not be the only, or even the primary, vehicle a company should use to address community issues; rather, CI will be a supplementary, strategic tool for further enhancing local benefits.

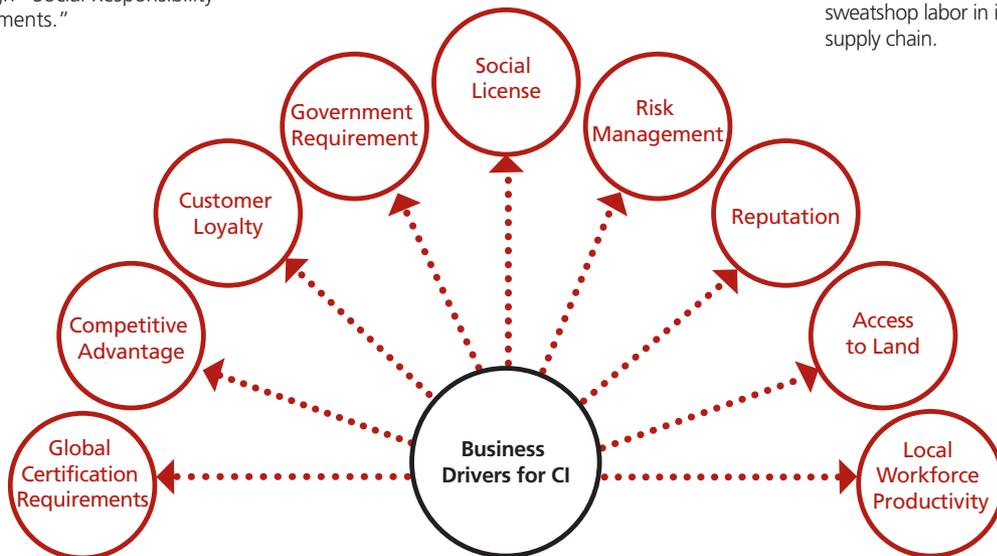
Figure 2.1: Examples of Business Drivers for CI⁴

Timber Resources Management

legislation in Ghana requires logging firms to commit a portion of their financial resources toward the provision of social infrastructure and services to local forest communities through “Social Responsibility Agreements.”

Sino Gold’s Jinfeng Mine was able to build its social license to operate in the Ghizou province, one of the poorest in China, by committing to a ten-year program of community development in consultation with local stakeholders.

Levi Strauss partnered with a local NGO in Bangladesh to provide workers’ rights education and microenterprise support to female garment workers in response to criticism of sweatshop labor in its supply chain.



Universal Sodexo’s innovative approach to supporting aboriginal people in developing indigenous enterprises helped the company win a major food and facilities maintenance contract with Rio Tinto.

The Roundtable on Sustainable Palm Oil has principles and criteria for smallholders, requiring contributions to local sustainable development.

In East Africa, **Serena Hotels’** HIV/AIDS program—including outreach to communities—resulted in dramatic workforce productivity gains due to reduced mortality, lower health insurance premiums, and less absenteeism.

Develop Your Business Case for CI

The key ways in which community investment can help a company to meet its business objectives and reduce its risks (relative to costs) constitute the “business case” for CI. To define the business case for your community investment program, follow these key steps early on:

1. **Identify your company’s broad business objectives** and the steps necessary to reach them.
2. **For each business objective, identify the underlying business “drivers” or “benefits”** that could be facilitated by community investment.
3. **For each driver, consider if and how CI could contribute.** Be specific.
4. **Prioritize those areas where CI is likely to make the biggest contribution** to facilitating business strategy and objectives.
5. **Formulate the business case** by describing the key ways in which community investment can help the company meet its business objectives and reduce its risks.
6. **Further develop and quantify the business case for CI**, based on estimated costs versus estimated value of community investment in helping the company to achieve its specific business objectives.
7. **Use the business case to strengthen corporate commitment and secure resources** for CI.
8. **Ensure the link between your CI program and the business case** by checking that your CI strategy objectives and business objectives are aligned.
9. **Think about, and discuss internally, what other company actions may be needed** (in addition to CI) to successfully deliver on the business case.

Table 2.1: Example - Making the Business Case for Community Investment

Business Objectives	Business Drivers	Business Benefits of CI	Business Case for CI
To define and approve a project within two years	<ul style="list-style-type: none"> – Risk management – Social license – Government approval – Access to land 	<ul style="list-style-type: none"> – Builds trust, credibility, and local support – Enables access to area – Lowers risk of opposition 	Estimated costs of CI relative to estimated value of business benefits generated
To maximize value for all our stakeholders	<ul style="list-style-type: none"> – Risk management – Social license – Government approval – Local workforce productivity – Reputation 	<ul style="list-style-type: none"> – Lowers risk of disruption or stoppage – Visibly demonstrates local benefits/development impact – Improves skills and lowers absenteeism 	Estimated costs of CI relative to estimated value of business benefits generated
To achieve the highest global standards on health, safety, security, and environmental and social sustainability	<ul style="list-style-type: none"> – Risk management – Adherence with global industry standards – Reputation – Competitive advantage 	<ul style="list-style-type: none"> – Lowers risk of anti-company sentiment, protests, and stoppages – Diffuses social tensions by demonstrating corporate commitment to local development – Enhances reputation 	Estimated costs of CI relative to estimated value of business benefits generated
To build long-term, successful relations with stakeholders	<ul style="list-style-type: none"> – Social license – Reduced operational risk 	<ul style="list-style-type: none"> – Visibly demonstrates benefits-sharing – Helps build trust and local support – Shows corporate commitment to tackle long-term development challenges 	Estimated costs of CI relative to estimated value of business benefits generated
To be the company of choice in our industry	<ul style="list-style-type: none"> – Competitive advantage – Reputation – Access to approvals and capital 	<ul style="list-style-type: none"> – Creates competitive differentiation through sustainability track record (of which CI can be an important component) 	Estimated costs of CI relative to estimated value of business benefits generated

Try to Quantify CI's Business Value

Maximizing business value involves both value creation and value protection. Companies can take actions or make investments that create direct value by, for example, decreasing the cost of inputs or boosting worker productivity. At the same time, they can also protect existing value through actions or investments that reduce project or reputational risks and avoid incurring costs related to such risks.

Quantifying the business case for community investments that create value (e.g., community HIV/AIDS programs that reduce health care premiums and lower absenteeism rates) is fairly straightforward. However, financial valuation of community investments that protect value by building “intangibles” such as trust and goodwill—or by decreasing the potential risk of delays, disruptions, or negative effects on corporate reputation—is more challenging. Even though these metrics can be difficult, quantifying the benefits generated by CI programs and other types of sustainability investments is helpful in order to strengthen the business case. (See Chapter 8 for further discussion on emerging financial valuation models.)

THE COSTS AND BENEFITS OF SECURING COMMUNITY SUPPORT (PHILIPPINES)⁵

The Malampaya Deep Water Gas-to-Power project is a \$4.5 billion joint venture of the Royal/Dutch Shell subsidiary Shell Philippines Exploration, Chevron Texaco, and the Philippine National Oil Company. The project illustrates how a potentially controversial, high-impact infrastructure project can avoid costly community opposition through ongoing efforts to secure and maintain consent throughout the project cycle. In Malampaya, the costs of gaining community consent proved to be minimal in comparison with total project costs. Even using conservative “base estimates” of potential delays due to community opposition, the project sponsors received benefits that were worth many times these costs. In addition, Malampaya has generated broader reputational benefits for Royal/Dutch Shell.

Costs and Benefits of Gaining Consent from Communities

Activities	Costs	Results	Benefits/Avoided Costs
General Community Engagement/ Consultations (including resettlement)	USD \$6 million	<ul style="list-style-type: none"> – Construction ahead of schedule by 3 months – Contractual penalties avoided – Project delays from laying of pipelines avoided 	<ul style="list-style-type: none"> USD \$36 million USD \$10-30 million USD \$4-6 million
Total Costs	USD \$6 million	Total Benefits	USD \$50-72 million

VALUING SUSTAINABILITY RISKS IN THE EXTRACTIVES SECTOR⁶

In a review of 83 cases from the oil, gas, and mining sectors, 50 cases reported “risk events” related to sustainability issues:

- Delays in planning phase – 10 cases
- Delays in construction phase – 5 cases
- Disruptions in production phase – 17 cases
- Project expropriation – 12 cases
- Added costs (e.g., litigation) – 24 cases

A preliminary exercise based on the case reviews looked at the potential costs of disruptions during the production phase of a project and made the following rough assumptions:

- Likelihood of 3-6 disruptions in the first 10 years of operation
- Likelihood of 8-20 disruptions in the subsequent 40 years
- Likelihood of 3-6 disruptions in the last 10 years
- Approximate duration of disruptions ranged from 2 days to 2 weeks
- One-time-costs per disruption ranged from USD \$140,000 to \$700,000 (assuming management time, contract penalties, and legal and consulting fees)
- Recurring costs ranged from USD \$7,700 to \$154,000 per month (representing between 40-80 percent of total planned operating costs)
- Lost revenue from production ranged from 20-80 percent (although companies interviewed stated they could usually make up for revenue losses from short-term production disruptions)

UNDERTAKE A COMPANY DIAGNOSTIC

A useful starting point for many companies wanting to adopt a more strategic approach to community engagement and investment is a company diagnostic or assessment. This exercise can be undertaken as part of an internal strategy workshop with key internal stakeholders from relevant business units, and may include some or all of the following steps:

- Establish the Vision
- Review and Assess Existing Company Activities and Programs
- Ensure Cross-Functional Coordination and Internal Alignment
- Identify Core Competencies and Nonfinancial Resources to Support CI

Establish the Vision

Developing a CI strategy typically begins with a collective vision or sense of purpose, which can vary significantly from one company to the next due to differences in corporate culture. What is the company's view of itself? What does it stand for and how does it want to be perceived by the local community and other stakeholders? What does it see as its role in promoting local development? (Benefactor? Catalyst? Implementer? Advocate?) What legacy does it want to leave behind? These are important questions to be clear about upfront, because they will drive the type of approach a company will take, and can significantly influence—or even predetermine—the type of community investment activities a company will support.

For some companies, the “vision” and even the specific areas of intervention for CI are decided at a corporate level. For example, one company might have a corporate policy that states that it will contribute to literacy and access to clean water in places where it has operations. Another may have a CEO whose personal commitment to biodiversity conservation and HIV/AIDS prevention influences the type of programs the company will support. Still other companies may choose to delegate these decisions to their local operations to determine CI priorities based on the local context. Regardless of the approach taken, it is important to acknowledge these factors up-front and communicate them clearly to local stakeholders when commencing discussions on community investment priorities.

“The wellbeing of the communities from which we draw our agricultural raw materials and local labor is vital to our success as a business and to our shareholder value.”

— Nestlé⁷

HOW COMPANIES DEFINE THEIR VISION FOR COMMUNITY INVESTMENT⁸

Microsoft

Microsoft's mission for community investment is to enable social and economic opportunity, transform education and foster local innovation, and enable jobs and economic opportunity.

Nestlé

Creating shared value is a fundamental part of Nestlé's way of doing business that focuses on specific areas of the Company's core business activities—namely *water, nutrition, and rural development*—where value can best be created both for society and shareholders... Under rural development, the wellbeing of the communities from which we draw our agricultural raw materials and local labor is vital to our success as a business and to our shareholder value.

Dialog Telekom

At Dialog Telekom, we realize that to be a leader in any chosen field, a corporation has the responsibility to not only ensure its own sustainability but also contribute to the sustainable development of the environment it operates in. As a Group in the Global South, this responsibility means that we strive to use our core competence in digital technology for community benefit, in support of [Sri Lanka's] national development and the United Nation's Millennium Development Goals.

Favorita Fruit Company

Our Vision: The Wong Foundation (established by Favorita fruit to channel its social investments) exists in order to develop a new generation of Ecuadorians—healthier, better educated, more responsible and productive—towards a prosperous, efficient Ecuador.

Review and Assess Existing Company Activities and Programs

As discussed in Chapter 1, it is important for a company to review its performance in the three key areas of (i) impact management, (ii) stakeholder engagement, and (iii) local hiring and procurement to assess whether there are concerns or room for improvement, and to take action. The self-assessment questions (provided on page 4) offer a good place to start.

For companies already engaged in providing support to local communities, a self-assessment should include a stock taking of activities to determine which initiatives are working well and which are not. This exercise serves to identify gaps (if any), build on successes, and point out activities that may need to be made more sustainable or realigned more closely with the business case. (For guidance on phasing out or restructuring existing programs that are not sustainable, see turnaround strategies in Chapter 6.)

Some companies also find it useful to get the *community* perspective on these questions, including how successful (or not) existing initiatives have been and how the company and its efforts on CI are viewed. One way to do this is by engaging a third-party to conduct perception surveys. (See Chapter 8 for more information on perception surveys.)

ALIGN INTERNAL FUNCTIONS TO SUPPORT CI

Goodwill generated by CI programs can quickly evaporate if actions undertaken by other parts of the business generate conflict or negative perceptions of the company.

Goodwill generated by CI programs can quickly evaporate if actions undertaken by other parts of the business generate conflict or negative perceptions of the company among local communities. Most companies, especially in the earlier stages of the project cycle, have day-to-day interactions with local stakeholders that are separate from community investment activities. These may include engagement around project issues such as land acquisition, compensation, or management of environmental and social impacts. These activities can also involve interaction with construction crews and contractors, or have to do with jobs and local contracting matters.

While responsibility for community relations usually rests with the community relations manager, the reality is that a community's daily interactions with other business units (over which this person may have a low level of control) can significantly influence local attitudes about the company—either positively or negatively. Cross-functional coordination and shared accountability across departments or business units is therefore needed to effectively manage both CI and community relations more broadly. It is also important that all staff be aware of the company's CI strategy and understand their roles as "ambassadors" of good company-community relations. Here, senior management support is key.

THE IMPORTANCE OF CROSS-FUNCTIONAL COORDINATION

- Ensures that day-to-day interactions with communities by other business units support the overall CI strategy and do not undermine CI efforts
- Creates understanding and buy-in for CI from functional units, including clarification of roles and accountability for supporting business objectives related to community relations
- Brings together the perspectives and expertise of different functional areas within the company to assess existing impacts, benefits, and opportunities for CI
- Helps leverage a wide range of resources, skills, and competencies across the business in support of local communities

Table 2.2: Potential Interface Between Business Units and Local Communities

Functional Teams	Community Interaction
Business Development/ Feasibility	Initial contact with communities
Human Resources	Local employment, hiring, salaries
Land Acquisition	Land negotiations, resettlement, compensation
Procurement	Local contracts, sourcing of goods and services
Engineering and Logistics	Project infrastructure siting and development
Environmental and Social Management	Environmental and social impacts—avoidance, mitigation, and compensation
Community Liaison	Broader stakeholder engagement processes and grievance management
Government Relations	Liaison and coordination with relevant authorities and government units
External Relations/ Communications	Working with media and key external audiences, internal communication
Contractors	Construction activities, workforce interaction, transport/ trucking
Security	Company personnel and/or external contractors providing security

Figure 2.2: Examples of Community Investment Linked to Business Competencies and Resources⁹

Deutsche Bank's employee volunteer program capitalizes on a core competency—its microfinance know-how—to deliver high-quality pro bono consulting services to microfinance institutions in emerging markets.

Nestlé supports the Philippine government's "Donate-a-Classroom Program" to help alleviate the critical shortage of classrooms. Under the program, the company donates space in its local factories to be used as public school classrooms.

Microsoft and the Aga Khan Foundation have partnered to establish Community Technology Learning Centers in remote rural areas of Pakistan to foster new social and economic opportunities.

Somboon Potash Mine worked with local farmers in Thailand to increase yields through the use of fertilizers (of which potash is a key ingredient).

Google Earth uses its cutting-edge technology to help Amazonian Indians monitor forest destruction.

Himal Power leveraged its contacts with UNDP and the Nepal Government to create a rural electrification system for surrounding villages.

Shell Foundation was able to bring domestic banks and other investors to the table to unlock access to finance for micro-entrepreneurs.

Apollo Tyres sends its master trainers to educate its supply chain partners on awareness and prevention of HIV/AIDS. Point-of-tire sales have also become an important avenue for disseminating health information to consumers.



A strategic-minded company tends to support CI programs and activities in areas where it, as a business, has the most to offer, and where there are links to its business interests.

BUILD ON CORE COMPETENCIES AND BUSINESS LINKS

Companies are encouraged to assess the full range of their business competencies to see how they might take advantage of these to help advance local development efforts. In other words, what else can companies bring to the table besides money, and what comparative advantage do they have over other actors? A strategic-minded company tends to support CI programs and activities in areas where it, as a business, has the most to offer, and where there are links to its business interests. In addition, leveraging nonfinancial company resources can increase efficiency and multiply the value that business can deliver. This is important because development needs inevitably outstrip CI budgets.

Table 2.3: Sample Worksheet for Brainstorming Business Competencies and Resources

The community investment manager might meet with managers from the other business units within the company to brainstorm an initial list of competencies that can contribute toward the community investment program. This list can be strengthened or formalized through an internal alignment workshop and further developed over time as specific projects are agreed to with stakeholders.

Type of Skill, Competency, or Resource	Description	Contributing Unit or Department	Potential Community Application/Benefit	Timeframe
Staff Skills and Expertise -Financial -Legal -Technical -Engineering -Planning -Accounting -Medical -Human Resources -Other				
Facilities				
Logistics, Transportation, and Communications				
Government Contacts				
Donor Contacts				
Supplier Contacts				
Equipment and Supplies				
Technology				
Volunteer Time				
Data, Studies, Assessments, and Statistics				
Convening Power				
Advocacy				
Procurement				
Catering				
Other				

DIALOG TELEKOM (SRI LANKA) - HARNESSING CORE COMPETENCIES IN INFORMATION AND COMMUNICATIONS TECHNOLOGY¹⁰

Dialog Telekom defines strategic community investment as sustainable long-term investments, in communities where the company operates, that are aligned with a clear business case. Based on this philosophy, Dialog Telekom has developed numerous community investment initiatives that combine local partnerships with harnessing its core competencies in information and communications technology:

- Creating wireless accessibility for an SMS-based emergency call system for the hearing and speech impaired.
- Collaborating with the National Blood Transfusion Service of Sri Lanka to create an SMS blood appeal, matching, and donor management system.
- Collaborating with the Disaster Management Center to create Sri Lanka's first mass alert early warning system for emergencies and disasters.
- Creating a customer care, billing, and relationship management system that allows post-paid subscribers to donate a percentage of their Dialog Telekom bill to the company's Change Trust Fund (up to a maximum of SL Rst 25). The company makes a matching donation, and the funds collected are used to support community projects throughout the country.
- Engaging students in real-time interactive learning from experienced teachers.
- Collaborating with an NGO to create an e-village, combining connectivity with capacity-building programs (e.g., computer and English training to facilitate the creation of new information technology-based livelihoods and improving the productivity of existing livelihoods).



© Dialog Telekom