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Corporate Social Responsibility Frameworks

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DEFINITIONS OF CSR

Ramon V. del Rosario: Ramon V. del Rosario Sr. at the formal launch of the AIM-RVR Center in July 2000, stated that:

> "When we build an organization, especially one involved in making a profit, we see ourselves intricately linked to our employees, suppliers, customers, creditors and shareholders. This is the most basic form of corporate responsibility. As business leaders, we are directly responsible to those with whom we have entered into a compact – those we call our immediate and most important publics... Here, corporate responsibility is to do not only what is required, but more importantly, to do what is right. This may be difficult because the costs can be that much higher. However, if responsibility is about good governance, then the decision must be couched in the following terms:
>
> - We do what we must do – that is, to be true to our values and principles.
> - We do what we should do – to raise the value of our enterprise
> - We do what is best to do – to meet the highest standards possible
>
> When we begin to gauge our corporate responsibility in such terms, we are now going beyond our immediate publics. The stakeholders in our enterprise are now much broader. They include the society in which we are a part; the community

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> at large; and even the global community – certainly those who have a stake in the environment.
>
> Corporate responsibility is neither simple nor compartmentalized. It requires a great degree of foresight and vision among all members of the corporation from top management to rank-and-file workers. And it calls for grounding in reality because ultimately, corporate responsibility is about action.

According to Alfonso, Jikich and Sharma, Corporate Social Responsibility represents an important component of a broader commitment to sustainable development and managing the "triple bottom line" of social, economic, and environmental performance. The essence of Corporate Social Responsibility is largely personal and highly individualized. In the end, CSR means all things to all people. Some consider CSR as an act of providing a human face to their operations; others engage in these initiatives because of their innate and deep-rooted commitment towards their actions. Still, with others, perhaps the sheer threat of regulation and mandatory standards drives them to practice social responsibility.

Beyond these considerations, there is also a compelling business case for CSR. There is evidence to indicate that corporations that conduct themselves in a socially responsible manner also benefit in terms of consumer loyalty, good public image and shareholder approbation. Depending on particular circumstances and specific business drivers of a corporation, its ability to engage in CSR can may aid them when it comes to managing risks, as well as identifying and capturing new business opportunities.[1]

Second, 'responsibility' is a value rooted in fundamentals – that is, in the early stage of our upbringing. Fairness dictates that each individual ought to be responsible for his or her personal actions. On a macro scale, it is imperative for corporations to realize that their private decisions also have very public effects. In order to be fair to themselves and to the society, they need to know the scope of their "societal footprint". Responsible behavior, therefore, is a personal discretion driven by inner conscience and enforced by outer consciousness.[2]

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[1] Alfonso, Felipe B., Branka A. Jikich and Prakhar Sharma. *The Rise of Socially Responsible Business*Proc. of Asian Forum on Corporate Social Responsibility, 2003. Manila: Asian Institute of Management Ramon V. del Rosario, Sr. Center for Corporate Responsibility, 2004. Print.

[2] *Ibid.*

Another definition comes from the World Business Council for Sustainable Development: "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community at large."[3]

THE FRAMEWORK: A BUSINESS MODEL APPROACH TO CORPORATE RESPONSIBILITY

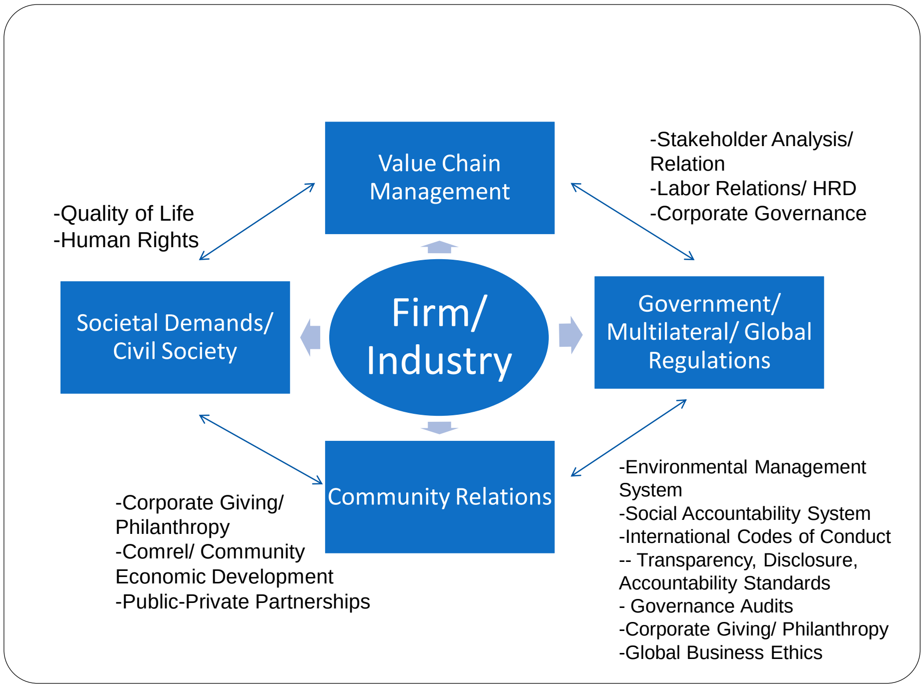

Figure 1[i]

An early framework (2001) focused on forces that drive CSR. Companies implement Corporate Social Responsibility (CSR) in order to address different stakeholder concerns. Stakeholders are categorized as either internal (employees) or external (e.g., community, government and civil society). With these publics in mind, the firm's CSR also becomes multi-faceted, and management of the firm's value chain is one of the basic forms of CSR.

Compliance to local laws, corporate governance policies and employee relations are part of value chain management. Community relations activities that address community concerns include philanthropic activities (e.g., generating scholarships), community development activities and public-private partnerships. Governments and multilateral organizations recognize the

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[3] *Ibid*., p.2.

important role that the business plays in addressing social concerns; hence, it becomes part of their initiative to promote responsible business practices, including international standards on labor, the environment and corporate governance. An example is the ISO14001 on Environmental Management Systems, which spells out the environmental standards that have been set for CSR initiatives. Companies may then apply for this certification in accordance with these ISO standards.

Finally, companies also address the concerns of society at large when they address issues such as human rights and the improvement of the quality of life. Multinational Corporations (MNCs), for instance, have recognized that it is imperative to address human rights concerns in their own operations even if local laws do not require it. An example of one scenario relevant to this issue was when Nike experienced boycotts in the nineties due to the questionable labor practices of their contractors in developing countries.

THE CHANGING REALITY OF THE NINETIES AND CHANGING SOCIAL CONTRACT

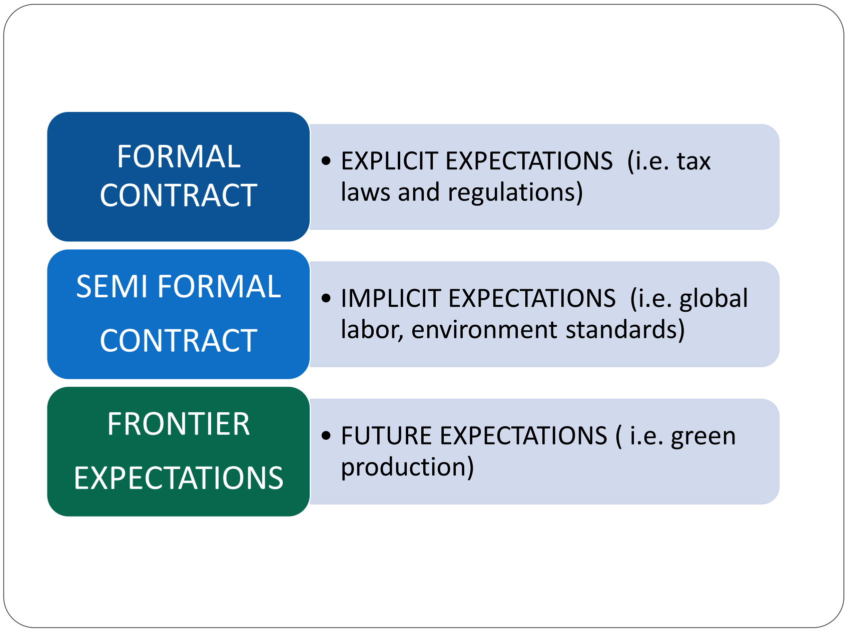

Figure 2[ii]

CSR evolves with the political and economic landscape and in the way non-business institutions approach public issues and problems. In the nineties for instance, the Earth Summit in Rio de Janeiro rearranged roles for the different sectors (e.g., government, business and civil society) in order to formulate a renewed understanding on sustainable development issues. Business leaders and governments needed to manage the process of social dialogues in order to be more inclusive, recognizing that all stakeholders could not be ignored. Business, especially, can use its capabilities to create solutions to social issues.

The changing social contract meant that aside from the traditional expectation that businesses pay taxes, there were also implicit expectations that businesses follow international standards pertaining to environment and labor. Customers from developed economies expect that the companies operate in a responsible manner even though meeting certain standards may not be mandatory in the country where they operate.

Macro concerns and trends such as local laws, as well as industry standards and practices, have a great influence on the company's operations. The framework considers formal and informal structures that affect and influence the company's operations based on its location and area of operation. It is important to note, however, that even as the three categories remain, the respective components will change. What was once a frontier expectation – such as a "green" supply chain – might be an explicit demand when it comes to particular industries.

MAPPING CSR: ISSUES AND STAKEHOLDERS

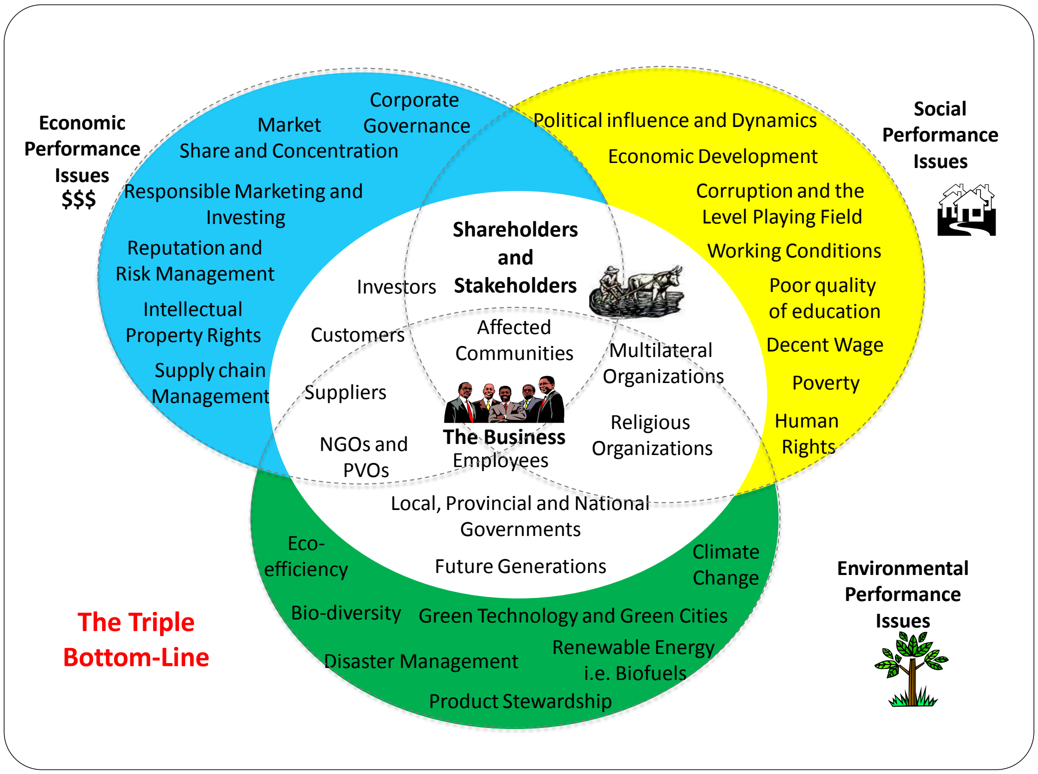

Figure 3[iii]

The triple bottom line is composed of three factors: economic, social and environmental. Balancing these factors is important in ensuring profitability while addressing social and environmental issues. In doing so, it is important to take into consideration the interest of all shareholders and stakeholders of a company. Shareholders' interests still dominate the discussion as the owners of the company – their goal, more often than not, is to generate profit; without profit, a business would not be sustainable, and it would be impossible to practice CSR.

DRIVERS OF CSR

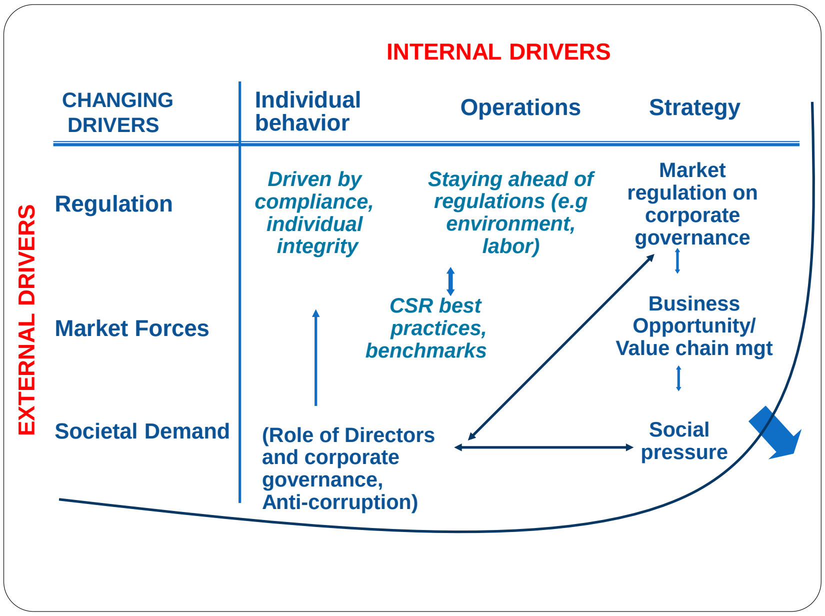

Figure 4[iv]

This framework revisits and expands the discussion on CSR drivers. External drivers include: 1) laws and regulations, 2) market forces, and 3) increasing societal demand for companies to improve the manner in which they operate. The principal internal driver of CSR is individual behaviour. Family owned corporations in Asia began their philanthropic activities precisely because the initiative came from their owners. Multinational corporations (MNCs) relate the importance of CSR to improving operations and building brands.[4]

Regulations drive CSR by requiring compliance at the minimum. Business should pay the right taxes and follow the laws. Individual behaviour driven by personal integrity should influence corporate ethical behaviour, especially at the senior management level.

Market forces are also a major driver of CSR. The notion of best practices has been linked to CSR and this has led to the development of benchmarks or “collective best practices” to influence industry practices.

Societal demand has led to the incorporation of CSR into a firm’s business strategy. Companies start with internal drivers as a way to manage external demands on responsible

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[4] Luz, Juan Miguel. *Corporate Social Responsibility in the Global Community: From Managerial Behavior to Best Practices to Business Models*. Paper Presented at the APEC Young Leader’s Forum, 2001; and Alfonso, Felipe B. *Corporate Social Responsibility in the Global Community: A View from the Ground Building Partnership for Development*. Presented during the 1st Reinventing CSR Program, 2006.

business practices. More companies are also attracted to CSR as the opportunity to tap the bottom of the pyramid and to improve production efficiency.

LEVELS OF CORPORATE ENGAGEMENT IN SOCIAL AND ENVIRONMENTAL ISSUES

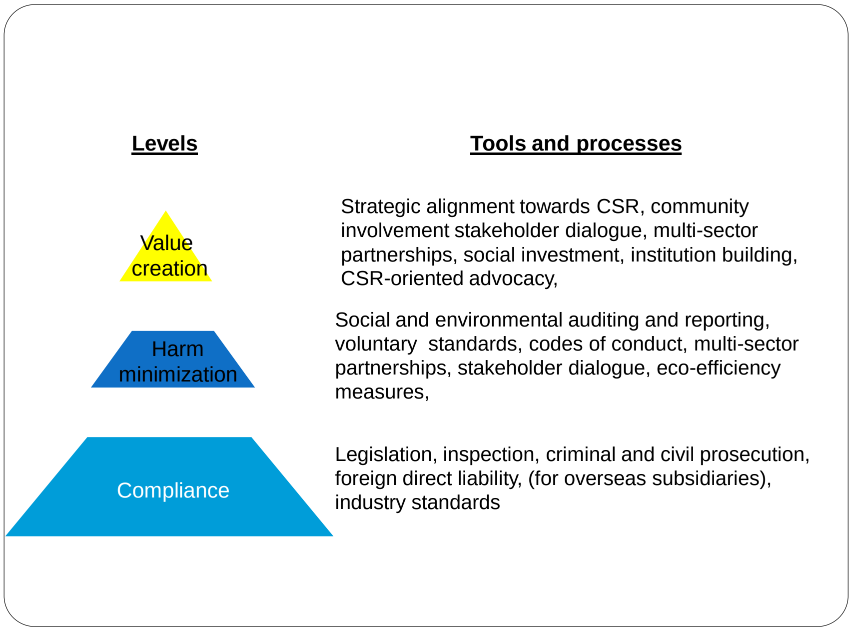

Figure 5[v]

The evolution, transition and transformation of CSR have been presented in various forms. One framework suggests that firms themselves must progress up a three-step hierarchy of accomplishments in CSR. The first level focuses only on compliance with laws and regulations to avoid penalties. The second level refers to company actions to minimize harm to society and to the environment in order to secure a Social License to Operate (SLTO). The firm goes beyond its immediate public and conducts dialogues with a broader circle of stakeholders, forging multi-stakeholder partnerships for solving public issues. The third level sees CSR as a value-creation process, a strategic part of the overall business strategy, to align its CSR strategy to its business objectives – for instance, by standing for a particular social or public cause to strengthen its reputation.[5] Note that the levels move from the external to the internal where a company should build CSR into its DNA.

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[5] Roman, Francisco L. "Philippine CSR Over Five Decades: Networks, Drivers and Emerging Views." Doing Good in Business Matters: CSR in the Philippines (Frameworks). Manila: Asian Institute of Management RVR-CSR, 2007.

FORMING THE CORPORATE RESPONSE

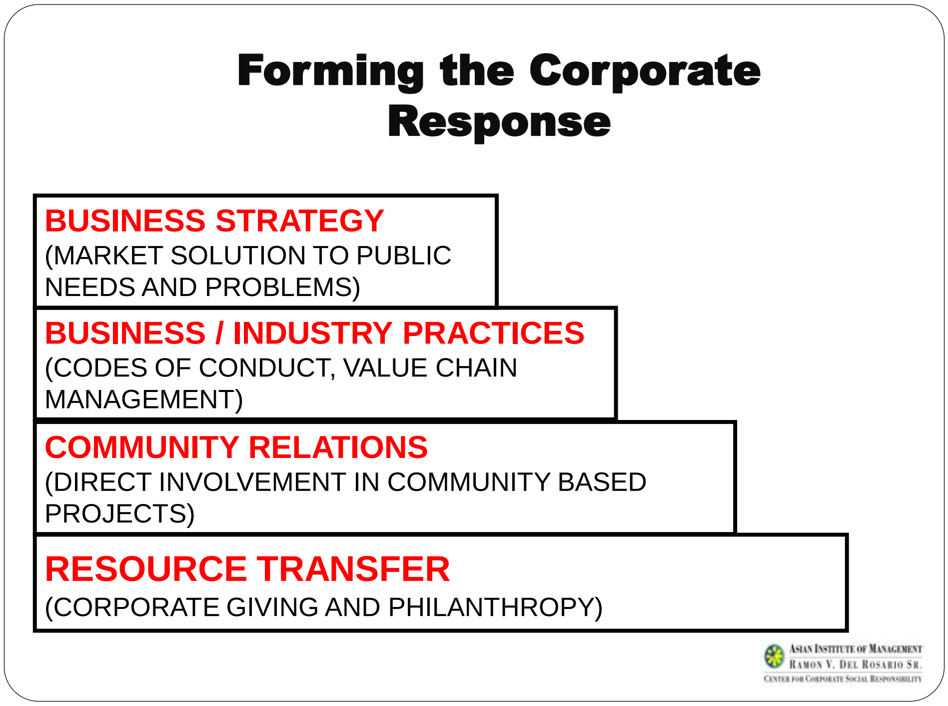

Figure 6[vi]

In another extension of the possible hierarchy of responses, Alfonso (2006) classified stakeholder concerns in terms of Resource Transfer, Community Relations, Business or Industry practices and Business Strategy[6]:

Resource Transfer refers to philanthropic activities by companies such as donating cash or equipment to a hospital, or granting scholarships to underprivileged students.

Community Relations represent community-based programs, oftentimes in consultation or in partnership with NGOs and with the community. An example would be a livelihood activity organized by a mining company for their host community.

Business or Industry Practice. Codes of conduct are linked to the company's value chain. For instance, a company might implement protocols for selecting suppliers – adherence to ISO14001: Environment Management System) and policies on dealing with government officials (e.g., no-bribery).

Business Strategy/Strategic CSR. Finally, strategic CSR is directly or indirectly linked to the company's core business and focuses on long-term sustainability. Nestlé, for one, creates

[6] Luz, Juan Miguel. "CSR's Global Evolution." *Asian Institute of Management Journal for Business and Development*, Vol. 1, no. 1 (January-June 2003): 120.

products that address social needs at prices that its consumers can afford. In its distribution network, Nestlé has also tapped individuals and trained them to become distributors of Nestlé products.[7] Using a tricycle, these individuals are able to reach areas that the company's trucks cannot access. This initiative has allowed Nestlé not only to increase its market but also to serve unmet needs at the bottom of the pyramid. Overall, strategic CSR unlocks this shared value between investors (shareholders) and communities (stakeholders) and creates a win-win situation for companies and the public.[8]

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[7] Nestle Philippines, Inc. *Creating Shared Value Report*. Manila: Nestlé, 2011. Retrieved from http://www.nestle.com.ph/assetlibraries/Documents/CSV/CSV%202011%20Report%20Philippines%20(Web%206MB).pdf

[8]Porter, Michael and Mark Kramer. "*Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility*" *Harvard Business Review*. USA: Harvard Business School, 2006.; Miral, Romulo Jr. and Julius Dumangas. *Strategic Corporate Social Responsibility Initiatives for Large Firms: Improving the Competitiveness of Micro, Small and Medium Enterprise*s. Makati: Deutsche Gesellschaft für Internationale Zusammenarbeit- Private Sector Promotion Program, 2011.

DIMENSIONS OF CSR

Table 1[vii]

Focus of accountability	*From*	Legal and traditional stakeholders	*to*	Direct stakeholders, short-term impacts	*to*	Broad range of stakeholders, long-term impact
Business case	*From*	Pain alleviation	*to*	Cost-benefit rational	*to*	Strategic alignment
Levels of engagement	*From*	Compliance with legal responsibilities	*to*	Harm minimization	*to*	Social value creation
Degree of influence	*From*	Market actions	*to*	Harm remoulding	*to*	Policy influence

Framework Seven further expands the evolution of CSR in terms of dimensions in transition. One significant example is when accountability shifts from formal or legal stakeholders (e.g., the government) to include a wider range of stakeholder groups. The SLTO is an example of new ways that the community can hold the company accountable for its operations.

Making the business case for CSR shifts from “pain alleviation,” or CSR as a stopgap measure managing crises, to Strategic CSR (or “alignment”). Although companies still practice CSR to avoid negative publicity, a growing number of companies see the value of integrating CSR into their core business. Levels of engagement and degree of influence have also evolved. Companies have migrated from mere compliance to creating value, and from responding to markets to influencing and even setting policies.

THE CSR CHALLENGE

Figure 7[viii]

The earliest RVR CSR definition of the core challenge requires a “fit” along four dimensions in order to produce value for all stakeholders, both internal and external. Thus, companies need to find the correct match between the company’s skills and resources and the social issue that it will address in order to develop products and services that promote the most benefits for the greatest number of stakeholders. Often, CSR programs fail to make an impact because the company addresses social issues that have no link to its business. In such cases, the company is unable to maximize its own resources. For instance, a bank might implement a tree-planting activity rather than leveraging the knowledge of employees in terms of sound financial and household management. Alternatively, helping micro entrepreneurs would allow the bank the tap the skills of their employees and to do more with its resources.

EVALUATING CSR OPPORTUNITIES

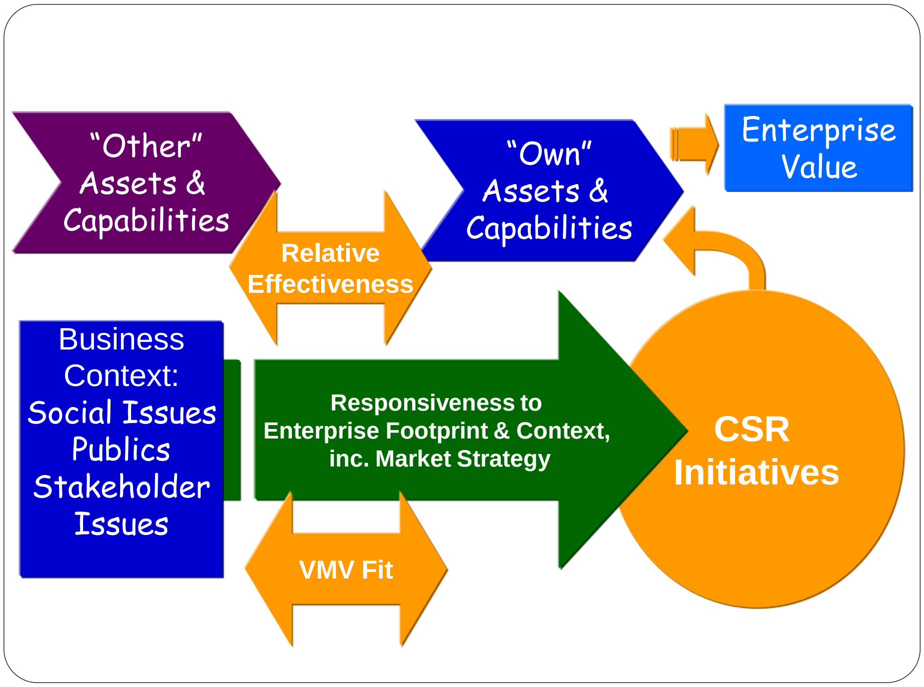

Figure 8[ix]

Opportunities in CSR involve generating CSR initiatives that in turn generate enterprise value. Company capabilities (i.e. financial resources and the expertise of its workforce) and its objectives should be maximized to address social issues. The social issue might occur in its area of operations (such as health and safety in a mining operation site) as well as the issues faced and prioritized by its stakeholders (like fund transfers nationwide for relatives in need).

The company matches its assets and capabilities with the concerns of its counterpart stakeholders. While complementing strengths are ideal, oftentimes, the company must assist its partners in overcoming deficiencies in skills and knowledge in order to create more value for business and society.

ASSETS CREATE CAPABILITIES

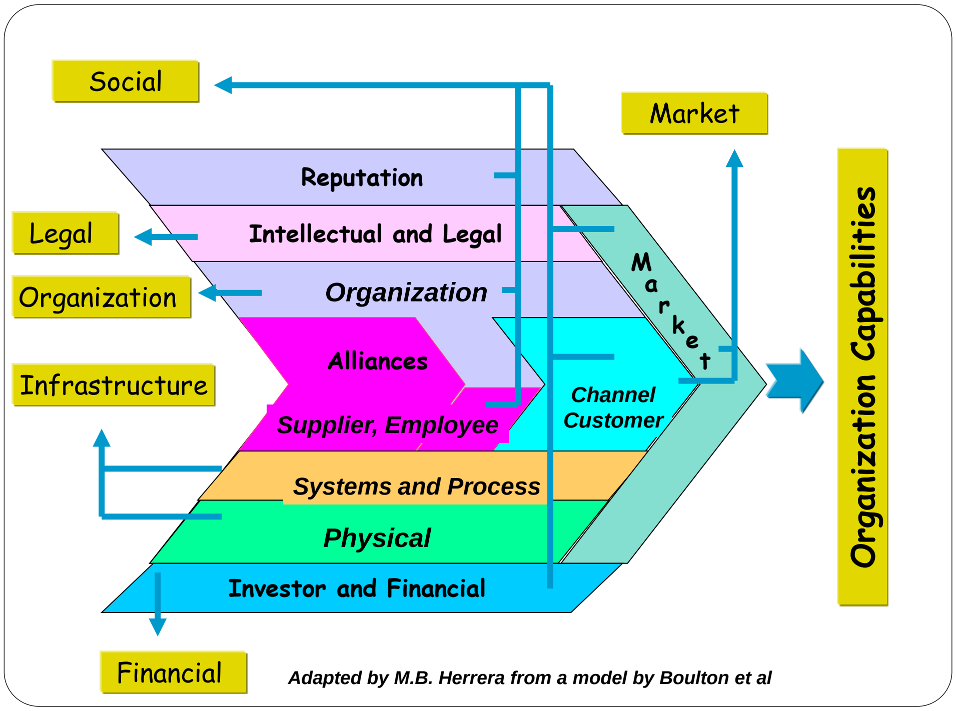

Figure 9[x]

The framework above shows the different assets of the company that can create capabilities for the company. Physical assets, as well as systems and processes, create the infrastructure in which the company operates. Investor and financial assets lead to financial capabilities of the company. The creation of social capabilities, on the other hand, is an integrative process.

STAKEHOLDER ANALYSIS

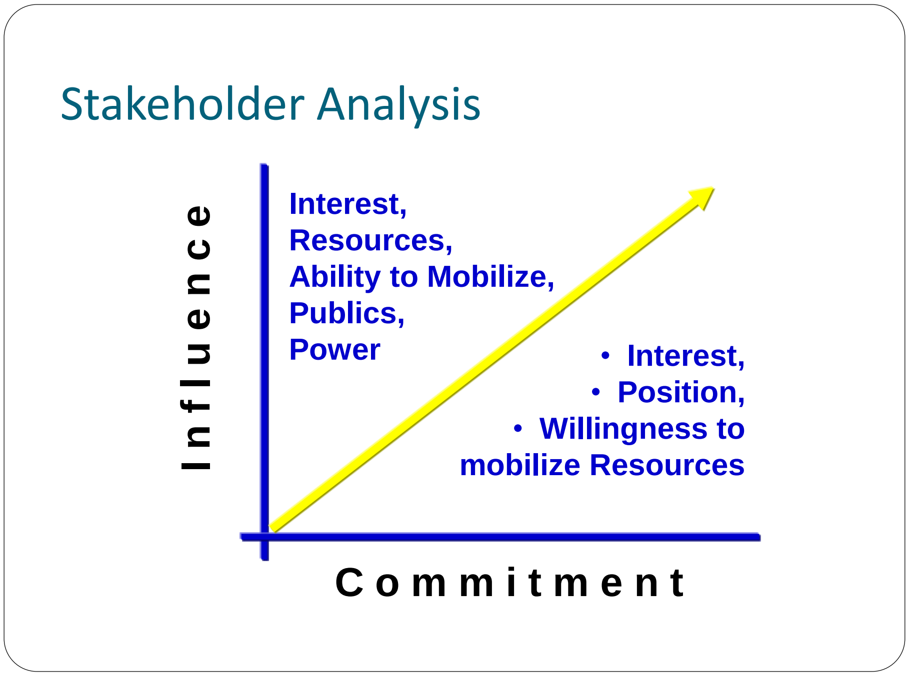

Figure 10[xi]

Different stakeholders can influence the operations of the company depending on their level of interest in the company, which oftentimes, is based on the impact of company operations on these stakeholders.

The influence of the stakeholders may be formal or informal, direct or indirect. The government, for instance, has the legal mandate to influence or even direct company operations while the community has a largely informal influence. Apart from influence, the commitment of stakeholders to their cause is something that companies must take into consideration. A stakeholder may not be directly affected by company operations, but it may have considerable impact on the company (e.g., non-government organizations). Stakeholders' analysis involves a range of perceptions towards a company from favorable to neutral to hostile.

DIMENSIONS OF MORAL OBLIGATION

Table 2[xii]

	Scope or Intensity			
Stakeholders		Compliance	Avoid Harm	Co-Responsibility
	Direct			
	Direct & Indirect			
	Global			

In practice, it is easy to adopt the basic dimensions of moral obligation that tend to be matters of law or publicly accepted conventional wisdom. The economic goals of the company prevail, while ensuring that any business activity does no harm.

When companies engage in activities that are not intrinsic to the business, managers tend to act as the "agents" of the shareholders, whereas the social contract between managers and the shareholders primarily indicates a creation of economic value for the shareholders. Hence, unrelated activities may be perceived as a diversion of funds and a failure in management's fiduciary responsibility to shareholders.[9]

[9] Herrera, Maria Elena. "CSR and Value Creation." *Doing Good in Business Matters: CSR in the Philippines (Frameworks)*. Manila: Asian Institute of Management RVR-CSR, 2007.

CSR CLUSTERS

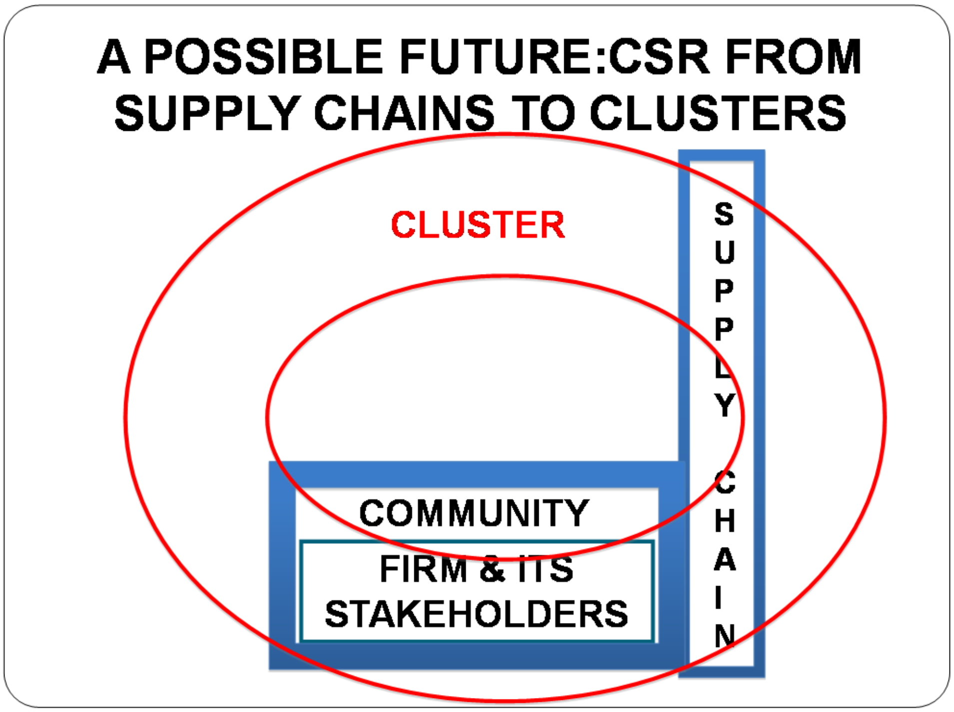

Figure 11[xiii]

The exploration of CSR in the supply chain leads to the concept of a cluster beyond the company and the community. CSR reaches a broader group, highlighting an "expanded" supply chain involving related activities from groups like universities providing graduates who may be future employees, or customers demanding green products. The framework shows the evolution from individual companies performing CSR to *clusters* of CSR practitioners.

The shift starts with the partnership between the company and the local community. In some occasions, the latter may be employees in the company. Yet on the other hand, members of the community may also have other concerns, pertaining to areas like education and health. Schools and teachers, or rural clinics and doctors, for example, may become partners and become part of a cluster of potential CSR Projects. Communities now act as suppliers to local firms, and the company integrates them into their supply chain to create a network of community suppliers. The company can also connect different businesses in its area of operation to supply both goods and services over and above the contract requirements.

BUILDING GLOCAL CSR NETWORKS

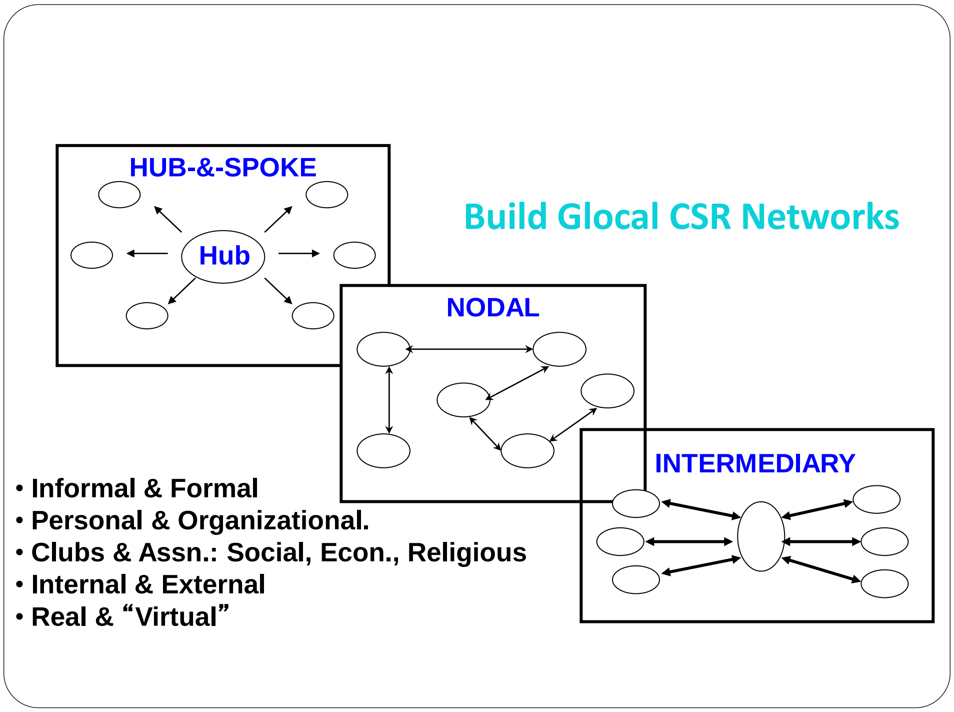

Figure 12[xiv]

CSR networks have evolved from the management Hub-and-Spoke Model (Corporate Giving Recipient Network) [10] where the company is the hub of donor activities and the beneficiaries or recipients are the spokes. There usually are many beneficiaries, and they are often passive recipients of aid in various forms. In this relationship, the arrows move in one direction. The preferred network, on the other hand, is Nodal (Foundation Network) which is a loose connection of "nodes"; there is no "hub" to control CSR activities. The arrow moves in all directions to imply multiple inter-relationships. An example is a company that undertakes CSR through its Corporate Foundation or through an independent foundation.

There are a few entities that are part of Intermediary (Project Fund and Client Management) Network, where there is an organization that interacts between the donor companies and the recipient communities. These organizations work with the company to determine how much assistance is needed to implement CSR programs. In these cases, companies choose to outsource their CSR activities because the corporation may have limited experience facilitating the programs needed by NGOs and communities. Instead, companies keep

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[10] Roman, *op. cit.*

a core CSR group within the organization to monitor CSR initiatives. The intermediary network generates some system-wide efficiency by reducing the interaction time.

In one example, three donor companies trying to link with three potential recipient communities (or organizations) would require nine interactions without the intermediary, but only six interactions with an intermediary in place. The arrows suggest a process that starts with donors and ends with the recipients passing though the intermediary.[11]

FORMAL AND INFORMAL NETWORKS
CSR NETWORKS: PHILIPPINE EXAMPLE

	Internal	External
Formal	**(3)** Top-Down" Codes of Conduct Departmental and Cross-Functional Audit/Accountability Teams	**(4)** Associations Clubs, NGOs Philanthropic Foundations
Informal	**(1)** "Pass-the-Hat" "Coffee Break"	**(2)** "Texting" on Issues Virtual "E-Chat Rooms" "Press Breakfast Club"

Figure 13[xv]

Networks operate in various circumstances using various channels or venues, which beneficiaries are already familiar with. The simplified 2x2 matrix aggregates these channels into formal and informal categories. Formal channels are institutionalized practices, while informal channels are customs voluntarily practiced by its participants. These networks are carried out both within the company or organization and outside, by another organization within the beneficiary community.[12]

1. Informal Internal Channels are largely individually-inspired donations within a company. Company employees volunteer assistance in cash and in goods and service to persons in need within and outside the firm. In the "Coffee Break" network for instance, company employees mingle in informal but well-defined social groups. Members not only update

[11] *Ibid*., p. 18.
[12] *Ibid*., p. 18.

themselves with events in the company but also discuss minor transgressions by members of the group, they may call for sanctions. The advantage is in solving issues at "grass roots" level as opposed to hierarchic problem solving and decision making.

2. Informal External Channels in the Philippines consist primarily of text messages, which are pervasive and cut across age, income and other categories. Social messages, calling rallies or conducting surveys are a few of the activities. Another example is the "Press Breakfast Club" that started in the Philippines when one prominent journalist and political commentator organized informal meetings at hotel coffee shops with a small group made up of other journalists and columnists as well as with politicians, businessmen, and other "movers and shakers" to exchange views "off-the-record." These gatherings have proliferated but also increasingly attracted a heterogeneous following and although some meetings have become unwieldy and have lost focus, others have evolved into more formal associations.
3. Formal Internal channels are part of the corporation; the committee is the traditional vehicle as is the project task force. The channels' activities are contextualized as part of everyday corporate life and may include meetings, field reports, etc.
4. Formal External Channels include various associations, clubs and NGOs, and philanthropic organizations that interact with corporations for the benefit of the community and other external stakeholders. Corporations tend to prefer institutional arrangements so that their programs may be more effective.

EVOLUTION OF CSR NETWORKS IN THE PHILIPPINES

Table 3[xvi]

ACTIONS	DEVELOPMENT OF NETWORKS
The Decade of Donations (1960s)	
Social inequity was high in the mid-to-late 1960s, with political unrest expressed in mass demonstrations. Companies eased economic and social problems by giving donations in cash and in kind, usually indirectly to charitable institutions, or directly as individual gifts by the firm's senior management—as a form of public relations.	The CSR network was based on donations given by companies to both the end-users and charitable, not-for-profit entities. The activities of these networks were uncoordinated and sporadic, and the impact tended to be limited and selective.
The Decade of Organizations (1970s)	
Not-for-profit organizations dealing with the business community grew to prominence in this decade with associations such as the Bishops Businessmen's Conference of the Philippines (BBCP), the Associations Foundations (AF), and the Philippine Business for Social Progress (PBSP). These NPOs again assisted in alleviating economic conditions of the poor and near-poor in the country.	After the 1960s, companies realized that a weak network of CSR reduced both the impact and efficiency of their philanthropy. Companies strengthened their CSR networks by seeking new intermediaries or creating their own foundations to undertake CSR. This effort might be regarded as the first step in coordinating CSR programs.
Decade of Citizenship (1980s)	
The Philippine economy continued to deteriorate with the assassination of Benigno Aquino, Jr., archrival to the ruling president, Ferdinand Marcos. Many companies responded by providing regular and comprehensive services to the communities in their localities. From this form of assistance emerged the movement and institutionalization of community relations or COMREL.	Taking into consideration the interest of the community further strengthened the CSR network by incorporating the end-users in the design and implementation of the CSR programs. The COMREL network as CSR increased the range of company-to-community activities and services, and the financial amounts as well.
Decade of Continuous Improvement (1990s)	
From COMREL arose the notion of corporate citizenship. Contributions to society's well-being became a "must" and not simply a "PR" effort. CSR was raised to the highest corporate levels to top management and the board itself.	The CSR network was strengthened further as the business sector acknowledged its role in developing society through good "corporate citizenship," exemplified by the company's capability to internalize CSR programs in policy formulation.
The Decade of Engagement (2000s)	
Social organizations persisted in their quest to help the poor by using management frameworks. For example, PBSP pushed for the participation of corporate citizens in improving access to basic services, education, credit, and the development of new skills for the workforce to help them improve their lives.	A trend appears to be developing whereby the CSR network may be characterized by integration of values, goals, resources, and skills between business and other sectors—including not just the families of employees or the community, but a broader community of direct and indirect stakeholders.

BENEFITS AND CHALLENGES OF PARTNERSHIPS

Table 4[xvii]

CORPORATION – GOVERNMENT		CORPORATION – NGOS	
BENEFITS	**CHALLENGES**	**BENEFITS**	**CHALLENGES**
Enacting CSR laws becomes more effective	Improving relationships between company and government	NGOs become supportive allies that present a unified and supportive image	By nature the partnership is a difficult proposition
There is greater possibility of better results through partnerships	Harmonizing the opposing objectives; profit for companies while maximize revenues for government	Partnership ensures the undertaking of critical community projects, benefiting the society as a whole	Delivery of equal value to the partnership
Companies may avoid income loss	Merging two distinct operational philosophies	Companies avoid being targeted for naming and shaming – a tactic targeted by NGOs in tarnishing a company's name and image	Overcoming the perceived imbalance in reasons of implementing CSR and still establishing dialogue between the two parties
Enacting CSR laws becomes more effective	Improving relationships between company and government	NGO become supportive allies that present a unified and supportive image	

THE ENVIRONMENT OF CSR: THE INFLUENCES (HEXAGON) FRAMEWORK[13]

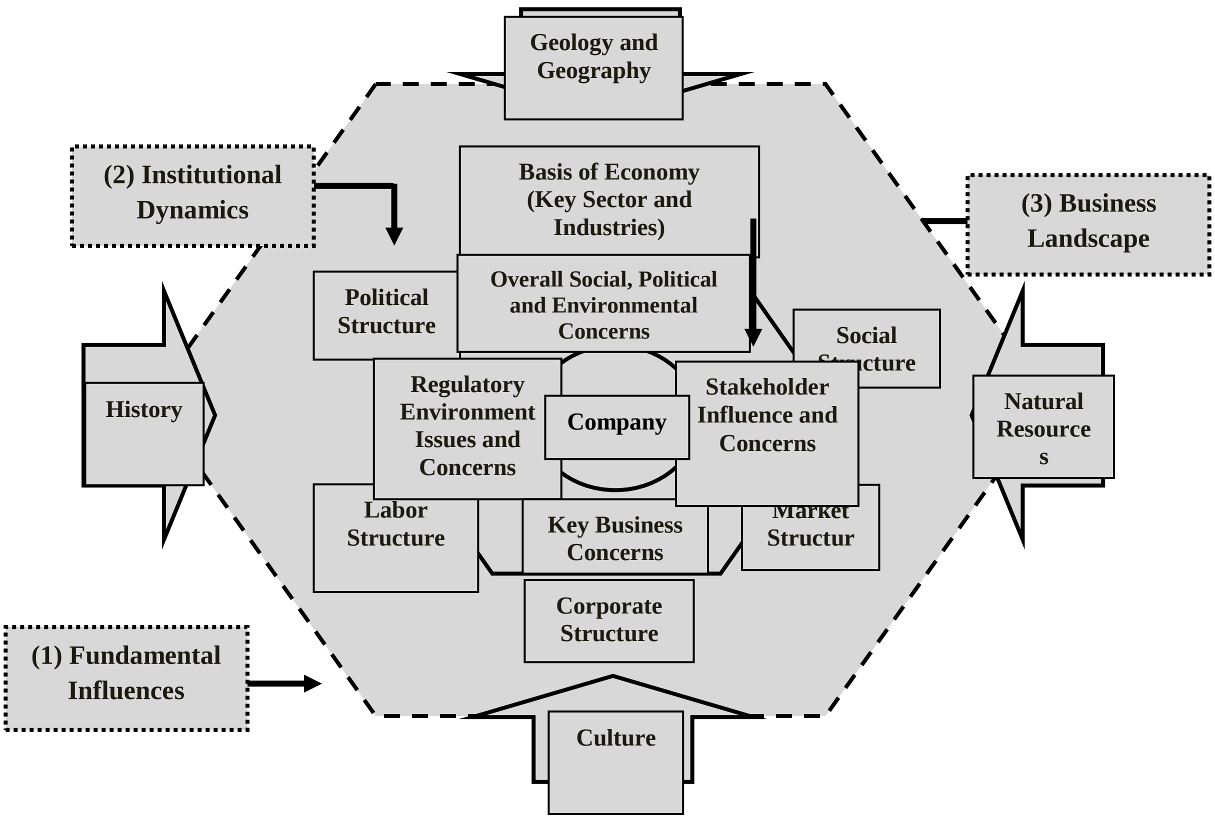

Figure 14[xviii]

Definition of CSR: Corporate Social Responsibility (CSR) involves the interface between the enterprise and its environment, including stakeholders.[14]

The Influences Frame of the AIM-RVR Center maps out the different factors that affect the development and practice of CSR. The framework takes into consideration both formal and informal structures that influence company operations. The framework covers three layers or clusters of influence: (1) Fundamental Influences, (2) Institutional Dynamics and (3) Business Landscape.

The outermost layer of Fundamental Influences is least amenable to influence by any of the stakeholders. These four factors directly affect the dynamics of the country and its various institutions. Natural resources, for example, would determine the type of industries that would be

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[13] Herrera, Maria Elena, Maria Cristina Alarilla and Ryan Vincent Uy. *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asian Institute of Management, 2011.
[14] *Ibid*.

dominant in the economy. History and culture could influence the type of government that the country would have (such as Islamic states like Malaysia). The Institutional dynamics cluster includes six main components that describe the character, relative influence, and capabilities of different institutions (formal and informal) in a country. These factors, in turn, shape the immediate business landscape of the company. The concerns and degree of influence of each stakeholder would vary depending on the country's Institutional dynamics.

(1) FUNDAMENTAL INFLUENCES include geography and geology, natural resources, history, and culture.

1. Geography and Geology	**Geographical landscape and geological make-up of the location (e.g. an island, a city, neighboring provinces and cities, presence of bodies of water or types of land forms, or presence of metals or minerals)**
2. Natural Resources	Natural resources found at or near the location (e.g. operations near bodies of water, impact on flora and fauna, proximity to forest reserves, presence of endangered animals)
3. History	Location's history (e.g. history of mining spills, community revolts, disease outbreaks)
4. Culture	Religion and culture of the community living in the location (e.g. culture of indigenous peoples, Muslim or Roman Catholic, civilized or not civilized)

Source: Herrera, Maria Elena, Maria Cristina Alarilla and Ryan Vincent Uy. *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asian Institute of Management, 2011.

The heart of this framework is the hexagon of **(2) INSTITUTIONAL DYNAMICS**. These six factors are: basis of the economy, social structure, political dynamics, market structure, labor dynamics and corporate structure.

1. Industry	**Type of major industries and major products in the area of operation (e.g., tourism, manufacturing, mining, agricultural products, services, etc.)**
2. Social Structure	Location's ethnic diversity; gender ratio; presence of social, academic and religious institutions; presence of media and multilateral organizations; income disparity; unemployment rate; educational attainment of target consumers; poverty statistics
3. Political Dynamics	Governing bodies present in the location (e.g., monarchy, feudal, federal, democracy, etc.); the interaction of political actors and institutions (e.g., LGUs); the powerful actors and influences in the political sphere; presence of armed conflict; civil disputes

4. Market Structure	Market activities in the location (i.e., free market or controlled; presence of monopoly); presence of market information and available choices for the consumers
5. Labor Dynamics	Labor concerns in the location (e.g., presence of labor unions, migrant labor and overseas workers; and level of worker skill sets)
6. Corporate Structure	Types of corporations operating in the location (MNCs, large local companies, or MSMEs); the influence of business associations and regulatory agencies on the practices of firms located in the location

Source: Herrera, Maria Elena, Maria Cristina Alarilla and Ryan Vincent Uy. *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asian Institute of Management, 2011.

(3) BUSINESS LANDSCAPE in the hexagon affects operations, and the four factors are: Key Social and Environmental Concerns and Initiatives, Regulatory Environment, Stakeholder Influence, and Key Business Concerns and Initiatives.

1. Key Social and Environmental Concerns and Initiatives	**Key social and natural concerns of the location such as education, health and safety, environment, workforce, staff, pay, watershed and pollution**
2. Regulatory environment	Laws, policies and regulations of the location (i.e., national and local)
3. Stakeholder Influence	Interests, relative influence and initiatives or programs of major stakeholders in the location (e.g., individuals, organizations, business associations, government, NGOs, civil society, technical partners or multilateral organizations)
4. Key Business Concerns and Initiatives	Key business interests in the location, in terms of financial or social concerns, including the industry codes and regulations, whether mandatory or voluntary (e.g., Global Compact)

Source: Herrera, Maria Elena, Maria Cristina Alarilla and Ryan Vincent Uy. *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asian Institute of Management, 2011.

Stakeholders

Stakeholders[15] may include (but are not limited to) the following:

- Primary internal stakeholders are those that are part of the company. These include shareholders and employees.
- Primary external stakeholders are those individuals or organizations that are part of the company's supply chain such as suppliers or consumers.
- Secondary stakeholders are those that are not directly linked to the corporate supply chain but are nevertheless affected by or have an interest in the firm's operations such as the host community or the surrounding environment.
- Moderating or mediating stakeholders serve as a proxy for general society, the environment or indirect and direct stakeholders (Church, NGOs, Media, Government).
- International stakeholders include foreign markets of investors or consumers that serve as touchstones for acceptable business behaviour.

The following are the roles and wants of different stakeholders:

Stakeholder Type	**Role/Impact to the Company**	**Wants**
Employees	Workers	High wage; comfortable workplace environment
Shareholders	Financiers	High profits
Suppliers	Supplies raw materials	Fast payment terms; low supplier expectations
Consumers	Purchases the finished goods and services	Cheap and quality goods and services
Society	May affect the operation of the company	Employment and social development programs
Moderating/mediating Stakeholders	May affect the image/reputation and operation of the company	Socially responsible company

Source: Maria Elena Herrera and Francisco Roman. Routledge Publication.

[15] *Ibid*., p. 23.

CSR TYPOLOGY OF INTENT

Table 5[xix]

INTENT	STAKEHOLDERS					
	UNRELATED	**PRIMARY**		**SECONDARY**	**MEDIATING**	**INTERNATIONAL**
		Internal	**External**			
SHARED VALUE ***company and community benefits from CSR***		Employee training **only for technical employees*	Supplier programs **based from global policy*		Capacity building initiatives	
CREATING STAKEHOLDER VALUE ***community benefits from CSR***	Philanthropy, cash donations, relief aids **donations given to host communities during typhoons, sports fest*			Livelihood programs for the local community **once a year training for women*		
MINIMIZE HARM ***beyond compliance (e.g. reducing carbon footprint)***				Waste Management		
COMPLIANCE		Labor laws **different national and local laws*		Environment laws		ILO standards

Corporations implement CSR based on specific intentions and with particular beneficiaries in mind. The intentions of corporations comprise four factors[16]:

- Creating Shared Value — CSR programs which benefit both the company and society;
- Creating Stakeholder Value — CSR programs that benefit the targeted beneficiary stakeholders;

[16] *Ibid.*, p. 23.

- Minimizing Harm — CSR initiatives that reduce the negative impact of the company's operations;
- Compliance — company initiatives that promote adherence to local and international policies.

CSR TYPOLOGY OF LOCUS

Table 6[xx]

CSR LOCUS	STAKEHOLDER INVOLVEMENT					
	Government	**Business Associations**	**Primary Stakeholders**	**Secondary Stakeholders**	**Mediating Stakeholders**	**Others**
International	Established partnerships with the government and aligned their CSR programs to the MDG and UN Global compact **due to global policy*					
Institutional	Participate in government CSR initiatives **based on the invitation of local environmental council*	Member of business associations that provide capacity building for employees and CSR awards.	Adhere to global policies concerning labor standards and workplace environment. **due to global policy*	Consider the community as a main stakeholder in its operations. **in coordination with local baranggay, but not successful*	Collaborating with NGOs for training of host community to increase knowledge, awareness and competency **NGOs active participant*	Adopts international development agenda and aligns it with their business and community strategies.
Company Location	Ensure that it complies and/or goes beyond the regulatory environment	Participate in business association that in turn provide members with avenues for the sharing of knowledge **company is a member of the CSR council*	Implementing employee volunteerism programs which seek to increase employee morale and social consciousness. **employees want more benefits/training*		Partners with NGOs and/or INGOs for monitoring and implementation of CSR programs. **NGOs question the validity of the statistics*	Partners with government and development partners in CSR research programs
Extended Supply Chain		Member of a business association that promotes capacity building to the extended supply chain—to increase competitive advantage of local companies.	Integrate CSR into their supply chain by crafting supplier programs that increases competency of local suppliers and their competitiveness. **increased MSME competitiveness, currently supplies to other companies*	Develop local communities as their potential suppliers. **No alignment between community demands and what the company can offer*	Local NGOs are partners in forming local cooperatives that could supply products and services to MNCs and large local companies	
Internal value chain				Beyond compliance with local laws because its global policies are stricter than those implemented in the host communities.		
Unrelated				Consider local communities as beneficiaries of CSR programs	Companies are utilizing the media (internet) to promote their CSR activities	

The CSR Typology of Locus classifies CSR activities based on the key focus area and the type of stakeholder involved in the activity. The objective of this framework is to understand how "corporations are leveraging CSR activity by cooperating with stakeholders and other organizations." The key focus areas are as follows[17]:

- *Unrelated* refers to philanthropic activities that are not directly related to the company's business operations (e.g., one-time donations)
- *Internal value chain* refers to CSR-related initiatives that addresses parts of the company's value chain (e.g., waste management)
- *Extended supply chain* refers to CSR initiatives in the company's upstream and downstream activities (e.g., supplier development programs)
- *Company locations* are activities that companies conduct depending on their area of operation. Mining companies, for instance, implement community development programs for their host communities
- *Institutional* are company activities that are a result of company policies or industry-specific concerns (i.e., adherence to industry guidelines)
- *Global* are CSR initiatives that are influenced at a global level (e.g., CSR programs that are linked to the United Nation's Millennium Development Goals)

In another dimension, CSR activities are classified based on the stakeholders involved as recipients and partners in implementing social and environmental programs.[18] These stakeholders are:

- Government
- Business associations (e.g., industry associations, CSR membership organizations, chambers of commerce)
- Primary stakeholders (e.g., suppliers, customers, investors, employees)
- Secondary stakeholders (e.g., community and environment)
- Mediating (e.g., NGOs, INGOs, religious organizations, media)
- Others (e.g., technical partners, development organizations)

[17] *Ibid*., p. 23.
[18] *Ibid*., p. 23.

DEVELOPING A CSR STRATEGY[19]

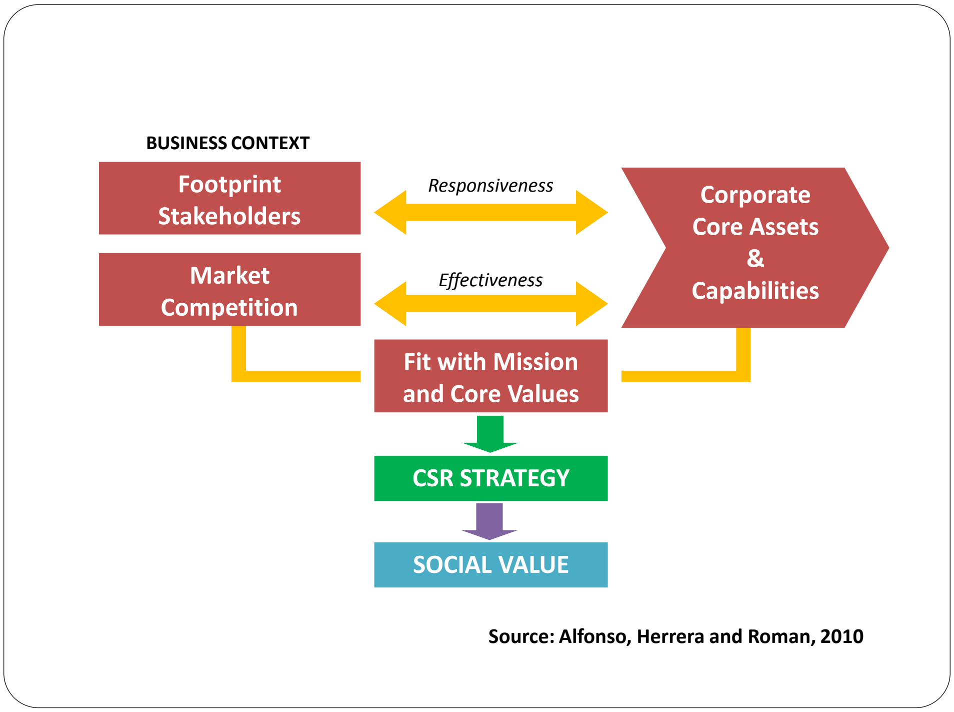

Figure 15

Corporate Social Responsibility (CSR) involves the interface between the enterprise and its environment, including stakeholders. CSR can be aligned with the business when programs are developed and implemented while taking into account the goals and resources of the enterprise, as well as the reality of its business situation. CSR can also be fully embedded in corporate strategy and operations by ensuring that all of the corporation's philosophies, goals, strategies and activities take into account the company's impact on its stakeholders, the environment and society as a whole.

Developing a CSR strategy begins with evaluating the enterprise in a business context that includes both market and non-market environments. Understanding the market environment includes evaluating the customer market, as well as the competition. Understanding the non-market environment includes understanding both the company's footprint as well as the stakeholders that the company interacts with. This "footprint" refers to the impact of the company's operations on its stakeholders, the environment and society at large. An example that

[19] *Ibid.*, p. 23.

may be considered in relation to this “footprint” are factory emissions, which affect local air quality, and factory work schedules, which may upset local social culture and norms.

Ideally, CSR initiatives should minimize the footprint’s negative impact and maximize positive impact. The analysis of the corporate footprint also helps the enterprise to identify relevant stakeholders. Stakeholders are internal and external individuals, groups and organizations with a legitimate concern for and influence over company operations. They include those who are directly or indirectly affected by company operations, those who have an interest in protecting people affected by company operations, and those who have a general interest in moderating or policing corporate behavior in the areas of operations.

On the one hand, the company must evaluate its market, its footprint, and its stakeholders in order to identify critical footprint and stakeholder concerns, in addition to market realities. On the other hand, the enterprise also needs to evaluate its key assets and capabilities in order to understand which issues and concerns it is in the best position to address, relative to the capabilities of other players and stakeholders. This provides a basis for prioritization and helps the company identify potential areas of cooperation. On the one hand, the approach focuses on the firm, its key priorities, and ways to best utilize its capabilities for creating positive impact. On the other hand, the analysis should also uncover options on how to best allocate capabilities among different players in order to create the optimum outcome for all.

Ideally, the CSR strategy would be formulated within a larger corporate strategy that is based on a realistic foundation of long-term enterprise sustainability. For instance, a company that sustains losses each year cannot be a strong long-term partner in addressing social objectives.

Finally, a strategic approach to CSR must involve a “fit” with the organization’s vision, mission and core values (VMV). An evaluation of the firm’s VMV helps in prioritizing footprint and stakeholder issues. A failure to link CSR philosophy and policies with VMV could result in the marginalization of CSR within the organization. For some companies, the re-evaluation of the new realities of the global markets have, in fact, resulted in a re-examination of corporate VMV and a revision of VMV in order to reflect the new realities of the increased importance of non-market factors.

INTEGRATING SOCIAL PERFORMANCE[20]

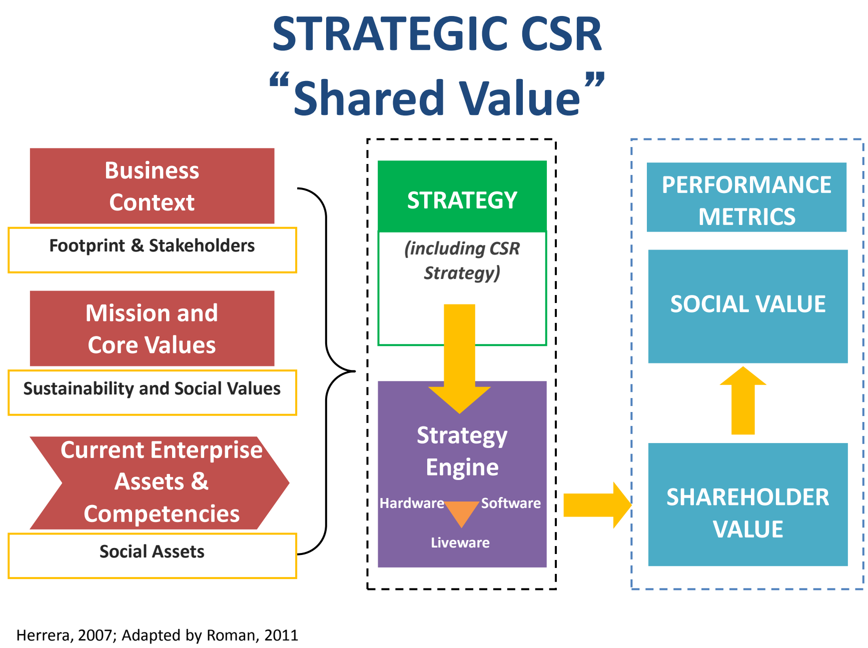

Figure 16

Integrating Social Performance shows how social performance can be embedded into the "traditional market only"-based view of corporate strategy formulation and implementation. In this framework and for the purposes of this book, social value is deemed to include the impact on all stakeholders, society and the environment.

Shareholder value measures financial performance and is the traditional primary concern of firms. Social value is determined partially by the consequences of the firm's footprint. Both require performance metrics. Corporate Strategy is affected by business context (external situation), corporate mission and core values, and current enterprise assets and capabilities (internal situation).

In this strategic approach to CSR, the integration of CSR into the business begins with strategic analysis. The process begins with reviewing whether key social responsibility philosophies are appropriately articulated and reflected in the corporate mission and core values. Evaluation of the external context of the business would include the evaluation of the non-market considerations of footprint (what Porter and Kramer call "value chain social impacts") and of

[20] *Ibid*., p. 23.

stakeholders. The analysis of internal realities would include the acknowledgement and evaluation of one's social assets.

Social assets are particularly important in understanding why strategic CSR makes business sense. In the current business environment of escalating use of technology and increasing connectivity, the most important assets of organizations are slowly moving away from tangibles towards intangible assets. For most companies, the most important of these intangible assets are social assets – corporate image, community support, investor confidence, strong market acceptance, strong dealer networks, reliable suppliers, and a loyal and talented workforce. Therefore, by pursuing both economic and social performance, companies create a virtuous cycle – one in which social performance feeds back to the company in the form of enhanced social assets.

Embedding CSR into the strategic management process ensures that business strategy is aligned with social realities. In this manner, CSR becomes a natural part of business strategy and operations. The company's CSR policies and activities can then be embedded in the strategic decisions and choices of the company with respect to the different components of the strategy engine of: Hardware (infrastructure and equipment of the company), Software (systems and processes of the company) and Liveware (organization design, policies and governance).

Finally, integrating CSR into the core business strategy and operations means that companies can ensure that the twin goals of social value and shareholder value are taken into account in all business decisions and activities. One challenge, however, is that true integration and embedding of CSR into an organization involves not only the formal process of developing a philosophy, integrating into strategy, operations, structure, processes, monitoring and evaluation. It also involves the "softer" process of embedding CSR awareness into the culture of the company. Just as the formal process requires several steps from articulating the philosophy to evaluating results, a culture of responsibility requires a progression from awareness to commitment.

INTEGRATING AND ALIGNING CSR[21]

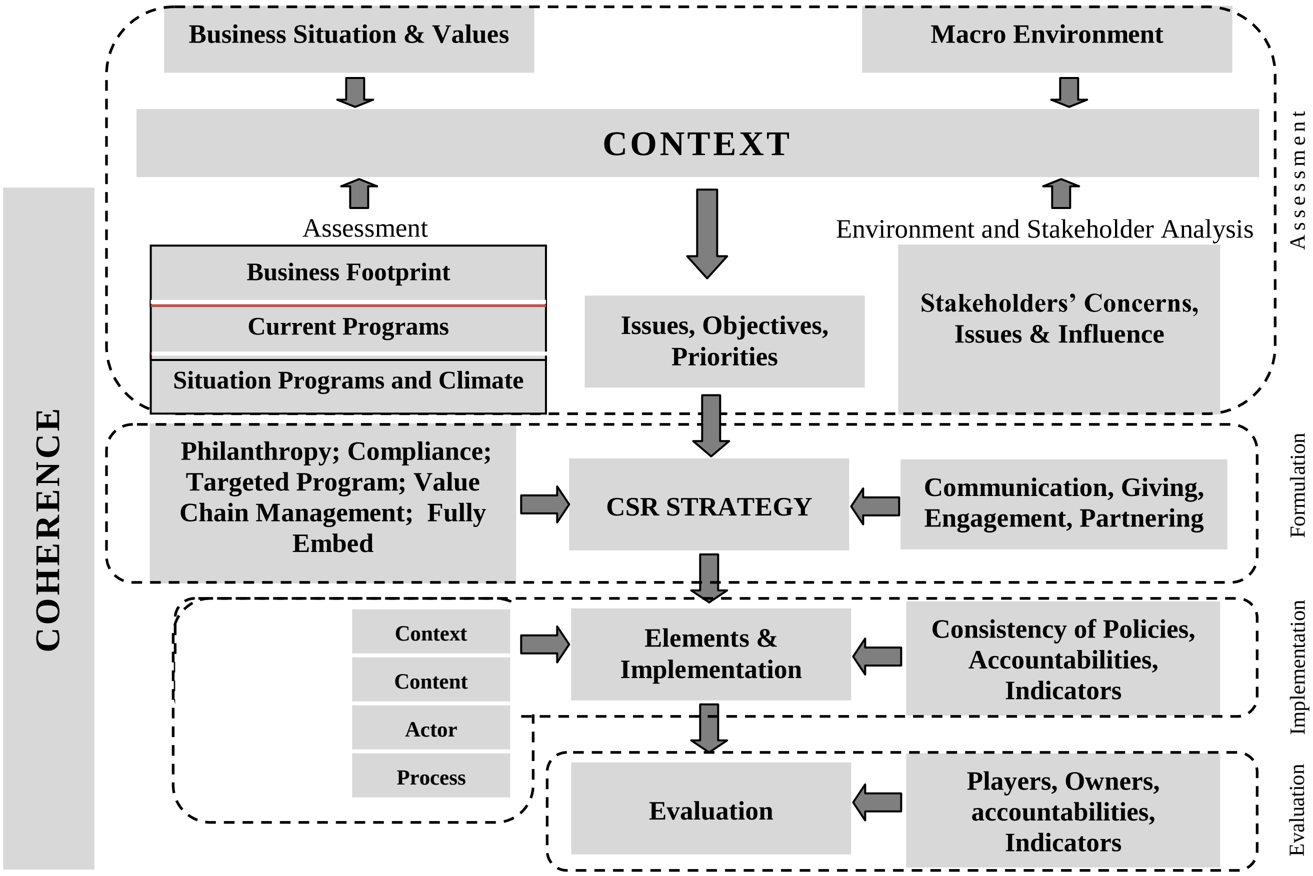

Figure 17[xxi]

In embedding CSR into the company's business strategy, it is important to take into consideration the context and coherence of its CSR programs. "Context refers to the external and internal environment of the corporation (i.e., business footprint)." The company needs to ensure that its CSR programs are aligned with the external and internal environment. The CSR strategy should take into account the companies stakeholders and their concerns as well as the capabilities and values of the organization. "Coherence refers to the internal integrity (completeness and consistency) of CSR programs." In developing a CSR strategy, the company needs to ensure that it is consistent from assessment to implementation, as well as the monitoring stage of the program; this would help ensure the effectiveness of the program.

Integrating Social Performance shows how social performance can be embedded into the "traditional market only"-based view of corporate strategy formulation and implementation. In

[21] *Ibid*., p. 23.

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As most managers know, formal structures are not enough by themselves. In order for any philosophy or policy to be consistently implemented, the underlying values must seep into corporate culture and become an integral part of the company's way of doing things.

IMPLEMENTING STRATEGIC CSR[22]

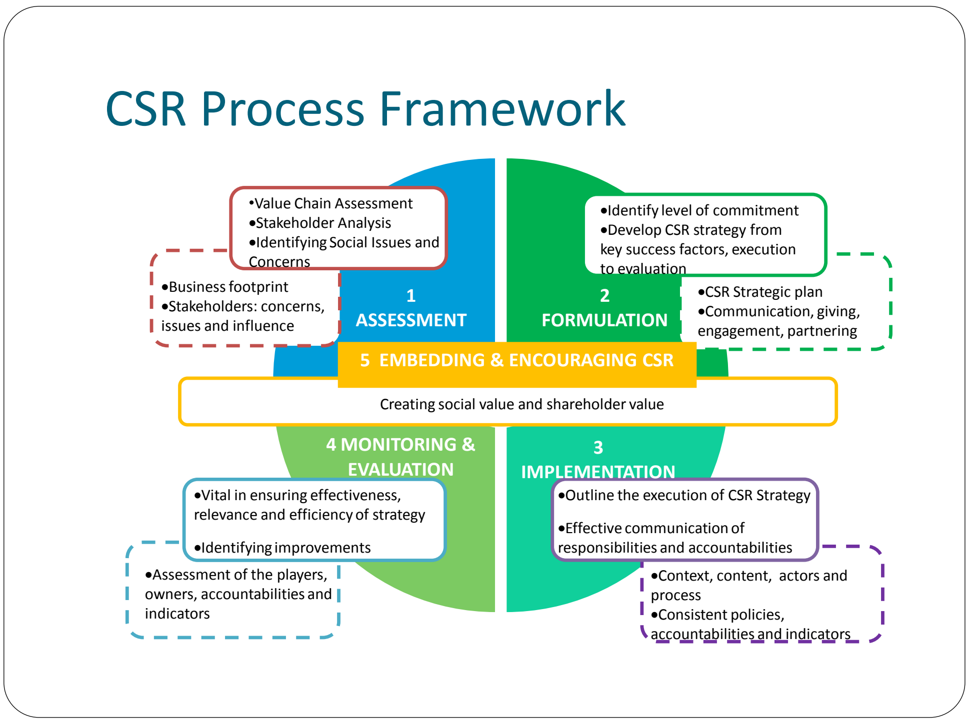

Figure 18[xxii]

Assessment. The assessment stage is analogous to situation analysis. The aim of assessment is two-fold: first, to understand the context of the CSR strategy, and second, to evaluate the fit of current CSR programs with the business situation.

[22] *Ibid.*, p. 23.

An analysis of the external context of the corporation begins with a macro analysis, which includes political, social, cultural and economic realities. The external analysis should also include a stakeholder analysis. Understanding internal realities would include evaluation of the current specific business situation and market strategy, consideration of the company's values, identification of the company's assets and capabilities and an analysis of the corporate footprint.

Footprint analysis provides a basis for understanding the impact of the enterprise on its environment and stakeholders. External context analysis, together with footprint analysis, allows the enterprise to identify stakeholders and possible partners, as well as their concerns, needs and opportunities, in the external situation.

An analysis of mission, values, assets and capabilities allows the company to prioritize needs and opportunities by matching social needs with corporate priorities and capabilities.

Assessing current CSR programs allows the company to match external needs and opportunities and gaps in the market with currently implemented programs. This provides the company with a gap analysis and provides a basis for streamlining current programs and developing new programs.

Part of the coherence assessment is also an analysis of the current structure and internal climate within which CSR is being implemented. This provides the company with an understanding of the relative readiness of the organization for the different approaches to CSR implementation. Clearly, fully embedding CSR in operations would require a certain readiness in the organization both structurally as well as culturally.

The assessment stage provides a foundation for the formulation of CSR strategy. At the end of assessment, the company will have a list of issues and objectives as well as a basis for prioritization.

Formulation. The next step is the formulation of CSR strategy.

From an internal point of view, and in terms of the level of integration into corporate operations, at least four generic approaches can be taken: corporate giving or philanthropy, compliance, targeted program, value chain management, and a fully embedded approach to CSR.

Philanthropy would involve activities that are designed primarily to create value for identified beneficiaries. Within this framework, philanthropic activity would be strategic if it is aligned with both the business context of the corporation as well as its corporate capabilities.

Hence, strategic philanthropy would typically involve stakeholders as either beneficiaries or partners, and it would involve the application of corporate competencies or assets, especially those that are unique. A corporate giving approach would allow CSR activity to exist only in certain aspects or pockets of the enterprise.

Unlike philanthropy that can be isolated, compliance would involve all the aspects of the corporation –but only to the extent of compliance with regulations and standards. Compliance may have different levels of expression for different companies. For some, compliance may mean compliance with local regulations to the point of 'acceptable behavior'. For others, compliance means strict compliance with all local laws and regulations. For many multinationals, compliance also involves adherence to internationally accepted standards as well as the company's own internal global standards. Many practitioners believe that CSR is beyond compliance. Still others believe that compliance is the backbone and foundation of CSR. Some realize that in their particular situations, approaching compliance is the beginning of CSR. What is important is to be able to determine which regulations and standards must be considered.

Compliance with international standards is particularly important for companies who participate in global markets where buyer and investor behavior are influenced by their perceptions of how well a company complies with regulations or standards.

Targeted programs are similar to philanthropy in that they can be isolated for specific beneficiaries or purposes. However, they may not necessarily be designed towards creating stakeholder value; hence, they are not always strictly philanthropy. These would, for example, include programs targeted at managing air emissions.

Value chain management is similar to compliance in that it does not limit CSR activity only to certain aspects of operation. Value chain management calls for full management of the company's footprint, which is only truly possible in this approach to CSR. The value chain approach can be limited only to the company's primary supply chain, although an enhanced approach would extend the CSR strategy to the *extended* supply chain – the full value chain. In this case, the full value chain would include the supply chains of subcontractors and distributors. A value chain approach to CSR also allows the company to engage stakeholders at each point in the supply chain and even beyond it.

A fully embedded approach to CSR means that CSR is embedded in the company's mission, vision and values. Social and environmental considerations become a standard part of situation analysis in every business situation. Social assets are explicitly identified and evaluated. A commitment to CSR is part of the corporate culture and social value metrics become part of the leadership performance metrics in the same manner that financial and operating metrics are essential. This is the most integrated approach to CSR and requires the most care in terms of systems, structures, standards and processes.

In selecting the generic approach, the readiness of the organization is an important consideration. In addition to the generic approach, the CSR strategy would also include an identification of objectives with respect to each stakeholder or footprint concern. Protocols for prioritizing beneficiaries and needs would need to be articulated.

Additionally, CSR strategy must include the selection of types of interaction to be employed towards the various stakeholders. Communication is important in order to avoid confusion and misinterpretation. Key messages must be crafted as part of strategy. Finally, objectives in terms of establishing relationships with each key stakeholder must be crafted. The level of planned stakeholder engagement can include partnering.

Implementation. The implementation strategy is analogous to an operating plan. The plan would, at minimum, include an identification of CSR projects and concerns and include an implementation plan for each.

For each program, key components must be articulated: context (What is the rationale?), content (What is it about?), actors (Who are involved? What are their roles, concerns and responsibilities, if any?) and process (What are the steps? What are the key milestones? When should these be achieved? What resources are required?).

The implementation programs must be checked for consistency with corporate policies, other corporate accountabilities and performance indicators. For instance, a company that has a strict policy of environmental protection would not implement a feeding program that would generate mountains of unrecyclable trash. A review of required supporting policies or programs is also part of the consistency check.

Internal processes and policies (related to CSR or developed specific to CSR programs) must be aligned with the business strategy. Clear internal and external accountabilities must be set in order to identify who would be affected, who should be consulted and/or who must take responsibility in case problems arise. Finally, key success indicators (both outcome and output) must be identified to ensure that programs are aligned with the needs of the community and capabilities of the company.

If full embedding is the goal, support programs for implementation would probably include crafting or reviewing CSR philosophy and organizational structure.

Evaluation. The last stage is evaluation. In order to ensure that CSR programs are achieving desired objectives and not creating unforeseen, undesirable results, companies must create a monitoring and evaluation system that would become part of implementation. Such a system would ideally include contingency plans that would ensure that CSR programs result in both social and financial value. The program should allow the company to assess the behavior of all the players, to review accountabilities, and to assess whether the key success indicators are achieved.

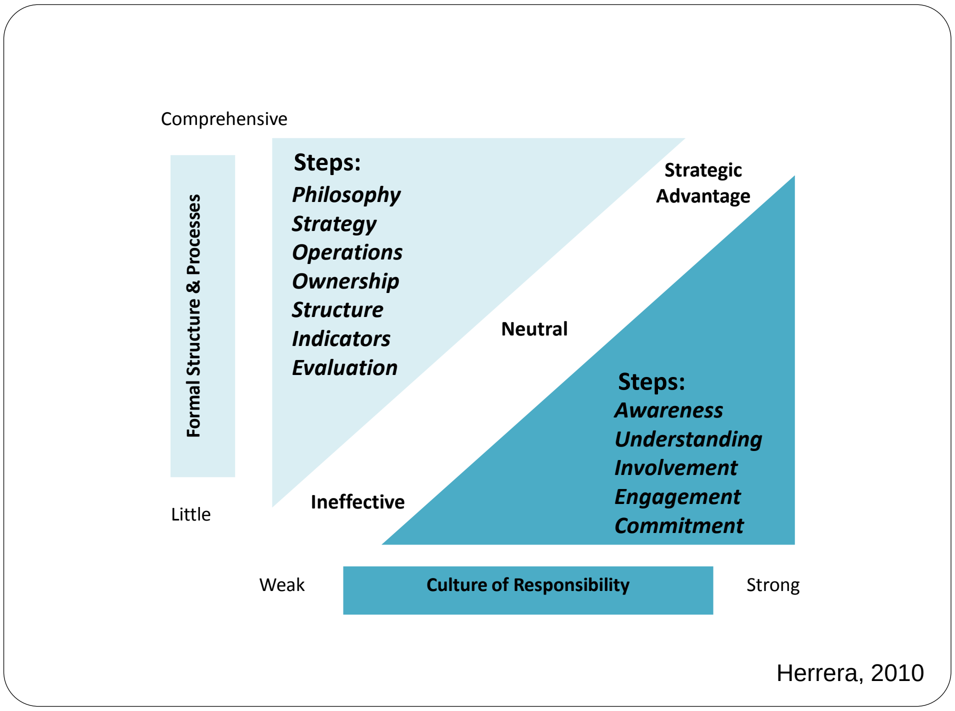

Figure 19[xxiii]

Sustainable CSR means that embedding CSR in business requires companies to focus on formal and informal structures. Formal structures means that processes must be in place to encourage the practice of CSR. Informal structures refer to the culture of the organization. Both are equally important to CSR if it is to be fully integrated into the company's way of doing business. Putting these structures in place results in more effective CSR activities.

BOTTOM OF PYRAMID (BOP) ENGAGEMENT APPROACHES

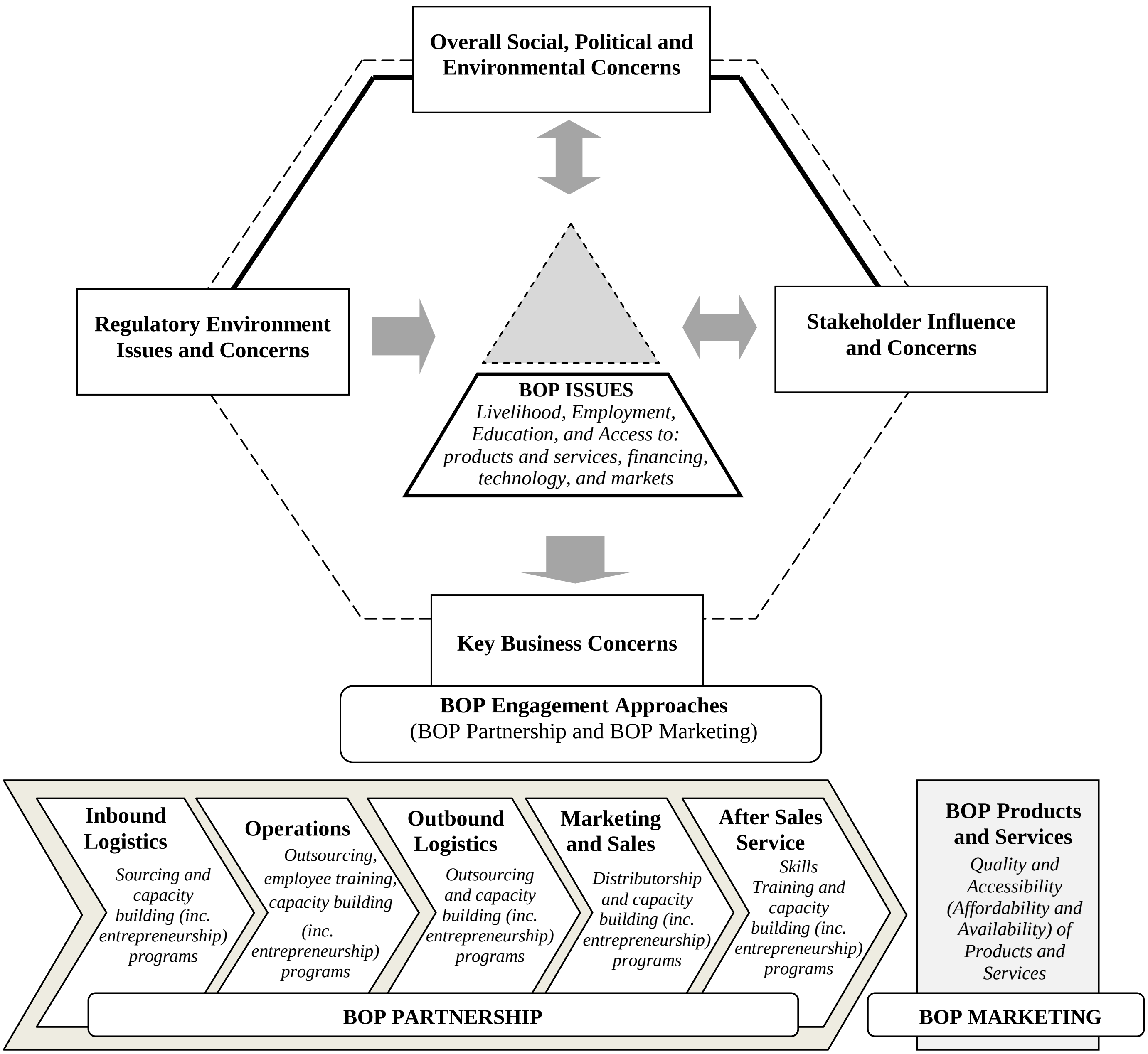

Figure 20[xxiv]

The BOP Engagement Analysis utilizes the "Business Landscape" component of the Influences Framework (the hexagon) in order to understand the socio-political context of the BOP issue, which includes the assessment of stakeholder needs and concerns. By assessing the external environment, companies are able to identify the BOP issues present in their host community.

These BOP issues may include livelihood, employment, education, access to products and services, financing, technology and markets. Companies could consider these BOP issues as part of their key business concern. They may address these BOP issues through two BOP engagement approaches: BOP Partnership and BOP Marketing.[23]

- BOP Partnership: This approach addresses BOP issues (e.g., employment, livelihood, education) by developing programs within the company's value chain – by transforming the BOP into business partners.
- BOP Marketing: This approach addresses BOP issues by developing quality and accessibility of products and services.

[23] Herrera, Maria Elena and Maria Cristina Alarilla. 2013. "Developing An Integrated BOP Engagement Strategy." Working Paper no. 13-008, *AIM Business and Development Research*, Asian Institute of Management.

INSTITUTIONALIZING SOCIAL INNOVATION IN AN ORGANIZATION

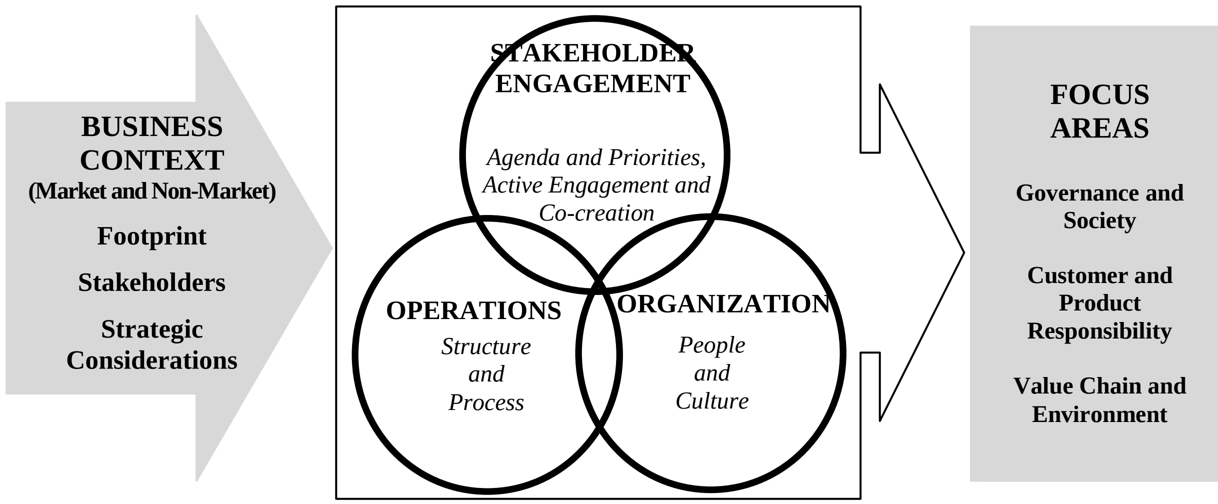

Figure 21[xxv]

This framework illustrates the institutional elements that are important in integrating social innovation in day-to-day company operations.

- Stakeholder engagement: Stakeholders are no longer seen as beneficiaries but become collaborative partners in achieving a shared objective.
- Operations: Companies need to ensure that they have the necessary structures and processes that allow the company to integrate innovation strategies into its operations.
- Organization: This refers to the employees and corporate culture. It is important that the company creates an environment that encourages innovation among its employees.

The Social Innovation Process requires an assessment of the company's business context: footprint, stakeholders and key business concerns. This assessment is critical in carrying out innovative strategies. Outcomes can be classified in three focus areas of: governance and society, customer and product responsibility, and value chain and environment.

PROCESS OF SOCIAL INNOVATION

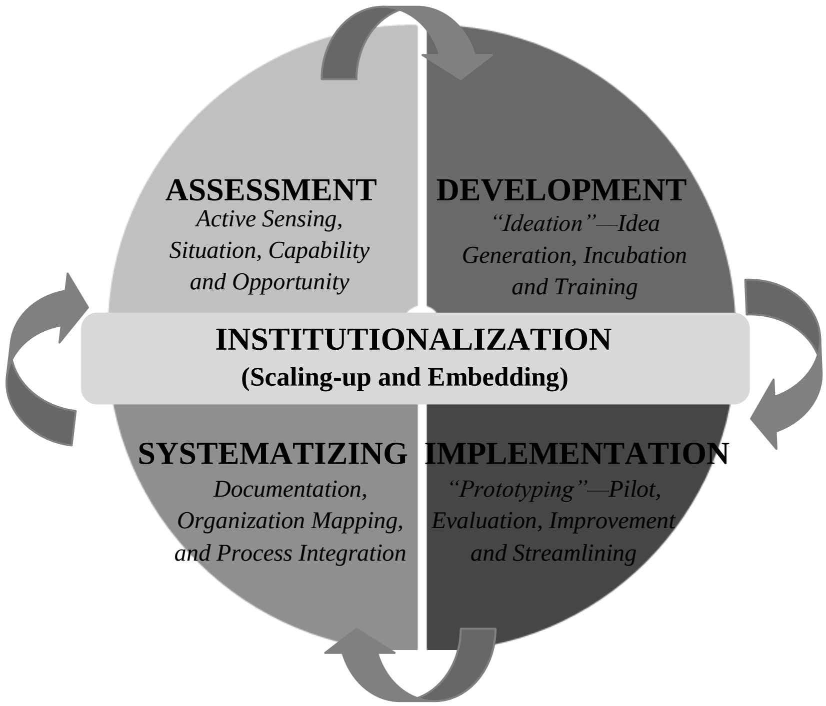

Figure 22[xxvi]

This is a slight refinement of Framework 24 based on initial research on Social Innovation. The Process of Social Innovation Framework presents five steps in developing and institutionalizing social innovation. These stages are:

- *Assessment.* This includes active sensing of the internal and external environment. Companies also need to identify market and value chain opportunities for social innovation.
- *Development.* This involves the generation and evaluation of ideas and the preparation for pilot testing and implementation.
- *Implementation.* This involves program implementation and evaluation. A key focus for this stage is the evaluation for mainstreaming and scaling up.
- *Systematizing.* This involves documenting a program rationale, key components, key processes, and key performance and risk indicators. It also includes a plan for mainstreaming and scaling up.
- *Institutionalization.* This involves the mainstreaming and up-scaling of the program by implementation into all the feasible areas or locations of the corporation.

THE ENVIRONMENT OF CSR IN MINING: A SYSTEMS APPROACH

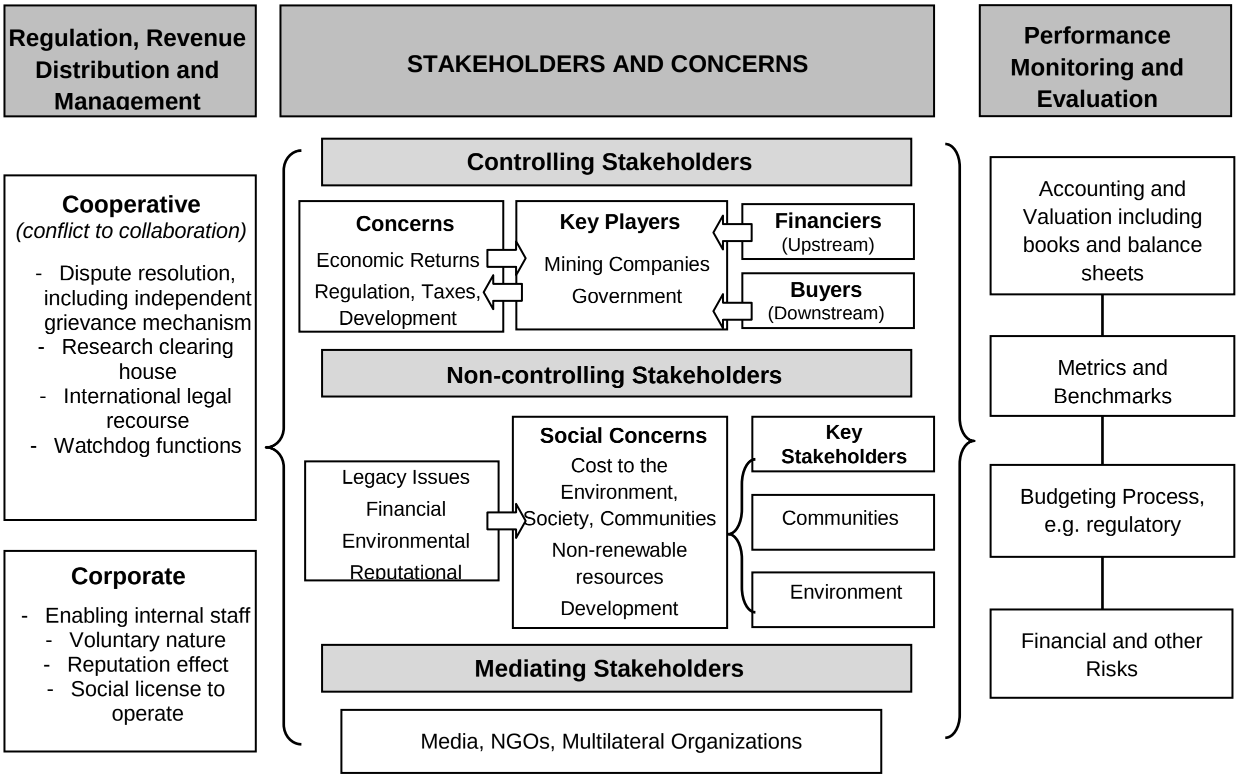

Figure 23[xxvii]

The center of the Systems Frame provides a snapshot of the key stakeholders in the mining industry, including their primary concerns and their relative levels of influence. The center is framed by key governance and control structures, mechanisms and concerns that could be utilized to manage the sometimes conflicting concerns of various stakeholders as well as to address mismatches in terms of information and the timing mismatch of funds. These are divided into two key concerns: (1) performance monitoring and evaluation, and (2) regulation, revenue distribution and management. The area of regulation, revenue distribution and management is specifically aimed at addressing information mismatches as well as mismatches in the timing and flow of funds for different needs. The proposed enabling approaches are divided into those required for cooperative approaches and those required in order to capacitate the mining companies themselves.

THE STAGES APPROACH TO SUSTAINABLE MINING

Engaged and Orderly Approach to Ensuring Sustainable Positive Impact and Mitigation of Negative Impact

Pre-Exploration	**Exploration and Feasibility** *(includes Planning and Designing)*	**Operations** *(includes Construction and Extraction)*	**Decommissioning and Rehabilitation**

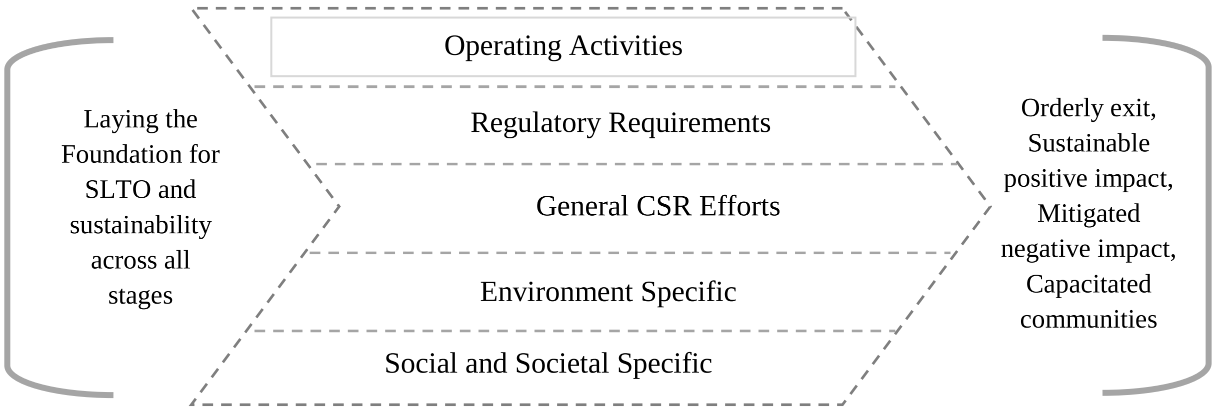

Figure 24[xxviii]

The Stages Approach to Sustainable Mining Framework presents an engaged and orderly approach for ensuring sustainable positive impact and mitigating negative impact. A complete plan must be available for all the stages of mining as part of the activities for pre-exploration and feasibility. CSR activities involve all the different mining phases, including operating and compliance activities.

As the particular environmental and social impact and concerns change across the different mining stages, the CSR activities must also adapt in order to address the changing situation and needs. The pre-exploration stage is the starting point for companies, and the goal is to lay the foundation for attaining and maintaining a social license to operate (SLTO) and for working towards sustainability across all stages. The end goal is for an orderly exit, sustaining positive impact beyond mine closure, mitigating negative impact for the long term, and capacitating communities to take over post-mining closure. The post-rehabilitation plan must include environmental rehabilitation, a new land use program and a clear continuing economic and development model for the communities and governments who will lose access to economic benefits from mining operations.

MAPPING FOOTPRINT AND STAKEHOLDERS IN THE MINE LIFE CYCLE

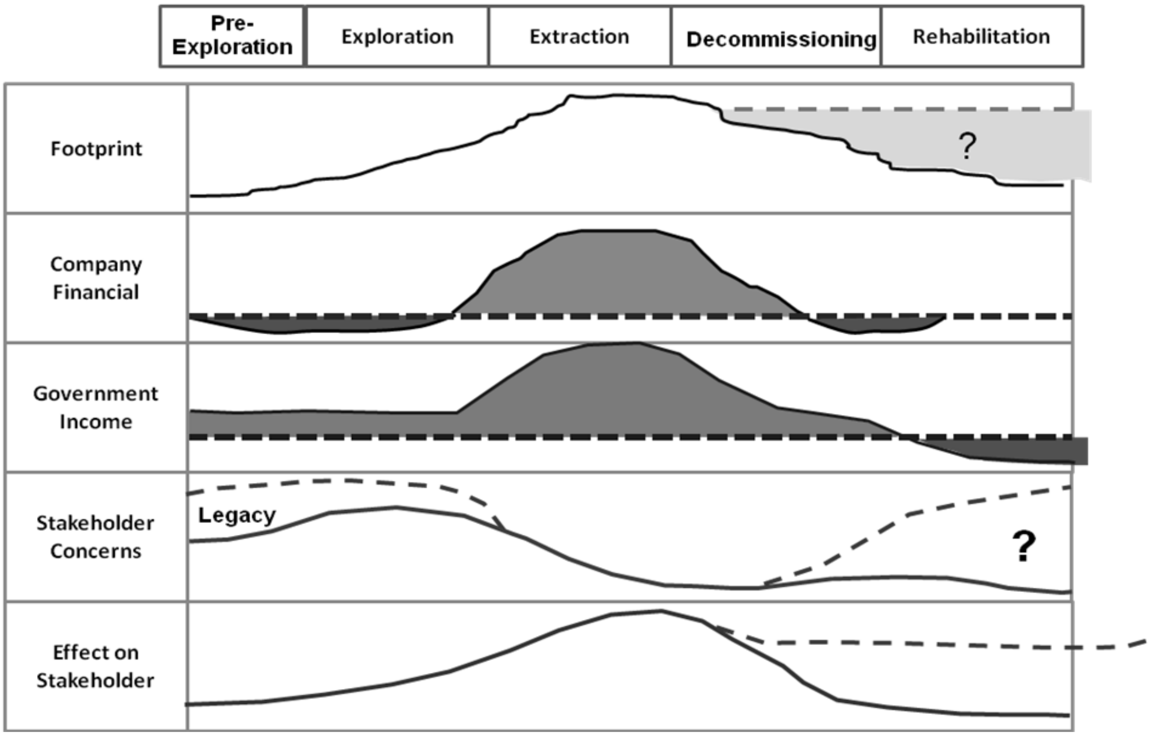

Figure 25[xxix]

Each mining site goes through specific stages in its life cycle. These stages include pre-exploration, exploration including feasibility and planning, extraction (which begins with construction), decommissioning and rehabilitation. As mineral deposits are finite, each mine site also has a finite lifetime. A key goal of sustainable mining is the positive and orderly exit from mining operations.[24]

The company's footprint (its impact on the community, environment and society), corporate financial results, government income, stakeholder concerns and impact on stakeholders vary across the life of the mine.

Corporate Governance (CG) and CSR are related. CG provides transparency, benchmarks and other tools that measure and validate CSR initiatives. The Corporate Governance Frameworks developed by the RVR Center for Corporate Social Responsibility support its CSR thrust.

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[24] Herrera, Maria Elena. "Corporate Social Mining Sector for APEC Economies."

DEFINITION OF CORPORATE GOVERNANCE[25]

According to the Organisation for Economic Co-operation and Development (OECD), Corporate Governance is the "system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs."[26]

Furthermore, according to the World Bank, Corporate Governance (CG) is concerned with "holding the balance between economic and social goals and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society."[27]

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[25] Felipe Alfonso, Francisco Roman and Rose Quiambao (2005). Social Responsibility and Governance in the Philippines.
[26] *Ibid.*
[27] *Ibid.*

DISAGGREGATING GOVERNANCE[28]

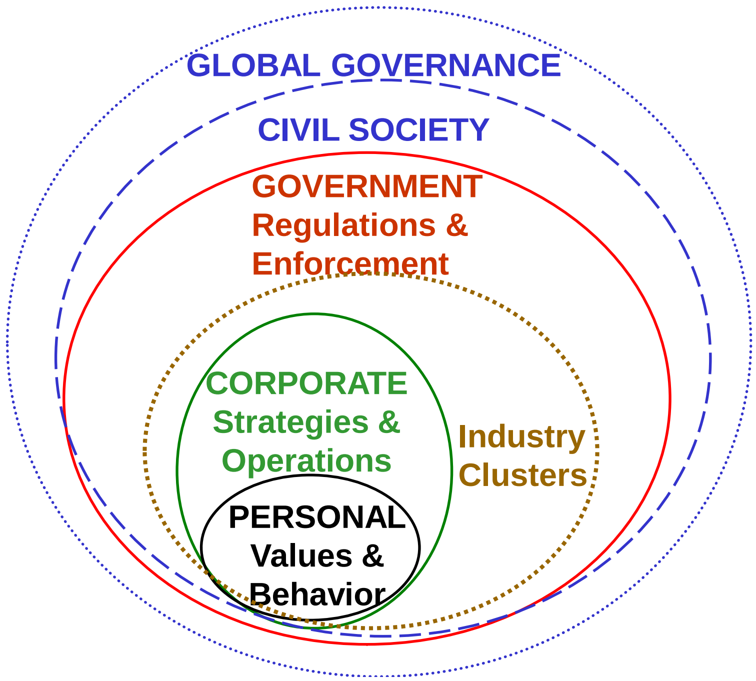

Figure 26[xxx]

The framework above highlights the different layers of governance. Governance starts with personal integrity, whether that person is the CEO or the president of a country. For the corporation, the CEO establishes the values and sets the example for the rest of the organization to follow. Family firms abound in Asia, and the founder, alive or dead, represents a major influence.

Corporate governance may be institutionalized through either formal or unwritten "codes of conduct," as part of the firm's Vision-Mission statement. Codes of conduct represent governance values and should influence the choice of strategies and implementation.

Public governance is most evident through rules and regulations, strong enough so that companies are not tempted to "trade-off," i.e., pay the fine rather than comply.[29]

Civil society governance influences both corporate and public governance; in turn, history and culture (or the accepted ways of doing things) will influence the direction of civil society action.

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[28] *Ibid*,. p. 50.
[29] *Ibid*,. p. 50.

Global governance is a relatively new phenomenon that first became very visible in Seattle, during the WTO meeting and continued through Davos (World Economic Forum) and other venues where global corporations and multilateral agencies congregate. Global governance involves issues that cut across countries, such as AIDS and child labor.[30]

CORPORATE GOVERNANCE FRAMEWORK

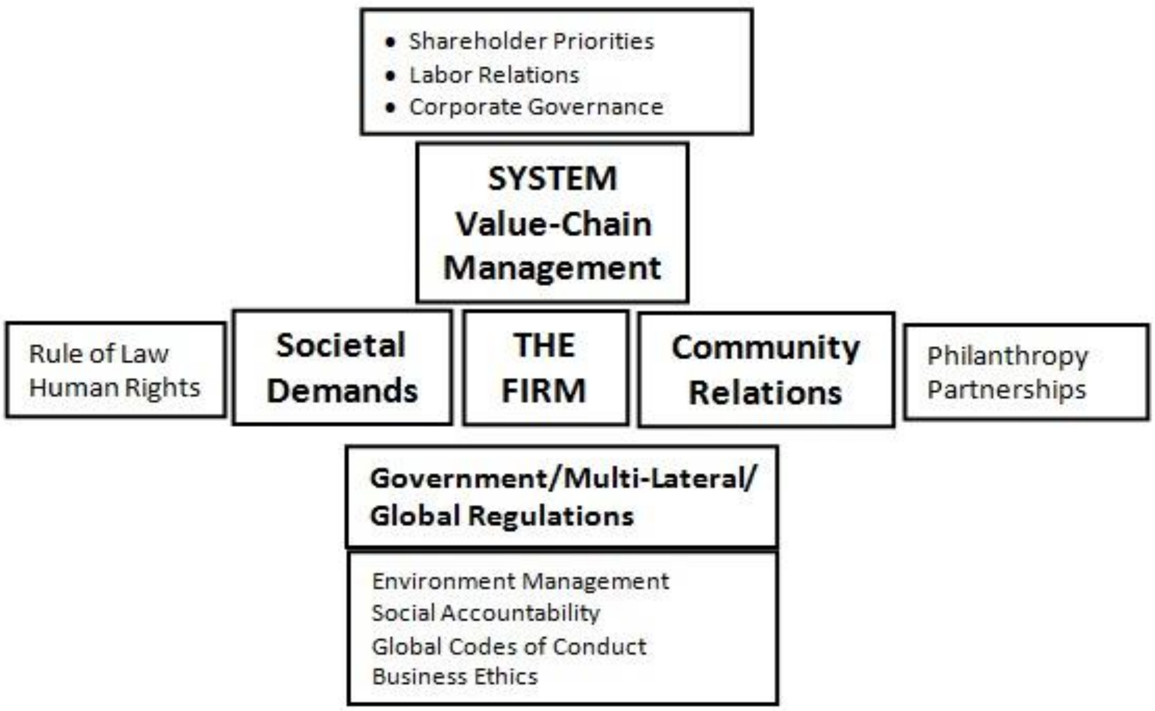

Figure 27[xxxi]

The focus of the RVR Center is on the firm, and the RVR Center sees the firm at center of four forces, namely: societal demand, the business system, community relations, and national and international regulations.

The firm exercises its traditional concern over its strategy and operations, primarily through its value-chain management system to address shareholder concerns – for instance, on dividends, growth and returns, and where labor relations are moving from contention to cooperation. The “traditional” place of corporate governance focuses on the board as the “agent” of the shareholders and in turn oversees its agent, the firm’s senior management.

[30] *Ibid.*, p. 50.

Governments exercise a regulatory and enforcement function both locally and sometimes globally, as in the case of joint ventures and host country treaties. Multilateral organizations, both non-government and public, are actively advocating issues on good social accountability, codes of conduct, and so forth.

Societal demands on the firm are increasing, since the government of a developing country may be overwhelmed by the needs of its citizens. However, some demands are not "tangible" in goods and services, but may also involve a desire for greater attention to human rights or the rule of law.

Finally, firms must address the needs of specific communities, and community relations include both "passive" philanthropy and "active" partnerships.

GOVERNANCE SCORECARD[31]

Shareholder Value

Management Competence

Accountability of Actions

Responsiveness

Transparency in Policy/Decision Making

Stakeholder Concern

Figure 28[xxxii]

SMARTS enumerates six components that are important for CG efforts. Shareholder Value is the starting point. Standard financial measures such as return on investment (RoI), return on equity (RoE), return on capital employed (RoCE), economic-value added analysis (EVA), can be aggregated or indexed to use at the industry level.

Management Competence refers to top management's capacity to formulate and implement strategy. Efficiency measures include growth in share of market (SoM) and

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[31] *Ibid.*, p. 50.

increasing return on sales (RoS, or the ratio of net profit to net sales), or earnings before interest taxes, depreciation, and amortization (EBITDA). Value-chain management is also critical. The different cost-components in the chain can serve as benchmarks for assessing management competence.

Accountability of Actions applies to both board and senior managers. Measuring this factor requires the presence of independent committees or consultants to regularly monitor and evaluate performance of the relevant/key actors in the firm. Assessing accountability requires documenting and analyzing the consequences of policies or decisions and assigning responsibility for the consequence (both good and bad).

Responsiveness originally referred to the firm's concern for the environment. Recently, however, this term has been broadened to include responsiveness to sustainable development initiatives (of which the environment is one major factor). ISO compliance is one measure of responsiveness.

Transparency in formulating policies relates closely to accountability and can be assessed through the quality (and frequency) of documents that are made available to the public.

Stakeholder concern moves governance from the perspective of the specific shareholders to the broader base of stakeholders.

THE CORPORATE FRAMEWORK

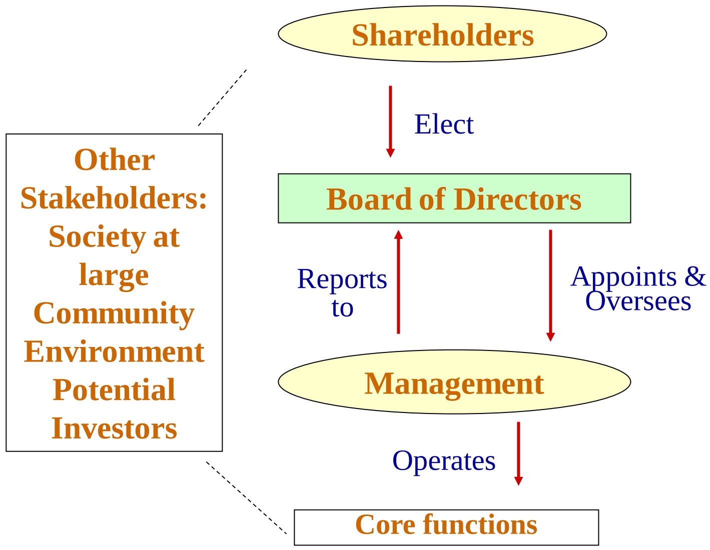

Figure 29[xxxiii]

The Corporate Framework presents the basic structure of the corporation. A corporation is generally owned by shareholders who elect the Board of Directors. The Board of Directors is responsible for the overall strategic direction of the company. The Board of Directors appoints a management team to oversee the day-to-day operation of the company. The division of the management team varies per company. The Corporate Framework then highlights the presence of external forces in the governance of a corporation.

THE BOARD AND MANAGEMENT: A BALANCING ACT

Alfonso concludes his perspective on the corporate framework in Ex. 15, by illustrating the "balancing act" that governance requires.

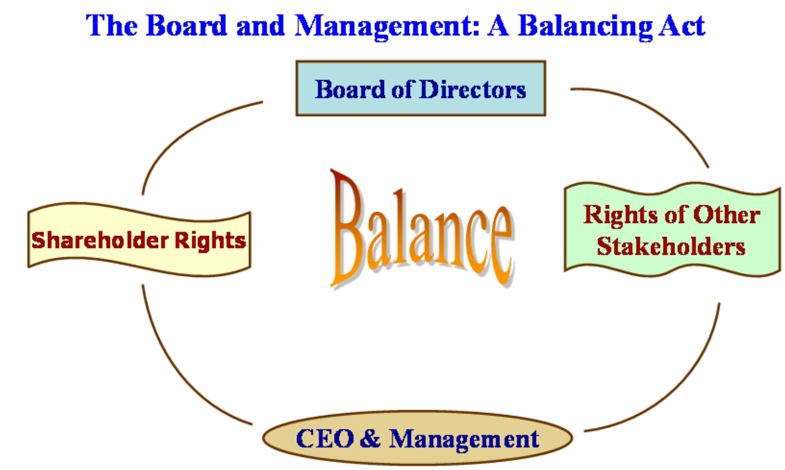

Figure 30[xxxiv]

The Board provides the vital link between owners and managers. The Board is concerned with the short-term market growth of the corporation and its long-term competitiveness and profitability and returns. The Board ensures that the company's strategy is developed and implemented. The CEO and top management in turn focuses on the day-to-day operations of the company in an ever changing business environment. The CEO and the top management are responsible for designing a cohesive business strategy that describes how value will be created for shareholders, and then effectively communicating this strategy to the Board. The responsibilities of the Board and management are designed to be complementary in nature and in turn enhance and protect shareholder value. The Framework above shows that governance requires ensuring the balance between the rights of the majority shareholders and the right of other stakeholders that the Board and Management must consider.

THE TENETS OF GOOD GOVERNANCE: CORPORATE CULTURE AND COLLABORATION AT THE CENTER OF THE CONTROL SYSTEM[32]

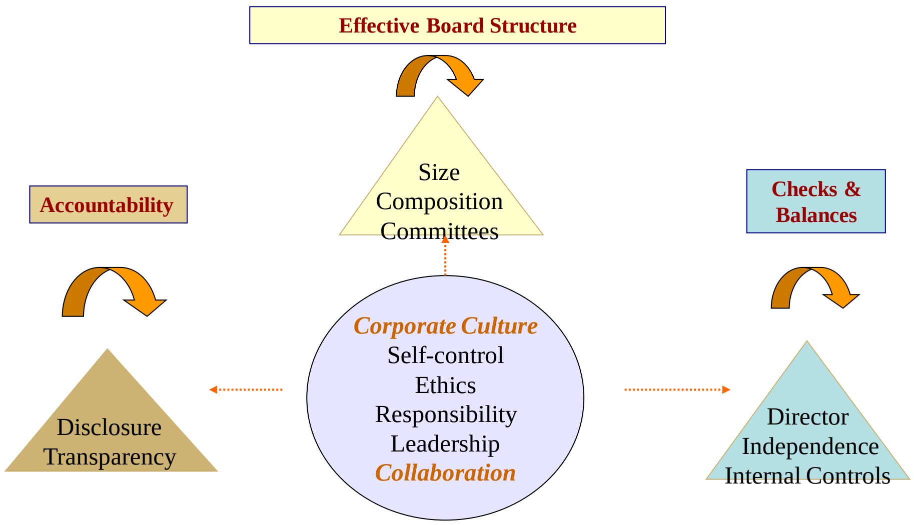

Figure 31[xxxv]

The framework shows the principle tenets of good governance. First, a commitment to disclosure and transparency of information "ensures a corporation's accountability to its investors and other stakeholders and benefits the firm because the commitment inspires trust, confidence and credibility and allows shareholders and would-be investors to make informed decisions."

Second, regarding checks and balances:

> "The system of internal control should be embedded in the operations of the company and form part of its culture. The emphasis on director independence serves to ensure independent judgment on Boards to help corporations prosper and evolve…The presence of competent and genuinely independent directors is a signaling mechanism for the market. It conveys that the corporation is serious about protecting the rights of all shareholders and the integrity of the company."

Third, regarding effective board structures, and their size and composition:

> "The number of members on the Board must allow for meaningful and lively discussion and efficient decision-making. Smaller boards have the benefit of facilitating discussion

[32] *Ibid.*, p. 50.

and interchange of ideas, while the composition should be dispersed between shareholders, management and an appropriate number of independent directors (at least 25% of the Board)."

The fourth element of an effective board is the Audit Committee and its tasks include:

- Assessing risks and monitoring environment
- Overseeing financial reporting
- Evaluating the audit process
- Ensuring that the company adheres to internationally recognized accounting and auditing standards and maintains a single set of accounts

Fifth, an effective board structure requires a solid Selection and Compensation Committee because: "Excessive executive compensation is one of the leading issues in the governance debate and the issue of how to align executive compensation with stock performance has not been adequately tackled." The Committee tasks include:

- Designing a compensation package that will attract, motivate and retain the right senior executives
- Deciding whether to expense options and equity compensation
- Nominating, selecting, training, and evaluating directors
- Designing effective orientation programs for new directors

AGENCY ISSUE[33]

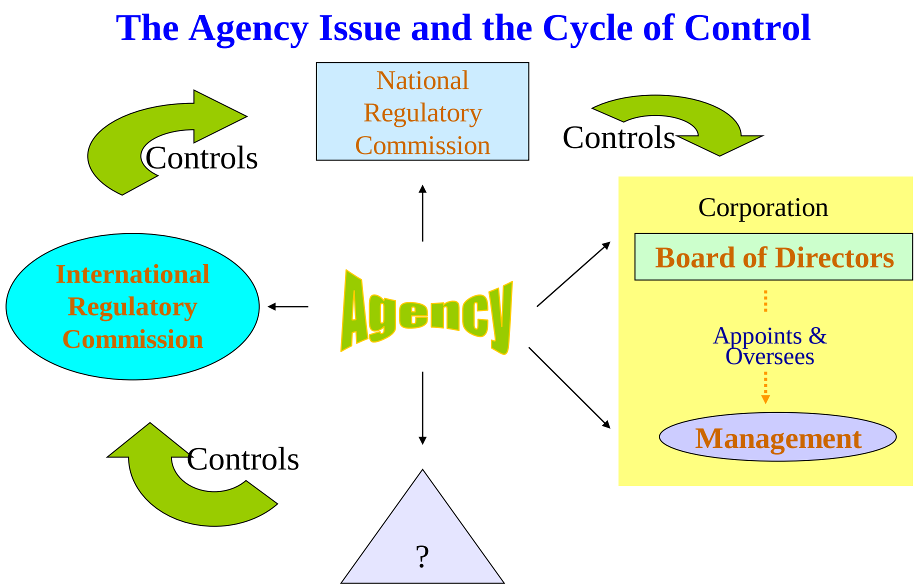

Figure 32[xxxvi]

The basic "agency issue" is hierarchical – the management is an agent of the board, and the board is an agent of the shareholders and has expanded over the years with the evolution of governance. All this is related to the cycle of control: "The concept of the control function of the board of directors over the management, if generalized is problematical."[34] This leads to questions regarding who controls the board of directors. There are national government agencies that are responsible for corporate oversight. There are also international regulatory commissions that influence national regulators. Who are these international regulators accountable to?

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[33] *Ibid.*, p. 50.
[34] *Ibid.*, p. 50.

CORPORATE CULTURE AND COLLABORATION: THE SOUL OF THE CORPORATION[35]

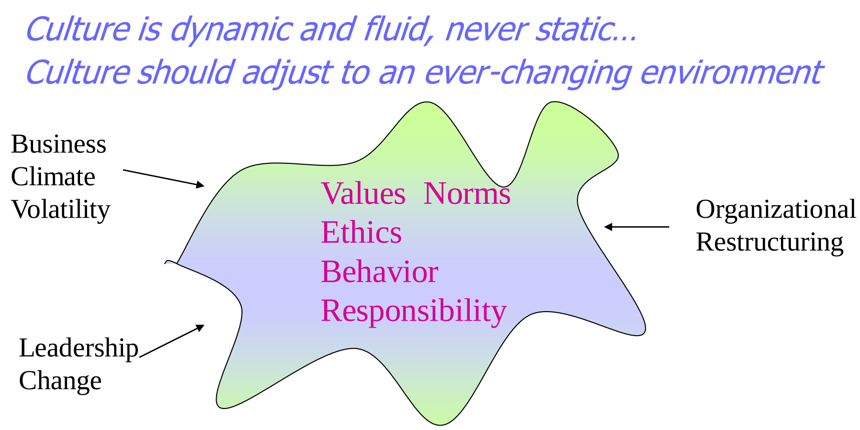

Figure 33[xxxvii]

Corporate culture is the "Soul of the Corporation" as it encompasses the moral, social, and behavioral norms of an organization based on the beliefs, attitudes and priorities of its owners, managers and employees. The culture of an organization operates at both conscious and unconscious levels. It comprises the deeply rooted but often unconscious beliefs, values, and norms shared by employees, and culture thus drives the organization and its actions, as a sort of "operating system" of the organization. It guides how employees think, act, and feel.[36] On the other hand, corporate culture may also change in order to cope with changes in the organizational structure, the business climate and leadership.

[35] *Ibid*., p. 50.
[36] *Ibid*., p. 50.

GOVERNANCE FOR ASIA: THE ABC APPROACH[37]

Two Business Realities in Asia, Two Paradigms for Corporate Governance, Same End

Governance Principle	Widely-held Corporation	Dominant Shareholder
Checks and Balance mechanisms	Expropriation of value by Management	Expropriation of value by Dominant Shareholders (who in turn control/are management)
Disclosure	Presentation of timely and material information	Access to material information
Provision of independent views (Board level)	Independent view *of* the Board	Independent views *on* the Board
Role of Committees	Check management	Check dominant shareholder (who is also management or controls management)

Figure 34[xxxviii]

[37] *Ibid*., p. 50.

FACTORS AFFECTING GOVERNANCE[38]

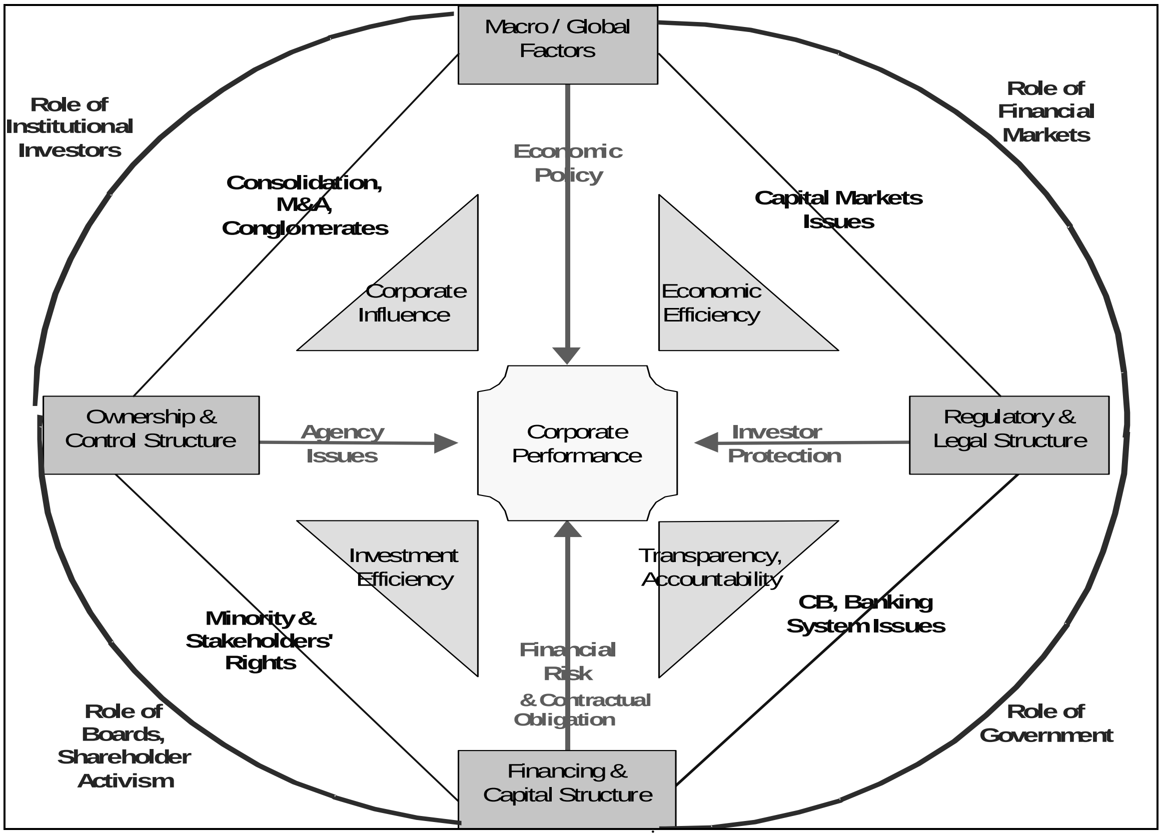

Figure 35[xxxix]

At the core of the governance map is corporate performance. Good corporate performance can be viewed as a central goal of good corporate governance. The numerous factors relevant to governance as they affect corporate performance are classified in this map into four. These four (shown in blue rectangles) are (1) macro/global factors, (2) regulatory and legal structures, (3) ownership and control structure, and (4) financing and capital structure. The first two sets of factors are external factors, whereas the other two are internal.

[38] *Ibid.*, p. 50.

Endnotes

[i] RVR CSR Center Brochure (2001)

[ii] Luz, Juan Miguel. *Corporate Social Responsibility in the Global Community: From Managerial Behavior to Best Practices to Business Models*. Paper Presented at the APEC Young Leader's Forum, 2001; and Alfonso, Felipe B. *Corporate Social Responsibility in the Global Community: A View from the Ground Building Partnership for Development*. Presented during the 1st Reinventing CSR Program, 2006.

[iii] Modified by Francisco L. Roman, from Alfonso, Felipe B., Francisco Roman and Rose Quiambao. *Social Responsibility and Governance in the Philippines*. Manila: AIM-RVR Center for Corporate Social Responsibility, 2005.

[iv] Luz, J. M. and Alfonso, F. B. *op cit.*

[v] Alfonso, Felipe B., Francisco Roman and Rose Quiambao. *Social Responsibility and Governance in the Philippines*. Manila: AIM-RVR Center for Corporate Social Responsibility, 2005.

[vi] Alfonso, Felipe B. "Corporate Social Responsibility in the Global Community: A View from the Ground Building Partnership for Development." Presented during the 1st Reinventing CSR Program. 2006. Presentation.

[vii] Luz, Juan Miguel. *Corporate Social Responsibility in the Global Community: From Managerial Behavior to Best Practices to Business Models*. Paper Presented at the APEC Young Leader's Forum, 2001.

[viii] Alfonso, Felipe B. "Corporate Social Responsibility in the Philippines." Presented During the ISO 26000 Conference. Manila, 2007.

[ix] Herrera, Maria Elena. "Promoting Mutual Cooperation Among Corporate Foundations in ASEAN." Singapore, 2008. Presentation.

[x] *Ibid.*

[xi] *Ibid.*

[xii] Herrera, Maria Elena. "CSR and Value Creation" in the book Doing Good in Business Matters: CSR in the Philippines (Frameworks)." 2007.

[xiii] Roman, Francisco L. "Using Networks to Enhance Corporate Social Responsibility: The Philippine Experience." Presented at the Asian Forum on Corporate Social Responsibility, Indonesia. 2005. Presentation.

[xiv] *Ibid.*

[xv] *Ibid.*

[xvi] Roman, Francisco L. "Philippine CSR Over Five Decades: Networks, Drivers and Emerging Views." *Doing Good in Business Matters: CSR in the Philippines (Frameworks)*. Manila: Asian Institute of Management RVR-CSR, 2007.

[xvii] Based on the Article of Felipe Alfonso and James Neelankavil entitled, "CSR and Collaborative Partnerships" in the *Journal of Asian Management*. Volume 1.1. Published in 2009.

[xviii] Herrera, Maria Elena, Maria Cristina Alarilla and Ryan Vincent Uy. *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asian Institute of Management, 2011.

[xix] *Ibid.*

[xx] *Ibid.*

[xxi] *Ibid.*

[xxii] *Ibid.*

[xxiii] *Ibid.*

[xxiv] Herrera, Maria Elena and Maria Cristina Alarilla. 2013. "Developing An Integrated BOP Engagement Strategy." Working Paper no. 13-008, *AIM Business and Development Research*, Asian Institute of Management.

[xxv] *Ibid.*

[xxvi] *Ibid.*

[xxvii] Herrera, Maria Elena. "Corporate Social Mining Sector for APEC Economies." *CSR in Mining for APEC Economies*. Singapore: Asia Pacific Economic Cooperation Secretariat, 2011.

[xxviii] Herrera, Maria Elena. "Sustainability in Mining: The Stages Approach." *CSR in Mining for APEC Economies: Trainers Guidebook*. Singapore: Asia Pacific Economic Cooperation Secretariat, 2012.

[xxix] *CSR in Mining for APEC Economies*, 2011.

[xxx] *Social Responsibility and Governance in the Philippines, op cit.*

[xxxi] *Social Responsibility and Governance in the Philippines, op cit.*

[xxxii] *Social Responsibility and Governance in the Philippines, op cit.*

[xxxiii] *Social Responsibility and Governance in the Philippines, op cit.*

[xxxiv] *Social Responsibility and Governance in the Philippines, op cit.*

[xxxv] *Social Responsibility and Governance in the Philippines, op cit.*

[xxxvi] *Social Responsibility and Governance in the Philippines, op cit.*

[xxxvii] *Social Responsibility and Governance in the Philippines, op cit.*

[xxxviii] *Social Responsibility and Governance in the Philippines, op cit.*

[xxxix] *Social Responsibility and Governance in the Philippines, op cit.*