Corporate Social Enterprise

A mechanism for creating shared business and social value

By Dennis Flemming and Tam Nguyen[1]

Complex problems require complex solutions. The old adage is no more relevant than in Nigeria's Niger Delta region, shared home to the world's sixth largest oil production and a teeming population of 32 million people, two thirds of whom live under the poverty line. The juxtaposition of so much wealth with so much poverty generates such a competition for benefits that the region has been caught in a self-perpetuating cycle of violence and conflict. International oil companies have tried for years to end this cycle with increasing investment in social infrastructure in the communities surrounding their operations. But no matter how far they draw the circle of benefit around their operations, millions of people are still outside that circle trying to get in. Out of this challenge, a new approach to generating positive social change for an entire region has emerged which draws its inspirations from business rather than social institutions, offering useful ideas of how companies can use their resources in ways which not only reduce risk, but add value to society where it is needed most.

There is an interesting evolution in concepts associated with delivering shared business and social value. The delivery of value increasingly leverages the fundamentals of business while still maintaining a continued commitment to corporate social responsibility. With billions of dollars invested in the Niger Delta, Chevron has considerable incentive to find the right solutions to the complex problems in the region. Its Niger Delta Partnership Initiative (NDPI) introduces the notion that a company can transform different constraints and opportunities to become a catalyst for social change in ways that blur the traditional divisions between public and private sector roles.

The Challenge	The Strategy	The Opportunity
Try to break the perpetuating cycle of violence and conflict in the Niger Delta that has sustained poverty and increased investment risk in the region.	Establish a mechanism for catalyzing social change in ways that blur the traditional divisions between public and private sector roles, generating shared value for business and society through sustainable and equitable economic growth in the region.	Learn from the experience of establishing a corporate social enterprise in the Niger Delta, enabling companies to explore new models for delivering shared business and social value in their own operating contexts.

[1] Dennis Flemming serves as Executive Director of the Niger Delta Partnership Initiative for Chevron in Nigeria. Tam Nguyen is the Global Head of Sustainability for Bechtel Corporation, and formerly Manager of Corporate Responsibility for Chevron Corporation.

Rethink – Reorient – Retool

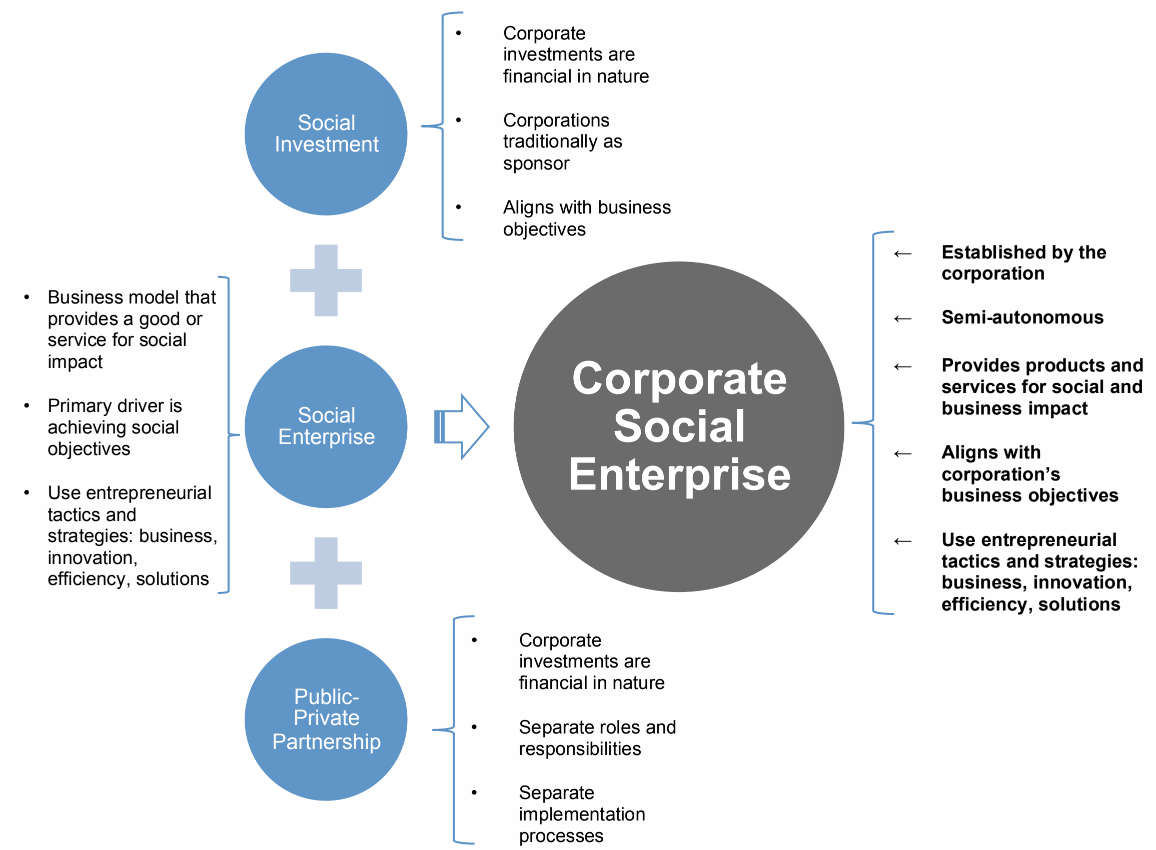
Shared value is increasingly becoming a conceptual underpinning in how a company conceptualizes its role in society. The concept was introduced by Michael Porter and Mark Kramer in 2006 in the Harvard Business Review and the term has gained significant uptake by the business community. Operationalizing shared value, however, continues to evolve and can be summarized as a process of **Rethinking** your business case, **Reorienting** your business case to meet critical social needs, and **Retooling** your mechanisms for addressing those needs. Over the past two decades, conventional approaches to corporate philanthropy have gradually given way to strategic mechanisms for maximizing the overlap between social and business benefit. The size and types of these mechanisms have increased dramatically, as corporations seek opportunities in far flung locations throughout the globe – places with pervasive poverty and longstanding security issues. The magnitude of business and social needs in such places is only exceeded by the challenges of meeting them sustainably. Companies continue to face a steep learning curve for two reasons. At the micro level, the so-called social contract between companies and communities that surround their operations continue to evolve into unchartered territory. The study and understanding of what this evolving contract actually is, let alone what it should be, is not keeping pace. Because there is insufficient understanding of how companies, communities, and governments can work together to make that social contract work for all stakeholders, many efforts turn out being a hit or miss proposition with low chances of genuinely delivering shared value. At the macro-level, business and social investments increasingly overlap and address both business and broader societal issues. We see this debate playing out within companies and the broader political economy where there are competing views as to whether or not socially-oriented investments create shareholder value for the company.

The mainstream delivery mechanisms for achieving shared value outcomes tend to include (i) leveraging a firm's core business activities; (ii) corporate social investments; (iii) social enterprise or impact investing; and (iv) public-private partnerships. Porter and Kramer evolved the idea of a company utilizing its social investments more strategically to enhance its operating context to create competitive advantage. Managers can align social investment strategies, or appropriate technology development to remove particular constraints in the company's value chain and improve its overall competitiveness. Companies have also turned to partnering with the international aid community in order to draw upon their ability to identify and manage social investment projects. Yet a cultural gap persists between the public and private sectors which are rooted in commonly held assumptions that the behaviors necessary to build a successful business are not applicable to social institutions. Most partnership models continue to focus on segmenting the roles and responsibilities of their public and private sector partners in ways that reinforce these assumptions.

The mainstream mechanisms for delivering shared value may be optimal for a firm's administrative and organizational processes, but they may not be optimal for actually achieving the social aims sought by the firm. While there has been substantial research on external influences and factors that may shape the development and application of these mechanisms, less analysis has been done on the internal factors. A company's external environment, coupled with its internal structure, can provide important insights into why new alternative mechanisms are needed.

Reconfiguring the Constraints and Opportunities

The concept of a Corporate Social Enterprise (CSE) was conceived based on a reconfiguration of the constraints and opportunities associated with an organizational structure best suited to achieve a true balance between business and social value. Chevron, like many international energy companies, conducts business in some of the world's most complex environments – none more complex than the Niger Delta. Communities in the region are challenged by conflicts, largely stemming from the inequitable distribution of the wealth the region produces. The political economy of the region's vast oil and gas production has exacerbated ethnic conflicts among the many ethnic groupings. Infrastructure and social services are weak or nonexistent and contribute to tensions among different communities. Against this backdrop, social risks and security issues occur in and around Chevron's assets, which can be shaped and influenced by multiple, inter-related pressures occurring outside the immediate community areas and the broader region. The strategic opportunity for creating shared business and social value lies in stimulating growth and employment throughout the vast oil producing region of the Niger Delta and its 32 million inhabitants, most of whom are far removed from where the company operates.



A CSE does not have a precise definition, but is rather understood by its characteristics and attributes. It is established by a corporation and represents a hybrid between traditional corporate social investments, which are aligned more closely with business objectives and controls; and social enterprises, which use entrepreneurial methods to deliver products and services for social impact. Like social enterprises, CSEs emphasize a commercial approach to promoting development outcomes. And similar to conventional social investments, they align with their corporate donor's business objectives and leverages the company's assets and capabilities to maximize the overlap between business and social benefit. A key aspect of this overlap is the role economic growth plays in development outcomes. When business risk is reduced and growth and investment flourishes in ways which benefit a majority of the population (and not just a powerful few), everyone benefits.

A CSE can act as a natural bridge between the business and development community, serving as a forum for innovation and ideas between business professionals and development practitioners. Operating at an arm's length from the company, with a different set of governance structures, operational processes and performance metrics, such an enterprise offers the flexibility and opportunity to innovate new economic solutions to old social problems.

The Niger Delta Partnership Initiative (NDPI)

NDPI was established by Chevron in 2010 with a US$50 million fund to support a portfolio of projects and partnerships aimed at reducing poverty in the Niger Delta region. To date it has been showing encouraging potential in a region known for chronic underdevelopment and social initiatives that have failed to provide lasting impact. It was designed to focus on achieving a strategic intersection of business and social objectives. The starting point was to look at the root causes of Chevron's social risks in the region and identify both the social and business objectives for managing those risks and how they relate to each other.

This intersection between business and social objectives ultimately determined the portfolio of projects and partnerships NDPI engaged in. The four social objectives identified above determined NDPI's four program areas, including an **economic development program** focused on generating opportunities for income and employment generation, a **capacity building program** that builds local social service delivery capacity, a **peace-building program** that strengthens conflict resolution mechanisms, and an **analysis & advocacy program** that improves understanding of systemic constraints to growth in the region.

There is a growing recognition that many social benefits can be realized through sustainable and equitable economic growth. To achieve this, NDPI applies a market development approach. Unlike more traditional development approaches, which often provide direct funding or assistance to businesses and individuals, market development focuses on improving local economies by expanding and increasing the efficiency of market systems. When market systems – the building blocks of economies – work better, they enable higher growth and increased employment. Research and analysis in this approach are crucial. With little reliable socio-economic data available, NDPI began by conducting an economic opportunity analysis with local and international partners to identify key sectors to work in, based on their potential for increasing incomes and employment for the poor. The data and analysis from this research is being disseminated to interested parties, not only to improve the design and development of projects, but to encourage greater collaboration amongst development actors in the region.

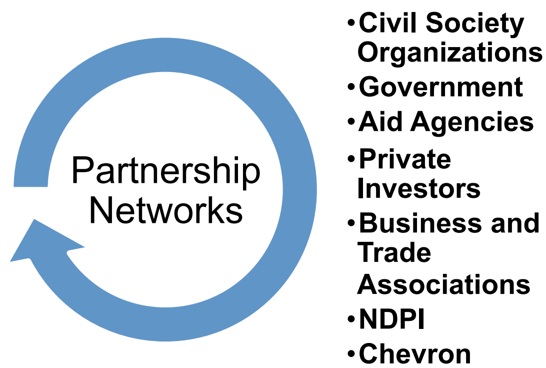
What makes NDPI a CSE is its independent structure and approach to socio-economic development. It was incorporated as a newly created foundation, providing Chevron with the opportunity to design its governance and management structure with a combination of company personnel and experienced development experts to get the right balance between business and social interests. The foundation goes beyond simply funding development projects, developing a sustainable market for economic development services in the region. These services are specifically designed to meet the combined demand from international aid organizations, state government agencies, oil companies and other private investors. This demand has proven to be substantial, with Chevron's investment being complemented by an additional $50 million of investment in NDPI's projects and services from a diversity of partners as large as USAID and as small as local farmers' associations.

A key service NDPI provides the Niger Delta is the role it plays as a convener and advocate for development in the region. By supplying expertise, knowledge and resources, NDPI provides support throughout all phases of a development project's life cycle. It adopts an entrepreneurial organizational culture which emphasizes innovation and creative thinking, but then testing new development projects and services in carefully selected business clusters before heavily investing time and resources for further impact.

Partnership Networks

The vast majority of stakeholders in the Niger Delta region share a common interest in peace and stability underpinned by sustainable and equitable economic growth. NDPI is learning how to leverage this shared interest in ways which can mobilize efforts, resources and cooperation to make a positive difference. The foundation explores a variety of mechanisms for linking people, organizations, projects and resources into growing networks to create a multiplier effect from its development strategies. In this way, NDPI represents a portfolio of partnerships rather than a single one. The relationship of NDPI with donor and implementing partners, both local and international, not only represent partnerships for specific projects, they form the building blocks for multi-stakeholder networks that can link up activities and resources for increased impact. These partnership networks create a new force for positive change in the Niger Delta region and help organizations to look beyond their individual interests towards a shared vision of sustainable socio-economic development. Partnership Networks enable smaller partnerships, alliances and coalitions to link up with each other, building synergies and leveraging impacts. NDPI's annual development forum brings these development partners together to compare notes and brainstorm new strategies.

The foundation also serves as a convener and facilitator for the partnership networks it creates. Its two economic development centers in the Niger Delta function as physical coordinating hubs for these networks. Different projects and partners share resources, information and collaborate during trainings, creating synergies that enable individual projects to improve their impact and learning.



NDPI carefully structures its partnerships to efficiently link local development actors in the Niger Delta with relevant development experts and international partners to build local capacity. Experienced international partners are often engaged as advisors and mentors rather than as direct project implementers. The foundation plays a pivotal role in partnering with international organizations to build the capacity of local partners as they implement interventions, thereby creating an effective approach for transferring knowledge. By working alongside international organizations throughout the implementation process, local partners gain practical, hands on experience that allows them to learn by doing.

Lessons Learned

NDPI represents a refreshingly entrepreneurial approach to business-led development. There was no deliberate effort or strategy to create a Corporate Social Enterprise. Rather, it was born out of a rigorous focus on discovering the right means to achieve the desired outcomes. Five key lessons from NDPI offer insights to companies exploring new mechanisms for how to deliver shared business and social value:

1. ***Re-examine and reconfigure constraints and opportunities from the company's operating context***. A key to success is not just to focus on the external operating environment, but also the company's ability to strategically address complex social risks.
2. ***Be an "intrapreneur" in your company***. Secure the right individuals inside the corporation to navigate its complexity and pull the right resources and capabilities to innovate and inspire.

3. ***Use economic development as the operating principle***. Equitable economic development enables market forces to generate the sustainability for continued value beyond the investments of a company and its development partners.
4. ***Build capacity first.*** A key to success is not so much in developing the right model, but in building the capacity to develop and sustain an effective model, bringing together the right mixture of people and partnerships that can learn how to make a difference together.
5. ***Learn from leading practices, but always adapt to the local context***. The mainstream corporate mechanisms for generating shared value - corporate social investments, social enterprise/impact investing and public-private partnerships - are not fixed; they represent various elements and approaches that can be adapted to suit a particular context or need, generating useful new models along the way.

The concepts inherent in a CSE have application well beyond NDPI. Many of those concepts already exist in various forms through the efforts of other companies seeking to generate shared business and social value. It is only through continued dialogue, collaboration and shared learning in both the private and public sectors that this value can be sustainably achieved and leveraged to its fullest potential.