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Community Engagement and Investment: Supporting Your Client's Sustainability Initiatives

Alan Gutterman

Sustainability is about the long-term well-being of society—an issue that encompasses a wide range of aspirational targets, including the sustainable development goals (SDGs) of the 2030 Agenda for Sustainable Development adopted by world leaders that went into effect on January 1, 2016. Among other things, the SDGs include ending poverty and hunger; ensuring healthy lives and promoting well-being for all; ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all; and promoting sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all. The goals listed above are based on the recognition that society in general is vulnerable to a number of significant environmental and social risks, including failure of climate-change mitigation and adaptation, major biodiversity loss and ecosystem collapse, man-made environmental disasters (e.g., oil spills), failure of urban planning, food crises, rapid and massive spread of infectious diseases, and profound social instability.[1]

Clearly the challenges described above are daunting, and for most businesses it may be difficult to see how they can play a meaningful role in addressing them. Although it is common for "society" to be identified as an organizational stakeholder, the reality is that one company cannot, acting on its own, achieve all the goals associated with societal well-being. However, every company, regardless of its size, can make a difference in some small, yet meaningful way in the communities in which they operate, and companies are focusing more and more attention on the impact they have within their communities.[2] Focusing on the community level allows an organization to set meaningful targets and implement programs that fit the scale of its operations and that provide the most immediate value to the organization and its stakeholders. Societal well-being projects and initiatives must ensure that the organization does not compromise, and instead improves, the well-being of local communities through its value chain and in society at large.

I. LEGAL AND REGULATORY REQUIREMENTS

The legal issues associated with the community engagement and investment activities of an organization will depend on its decisions regarding the types of contributions that will be made (i.e., cash, in-kind, human resources, etc.), the nature of the projects and activities that will be supported, and the specific topical areas of interest. All businesses must determine the appropriate legal and organizational structures for their community-focused activities, and this often means that a decision must eventually be made about whether to form a separate legal entity, owned and controlled by the parent company, through which community investments will be funneled (i.e., a corporate foundation). Other common legal issues include mitigating potential legal risks associated with employee volunteer programs, sponsoring and/or hosting community events, and entering into joint ventures and other types of alliance arrangements with local nonprofit organizations. Specialized legal guidance will be required when businesses get involved in complex and highly regulated areas, such as helping to provide financial services for low-wealth and underserved communities; supporting public and private financing of community cultural facilities; participating in community-based efforts to preserve open space while expanding the availability of affordable housing; and assisting local courts in positively and proactively addressing juvenile delinquency by providing vocational training and job opportunities.

II. VOLUNTARY STANDARDS, NORMS, AND GUIDELINES

Businesses have long been called upon to comply with a range of formal laws and regulations in various areas related to sustainability-related responsibilities, including those pertaining to the environmental impact of their operations, the employment relationship, working conditions, and health and safety standards. However, apart from satisfying the requirements of local governments with respect to permits and licenses necessary for engaging in certain activities in the community, businesses generally are not heavily constrained by legal guidelines with respect to their community involvement and development activities. This is an area in which voluntary standards have played an important role in providing business with ideas for objectives for their community involvement.

Since the late 1990s there has been a proliferation of transnational, voluntary standards for what constitutes CSR, including state-developed standards; public/private partnerships; multistakeholder negotiation processes; industries and companies; institutional investors; functional groups such as accountancy firms and social assurance consulting groups; NGOs; and nonfinancial ratings agencies.[3] Although voluntary standards focusing specifically on the relationship of businesses and the communities in which they operate are still evolving, lessons can be drawn from many widely recognized normative frameworks, principles, and guidelines such as the United Nations Sustainable Development Goals, the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises (OECD Guidelines), the United Nations Guiding Principles on Business and Human Rights, and the Future-Fit Business Framework.[4] Specialized standards can be used as reference points for support of sustainability-related initiatives in local communities, such as requiring that recipients of grants and other investments for sustainable sourcing and agricultural activities adhere to the guidance developed by the Sustainable Agriculture Initiative Platform.

Although many of the standards and guidelines discussed herein can reasonably be characterized as aspirational, the International Organization for Standardization (ISO) seeks to provide organizations with easy access to international "state-of-the-art" models that they can follow in implementing their management systems. ISO has developed and distributed ISO 26000 Guidance on Social Responsibility which, although not a management system standard, is a useful guide for improvement of organizational practices with respect to social responsibility. ISO 26000 identifies and explains various core subjects, such as organizational governance, human rights, labor practices, the environment, fair operating practices and consumer issues, and, notably for purposes of this discussion, explicitly includes community involvement and development among its core subjects.[5] The issues for businesses relating to community involvement and development identified in ISO 26000 include community involvement and respecting the laws and practices of the community; social investment (i.e., building infrastructure and improving social aspects of community life); employment creation (i.e., making decisions to maximize local employment opportunities); technology development (i.e., engaging in partnerships with local organizations and facilitating diffusion of technology into the community to contribute to economic development); wealth and income (i.e., using natural resources in a sustainable way that helps to alleviate poverty, give preference to local suppliers, and fulfill tax responsibilities); education and culture (i.e., supporting education at all levels and promoting cultural activities); health (i.e., promoting good health, raising awareness about disease, and supporting access to essential health care services); and responsible investment (i.e., incorporating economic, social, environmental, and governance dimensions into investment decisions along with traditional financial dimensions).[6]

III. GOVERNANCE AND COMPLIANCE

Community engagement and investment is a multifaceted activity that requires formal management and planning. Working with and in the community is part of the broader CSR activities of the company, which means that management should begin at the top of the hierarchy with the board of directors or, in most cases, the committee of the board that has been delegated responsibility for overseeing CSR activities on behalf of all of the directors. The CSR committee, working in collaboration with senior management of the company and specialists working specifically on community-related matters, should be tasked with developing strategies and policies relating to community engagement and investment; deciding on the optimal organizational structure for community-related activities, including perhaps the formation of an affiliated corporate foundation; ensure that procedures are in place for conducting due diligence on prospective recipients of grants and other resources from the company and potential partners in community development projects; developing and approving projects; overseeing implementation of projects, including preparation of definitive agreements with community partners, monitoring progress, and measuring impact; and compiling and analyzing relevant information regarding community activities for presentation in the company's sustainability reporting.

IV. COMMUNITY ENGAGEMENT

Community engagement and dialogue—sharing information with and listening to community members to provide them with a voice on matters that impact them—is the cornerstone of everything a company does vis-à-vis the community in which operates. Community engagement appears in many of the voluntary standards relating to sustainability and reporting on sustainability-related matters. For example, the OECD Guidelines call on enterprises to seek and consider the views of community members before making decisions regarding changes in operations that would have major effects on the livelihood of employees and their family members living in the community and the community as a whole (e.g., proposed closures of facilities), and take steps to mitigate adverse effects of such decisions on the community. The Sustainability Reporting Standards created by the Global Reporting Initiative, and discussed in more detail below, call for reporting organizations to discuss their management approach with local communities by describing the means by which stakeholders are identified and engaged; which vulnerable groups have been identified; any collective or individual rights that have been identified that are of particular concern for the community in question; how it engages with stakeholder groups that are particular to the community (for example, groups defined by age, indigenous background, ethnicity, or migration status); and the means by which its departments and other bodies address risks and impacts, or support independent third parties that engage with stakeholders and address risks and impacts.[7]

V. REPORTING

Although more and more companies produce reports that emphasize the importance of being a good "community citizen" and effectively managing their relationships with community members and the community environment, those same reports often reflect difficulties in identifying and describing specific goals for community involvement and the impact that company activities are having on the community. As with all aspects of sustainability reporting, practices of companies regarding their disclosures relating to community engagement and investment have been evolving as time has passed and stakeholder interest in such activities has increased. Although mandatory reporting requirements have been slow to emerge, the need to keep communities informed has found its way into global standards such as the OECD Guidelines, which provide that enterprises are expected to ensure that timely, regular, reliable, and relevant information is disclosed to the community regarding the activities, structure, financial situation, and performance of the enterprise and relationships between the enterprise and its stakeholders, as well as communicate information to the community regarding the social, ethical, and environmental policies of the enterprise and other codes of conduct to which the enterprise subscribes (including voluntary standards relating to community involvement and development).

The Sustainability Reporting Standards developed by the Global Reporting Initiative (GRI) are the most widely used standards on sustainability reporting and disclosure around the world and include several types of disclosure categories that cover various aspects of community involvement, investment, and impact. The GRI reporting framework covers a wide range of performance indicators and disclosure standards in three categories: economic, environmental, and social. With respect to operations and other activities that might directly or indirectly have a material impact on their communities, organizations that have adopted the GRI framework are expected, among other things, to make disclosures regarding the impact that their investments and other support of infrastructure and local services has had on their stakeholders and the economy; the indirect economic impacts their operations and activities have had on their communities; community investment activities; engagement with local communities; the actual and potential negative impacts of their actions on local communities; and their managerial approach to community issues.

A framework for reporting promoted by the London Benchmarking Group (LBG), which is managed by Corporate Citizenship, a global corporate responsibility consultancy based in London with offices in Singapore and New York, is an effective tool for quantifying and organizing information about their corporate community investment activities and, most importantly, assessing and reporting on the impact of their relationships with communities and how to manage it.[8] LBG explained its framework as being "a simple input output model, enabling any [corporate community investment] activity to be assessed consistently in terms of the resources committed and the results achieved."[9] Applying the framework begins with inputs (i.e., what resources did the company provide to support a community activity), continues with outputs (i.e., what happened within the community and the company as a result of the activity, and what additional resources were brought to bear on a particular issue as a result of the company's contributions and participation in the activity), and finishes with identifying and measuring the impacts achieved on various groups (i.e., the changes that occurred for people, organizations, and the environment within the community and for the involved employees and overall business of the company).

VI. THE CASE FOR COMMUNITY ENGAGEMENT AND INVESTMENT

Although the potential benefits of community engagement and investment for businesses are often framed as readily apparent, it is useful to consider ideas about the specific aims and objectives of corporate community involvement. One comprehensive list included making people inside and outside the community aware of various problems in the community; ensuring that investment and development efforts occur across all sectors of the community and in multiple areas, including education, health, recreation, and employment; motivating members of the community to participate in community welfare programs; providing equal opportunities within the community for access to education, health, and other facilities necessary for better well-being; building confidence among community members to help themselves and others; generating new ideas and changing patterns of life within the community in positive ways that do not negatively interfere with traditions and culture; bringing social reforms into the community; promoting social justice; developing effective methods to solve community programs, including better communications between community members and local governments; and creating interest in community welfare among community members and mobilizing those members to participate in the collective work for community development.

Surveys have shown that commitment to CSR and related activities, including community involvement, is an important driver of employee engagement, and employees care a great deal about how their employer is perceived with respect to social responsibility in the communities in which they operate. Community engagement and investment activities provide organizations with important opportunities to leverage the impact of their contributions, given that businesses typically rely on their local communities as a source of talent for the employee base, for contractors for services that the organization seeks to outsource and, of course, as a market for the organization's products and services. By contributing to educational and health programs in the community, an organization can increase the skills base of potential workers, thereby reducing training costs when new employees are hired and lowering the risk of adverse impacts to productivity due to illnesses among its employees or their immediate family members, either of which can cause employees to miss time at work. Organizations can provide financial support, as well as licensed technology, to launch a local network of engineers, scientists, and/or software developers to generate innovations that not only benefit the organization, but also provide new opportunities for other members of the community, thus improving overall community well-being. Finally, the proximity of local customers makes it easier for organizations to develop and communicate their marketing messages and seek and obtain feedback on the effectiveness of those messages and the quality and value of the product and services distributed by the organization. In fact, one of the compelling reasons for investing in community involvement at all levels is the relative ease of collecting and analyzing information relating to operational performance. Proximity to the human, technical, and other resources that can be developed and nurtured through community engagement and investment also allows organizations to move more quickly to seize opportunities and obtain a competitive advantage.

NOTES

[1] The Global Risks Report 2017 (12th ed.) (Geneva: World Economic Forum, 2017), at 61–62.

[2] Communities have been described as individuals linked by issues (i.e., people concerned with the same issue); identity (i.e., people who share a set of beliefs, values, or experiences related to a specific issue, such as the environment or public health); interaction (i.e., people who are linked by a set of social relationships); and geography (i.e., people who are in the same location). See Engage Your Community Stakeholders: An Introductory Guide for Businesses 3 (Network for Business Sustainability, 2012).

[3] C. Williams, Corporate Social Responsibility and Corporate Governance in J. Gordon & G. Ringe, eds., Oxford Handbook of Corporate Law and Governance 7 (Oxford: Oxford University Press, 2016).

[4] Id. at 8–9.

[5] See International Organization for Standardization, ISO 26000 Guidance on Social Responsibility: Discovering ISO 26000 (2014); Handbook for Implementers of ISO 26000, Global Guidance Standard on Social Responsibility by Small and Medium Sized Businesses (Middlebury VT: ECOLOGIA, 2011) (hereinafter Handbook for Implementers).

[6] Handbook for Implementers, supra note 5, at 32–33.

[7] GRI 413: Local Communities 2016 (Amsterdam: Global Sustainability Standards Board, 2016).

[8] From Inputs to Impact: Measuring Corporate Community Contributions through the LBG Framework—A Guidance Manual 4 (London: Corporate Citizenship, 2014).

[9] Id. at 6.