MANAGING THE Chaotic Interface

By Alison Kemper

Alison Kemper (MDiv '79, MBA '04), executive director of The 519 Church Street Community Centre, has coined the term 'Chaotic Interface' to describe the current relationship between the corporate and voluntary sectors. In the following excerpt from her presentation at the Rotman School's first-ever Conference on Business and Society, held in March, she defines the chaotic interface and urges readers to look closely at flourishing opportunities for cross-sectoral engagement.

With relationships between corporations and the greater community under greater scrutiny than ever before, it's time we all developed a clearer understanding of new forms of corporate/voluntary sector relationships.

The related issues are complex, and are being approached in all kinds of ways. There are the operational questions: How can my company gain more market share by investing in this or that activity? How do I – as a corporation or as a non-profit – assess the viability of a proposed partnership? Is my company ethical? How would I know?

There are also bigger, nagging questions. Management guru Peter F. Drucker once wrote that, "business should stick to its business, that is, to the economic sphere. This is not a denial of responsibility. It is indeed the only consistent position in a free society." If this is the case, then why are we even bothering to ask any of these questions?

Thankfully, evidence shows that this is not the case, at least in Canada, where we have seen many new forms of corporate/social relations develop over the past 15 years, and corporate giving has increased dramatically (see chart, page 27.)

Clearly, something significant is happening. It is my hypothesis that something has shifted – perhaps irreversibly – forcing companies to pay more attention to their communities and voluntary sector organizations to look to the

PHOTOGRAPHY: DICK LOEK

Alison Kemper (MDiv '79, MBA '04)

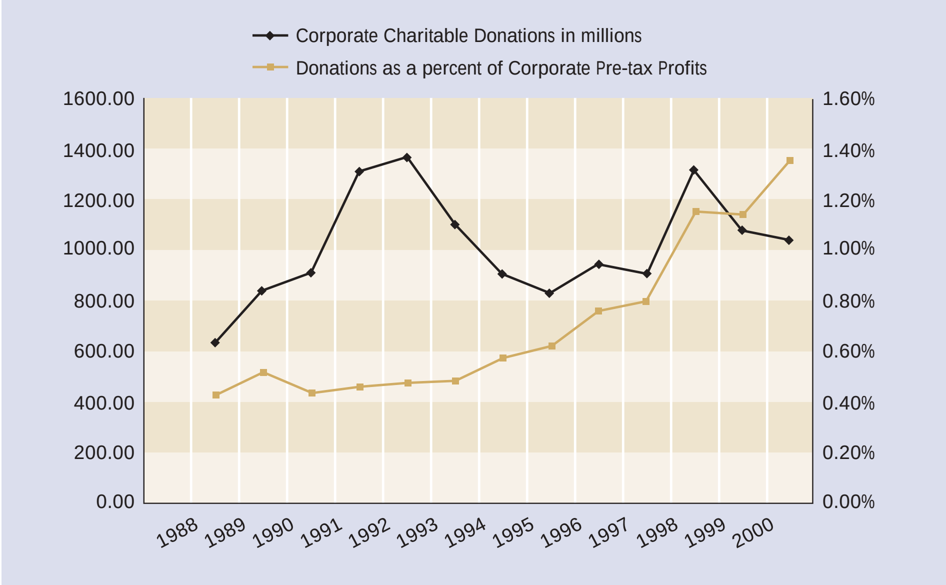
corporate sector for resources, alliances, and accountability. The shift has moved us from a world in which there are tightly-defined silos of activity – with government providing an 'airlock' between the corporate and the voluntary sectors – to one in which the doors are open, the boundaries less clear, and the winds blow unimpeded between us. This new area between the sectors is unstructured and swirling with motion: I call it the **Chaotic Interface**.

The shift has created a vacuum, where once, a few stable mechanisms separated corporations from the well being of their communities. This involved transfers of tax-based dollars and the regulation of corporate behaviour, as well as voluntary opportunities to give (United Ways) or to volunteer (service clubs). Vacuums do not persist, and into this space have moved diverse phenomena such as 'triple-bottom-line accounting' (which accounts for financial, social and environmental performance), stakeholder analysis, voluntary regulations, ISO standards on labour and the environment, social marketing, venture philanthropy, new evaluation modes for non-profits, "market solutions for public policy issues", public-private partnerships, and a convergence of board governance models.

As indicated by a five-year study released in 2000 by **Cone, Inc.**, the value of cross-fertilization is now being recognized. Collaborations that enhance a company's social profile are proving their worth as competitive advantages. At the same time, the consequences of corporate social irresponsibility have never been more severe. Americans say they would be likely to react in the following ways if they were to find out about a company's negative corporate citizenship practices:

- Consider switching to another company's products or services (91 per cent)
- Speak out against that company among my family and friends (85 per cent)
- Refuse to invest in that company's stock (83 per cent)
- Refuse to work at that company (80 per cent)
- Boycott that company's products or services (76 per cent)
- Be less loyal to my job at that company (68 per cent)

CORPORATE DONATIONS IN CANADA: 1988-2000



In her book, *Beyond Privatization*, **Asha Gupta** writes, "With the rapid integration of the economy at the global level, the whole debate about the 'public' and 'private' sector is becoming anachronistic. We [cannot] say that the 'public' always relates to the general interests of the community, or 'private' always relates to selfish and irresponsible behaviour. In the post-industrial and post modern societies, every organization is highly politicized, including NGOs and private ones."

Why is all this happening? Why now?

Globalization and devolution have changed the underlying structure of the three sectors: government, corporations, and NGOs. In **Janice Gross Stein**'s Massey Lectures, *The Cult of Efficiency*, she describes the change in the provision of public goods like health care and education from a high quality good provided universally to citizens, into a commodity which consumers choose according to their preferences and ability to pay. Governments, having created public markets for public goods, now speak the language of the market. Conversely, corporations, now providing public goods, are seen to have social accountability to which they must answer. Stein is on to something significant: this move toward markets as not just the metaphor but also the venue for the provision of public goods, is a change in substance, not only in style. No longer are we citizens bound together by a beneficent state that can provide the necessities of life. We are consumers choosing amongst the wide variety of goods available to us.

We can see the image of our current situation in this analysis. If governments, non-profits, and corporations are all able to supply public goods in the marketplace, then alliances and deals amongst the players become not only possible, but necessary. While mergers and acquisitions are not possible because of legal restrictions on the sectors, alliances and other deals will emerge to ensure that the market's fullest potential is reached.

This move to establish new service marketplaces and new authorized vendors creates new alliances: **Pepsi** went into schools when their hallways became marketplaces, their students became consumers, and their activities were no longer fully-funded publicly. **GM**

> "Business must participate as full players in the new social contract, not just as passive supporters of charity. We need to see an increase, both in the number of committed companies that step forward, and in their level of engagement and value-addition in the community. There is a real need to build skills to manage the CSR business agenda. These skills must be embedded at all levels of an organization - and business schools like Rotman have a vital role to play in developing them."
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> **Chris Pinney, Director of IMAGINE and Vice-President, Corporate Citizenship, Canadian Centre for Philanthropy (Speaking at *Managing the Chaotic Interface*)**

sponsored a Christian rock tour in the U.S. last year once faith-based initiatives had come into favour. Once non-profits become vendors in the marketplace, corporations are there to seek or create synergies with them.

A Revolution: Moving From Nation State to Market State

In his book, *The Shield of Achilles*, Philip Bobbitt describes what has happened since the fall of the Berlin Wall as "the end of the nation state." Until recently, nation states had been structured to take responsibility for the security, welfare and culture of their citizens. He says that Margaret Thatcher and Ronald Reagan were the last leaders of nations states: they appealed to the same metric of good government – whether or not they improved the welfare of their people. George Bush and Tony Blair, on the other hand, are measured by the new standard of the market state—to improve and expand the opportunities offered to the public. In the old model of the nation state, the robber barons of the turn of the last century had disappeared, and were replaced by professional managers, even MBAs. These professionally-run corporations were regulated by the state in order to gain the greatest contribution to public welfare possible. The corporation did not need to agonize about its contribution to society: indeed, its contribution was defined by the state. The corporation itself was not good or bad; it was amoral.

However, since the demise of Keynesian economic theory – that the state could effectively manage the economy in times when the private sector cannot – and the rise of Milton Friedman's theory that the market should control itself, the role of the state has become much more limited, both in scope and scale.

Canadian childcare policies of the late 1980s can be seen as one casualty of this shift. The Tory government of the time did the math and realized that universal access to quality childcare – while expensive – was likely to increase rather than reduce the productivity and income of Canadians. By the early 90's, the notion of a new universal programme was almost unthinkable, and the money for such initiatives – however worthy – was simply not available. Government economies of both scope and scale had shrunk. Daycare remained in the private marketplace, where non-profits and small companies continue to fight for market share, and the larger issues of productivity and child welfare are unaddressed.

For many of us, this shift was too fast to understand: one moment, we had the Tories, a daycare policy, no GST and no Free Trade; and a moment later, we had lost the Tories, we had no daycare, but we kept their Free Trade and GST. It was sort of like the trick that a good waiter can do with a tablecloth – whipping it aside without stirring the crystal and cutlery. While unheralded and unclear, the break from the old system of government to the new was not a gradual or continuous process. It was discontinuous.

Discontinuity Has Created New Possibilities

In the move from *nation state* to *market state*, numerous functions of government have ceased, and others are much reduced. Discontinuities in services and in regulations have created evolutionary gaps into which new models are quickly flowing. Disintermediation – the process of devolution – has removed government from much of its role as an intermediary between the sectors. This means that:

a) Non-profits need to replace the revenue streams that have dried up in the new market state.

Devolution has created mismatches between social needs and revenue streams, for Canadian cities, for the health care and education systems, and for small NGOs trying to solve specific problems. Because taxation is no longer the powerful tool it once was, provinces, municipalities, universities, hospitals and schools and NGO's are all working to find the 'Holy Grail' of partnerships with corporations – the last locus of cash in our culture. We can expect to find a large number of new and untested ways for corporations to transfer cash to these agencies and governments, in exchange for some other consideration.

b) Corporations have to replace the trust and goodwill that was once consequent upon meeting regulations and paying taxes.

Deregulation has created parallel mismatches between the needs of corporations to appear to 'do good' and their ability to demonstrate it to their stakeholders. Corporations require means to demonstrate their good citizenship, and they are forced to turn to markets to solve this problem. Because of regulatory discontinuity, we can therefore expect to see a wide variety of new means for companies to gain credibility and goodwill through strategic investments.

Does the reality match the theory? Let's look at the inputs:

- Because we have moved from a nation-state to a market state,
- and because we have seen the decline of public funding for social problems,
- and because we have seen the reduction of regulations and regulatory bodies,
- and because discontinuities create the conditions for a bloom of 'new life forms',
- then we should expect to see two such blooms: one which responds to the vacuum (where once there was government regulation of industry), and the other which tries to replace the revenue flow from the tax base.

Is this what we see? I believe so. Non-profits are co-branding, collaborating with strategic philanthropists, seeking new forms of sponsorships, setting up profit-making enterprises, and selling their client base as a market niche. They are gaining the support of venture philanthropists who want to change the world by combining philanthropic missions with small business designs. Corporations, on the other hand, have created triple-bottom-line metrics, industry-specific and voluntary codes of conduct, new standards for corporate governance and more sophisticated methods of shareholder analysis. They are creating the means to turn transparency into a strategic or competitive advantage. We are also seeing both sectors create new forms of mutual accountability that far outdistance the capacity of governments to implement or maintain. In short, we are seeing the very bloom of new life forms we might expect.

"Corporations and the not-for-profit sector have tended to emphasize their differences. It's time to focus on what we have in common, and what we can learn from each other. There are so many ways we can work together, to our mutual benefit."

Susan Piggott, Chief Executive Officer, St. Christopher House (Speaking at *Managing the Chaotic Interface*)

What's next?

1. As more and more connections across sectors are made, the requirements of Revenue Canada and the United Way – which kept the sectors at a distance, – will begin to shift. For instance, it will not be possible for the CCRA to prevent the creation of new commercial revenue streams by charities, or for United Ways to prevent members from structuring new deals outside the bounds of current guidelines. These need to be renegotiated by all concerned parties to maximize opportunities.
2. Few of us have any idea what constitutes due diligence in these situations. Management for both sectors will have to be better able to assess the probability of successful partnerships. And while such expertise is starting to be created amongst corporate personnel and consultants, most of us in NGOs still don't know whether we should really be talking to corporations.
3. We should not be looking to replicate best practices; rather we should all be developing innovative new forms of alliance. Not all of them will work, but we will have had the opportunity to try some fabulous experiments. Creativity and credibility are key. For instance, public-private partnerships are often merely a financing gimmick, like Highway 407. It is important to find new partnership models that are more than lease-backs of assets owned prior to a deal, for these merely redistribute an existing revenue stream over time.
4. All parties must recognize the limitations of their arrangements. At a recent philanthropy conference, I heard a corporate arts funder who was overwhelmed and dispirited by the demands being made on her because of government underfunding. Corporations and NGOs must be willing to make common cause and tell government what they realistically can and cannot accomplish through market-based alliances. They must also be clear about whether their relationship is dependent upon continued growth in corporate revenue or market share, or if it is intended to become a core function of their work.

Overall, I am astonished by the passion and the skills of people trying to change the world by leveraging the resources of other sectors. But I am also saddened and dismayed by the extent to which it has become necessary to do so. I urge everyone to look at the flourishing opportunities for cross-sectoral engagement, while maintaining a clear eye for its proper limits.

The above has been excerpted for publication. For a complete copy of Alison's speech, send an e-mail to alison.kemper01@rotman.utoronto.ca RM