NGOs: A growing force in governance

With the help of traditional and social media, non-government organisations are becoming a growing force in governance. Companies are advised to monitor NGO activities, and be prepared to respond strategically in order to limit potential costs to their business.

Non-government organisations (NGOs) are increasingly targeting companies, advocating on behalf of employees, consumers, supply chain workers, local communities or other corporate stakeholders (including 'the environment'). Although there is no standard definition of NGOs, they are generally understood to mean not-for-profit organisations which aim to effect social change. For example, NGOs may campaign to improve social justice and equality, to reduce poverty, promote sustainable development, or to protect or promote human (including social and economic) rights. Another name for these organisations is 'civil society', a term used to describe the various groups working in the interest of citizens but operating outside of the government and private sectors.

Corporate activism by NGOs isn't new. For example, the campaign against Nike in relation to its alleged use of 'sweatshops', which took hold in the 1990s, is well known. However, there are a number of factors which have increased the relevance of NGOs to corporate governance, and which mean that companies need to take them seriously. In recent years sectors such as resources (climate change), retail (supply chains) and food manufacturing (obesity) have featured prominently in campaigns. However, as the number of social issues that NGOs are concerned with grows, it seems that no company is immune from becoming a potential target of activism.

Recent trends, and what they mean for business

As a result of a number of complex social, political and economic developments (for example globalisation, new forms of media, and an apparent social and political backlash against capitalism) NGOs, and the standards they set, are increasingly relevant in the corporate context.

- The number of NGOs targeting companies is growing both here and overseas, and they encompass a wide variety of organisations. They can include anything from small, single issue organisations set up in response to specific, often local, topics (for example, Quit Coal, Groundswell Gloucester and the Stop CSG groups established in Australia) to large, high profile global organisations targeting multi-national operations.
- Their reach is also growing. They are scrutinising corporate activity in more depth and in more locations, seeking accountability at all levels and in all areas of corporate influence. In addition, they are more often taking the view that voluntary commitment to change by the private sector is equally important as (or even more important than) regulatory reform or other action by governments.
- NGOs are increasingly able to rapidly mobilise wide community support, particularly through the use of social media. Public campaigns can spread far and wide, and companies may have little ability to control the message or to effectively respond to allegations.
- NGOs, and corporate activism, are becoming more 'mainstream' and more widely accepted and supported by the public. Many (especially more established NGOs like Oxfam) are well respected in the community, and their campaigns are therefore taken seriously.

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- Social media and new technology have allowed NGOs to use new campaign tools which are cost effective, allowing them to do more with less, and/or freeing up funds to invest in more strategic campaigns (for example, commissioning research reports, setting up benchmark indices or establishing collaborative partnerships). As a result, campaigns have become more sophisticated, leading to increased success.
- Arguably, some of the standards of corporate conduct demanded by NGOs have developed, or are developing, into accepted moral or ethical norms (for example relating to the treatment of supply chain workers, respecting the local environment, paying a 'fair share of tax', or putting customers before profits when providing essential services), making it more difficult for companies to refuse to change or at least engage.
- Consumers are taking a keener interest in the potential social impact of their purchasing decisions, and are calling for ethical or responsible products, as well as for increased accountability and transparency.
- Institutional investors, including pension and superfunds, are increasingly seeing potential financial risks where companies are not meeting the standards expected by civil society. As a result, they are more regularly engaging with companies on these social and environmental issues (especially in relation to climate change, human rights, supply chains and financial services), and sometimes taking a more activist stance (eg through AGM voting or even divestment).

Tactics

Broadly, NGO tactics fall into two categories. The first is to engage or partner with companies to help or encourage them to change in a cooperative or collaborative way. These arrangements may involve funding or sponsorship arrangements, and are generally promoted by the company concerned as part of their CSR programs. For example, World Wildlife Fund has entered into a number of strategic partnerships with companies 'to help them transform the way they do business and reduce their environmental footprint'. The second broad category involves more 'adversarial' campaigning, often involving multi-pronged strategies that generally aim to publicise the corporate conduct in question and to mobilise stakeholders to force or encourage change. Some NGOs are more aggressive than others in their approach, for example aiming to generate wide public disapproval of specific companies through 'naming and shaming' strategies. However, others engage more discretely, focusing on sectors rather than specific companies, and using strategies to encourage and praise companies that take action.

Some common strategies used by NGOs in these types of campaigns include:

- 'naming and shaming' advertising campaigns using traditional, or social media or annual 'faming and shaming' award ceremonies;
- organising protests at AGMs or at corporate premises/shop fronts;
- commissioning or producing detailed research reports 'exposing' companies and the social impact of their operations;
- promoting consumer campaigns to boycott companies or switch service providers;
- organising petitions or encouraging consumers to contact companies through social media to express concerns or call for change;
- working with TV and newspapers to produce high profile media reports or features;
- publishing 'scorecards' or indices, which assess and rank company performance;
- encouraging investment and super fund members to 'hold their funds accountable' for their investments;
- encouraging shareholder activism by organising and proposing shareholder resolutions or encouraging questions at AGMs;
- lobbying investors to divest from, or businesses to refuse to deal with, target companies; or
- lodging complaints about companies to regulators.

Numerous NGOs have used one or more of these strategies in relation to companies operating in Australia, for example GetUp!, Greenpeace, Parents' Voice, Obesity Policy Coalition, CHOICE, No Business in Abuse, Market Forces, Clean Start: A Fair Deal for Cleaners, Oxfam, Australasian Centre for Corporate Responsibility, BankTrack, SumOfUs, Asset Owners Disclosure Project, Vote Your Super, As You Sow and Friends of the Earth.

Things for companies to think about

Despite any moral arguments in favour of NGO demands, companies cannot be swayed from their duty to act in the long term interests of shareholders (rather than, at least directly, putting the interests of other stakeholders first). However, NGO campaigns can present risks to shareholder value and companies cannot afford to ignore them. These risks can be direct and short term, for example as a result of a successful consumer boycott or regulatory enforcement action, or they can be indirect or longer term, for example as a result of damage to reputation or corporate brand. In addition, NGOs may lobby for regulatory change where companies refuse to take voluntary action, which could ultimately result in a greater cost to companies. To minimise potential risk, companies may want to consider the following steps.

- Identify and actively monitor the NGOs that are relevant to your operations, and keep abreast of their active campaigns.
- Be your 'own social activist' to identify potential issues within your company that NGOs could target, and consider being transparent about these issues and how you currently address them.
- Think about pre-empting potential campaigns – for example, be aware of and consider adopting standards recommended by relevant NGOs, or consider engaging or partnering with relevant NGOs before you become a specific target.
- If you become a target of a campaign, take time to assess the situation and plan a strategic response – for example consider the NGO’s size, influence, resources, its level of community support and the strategies it uses, whether your peers are also being targeted and if so how they are responding, and past success/failure of the NGO.
- Take care not to be left as an outlier where the 'social tide' has turned, or is turning, in relation to a particular issue. Monitor public sentiment in relation to key issues to determine how likely it is that the standard demanded by the NGO will ultimately become expected or accepted industry practice.
- In light of that, consider and weight up the risks and benefits of engaging/not engaging or complying/not complying with demands.
- Where you choose not to meet the NGO’s demands or requests, consider publicly disclosing a well-reasoned explanation and/or your plan for future action – tell your side of the story clearly, and back it up with facts, data and evidence – and/or think about finding a compromise solution.
- Think about corporate benefits that may flow from becoming an early adopter or leader in relation to a specific social issue (eg reputational or marketing benefits), even where potential risk to the business may not warrant immediate action.
- Make sure you know where your key investors stand on relevant issues, for example through reviewing the ESG policies of institutional investors.
- Consider specifically including relevant NGOs as 'stakeholders' in stakeholder engagement policies and procedures, and in any public reports on your engagement activities.

Conclusion

Traditionally companies have not seen NGOs as valued stakeholders, and have often taken a defensive stance in the face of criticism. The fact that not all NGO campaigns or strategies have been successful provides some endorsement for this approach. However, this is changing and companies increasingly realise that they may serve their shareholders better by engaging with NGOs, particularly as they gain greater community respect, become more sophisticated and enjoy increasing success in achieving their goals. This, combined with the increasing acceptance that to be sustainable companies must operate in a socially responsible way, means that the role of NGOs in corporate governance is likely to intensify. However, that does not mean giving in to every demand that civil society makes, and companies need to be well informed of the various complex factors at play so they can make the right decision for their shareholders.

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