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Organizational Responses in Fragile States: Role of Corporate Social Responsibility

Rumina Dhalla* and Erna van Duren**[1]

With the rise of private sector organizations becoming involved in business in fragile states, the role of corporate social responsibility (CSR) in such complex environments merits a deeper understanding. Increased understanding of the role of firms and CSR in fragile states will benefit not only business, but also institutional constituents in these environments. In this paper, we use established theoretical frameworks to develop explore the role of CSR in fragile states. Specifically, institutional theory and stakeholder theory are explored and integrated to develop a working framework, and the understanding the practice of CSR is discussed using an applied case example of a Canadian oil company operating in the Kurdistan region of Iraq.

JEL Codes: M14, M00, F00, O10, O130

1. Introduction

Increasing numbers of organizations and observers of the human misery in conflict zones or fragile states are reaching consensus that private sector organizations, namely businesses in some form, have an important role in reconstruction and development. For example, the UN Global Compact stresses the role of business in fulfilling commitments for corporate responsibilities, in particular, the principles and practices in key issues such as human rights, labor, the environment and anti-corruption (United Nations 2012). The Compact emphasises that enterprise risk management and optimizing opportunities for business through corporate social responsibility (CSR) strategies in these areas are keys driver of value creation for both business and society[2]. With the growing expectations of the role of businesses such as private sector organizations with formalized CSR programs and those being held to increasingly higher standards of behaviour such as business in fragile states, the role of CSR in such complex environments merits a deeper understanding. In this paper, we use the World Bank's definition of fragile states as "countries facing severe development challenges: weak institutional capacity, poor governance, and political instability. Often these countries experience ongoing violence as the residue of past severe conflict" (World Bank 2012). There has been increasing interest and discussion about CSR over the last two decades and much has been written about CSR (Campbell 2007) and the implications for organizations (Campbell 2006, Orlitzky, Schmidt & Rynes 2003), and the relationship between CSR and firm performance has generated much interest from scholars (see Mackey, Mackey & Barney 2007, Orlitzky & Benjamin 2001, Orlitzky, Schmidt & Rynes 2003). Recent research has also begun to explore the implications of CSR in developing countries (see for example,

* Rumina Dhalla, Department of Business, University of Guelph
Email: rdhalla@uoguelph.ca
** Erna van Duren, School of Hospitality and Tourism Management, University of Guelph
Email: evandure@uoguelph.ca

Jamali 2007). However, very little research has explored institutional expectations of corporate responsibility and organizational CSR strategies in fragile states, despite the increasing number of firms engaging in business in these environments. In this paper, we explore institutional and stakeholder expectations for CSR and organizational strategies in fragile states. Our findings suggest that expectations of corporate responsibility in fragile states may be greater than those in established or developing countries. In particular, our research has found that firms operating in conflict zones and fragile states are not only expected to capture economic value from their operations, they are 'obligated' to also contribute to capacity building. For example, generally firms applying for exploration grants in Kurdistan are expected to pay a corporate social responsibility 'fee' as part of their licence to operate (KRG.org 2008). We suggest that in complex and previously undiscovered contexts such as fragile states, the challenges and the need for consideration of social welfare for stakeholders and the institutional expectations of firm strategies for social responsibility are intensified, particularly when considering issues and needs brought by war, insurgency and counter insurgency, natural disasters, famine, abject poverty, lack of strong and stable infrastructure and governance, and undeveloped environmental landscapes. These emerging and complex challenges require an assumption of social responsibilities by firms doing business in these environments and suggest a demand for greater engagement with diverse and previously unconsidered stakeholder groups. In these environments, we argue that firms must incorporate stakeholder welfare into their strategies as these environments may require previously unconsidered organizational action.

This paper contributes to this understanding and is laid out as follows: first we provide some context on business in fragile states. Next we define corporate social responsibility (CSR) as understood in academic literature. We then provide a review of the relevant theoretical foundation for the development of a "deeper understanding" of the role of CSR in fragile states. Specifically, institutional theory and stakeholder theory are explored and integrated to develop a working framework, and their usefulness in understanding the practice of CSR in fragile states is discussed using an applied case example of a Canadian oil company operating in the Kurdistan region of Iraq. A summary of this case study, titled WesternZagros: CSR and the Kurdistan Venture, is provided in Appendix 1 which documents the case from which we draw our examples. Finally we discuss the implications of this paper.

2. Context – Business in Fragile States- "Same Old Story" or "Undiscovered Country"

The contemporary resurgence in resource based geopolitics requires that business, governments, and other institutional stakeholders become better informed on the shifting boundaries of their spheres of rights and responsibilities. Increasingly firms seek oil in Sudan, Iraq, Nigeria and other fragile states, tantalum in the Democratic Republic of Congo, and copper in Baluchistan. This is just a small sample of the resources that now must be sourced from conflict zones and states that are failing or have failed. In this paper, we view conflict zones as 'fragile states' that, when examining under the contemporary business-strategy paradigm, business may prefer to steer clear of but can no longer avoid due increasing resource scarcity.

Generally acquisition of resources has been the impetus for business-industry involvement in fragile states, and there are growing expectations that as a condition to access to resources that business will assume social responsibilities and integrate CSR into organizational strategies in response to these pressures. Most models of strategy, however, are generally predicated upon an environment with established institutions, where the institutional and competitive forces drive firm strategic responses and where stakeholders with influence are considered in organizational decision-making. In conflict zones or fragile states, there is "Knightian uncertainty", and future events are complex and unpredictable. In such complex environments, businesses must still aim for strategic action, but we argue that the nature of firm decisions will be different.

We suggest that there remains an opportunity to explore CSR in fragile states and the implications for institutions, business and stakeholders. As noted above, the increasing presence of multi-national firms in developing nations and conflict states is becoming ubiquitous as firms explore undiscovered countries for scarce resources and explore emerging markets such as those in the bottom of the pyramid (Prahalad & Hart 2002). There is thus escalating interest in this undiscovered country; however, limited information is available on the role of business in fragile states. The limited literature exploring this issue, for example the recent publication of papers by scholars such as Jamali and colleagues, indicates that this undiscovered country is becoming of increasing interest to scholars (see Jamali & Mirshak 2010, Bo 2006). Some scholars focus on adding to the knowledge on conceptualizations of CSR by studying emerging CSR drivers and strategies in developing nations (for example, Jamali 2007) and the constraints and implications of using Western conceptualizations of CSR in non-Western contexts (see for example, Dartey-Baah & Amponsah-Tawiah 2011), while others look at stakeholder behavior (Kolkailah, Aish & El-Bassiouny 2012), implications of institutional forces (Lima & Tsutsuia 2012) and external drivers such as regulation (Ihugba 2012) on CSR. Most of these studies, however, examine implications of CSR in developing nations and there continues to be very limited literature examining implications of CSR in fragile states, an environment where there is a substantial lack of physical and regulatory infrastructure and where expectations of business contributions to capacity building are intensified. There certainly is burgeoning interest from an increasing number of NGOs in the role and implications of business in fragile states. For example, Human Rights Watch focuses on business as one of the four areas of their work (http://www.hrw.org/topics), Global Witness' program focuses on corruption, conflict, accountability and environment in resource-rich countries with an aim to reform institutions and practice for the benefit of the people of these countries (www.globalwitness.org). Amnesty International also documents abuses of human rights involving business (www.amnesty.org). The U.N. Global Compact has also released Guidance on Responsible Business in Conflict-Affected and High Risk Areas (UN Global Compact 2010). This current study uses established frameworks of institutional and stakeholder theories and a case of a firm operating in a fragile state to explore implications of CSR in a fragile institutional environment. Our working proposition in this paper that the firm's resources and the emerging institutions in "fragile states" can be responsibly managed by firms in conjunction with other stakeholders, and in doing so navigate this "undiscovered country". In this paper we argue that business operating in fragile states will require a CSR and stakeholder inclusive perspective.

Several organizational theories are useful in developing a deeper understanding of CSR in fragile states. In this next section of the paper, we briefly describe CSR, institutional theory and stakeholder theory followed by a discussion on the stakeholder perspective. We then integrate elements of these theories to develop a framework for developing "actionable" recommendations for CSR in fragile states.

3. Theoretical Background

3.1 Corporate Social Responsibility

There is growing business and scholarly interest in issues of social and environmental issues the role of business in society, and a great deal of scholarly attention is being paid to understand CSR and its implications for organizations. There has been much interest and discussion about CSR over the last two decades (Campbell 2006, Orlitzky, Schmidt & Rynes 2003) and there is growing literature on CSR (Campbell 2007). As well, the relationship between CSR and firm performance has generated interest from scholars (see for example, Mackey, Mackey & Barney 2007, Orlitzky & Benjamin 2001, Orlitzky, Schmidt & Rynes 2003).

A comprehensive conception of CSR was put forth by Carroll (1979) who suggested that business social responsibility includes its economic, legal, ethical and discretionary responsibility. Economic responsibilities are the fundamental responsibility of business to provide goods and services and market these for a profit to society. Business is expected to generate value for its shareholders and engage in interaction with stakeholders such as suppliers, customers and employees. Legal responsibilities require business to operate within the framework of law and regulation. This allows business to operate as a legitimate player in the field. Ethical responsibilities are the expectations for business to conform to the socially desired and expected norms. These responsibilities are not necessarily mandated by law, nevertheless, the society's expectations are that businesses will conduct themselves ethically and hold themselves to standards that may be above what is merely mandated by law. Discretionary responsibilities are those responsibilities those go above and beyond what is expected from business. These are generally voluntary, not required by law or normal ethical expectations, or prescribed by societal mandates. Business activities such as philanthropy are generally considered discretionary.

From a global perspective of the responsibility of business, The World Business Council for Sustainable Development defines CSR as "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 and society at large" (Watts & Holme 1999, p. 6). Campbell (2007, 2006) argues that corporations are socially responsible if they are doing two things – not causing harm to their stakeholders and, if they do cause harm to stakeholders, they must rectify the harm caused.

From a practitioner point of view, CSR is understood as how organizations integrate social, environmental and economic concerns into their organizational practices, culture, decision making and strategy, behave transparently and with accountability, and operate responsibly to create wealth and improve society (Industry Canada 2008). In this paper, we thus define CSR as the understanding and commitment by business that they have a responsibility to the society and they respond to this through products and services that consider economic, environmental and societal impact with a view to increasing social welfare, decreasing environmental impact and generating sustained economic value.

3.2 Institutional Theory

Organizations are believed to be compelled to conform to collective norms and beliefs and adherence to rules and regulations (Oliver 1991). Institutional theory generally focuses on persistence and conformity and suggests that organizations respond to respond to pressures from the external environment which may include government mandates, legislation and societal expectations, interest groups and the public (DiMaggio & Powell 1983, Oliver 1991). Institutional theory normally stresses isomorphism and stability for organizational survival (Greenwood & Hinings 1996). Isomorphism allows organizations to gain legitimacy, stability, garner resources and institutional support and enhance the organization's chance for survival and success (DiMaggio & Powell 1983, Oliver 1991, Deephouse 1996, Oliver 1997, Scott 1998, Meyer & Rowan 1977, Suchman 1995, Carroll & Hannan 1989, Ruef & Scott 1998). Institutional theorists argue that organizations have a need to be considered legitimate and socially accepted (Meyer & Rowan 1977, DiMaggio & Powell 1983). Scholars define legitimacy as the perception that the organization is appropriate, and the actions of the organization are desirable and acceptable within the boundary of the socially accepted and constructed norms, rules and beliefs (Ruef & Scott 1998, Suchman 1995, Tolbert & Zucker 1983). It is well established in institutional literature that firms face institutional pressures and are compelled to take strategic action in response to these pressures (Oliver 1991) and we argue that the need to be considered legitimate and socially accepted will likely compel firms in fragile states to adopt strategies and structures that will allow them to be perceived to be socially responsible.

Furthermore, we argue that in a state of Knightian uncertainty, such as that which exists in fragile states, the organizational fields are not sufficiently populated with legitimate actors and institutional constituents. This absence makes the "practice" of CSR more compelling since there is greater scope for internally generated decisions and behaviours, which "should" also have more influence on the emergent business environments. As such the burden on business in such situation is generally heavier, as is now recognized by organizations such as Human Rights Watch, Global Witness, and the UN Global Compact as noted above. We suggest that firms in fragile states not only have to appear to be responsive to pressures from institutional constituents but all stakeholders within their organizational field and in the next section, we briefly describe stakeholder theory and its relevance to business in fragile states.

3.3 Stakeholder Theory

The shareholder value creation view had persisted in business, and the view that business would have to behave in a socially responsible manner may seem perplexing and considered not to be the salient role of business (Campbell 2006) to many who have espoused the view that business only exists for profit maximization and to create sustained economic value. For example, Milton Friedman's 1979 article in the New York Times Magazine, 'The social responsibility of business is to increase its profits' whose title is self-explanatory postulates that that the social responsibility of business is to its owners. Friedman argued that social responsibility was a socialist view that politics, not markets, drove allocation of scarce resources (Friedman 1970). This view does not preclude the understanding that despite some current organizational examples of business behaving socially irresponsible (for example Enron, WorldCom) businesses generally behave socially responsibly as dictated by law, to its shareholders. Stakeholder theory, however, proposes the notion that business should be acting socially responsibly towards its stakeholders (see Freeman 1984). Stakeholders generally recognized in business literature include shareholder, creditors, employees, suppliers, customers, and local communities (Phillips 2004). Some stakeholders may not have a direct interest in the firm's activities, however can exert influence of the firm's operations and success, for example, competitors and activists.

The literature on stakeholder theory generally focuses on the value and influence of stakeholders who have an interest in the firm's operations and that legitimate stakeholders participate in a firm's activity do so the obtain benefits. If businesses were meant to maximize profits and shareholder value any way they can then that would suggest that they would also behave irresponsibly, self-interestedly or opportunistically (Campbell 2007). However, within the CSR framework, business is expected to behave in a way that addresses its economic responsibilities to its shareholders, legally, ethically and use discretionary resources to further the welfare of its stakeholders (Carroll 1979). The key differences between stakeholder and shareholder view is that in the shareholder view, profit maximization and economic value creation is focused on the benefits created for shareholder.

In the following section, we discuss the stakeholder view and business response to stakeholder issues. As noted above, a consistent theme in CSR literature is the social responsibility to stakeholders and the identification and importance of stakeholders to firms. Much of the literature on stakeholder theory focuses on identifying stakeholders and their claims on organizations, and why firms should pay attention to the stakeholder claims (Campbell 2006). What is less known is how stakeholders without legitimate claims on the firm can influence firm strategies and behavior. We argue that in fragile states, firms must consider all its stakeholders: those with legitimate with an interest and influence over the firm and the stakeholders without legitimate claims, who nonetheless benefit from the socially responsible behavior of firms.

3.4 Stakeholder View: Business Engagement in CSR

O'Higgins (2009) presented a framework that explains business engagement in CSR. According to O'Higgins, there are a number of business responses to stakeholder along the dimensions of normative and instrumental. Figure 1 below is the framework proposed by O'Higgins (2009) followed by a discussion on the framework and its application to fragile states.

Figure 1: O’Higgins’s Stakeholder Orientation Framework (O'Higgins 2009)

		Normative	
		Low	High
Instrumental	**High**	Pragmatic	Engaged
	Low	Sceptical	Idealistic

The ‘Instrumental’ dimension suggests business engagement in CSR addresses only the needs of stakeholders it needs to achieve firm goals. Fair treatment and the intrinsic needs of the stakeholder are considered secondary to the firm. The ‘Normative’ dimension, closely linked to the firm’s need for legitimacy, suggests business engagement is rooted in the values of corporate citizenship. Within this perspective is the notion that business does not engage in action that violates respect, fairness, dignity and just consideration to legitimate stakeholders, and the conception of a moral firm.

Within these two dimensions, O’Higgins (2009) then suggests four organizational configurations: sceptical, pragmatic, engaged and idealistic. The sceptical perspective, low in instrumental and low in normative, is rooted in the belief that the firm exists solely to provide benefits to its shareholders and owners and is more in line of business responsibility to create shareholder value (Friedman 1970). Businesses operating within this configuration recognize the shareholders as the key ‘stakeholders’. Needs of other stakeholders are addressed when required by law. It can be argued that firms in controversial industries such as tobacco and gaming may be within this organizational orientation as firms generate economic gains likely respond to the need for stakeholder welfare generally when required to by law. For example, the recent emergence of CSR initiatives in the tobacco industry which has a history of litigations for the harmful effects of tobacco and has generally responded to demands for health concerns of its stakeholders when required through litigation. The understanding that socially responsible firms do no harm (Campbell 2006) or *primum non nocere* (Palazzo & Richter 2005, p.388) seems paradoxical when considering the harm caused by tobacco for its stakeholders, the customers.

The pragmatic configuration, high on instrumentality and low on normative, refers to the recognition of stakeholder influence on business success, and firms within this configuration manage their relationship with their important constituents with the acceptance that stakeholder relationship management is necessary in the optimization of economic performance. The pragmatic firm understands the legitimacy implications of being responsive to stakeholder concerns about its social impact, particularly the highly influential stakeholders with coercive power, thus it behaves responsibly to access resources and goodwill it requires to maximize value creation for its shareholders.

Businesses within the engaged configuration are high on the instrumental axis and high on the normative axis; they consider their socially responsible activities the right thing to do for stakeholders and for the long term sustainability of the company. An engaged business behaves socially responsibly to safeguard its future by ensuring stakeholder inclusion. It pursues business through stakeholder inclusivity to ensure it meet its stakeholders' needs and address their concerns.

The idealistic business is low on instrumentality and high on the normative dimension. The raison d'être of the idealist business is to serve society and its stakeholders responsibly and pursues value creation through strategies where stakeholders matter. It establishes linkages with self-selected constituencies and works for the welfare of these constituencies.

We suggest that in fragile states, the configuration for business engagement in CSR is less defined and is a hybrid that is both pragmatic and idealistic. We found that firms in these environments acknowledge that they will likely not win contracts without the CSR fee thus they enter into contractual agreements with powerful constituents and are mandated to allocate resources to build local capacity. Failure to do so would likely preclude them from entering into the contract. On the other hand, they also exhibit idealistic engagement and demonstrate an interest to help uninfluential stakeholders and to address the injustices faced by powerless stakeholders through strategies for poverty alleviation, contributing to local education, providing medical aid and hospitals and creating jobs for the local labor force. While these firms were not set up to serve society or improve social welfare as suggested by O'Higgins (2009), firms in fragile zones adopt that role upon entry to fill a need for this in fragile states.

We argue that in fragile states the expectations and the role of business in capacity building are greatly intensified. In particular, we argue that in fragile states the challenges and need for social welfare are intensified, particularly when considering the need brought by war, natural disasters, famine, lack of strong and stable infrastructure and governance, and undeveloped environmental landscapes. This suggests a need for greater engagement with stakeholder and assumption of social responsibilities from firms doing business in these undiscovered countries. Thus, as argued above, in these environments, organizational response strategies must consider stakeholder welfare as a salient response to institutional pressures. We found that firms operating in fragile states are not only expected to capture economic value from their operations, they are 'obligated' to also contribute to capacity building. For example, firms exploring in Northern Iraq use their logistical experience to bring in educational and medical supplies, use their exploration expertise to dig water wells and build roads, create jobs and provide training to the unskilled labor force, maintain security in their compounds, and work with the governments in capacity building and establishment of institutional norms. In developed worlds, many of these activities are not within the purview of the firm; their responsibilities for these initiatives are generally handled through corporate taxes.

4. Research Methodology

We explore implications of CSR in fragile states by studying the case of a Canadian oil company, WesternZagros in Kurdistan and its emergent CSR strategies. This is an exploratory study using a sample of one firm and extant literature to propose a framework that suggests some key differences in capacity building expectations when comparing established, emerging and fragile business environments. We suggest that this framework can then be further developed through increased empirical examination of institutional expectations for CSR and organizational responses of firms in these three contexts.

This study was conducted using case study methodology in an organizational setting. Case study research is defined as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context” (Yin 1994, p. 13). The case study was primarily built using data collected from in-depth interviews, publicly available archival documents such as media articles, and firm generated information. We also reiteratively consulted extant literature to build the emerging framework. Data was obtained through interviews with key executives of WesternZagros, company produced information such as annual reports, presentations to stakeholders, and the company website. The company name has not been disguised.

5. Results

5.1 Application of Case Study Findings

We use the findings from our case study to discuss the expectations of business in fragile states. To illustrate our findings, we adapt Henkel International’s (Henkel International 2011) framework on key strategic components and expectations of organizational responses in industrialized economies and emerging economies and have then added expectations for fragile states, based on our case study to contrast the organizational responses in the three different contexts . In the following table, we provide a comparison of institutional forces and expectations for the mode of organizational responses of business in industrialized countries, emerging economies and fragile states. We define industrialized countries as those that are considered economically developed with established financial systems, regulatory infrastructure and governance through laws and regulation. We have separated out emerging economies as countries that are making economic gains with stable political and governance structures. Our final category and the focus of this paper are the conflict zones or fragile states that have geo-political instability, ongoing conflict, newly emerging regulatory structures and scarce resources of interest to business. This column is based on our findings from our case study. We argue that there are greater expectations for business involvement in stakeholder welfare and capacity building in fragile states.

Table 2: Comparison of Expectations of Organizational Responses to Institutional Influences in Industrialized Countries, Emerging Economies and Fragile States

Institutional Influence	Expectations of Organizational Response in		
	Industrialized Countries	**Emerging Economies**	**Fragile States (Case study findings)**
Economic Development and Capacity Building	Competitiveness Strategic philanthropy through development opportunities for emerging economies	Contribute to the country's economic development, especially in structurally weak regions	Collaborator in country's development Create accessible jobs for unskilled and skilled labor Establish labor standards and HRM practices Help build capacity in local communities
Management of Processes	Use influence to promote environmental and social standards with major stakeholders Act ethically and legally in accordance to societal norms Promote job security through employee training and development Establish corporate governance, transparency, accountability. Support human rights in all markets	Create jobs and train employees Act ethically and legally Establish high environmental and social standards for firm Model values and management Help build capacity and competencies of emerging management and institutions	Act ethically, legally and with higher standards than societal expectations Help develop and set institutional norms for regulatory framework Help build capacity and competencies of emerging labor force, management and institutions. Implement international standards for health and safety, environmental protection, human rights Establish training programs for unskilled labor force
Social Commitment	Work toward meeting the United Nations' Millennium Development Goals Help to solve social problems, also by encouraging employee volunteering Proactively address challenges like equal opportunity and population aging	Support and promote, in particular, disadvantaged children and young people Raise public awareness of environmental protection Promote education and research for sustainable development	Work with local governments and civil society to help build infrastructure for access to health in local communities Work with local governments and civil society to build infrastructure to build schools in local communities Work with civil society to build social enterprise in local communities
Stakeholder Orientation and Inclusion (See; Figure 1)	Pragmatic and Sceptical Key institutional constituents and stakeholders with legitimate claims Important constituents for optimization of economic performance Influential stakeholders with coercive power	Engaged Direct stakeholders Indirect Stakeholders Institutional constituents with and without coercive powers	Pragmatic and Idealistic Influential and uninfluential stakeholders Institutional constituents with and without coercive powers Fringe stakeholders

Adapted from Henkel International 2011 Dialogue with Sustainability Experts
<http://www.henkel.com/SID-0AC83309-66319324/sustainability/expert-dialogue-11996.htm>

Economic Development and Capacity Building: In industrialized nations, the primary responsibility of business is to remain competitive and much of the social responsibility initiatives are accomplished through strategic philanthropy activities such as social enterprise development in emerging economies and fragile states. In emerging economies, there are greater CSR expectations and firms are expected to contribute to economic development, especially in structurally weak regions. In fragile states however, business is not simply expected to only engage in capacity building through strategic philanthropy and contribute to capacity building as is the case in industrialized and emerging states respectively, they are also expected to be collaborators in capacity building. Business operating in a conflict zone is expected to be a collaborator in the economic development of that zone.

In Kurdistan, most firms entering exploration and production agreements are required to pay a capacity building fee as part of the production contracts, however, there are also expectations that they will contribute to the country's economic development, especially in structurally weak regions, and that they will actively and proactively participate in economic development. Business in fragile states is expected to build capacity and competencies of not only management and institutions as generally expected in emerging nations, but also of the emerging labor force. We found that due to the decades of war in Kurdistan, there was limited availability of skilled labor force in local communities, thus it was important to not only provide skills but education as well. In our case study, the firm established partnerships with a home university to provide management and skills training to groups of employees brought to Canada at the firm's expense.

Management of Processes: Management in business operating in stable states are expected to be in compliance with legal, ethical and governance requirements and use their influence to promote standards for environmentally and socially responsible behaviour. In emerging states, the expectations are for ethical and legal behaviour, setting environmental and social standards for the firm and model these values and management responsibility. In fragile states, firms are expected not only to be in compliance of legal, ethical and regulatory frameworks, but influence the establishment of the institutional framework. For example, in our case study, a firm that was an early entrant in Kurdistan, we found that the Canadian negotiating team was cognizant that those negotiating on behalf of the regional government were not yet expert at negotiating exploration contracts, thus the firm strongly supported the involvement of an independent third party to ensure that there were no perceptions of undue advantage to one side of the agreement. We found that the firm's response to pressures for management of internal processes was evident in how it positioned its CSR strategy. It states that it is:

> "*committed to conducting our business ethically, legally, and in a manner that is fiscally, environmentally and socially responsible. As WesternZagros continues to evolve as an organization beyond an exploration company, we will continue to implement changes to reflect leading corporate responsibility practices*" (http://www.westernzagros.com/csr/index.html)

In fragile states, a firm's competitive premise may take many forms depending on the structure or regulation, or lack thereof. WesternZagros' competitive premise, which addresses how the organization competes in the "competitive environment" (for example, customers, suppliers, and competitors), is to gain a "first explorer advantage". In Kurdistan, much of the competition was for the blocks and the production sharing contracts. Competitors were forced into partnerships as a condition of getting an oil contract with the regional government.

WesternZagros' management's focus on its CSR activities for competitive advantage is also evident. It states that makes the commitment at the leadership level, indicating that:

> "*WesternZagros' leaders are responsible for integrating corporate responsibility considerations into all decision-making, in a timely and consistent manner. WesternZagros' workforce is expected to* <u>*execute*</u> *on these leadership decisions*. *WesternZagros' management will lead and establish appropriate measures to effectively identify, monitor and manage corporate responsibility issues and performance relevant to our business*" (http://www.westernzagros.com/csr/index.html)

Social Commitment: The region that WesternZagros operates in drives its CSR strategies. The Garmian region's terrain, climate and history all contribute to severe subsistence challenges for the residents. The region receives an average of less than 12 inches of rain annual and has temperatures in excess of 50 degrees Celsius in the summer. Kurdistan is largely mountainous and much of the terrain in the region consists of steep rock and is largely inhospitable. While residents continue to farm and raise animals where the land permits it, much of the area is not suitable for farming. In the WesternZagros block, most residents lived in villages and relied on subsistence farming and livestock; however, the droughts had reduced the livestock through culling and the crop yields have dwindled. Thus, most of the residents lived in poverty, which, exacerbated by the harsh living conditions and limited opportunities for economic improvement, and many of the residents migrated from villages to the city (Dhalla & van Duren 2011).

> *With the implementation of its CSR program, WesternZagros and its co-venturers are seeking to assist in the redevelopment and growth of this area. Our programs are designed to aid the efforts of the people in the Garmian region to overcome the obstacles they face. Ultimately, we strive to contribute to providing a sustainable environment that can fulfill the basic needs of the Garmian people. WesternZagros takes pride in its commitment to make a difference in the communities in which we operate* (<u>http://www.westernzagros.com/csr/index.html</u>)

Business is also expected to set standards for issues of social welfare and environmental protection due to the limited institutional norms and standards. In our case study, we found that the firm held itself to international or Canadian standards, even though the local standards were less rigorous. Business operating in fragile states is expected to be a collaborator in the economic development of that zone. In our case study, we found that firms entering into contract for oil exploration were expected to pay a corporate social responsibility 'fee' and participate as a partner in the social and economic development of the contracted region. Business is also expected to assume social responsibilities to build capacity in local communities. We found evidence of this through construction of local schools and hospitals, provided supplies, importing expertise as required, and creating jobs and opportunities for the local labor pool.

> *Kurdistan is a rapidly growing semi-autonomous region of federal Iraq that has made significant progress for its people and WesternZagros is excited to participate in its civil and social development. Given the particularly disadvantaged nature of our operating area in the Garmian region of southern Kurdistan, the basis of our corporate social responsibility initiatives are to assist in meeting the basic needs of its people for access to clean water, health care and education* (http://www.westernzagros.com/csr/index.html)

Stakeholder Orientation and Inclusion: In industrialized nations, stakeholder orientation can generally be considered pragmatic and skeptical (see Figure 1 above). Institutional constituents and stakeholders are those with legitimate claims and these stakeholders are considered important constituents for optimization of economic performance. In particular, firms must consider influential stakeholders with coercive power. In emerging nations, an engaged stakeholder orientation is considered salient. Firms consider and are engaged with both direct stakeholders. Institutional constituents with and without coercive power are considered important to the firm and must be considered in organizational strategies and responses. In fragile states the stakeholder orientation is engaged and idealistic. Indirect stakeholders are salient to the firm. Firms must consider both institutional constituents with coercive powers as well as those without. In these environments fringe stakeholders are important, particular when firms are vulnerable to reputational risk related to potentially being considered 'exploitative' when exploring for resources in these fragile and often harsh conditions.

6. Conclusions and Implications

Emerging and complex challenges in fragile states require an assumption of challenging social responsibilities by firms doing business in these undiscovered countries and suggest a need for greater engagement with diverse and previously unconsidered stakeholder groups. Despite the growing recognition that resources from conflict zones such as blood diamonds which may be the most notorious resource to the typical western citizen-consumer, other scarce resources such as tantalum for the nearly ubiquitous cell phone, copper that links us virtually and the oil that defines modern infrastructure, compel businesses to enter previously "undiscovered country" or fragile states.

Our premise in this paper is that there is a unique opportunity for business-society scholars to extend theory and have applied impact by considering the challenges presented by doing business in failing or fragile states. To the best of our knowledge business and society research has not explored its potential relevance in rebuilding failed or failing states into stable societies. What are appropriate or the best roles for business, military, government and other types of organizations in stability - reconstruction operation? The complexity that characterizes failing/fragile states means that business, among other organizations, has a unique role in building capacity and shaping many elements considered essential stability strategies.

However, what happens if a business begins to operate in a “reconstructing” state? Does it not have the opportunity to shape that general environment more so than is the case in a stable state/society? With that opportunity, is there not a higher standard of responsibility or behaviour? And what factors should be /could be considered when taking that opportunity.

While there is significant extant literature on the role of business in society and the implications of CSR in institutional environments in both developed and developing nations, our paper makes a unique contribution in its application in fragile states. We propose a framework comparing institutional forces and expectations for the mode of CSR responses in industrialized countries, emerging economies and fragile states and we argue that it is important to explore fragile contexts and their implications to business as there is limited and nascent institutional logics, where the potential for sudden or ongoing instability (for example, insurgency) can create increased risks for business which thus represent novel implications for the business-strategy model, where the social norms for the inclusion of indirect and fringe stakeholders compel increased social commitment from business. Furthermore, part of the impetus for increased responsibility for social responsibility, such as capacity building, emerges from the 'instability' and institutional pressures which provides significant opportunities to explore emerging responses.

Endnotes

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[2]There are approximately 8000 businesses participating in the UN Global Compact worldwide http://www.unglobalcompact.org/HowToParticipate/Business_Participation/index.html

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Appendix 1

Synopsis of Case Study – Western Zagros in Kurdistan Iraq

Background

WesternZagros was incorporated in Alberta in August 2007, as a spin-off from Western Oil Sands Inc. after Marathon Oil Corporation of US acquired their major business interests in the Athabasca Oil Sands for approximately $6.6 billion. Marathon was uncertain about Western Oil Sands' involvement in Kurdistan, and a spin-off was part of the purchase agreement. Simon Hatfield, CEO of WesternZagros, had negotiated the deal with the KRG, after years of monitoring opportunities in Iraq in his succession of positions within oil companies (Webster 2009). Among Western Zagros' goals was "to be recognized through consistently superior business performance and operation excellence, as one of the leading independent oil and gas companies active in Iraq" (WesternZagros 2009). It was committed to operating in a safe and secure manner and had made it a priority to recruit and retain local personnel. Senior management believed that it had developed good relationships with government authorities, local communities and business people and had obtained the cooperation needed to complete its activities.

The Kurdistan Venture

After years of gaining significant experience and interest in Iraq, by 2003, Simon Hatfield, CEO, believed that Kurdistan region, in the Northern region of Iraq, home to the Zagros Mountains that span the border between Iraq and Iran, where four million people made their home, provided a much better opportunity than the southern areas of Iraq. The most widely spoken language in Kurdistan is the Indo-European language Kurdish (KRG.org 2009a). WesternZagros believed that Kurdistan was relatively safe compared to the violence that was gripping much of Iraq. Kurdistan was considered to be a security oasis within Iraq and had been ranked "secure" by the US Military (wordpress.com 2009). There were no reported kidnappings of foreign nationals in KRG supervised land since 2003 (KRG.org 2009b). In their five years' experience in Kurdistan, WesternZagros had not had any security threats or incidents. Hatfield believed that WesternZagros' greatest opportunity for oil exploration in Iraq was with the KRG, which was opening up to foreign investment, since it had been largely neglected by oil explorers due to previous prohibition on development (Webster 2009). The company name clearly indicated its roots and purpose. The first half of the name grounds the company in its roots from Western Oil Sands, while the second half is reflective of the Zagros Mountains in Kurdistan (Webster 2009).

WesternZagros also knew in 2003 that Kurdistan had become interested in commercial development (Webster 2009). Furthermore, the regional government was cooperative and there was a built up impatience to develop the Kurdish economy. WesternZagros' contract was for a large exploration block (2120 square kilometres) in a very promising geological area located in the Kalar-Bawanoor Block in the Garmian area of the Kurdistan Region. Hatfield and his team selected this area for its potential of 2.5 billion barrels.

They also knew that there had not been wells drilled previously in this area (Hatfield 2008).

Corporate Social Responsibility Issues in Kurdistan

Capacity Building Needs

The majority of the people in Kurdistan farm and kept sheep and goats for survival. With the growing interest in Kurdistan by foreign investors, there were increasing opportunities for employment. Most people lived in villages and while many of these were destroyed in the 1980s requiring residents to move into collective towns, the KRG in conjunction with aid from UN agencies and NGOs, rebuilt over 2000 of these destroyed villages since 1991(KRG.org 2009c). Just within WesternZagros' exploration block there were over 450 villages. Here the terrain is rough, and people survived by subsistence agriculture. They grew winter wheat and herd sheep and goats, which they had begun to slaughter not too long before WesternZagros' arrival due to the worsening draughts.

The KRG region of Iraq has been witness to strife and a particular mix of horror, but especially so during Saddam Hussein's rule of Iraq. During the Iraq-Iran war, which was started by Iraq in Sept 1980 and ended in 1988, chemical weapons were used by Iraq against its own Kurdish population. The Halabja poison gas attack, which occurred on March 16-17, 1988, killed 3000-5000 people instantly, injured another 7,000-10,000 people, left thousands more with complications and diseases that killed them later, and it still considered the largest scale chemical weapons attack ever directed against a civilian population (BBC News 2009). At the end of the Iraq-Iran war, Hussein's genocide campaign on the Kurds was unleashed; over 4,000 Kurdish villages were bulldozed and the Kurds were gassed, executed and expelled leaving over 200,000 Kurds dead (O'Leary 2008).

The Garmian region's terrain, climate and history all contribute to severe subsistence challenges for the residents. The region receives an average of less than 12 inches of rain annual and has temperatures in excess of 50 degrees Celsius in the summer. Kurdistan is largely mountainous and much of the terrain in the region consists of steep rock and is largely inhospitable. While residents continue to farm and raise animals where the land permits it, much of the area is not suitable for farming. In the WesternZagros block, most residents lived in villages and relied on subsistence farming and livestock; however, the droughts had reduced the livestock through culling and the crop yields have dwindled. Thus, most of the residents lived in poverty, which, exacerbated by the harsh living conditions and limited opportunities for economic improvement, and many of the residents migrated from villages to the city.