

Corporate Social Responsibility and International Development

Is Business the Solution?

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Preface

Corporate Social Responsibility (CSR) and International Development: Is Business the Solution?

Governments and their international arms, the agencies grouped under the umbrella of the United Nations (UN), have failed in their attempts to rid the planet of under-development and poverty. Whether they like it or not, corporations are involved in development. Large corporations, with their power and economic strength, have taken a dominant position in society. They will, as this book argues, need to take much more responsibility for development than ever before.

After more than 60 years since the foundation of the UN in 1945 and US\$1 trillion (1000 billion US dollars) in development aid, 2.65 billion people – or nearly half the people on the planet – still live on less than \$2 a day and the figures have grown over the past decade. Indeed, some of the poorest economies are going backwards. In Africa – from the War on Poverty to Live Aid – much publicity and private sector support has been gathered through harnessing the photogenic power of actors and pop singers. This is because it was in sub-Saharan Africa, over the period 1981–2001, when gross domestic product (GDP) per capita shrank 14 per cent, poverty rose from 41 per cent to 46 per cent by 2001, and an additional 150 million people fell into extreme poverty!

So has the UN failed?

As Kofi Annan remarked in his speech on the restructuring of the UN in March 2006: ‘I am expected to be the world’s chief diplomat, and to run a large and complex organisation in my spare time.’ The UN, in fact, punches above its weight. The UN is actually a small organization. The total operating expenses for the entire UN system – including the World Bank, International Monetary Fund (IMF) and all the UN funds, programmes and specialized agencies – came to around \$18 billion a year at the turn of the 21st century. This is less than the size of many multinational enterprises (MNEs) – General Electric, for instance, had a market capitalization of

\$350 billion in 2004, and Exxon Mobil had profits of around \$32 billion in 2005 – and is dwarfed by military expenditure: \$80 billion a year just on Iraq by the US in 2005.

Since the UN's founding, there has been a fourfold increase in peace-keeping, with 80,000 peacekeepers and a \$5 billion budget – a depressing example of the failure of development efforts. The budget for the UN's core functions – the Secretariat operations in New York, Geneva, Nairobi, Vienna and five Regional Commissions – is around \$1.25 billion a year. This is about 4 per cent of New York City's annual budget – and nearly \$1 billion less than the yearly cost of Tokyo's Fire Department. It is \$3.7 billion less than the annual budget of New York's State University system!

Thus, its lack of resources which, in turn, is intimately tied up with the politicization of its actions by powerful member states who don't seem to know better, has left it in poor shape to tackle the pressing issues of under-development today. As the seemingly incessant need for 'transparency' and 'accountability' of the UN's actions bites through misdirected assistance, it will see its power to influence development continue to reduce.

At the micro level, large corporations are doing more and more to assist in development. It is at the macro, policy level, where corporations are reluctant to act but where their critics urge them to perform – for instance oil company receipts that are retained in developing countries continue to be managed poorly in encouraging development. The macro level is an area where the UN family can be a partner to corporations and is likely to grow in importance.

This book is not an attack on the UN – my overall impression is that it does a good job on development, even at times outstanding. But, with the very small resources at its disposal its direct impact on development is, unfortunately, a mere drop in the ocean.

So what is likely to happen next? Hard economics is losing way to softer versions. Culture and ethnicity have dominated recent world events and this trend is likely to continue. Focusing on purely economic growth for countries or profits for companies will, of course, be uppermost in our leaders' minds. But the softer undercurrents of change, such as Corporate Social Responsibility (CSR), will require new, inspired leadership.

And the UN? The UN will remain under-funded as long as it is used as a political football by the major powers to serve their own short-term interests, and will not be able to deliver its many excellent development initiatives.

Can the power, money and reach of large corporations do a better job on development?

Obviously, the main concern of business is not the development of the under-developed parts of the world. Yet, there are many aspects of its work that could be placed at the service of the planet. Prahalad and Hart (2002)

have attracted attention through their work *The Fortune at the Bottom of the Pyramid*.¹ Their argument is that the key to unlocking this potential is for MNEs to use technology to produce affordable products for the poor. But this only covers the supply of products to the poor, not how the poor are going to pay for them, that is, the demand side. The argument in this book is that looking at development through a CSR lens could, by examining both the supply and demand aspects of corporations and development, untap many more concerns than solely the consumption of the poor, that is to say *CSR can untap the fortune from development!*

So what can be gained from CSR?

CSR, at its simplest, is treating its stakeholders in a socially responsible way. Since shareholders and the environment are also stakeholders, then CSR must address economic and environmental concerns as well as social ones – more on this in [Chapter 2](#).

The CSR route is a way in which major global problems can be resolved. The expanding CSR movement has shown companies that their responsibilities do not lie simply in making profits, what is important is *how* profits are made. It is relatively easy to argue the obverse that corporations should stick to making profits and leave development for governments. This, though, is a dance to the death, since the market left purely to profit maximization will not, as things are, fulfil major social roles such as reducing unemployment, creating primary and secondary education for all and tackling the major diseases of the developing world.

Only time will tell how vigorously corporations will take on this new challenge. To a certain extent MNEs will engage in development simply to ward off problems such as rising energy prices, resentment at off-shoring, consumer boycotts and the like. They should be cajoled and persuaded to take on the wider challenge of development. How they do this, if they decide to go forward, is still the subject of intense discussion. My suggestions as to what they should do are given in the last chapter of this book.

MNEs are already involved in development

In fact, MNEs are already involved, in one way or another, in development. Their involvement can be characterized by three broad types of activity:

- *Type I*: Charitable donation to a ‘good’ cause in a developing country, that is, development philanthropy.

¹ S. K. Prahalad and S. L. Hart (2002) *The Fortune at the Bottom of the Pyramid*, Strategy+Business, McLean, VA, First Quarter, Booz Allen Hamilton Inc.

- *Type II:* Development inside the company that initiates new products for developing countries, or invests in a developing country to take advantage of cheap labour or special skills or natural resources such as oil and, in turn, directly impacts upon the profits of the whole organization.
- *Type III:* Activities that promote sustainable development and anti-poverty initiatives that might also be in addition to Type II activities. These activities serve to promote development but do not immediately impact on a company's bottom line. They are carried out to enhance a company's reputation and contribute to wider development objectives.

Thus, many if not all, of the largest corporations are involved in development in some way. Many of these efforts, to date, stem from their philanthropic interests with few direct benefits to the company itself except, of course, for public relations (PR) purposes. [Chapter 3](#) will give many examples of what corporations are doing in development as well as covering some of the development activities of large companies such as Microsoft, Wal-Mart, Unilever, British American Tobacco (BAT), Shell and BP. The examples given in the chapter, and these are only a subset of the enormous efforts going on worldwide, show that large private corporations are heavily involved in development. Not perfectly, but it can be concluded that although profits need to be made, companies have realized that economies must be encouraged to develop and it is this need that is prompting companies to be realistic about how pro-poor their policies are.

The book covers what is happening on CSR and development within developing countries themselves. It is still early days, but there are many activities that can be reviewed in the burgeoning number of regionally focused websites and newsletters devoted to CSR across the world from China, the Philippines, India to Brazil. These are covered, partially, in [Chapter 9](#). There is also a growing academic literature on CSR in developing countries as interest in the whole field has exploded despite, it must be admitted, a lack of consensus on what CSR means across different countries.

Another area starting to promote development, which is covered in [Chapter 11](#), is socially responsible investment (SRI), one of the fastest growing forms of investment. In the US alone, from 1995 to 2003, assets involved in social investing, through screening of retail and institutional funds, shareholder advocacy and community investing, have grown 40 per cent faster than all professionally managed US investment assets. Investment portfolios involved in SRI grew by more than 240 per cent from 1995 to 2003, compared with the 174 per cent growth of the overall universe of assets under professional management.

Is CSR really the answer?

It is, of course, easier to dispose than to propose, which leads to [Chapter 6](#) concerning addressing some of the common criticisms of the CSR concept.

It is most likely that CSR will transform into different concepts but not disappear entirely. Since the realm of business in society is so crucial, CSR and its associated tools will eventually become embedded in all organizations rather like environment concerns are right now. Consequently, in the future, there will be less talk about CSR simply because it will become part of routine daily operations.

So what next for MNEs?

Corporate philanthropy can lead to sustainable development, but often it does not, as explained in [Chapter 5](#). CSR can help in assessing the merits of philanthropy and therefore:

- Companies should abandon all philanthropy which is outside a CSR framework.
- Companies should work hand-in-hand with governments to promote economic and social development.
- Companies should develop a CSR vision that includes an overall strategy for the company's place in development.
- Companies should work (a) with the government in their host country to see how the government's anti-poverty policy can be enhanced, and (b) with local UN and non-governmental organizations (NGOs) to increase the efficiency of development initiatives, including ensuring their tax contributions are used wisely.

Final remark on CSR

CSR is one of, if not *the* most important issue of our time. The power and strength of corporations can be harnessed for positive developments. This is not always so, as can be seen in the case of the major tragedy of the modern era – Iraq.

Could CSR have prevented the Iraq war? Yes! The relations between Halliburton, Bechtel, Carlyle and many other corporations in a CSR world would have been intensively examined. Stakeholders would have been held publicly accountable, and socially irresponsible actions such as supporting war efforts for personal gain would have been stamped out. Naïve? Perhaps. But right now, large corporations are more powerful than the UN, and more powerful than many nation states. Therefore, CSR is a more urgent issue than it has ever been before.