

# A delicate business

**In the debate on how to combat poverty, policymakers frequently claim that multinational corporations can make a positive contribution by practising corporate social responsibility (CSR). But CSR initiatives are often no match for an issue as complex as poverty alleviation.**

**M**ultinational corporations have spent the last 20 years trying to improve their social and environmental image. What began as charity on a small scale – dubbed ‘window dressing’ by critics – is now a worldwide movement. A profusion of multi-stakeholder initiatives, international guidelines and codes of conduct (see box on page 6) is promoting what is now known as ‘corporate social responsibility’ (CSR). 📖 Companies engage in CSR voluntarily, and most large corporations now have a department devoted specifically to CSR, working closely with specialist consultancy agencies and, increasingly, with civil society organizations.

CSR has a long history (see box on page 7), but the first initiatives did not really get off the ground until the late 1980s. These early initiatives focused exclusively on environmental pollution in the West. In the mid-1990s, the scope of CSR was extended to include health and safety concerns, as revelations about the appalling working conditions in Asian factories brought criticism to companies such as Nike, Reebok, Levi Strauss & Co. and Gap. Accounting transparency and the traceability of semi-manufactures also became important issues on the CSR agenda.

Today, CSR is a subject of considerable debate. Advocates of CSR believe that it has potential social and environmental benefits. Critics see CSR as too much a business tool that benefits the private sector, rather than as an instrument of development that will benefit the poor and most marginalized groups in society.

There is a growing belief among governments and corporations that commercial profits can go hand in hand with social, economic and environmental benefits. This premise, known as the ‘business case’, has brought the private sector, government and civil society organizations closer together than ever before, giving fresh impetus to the CSR debate. It has also helped engender the widely held belief that the private sector can combat poverty by practising CSR.

### **The business case**

The business case refers to the incentives that exist for businesses to act in socially responsible ways. For example, reducing carbon emissions while also saving money. ‘Making the business case has grown in importance as the focus of corporate responsibility has moved from philanthropy and generally giving a proportion of revenues back to society, to the function of corporate responsibility in core business activities’, say Michael Blowfield of the London Business School and Alan Murray of the University of Sheffield, UK.

The private sector can also earn profits with products and services that meet the needs of the poorest members of society, according to some researchers. The three billion poor people who live on less than US\$2 a day have capital resources that remain untapped by companies. C.K. Prahalad of the University of Michigan believes that it is possible for companies to create a business model that includes both making profits and helping the poorest of the poor. This bottom of the pyramid theory reinforces the business case argument in the CSR debate.

Thanks to the business case, top managers in the private sector are more positive about CSR than ever before. The benefits of CSR initiatives are immediate. Multinational oil company BP, for example, has managed to reduce its own CO<sub>2</sub> emissions by 9.6 million tonnes since 1997, and it did this nine years ahead of schedule. This has since saved the

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Bob Geldof at the CRS conference, *Companies in Charge - A Benefit for All*. Berlin, April 2008.

company US\$250 million in operational costs. Clothing retailer Gap also supports the business case argument, and managers say better working conditions vastly improve the quality and on-time delivery of products. Electronics company Philips has profited from its own low-energy light bulbs. 🙌

This all sounds very positive. But is there sufficient evidence to support the business case? The literature on CSR and multinational corporations is still limited. In 1995, Stuart Hart of Cornell University was the first to demonstrate a positive relationship between environmental benefit and companies' financial performance. His findings are now broadly accepted, as evidenced by the examples of Philips and BP, but proof is harder to find when it comes to the social and ethical dimensions of CSR.

### **Debunking the business case**

Many other researchers say there is no scientific evidence for the business case. Some suggest that CSR can best be understood through the principle of supply and demand. Decisions by senior managers will differ on a case-by-case basis; therefore there is no such thing as a homogeneous CSR policy. Company investment decisions can differ widely, prompted by CSR on one occasion, and entirely different concerns on another. Many managers find CSR

useful mainly as a means of strengthening ties with consumers and staff, in order to protect the image of their companies.

A more fundamental criticism of CSR is based on the assertion of the late Theodore Levitt, a Harvard economist, that 'government's job is not business, and business's job is not government', which was also embraced by the late Nobel Laureate Milton Friedman in the 1970s. Both men believed that CSR hampered the primary aim of business: to maximize profits for shareholders. Furthermore, they said, CSR could boost protectionism by setting excessively high standards that only a few companies would be able to meet. David Henderson, former chief economist at the Organization for Economic Cooperation and Development (OECD) in Paris, has been the latest to voice this argument.

The most recent criticism of CSR targets the development aspect of the business case. According to a report in the online journal *International Affairs*, 'there exists at present a rather one-sided view of CSR that emphasizes profit-making, win-win situations and consensus outcomes in multi-stakeholder arrangements. This ignores more sensitive questions around the actual impacts of CSR initiatives, the roles of power, class and gender in mediating such interventions, and the need to go beyond "one-size-fits-all" approaches'. ➤

In 2005 economists Peter Newell of the University of East Anglia and Jędrzej George Frynas, of the University of Birmingham, were the first to call for CSR to be examined in a broader, development-related context. 📖 They highlighted the possible ‘danger that, by basing development policies around a business case, we fail to tackle, or worse, deepen, the multiple forms of inequality and social exclusion that characterise contemporary forms of poverty’.

They argue, along with Michael Blowfield and Rhys Jenkins of the University of East Anglia, that most of the literature focuses too much on the direct relationship between the ethical and financial performance of companies at a micro level, and not enough on the impact of CSR at a macro level. They believe the optimism surrounding the business case for reducing poverty is premature. The first studies by Jenkins and by Newell and Frynas revealed that the contributions of firms depends on a number of factors. ‘CSR works some of the time, in some places, for some people, for addressing some issues. The challenge is to understand when and how’. The conclusion of these studies was that CSR is too top-down to take into account the daily complexity at the bottom of the production chain.

### Food supply chain

One example that illustrates this view comes from the food supply chain. Marina Prieto-Carró of the University of Bristol, in a study of the CSR initiatives of banana multinational Chiquita, concluded that such initiatives did not work in Latin America because even the banana multinationals could not withstand the power of the big supermarket chains. Supermarkets work only on long-term contracts with a few suppliers, so they can negotiate lower prices without taking any direct responsibility for production.

The banana multinationals say they can survive only if

#### CSR initiatives

Corporate social responsibility (CSR) is hard to define. It includes so many overlapping elements that it is difficult to distinguish clear categories. International guidelines, such as the OECD Guidelines for Multinational Enterprises, the Principles and Guidelines to Promote Sustainable Lending Practices and the Convention on Biological Diversity, generally provide the basis for multistakeholder initiatives. Examples of these initiatives include the Utz Kapeh Code of Conduct and the Common Code for the Coffee Community. Some CSR initiatives target specific issues, such as working conditions (SA8000 standards), accountability (such as Sustainability Reporting Guidelines), environmental pollution (the Clean Development Mechanism), local communities (community-based development projects), smallholders (the Fairtrade Standards of Fair Trade Labelling Organizations International) and good governance (the UN Declaration against Corruption and Bribery).

Source: Visser, W. et al. (2007) *The A to Z of Corporate Social Responsibility: The Complete Reference of Concepts, Codes and Organisations*, Wiley.

they cut production costs, which leads to lower wages and smaller work forces, and consequently undermines the impact of CSR. Prieto-Carró says that ‘the ideology of free trade and the unequal relations between developed importing countries and developing exporter countries underpins how the industry works against workers’. She calls these the ‘hidden structural problems’ that CSR is unable to address.

The banana supply chain is not an exception. Studies of CSR in the textile industry of Bangladesh and in African horticulture show that the poorest people hardly benefit from it at all. Stephanie Barrientos of the University of Manchester and Sally Smith of the University of Sussex, UK, conclude that ‘apart from the area of health and safety, in some of the countries studied there is to date only limited measurable benefit for workers, even when corporations are committed to establishing ethical standards along the whole supply chain’.

CSR initiatives are not, therefore, getting to the core of the problems at the bottom of the production chain, and are thus failing to break the spiral of poverty. This is partly because most of the workers in question are uneducated women who provide cheap labour in the export sectors of developing countries and have nowhere else to go. To ensure that these women really do benefit from the work they do – beyond the fact that they do perhaps earn more than they would if they had remained in their villages in the countryside – the CSR debate must also encompass gender-specific issues. This is not the case at present. Female workers have not been sufficiently organized together in order to effectively voice their problems and bring their issues to the negotiating table.

For example, having safe transport home after a long working day is a very important issue for women, but this does not feature in any CSR code of conduct. Even more important, the daughters of working women often have to take over responsibilities at home because of their mothers’ long working hours and low wages. This situation is detrimental to the education of a whole new generation of women. Generation after generation, women are thus prevented from learning new skills and are forced to remain in poverty, especially if they are made to leave a factory or plantation by the age of 35.

Most foreign companies with factories in developing countries are concerned with the plight of the poor. In the name of CSR, companies invest in poor communities (usually those located near their factories) by building roads, schools, medical posts and community centres. In this way, companies hope to help the local community develop. But here, too, things are more complicated than they appear.

These marginalized communities are entirely unrepresented in official discourse. Furthermore, many are embroiled in protracted disputes with the political and economic elites over land and property rights. A CSR initiative for such communities, such as building a new school or medical post, will not resolve these underlying problems of exclusion and poverty.

### A negative effect

CSR can actually have negative effects in developing countries, as Jędrzej George Frynas has shown in various

studies of the oil industry. Oil companies try to win concessions from national governments by promising major social investments. Says Frynas, ‘A crucial pitfall of using social initiatives as a competitive weapon is that the development priorities pursued by oil companies may be those of specific government officials and not necessarily those of the people for whose benefit the initiatives are ostensibly undertaken’.

If a community decides to resist the activities of oil or mining companies in their area, the true nature of the relationship is immediately revealed, says Peter Newell. While a major investor will always enjoy the support of the national and regional government (the bodies responsible for the exclusion of the community), the community itself has no support and is therefore powerless.

The involvement of governments in developing countries is crucial if CSR programmes are to succeed in alleviating poverty. Isolated projects on a micro scale will never result in sustainable development; that can be achieved only if there is a link with macro developments in the developing country. For that, companies must collaborate with governments. However, this is easier said than done. In Azerbaijan, a country in the South Caucasus region, BP is hampered by the government’s unwillingness to make its oil revenues more transparent and to combat corruption. This is known as the ‘resource curse’, whereby large revenues from the extractive industries sector, combined with corruption, a weak tax system and little interest in economic diversification, cause social inequality and economic stagnation. It is completely impossible for a CSR programme to change this, precisely because many companies perpetuate the resource curse simply with their presence.

Although the optimism of the win-win approach of the business case may seem a little premature, this does not mean that no progress has been achieved over the past ten years. The private sector’s attitude toward CSR has been altered by the business case. The first products and services catering to the needs of the poor are already appearing, and include cheap laptops and mobile phones, and banks that specialize in microcredit. There are also some successful cases of CSR strategies being executed from the bottom up, such as Statoil’s Akassa project in Bayelsa State, Nigeria. Petroleum company Statoil’s funding for this project has become a symbol of potential positive benefits of oil company development work. The Akassa project was funded by Statoil and implemented by the non-governmental organization ProNatura. The project was based entirely on grassroots priorities, not by outsiders deciding which specific initiatives should be implemented. ProNatura did in-depth research into the needs of the community over a long period of time. ProNatura staff lived for a while in the villages and had extensive discussions with the local people. Statoil funded the project even before it moved in and started oil production.

However, successful cases must not simply be copied in entirely different settings, warn some researchers. Nor should the success of a few initiatives stifle debate on CSR, so long as the majority of CSR initiatives fail to change anything for the people at the bottom of the production chain. The CSR debate therefore has to become more critical, and research into CSR at the macro level is vital. 📌

### CSR debate timeline

1930–1940	First corporate responsibility texts appear, including the work of Berle and Means, 1932
1935–1950	New Deal and start of the welfare state
1945–1960	Continued nationalization (Europe), state enterprises (former colonies, Communist bloc) and postwar consensus (US)
1960–1970	Return of business and society debate
1970–1980	Shift from responsibility of leaders to responsibility of companies
1975–1985	Debate about the nature of responsibilities
1975–1990	Corporate responsibility as management practice (e.g. corporate social responsiveness)
1980–1990	Introduction of stakeholder theory, including the work of Edward Freeman in 1984
1990–2000	Environmental management
1990–2000	Corporate social performance
1995–now	Stakeholder partnerships
2000–now	Business and poverty
2000–now	Sustainability

Source: Blowfield, M. and Murray, A. (2008) *Corporate Responsibility: A Critical Introduction*. Oxford University Press.

Whether CSR really is the long sought-after instrument that can break the spiral of poverty depends to a large extent on the private sector implementing CSR values more seriously in its day-to-day business model, and tackling the conflicting internal interests more effectively. CSR will also have to tie in better with anti-poverty projects in the South, and companies will have to take more heed of the demands of local communities. ■

*The author wishes to thank the following for their comments on the draft of this article: Wayne Visser (senior associate of the Cambridge Programme for Industry, University of Cambridge), Peter Newell (professor of development studies, University of East Anglia), James Martin Fellow (University of Oxford) and Arthur Mol (professor of environmental policy, Wageningen University, the Netherlands).*

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📌 A longer version of this article, with references and notes, can be found at [www.thebrokeronline.eu](http://www.thebrokeronline.eu).