Promoting Development through Corporate Social Responsibility – Prospects and Limitations[1]

Peter Utting[2]

Over many decades, there has existed a heated debate regarding the role and impact of transnational corporations (TNCs) and foreign direct investment (FDI) in developing countries. Put simply, some emphasize the actual or potential contribution of TNCs to economic and social development via investment, employment, taxation, and the transfer of technology, knowledge and skills. Others stress the fact that TNCs have been highly implicated in promoting a style of "development" and North-South relations that have put many developing country enterprises, people and the environment at a serious disadvantage.

The 1980s saw a major shift in this balance of opinion as international development agencies and many developing country governments abandoned the rhetoric of a "New International Economic Order" and actively courted FDI. To do so, they largely accepted the policy proposals and conditionalities of international finance institutions such as the World Bank and the IMF, which encouraged developing countries to pursue export-led growth, liberalize their trade and investment regimes, and privatise state enterprises and public services.

These trends and policies continue today but have been complemented by another approach, often labelled "corporate social responsibility" (CSR) or "corporate citizenship". Over the past decade many high profile corporations and business and industry associations have responded to civil society and consumer pressures, market opportunities, and new thinking on "good governance" and management by projecting an environmentally and socially-responsible image.

Recent CSR initiatives

An increasing number of companies are adopting a variety of "voluntary initiatives" associated with codes of conduct, improvements in environmental management systems and occupational health and safety, company reporting on social and environmental policy and performance, participation in certification and labelling schemes, an increase in corporate social investment in, for example, community development projects, and philanthropy.

More recently, there has been an upsurge of international "multistakeholder initiatives", involving a combination of business interests, NGOs, trade unions, and bilateral and multilateral organizations, which set standards and promote monitoring, reporting and/or certification. These include, for example, the Global Reporting Initiative, the Clean Clothes Campaign, the Ethical Trading Initiative, and certification schemes such as ISO14001, SA8000, the Forest Stewardship Council

(FSC) and the Fair Labor Association. There has also been a proliferation of "public-private partnerships". The United Nations has played an important role in promoting partnerships with TNCs through arrangements such as the Global Compact, various global health partnerships, and numerous initiatives brokered or announced at the World Summit on Sustainable Development, held in Johannesburg in 2002.

The development debate associated with FDI has now extended to CSR. The proponents of CSR generally hail voluntary initiatives as a pragmatic and innovative way of enhancing the contribution of TNCs to development. Many also regard such initiatives as an alternative to government regulation, which is often seen not only as unfriendly towards business but also difficult to implement, particularly in developing countries. Much of the criticism of CSR has centred on three main concerns. First, many CSR initiatives amount to "greenwash", or attempts to gloss over "business-as-usual". Second, CSR is a genuine attempt on the part of big business to improve social, environmental and human rights conditions but the CSR agenda needs to be broadened and implementation strengthened. A third criticism relates to the concern that voluntary approaches, by design or default, serve to by-pass or undermine some of the key forces that promote corporate responsibility, namely government or international regulation, trade unionism, and more confrontational forms of NGO activism.

Developmental impacts of CSR

What has really been the impact of CSR and partnerships on developing countries? Unfortunately much of the "evidence" for and against CSR is based on supposition, anecdotes and a limited number of "best" or "bad" practice examples. There has been little systematic research on the developmental implications of CSR.

Preliminary findings from research currently being conducted by the United Nations Research Institute for Social Development (UNRISD) suggest that an increasing number of large national and transnational corporations are indeed engaging with the CSR agenda, not simply in a reactive sense but more pro-actively, given a range of benefits that derive from CSR. While many instances of "greenwash" have been identified, CSR amounts to more than window-dressing or slick public relations. While serious concerns have emerged about the limited scope and effective implementation of CSR initiatives, it is also apparent that an increasing number of companies, business associations and business-interest NGOs are involved in an active learning process and are evolving gradually towards more rigorous standards and practices. As a result, the CSR agenda is gradually being broadened and institutionalised.

This mixed report card is very apparent in relation to certain public-private partnerships involving the United Nations and TNCs. The Global Compact, for example, has proved useful in raising the profile of labour, human rights and environmental issues in a global policy context where, for many years, attention focused narrowly on the economic dimensions of development, and liberalization, stabilization and structural adjustment. It has served to reinvigorate certain aspects of international "soft law", such as the ILO Core Conventions and the Universal Declaration of Human Rights, as well as the Precautionary Principle agreed at the "Earth Summit" in Rio de Janeiro. It has also stimulated discussion and dialogue on

specific problems such as the responsibilities of business in conflict zones and in relation to HIV/AIDS.

As currently constituted, however, many UN-business partnership initiatives are characterised by weak screening mechanisms to select appropriate partners and weak compliance mechanisms to ensure that companies improve their social and environmental performance. There are also concerns that partnerships provide the corporate sector with undue influence in the governance structures of multilateral institutions and the public policy process.

How might CSR work for development?

But apart from assessing the scale, scope and implementation of specific CSR policies and institutional arrangements, it is important to consider the wider developmental implications of CSR. There is a fairly generalised perception, shared by many individuals and organizations promoting CSR, that both CSR and partnerships, in any shape or form, must be good for development. This assumption needs to be looked at carefully given the following characteristics and impacts of CSR:

- The CSR agenda tends to be somewhat "northern driven" and focuses on a fairly narrow set of issues, sectors and companies. Various social and environmental issues or business activities of concern to workers and communities in developing countries may not get much attention.
- "Indigenous" approaches to CSR, which exist in all societies, don't receive much attention from the mainstream CSR community, which tends to focus on a fairly standardized set of approaches and instruments.
- The "social" in CSR focuses heavily on company-community relations and working conditions in core enterprises and plants. Aspects related to workers' empowerment, industrial relations and labour rights, and the conditions of workers in sub-contracted activities, receive far less attention.
- Important gender issues often get sidelined. These relate not only to specific concerns and needs of women workers but also the participation of women in trade unions and other negotiating and political processes associated with CSR.
- Small and medium-sized firms in developing countries that form part of TNC supply chains are often expected to pay the costs of CSR. TNCs or northern consumers may do little, if anything, to share these costs. Moreover, TNCs and large northern retailers continue to impose onerous conditions on suppliers in terms of price and delivery schedules, which limits their ability to improve conditions.
- CSR may reinforce trends involving the concentration of corporate power by squeezing small firms from supply chains and concentrating production in larger firms with greater capacity to implement CSR initiatives.
- CSR may have protectionist implications by restricting access of southern firms to northern markets, although such implications are sometimes overstated.
- CSR and partnerships may enhance the competitive advantage of TNCs at the expense of firms in developing countries.
- The CSR agenda often ignores the "big picture", namely the structural and policy determinants of underdevelopment, such as certain macro-economic

policies; issues of corporate power, lobbying and political influence; transfer pricing, intra-corporate financial flows and tax avoidance; unsustainable investment and consumption patterns – and the relationship of corporations to these determinants.

- Many developing country governments, constrained by international pressures associated with debt servicing, structural adjustment and "down-sizing", are unable to develop the type of regulatory and incentive structures that would encourage CSR.

If CSR is to make a more significant contribution to development, its proponents face two major challenges. First, there needs to be a better integration of voluntary approaches and law or government regulation, rather than the present situation where voluntary initiatives are often seen as an alternative to legal instruments. Second, the CSR agenda needs to become more "south-centred". For this to happen, the relevant actors will have to start by addressing some difficult questions. What are the actual or potential developmental problems and contradictions associated with the CSR agenda, as currently constituted? Are the investment and competitive strategies of TNCs, as well as their lobbying and fiscal practices, compatible with basic development objectives, as well as the claims they are making about corporate responsibility? Does the CSR agenda really respond to the development needs, concerns and priorities of workers, communities and firms in developing countries? Are these and other southern actors effectively shaping the CSR agenda? And is CSR working for or against democratic policy-making, regulatory and planning processes in developing countries?

Unless these questions of regulation and "participation" are addressed, then CSR, as currently constituted, may do more for the conscience of corporate managers, northern consumers and some NGOs than for workers and communities in developing countries.