



INTRODUCTION

Corporate Social Responsibility and its Implications in Developing Countries

Prof. Dr. Michael Hopkins

Chairman and CEO

MHC International Ltd.

**Professor of CSR, Middlesex
University, London, UK**



INTRODUCTION

The presentation covers:

- *Whether corporations should be involved in development?*
- *Whether corporations going the CSR route would enhance development?*
- *Whether corporations going the CSR route on development would benefit the TNC itself?*



QUOTES on DEVELOPMENT

'Business is the key to beating global poverty, but we're talking so much more than handouts' [Simon Caulkin , business journalist, The Observer, March 13, 2005]

'There are fundamental problems about the capacity of private firms to deliver development, and the aspiration of achieving broader development goals through CSR may be flawed' [George Frynas, The false developmental promise of Corporate Social Responsibility]

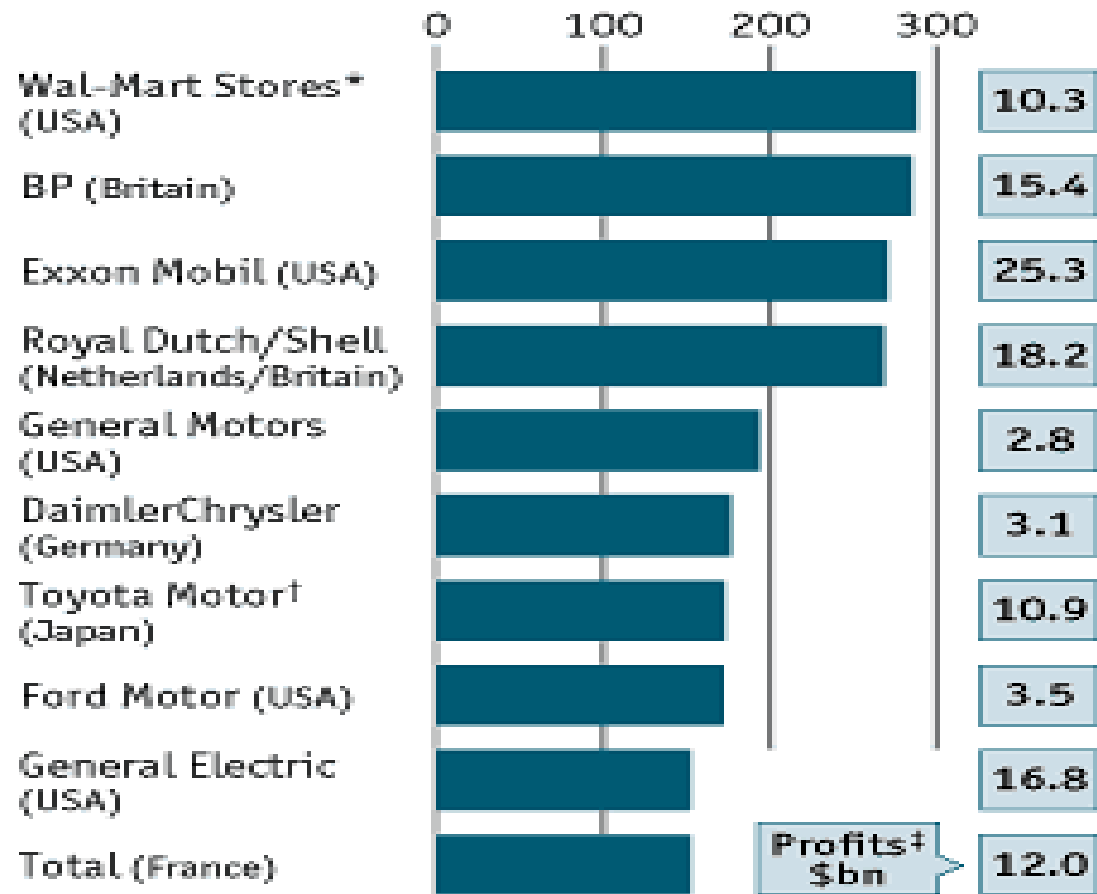


TNCs and DEVELOPMENT

Importance of TNCs

The world's biggest companies

Revenues, 2004, \$bn



*Year ending January 31st 2005

†Year ending March 31st 2005

‡After taxes

Source: *Fortune*



WHAT IS DEVELOPMENT?

What is Development?

- Development is a social phenomenon that involves more than increasing per capita output.
- Development means (Dudley Seers) eliminating poverty, unemployment and inequality as well.
- Seers work at the University of Sussex was quickly followed by concerns with structural issues such as dualism, population growth, inequality, urbanization, agricultural transformation, education, health, unemployment, basic needs, governance, corruption etc.



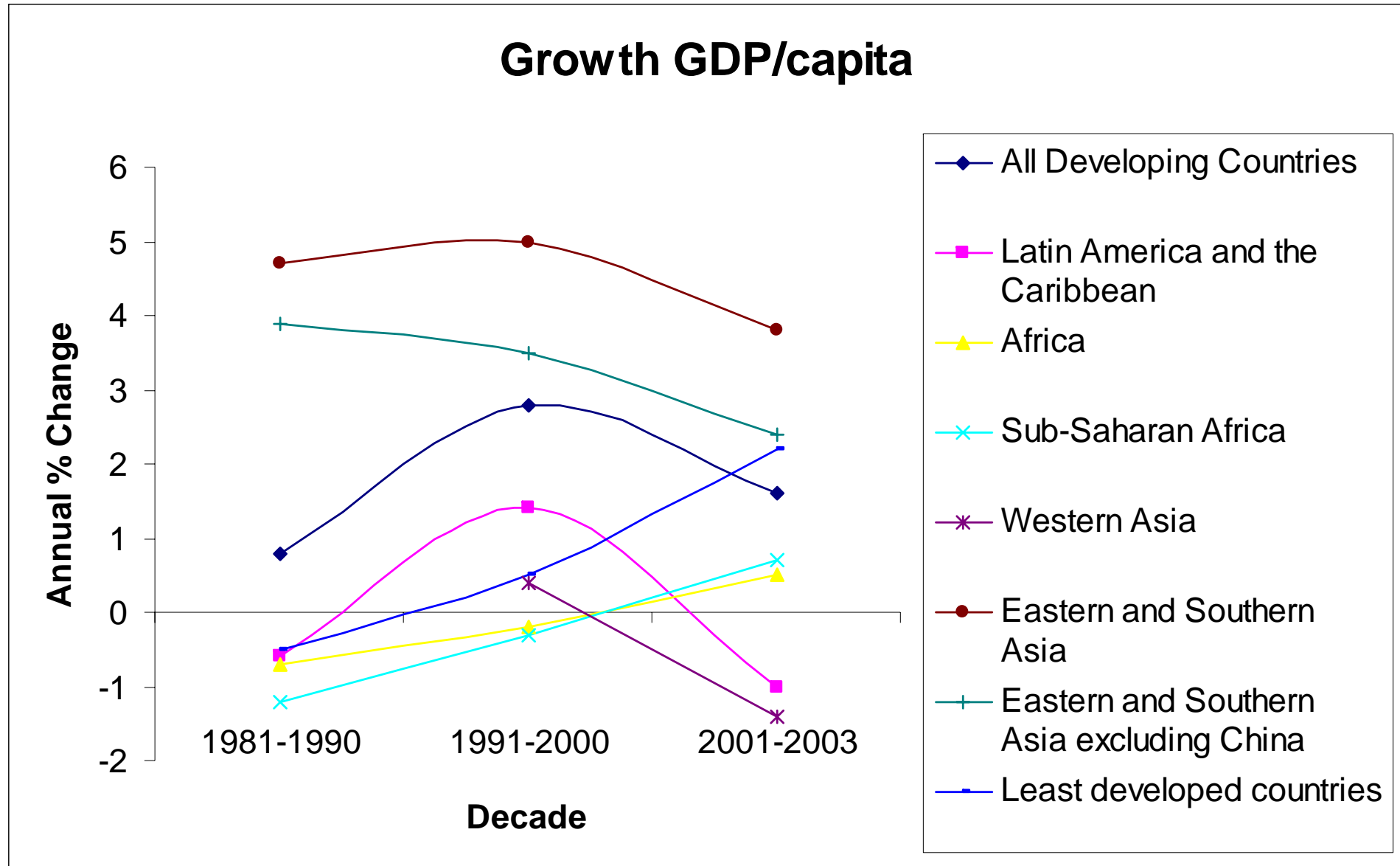
FAILURE OF DEVELOPMENT
ORGANISATIONS

Failure of Governments and United Nations

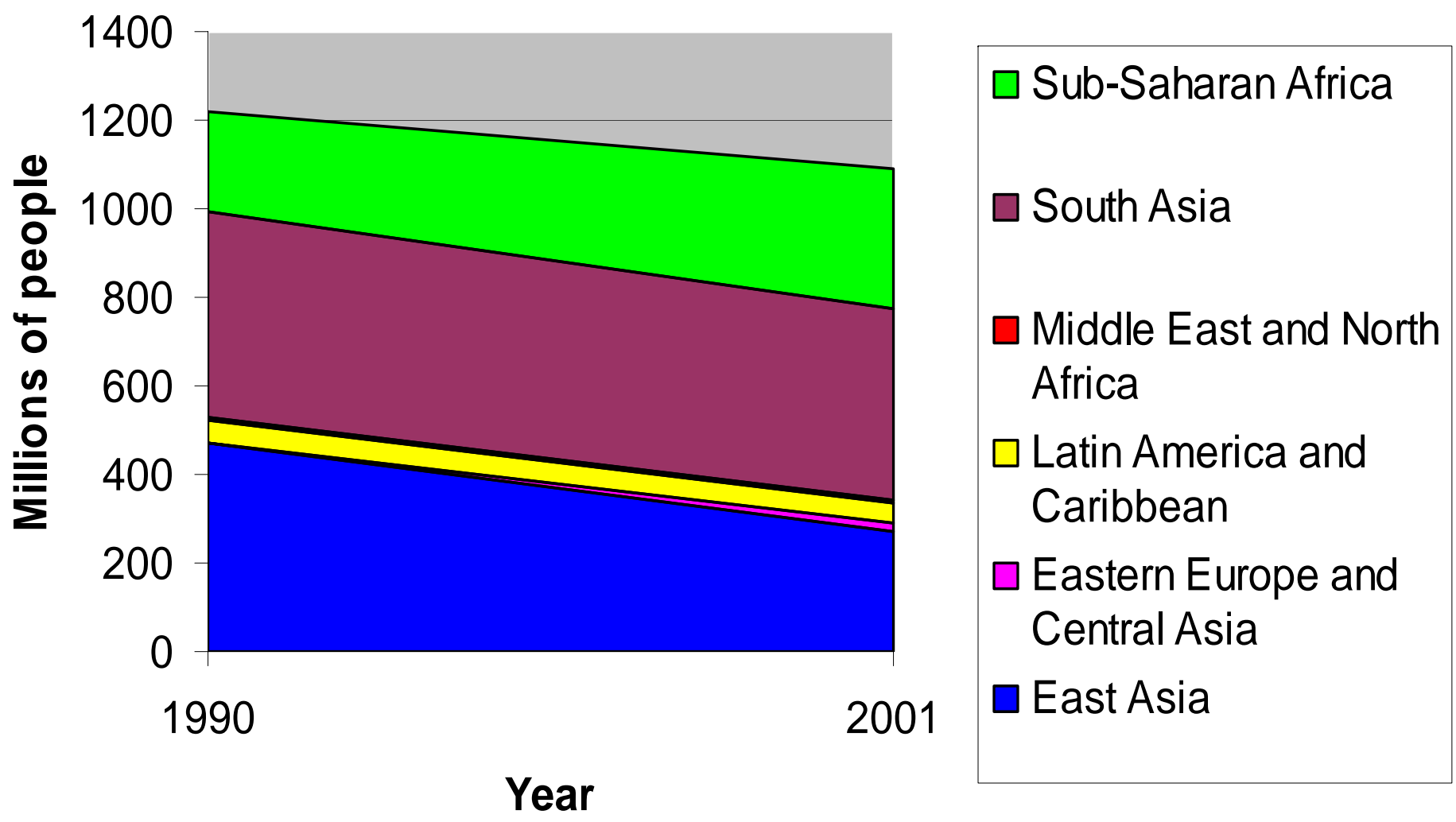
Main proposition:

- Governments and the United Nations (UN, UN agencies, World Bank, International Monetary Fund and their newest recruit – the World Trade Organisation) have *failed* in their attempts to rid the planet of under-development and poverty.
- After half a century and \$1 trillion (one thousand billion) in development aid, more than 2 billion people still live on less than \$2 a day. Indeed, some of the poorest economies are going backwards

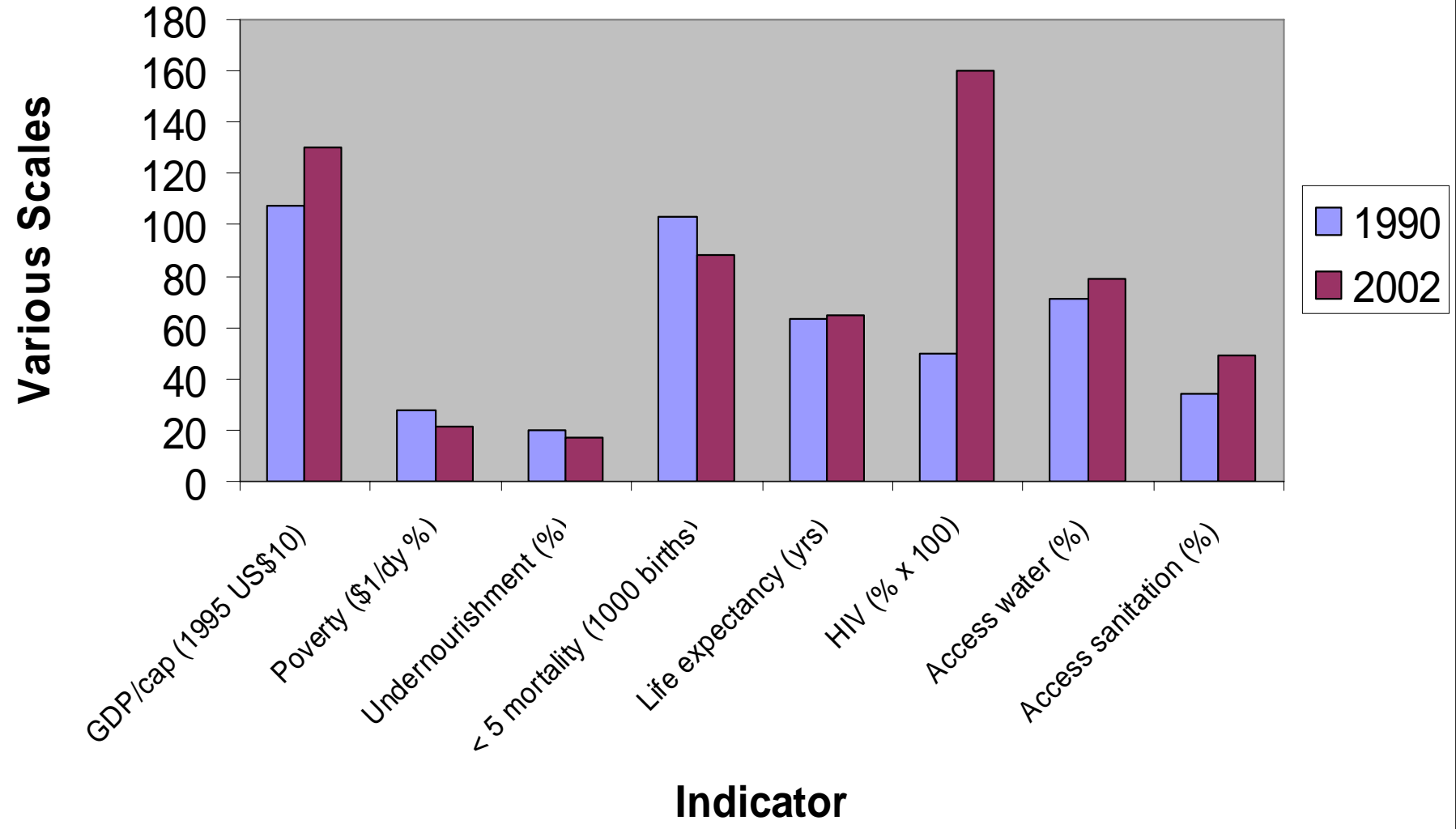
Economic Growth in Developing Countries



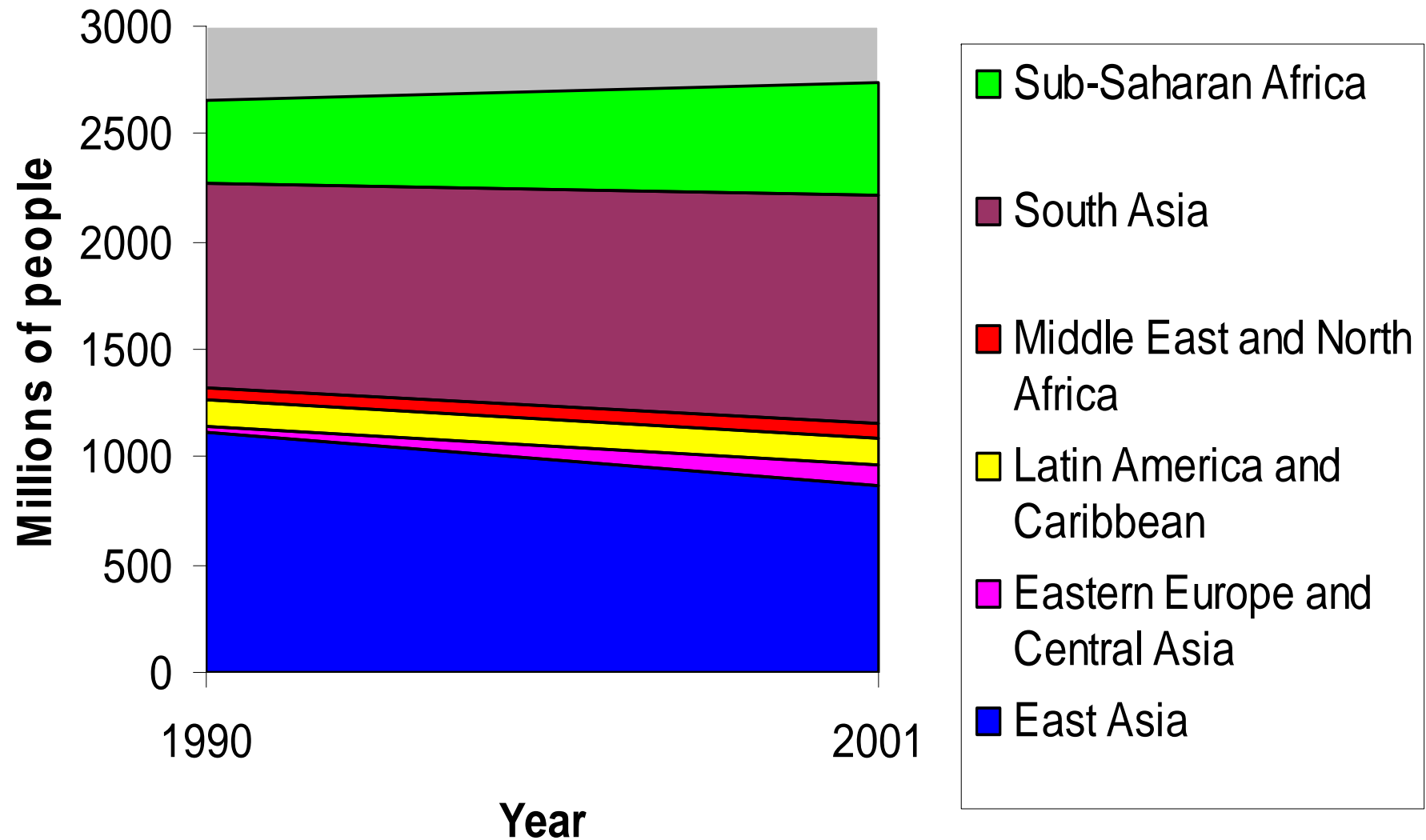
World Poverty (\$1/day)



World Socio-Economic Development (1990-2002)



World Poverty (\$2/day)



United Nations is a relatively small organisation

Total Operating Expenses \$US18.2bn a year (includes World Bank)

- **General Electric Market Cap. \$US350bn2004**
- **Exxon Mobil profits \$US25bn in 2004**
- **\$US80bn per year by US in Iraq in 2005**

Core UN budget (Secretariat in New York, Geneva, Nairobi, Vienna, Five Regions) \$US1.25 bn/year

- **Equals about 4% New York City Annual Budget**
- **Tokyo Fire Department is \$US2.25bn a year**
- **New York State University System \$3.7bn a year**

ALTERNATIVES?

So, this leaves the private sector.

- Can they do any better?
- Can they work with the UN?
- Can they work with the Third Sector?
- Can they work with Trade Unions?



WIDER VIEW

Can the CSR route enhance TNCs role in development?

- Obviously one can define what one wants, and CSR has been defined in many ways.
- Yet the key issue for corporations is why should they be interested in *development* as defined above?
- A sub-issue is if development is so important for companies why go the CSR route?

WHAT IS CSR

New Way for Development could be CSR

CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. 'Ethically or responsible' means treating stakeholders in a manner deemed acceptable in civilized societies. Social includes economic responsibility. Stakeholders exist both within a firm and outside – the natural environment is a stakeholder. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation.



NOT PHILANTHROPY

CSR IS NOT THE SAME AS PHILANTHROPY

- *BAT: ..some views about how business may contribute responsibly to sustainable development seem over-focused on philanthropy.*
- *Michael Porter: Corporate Philanthropy– or corporate social responsibility – is becoming an ever more important field for business. Today's companies ought to invest in corporate social responsibility as part of their business strategy to become more competitive*

Positive Impacts On TNCs from Development

Nine benefits from CSR that will both improve their bottom line *and* help to resolve the problem of under-development and poverty:

1. Reputation is improved
2. Access to finance is greatly improved as socially responsible investment (SRI) becomes more and more important.
3. CSR is an important factor for employee motivation and attracting, motivating and retaining top quality employees.
4. Innovation, creativity, intellectual capital and learning are helped by a positive CSR strategy.





Positive Impacts On TNCs from Development

5. Better risk management can be achieved by in-depth analysis of relations with external stakeholders.
6. CSR positively helps in the building of relationships with host governments. CSR gives a company a 'competitive' advantage over companies with poorer images.
7. Greater corporate social responsibility is linked to the heightened public debate on the benefits and shortcomings of globalisation. CSR companies the consumer choice.
8. The energy, technology and management skills learned can be shared and improved.
9. There is a growing consensus of a *Planetary Bargain* whereby beggar-thy-neighbour fail.



TNCs and DEVELOPMENT

Negative Impact on Development

- 1. TNCs merely create low wage jobs**
- 2. Increase inequalities**
- 3. Abuse their powerful political and economic position**
- 4. Not interested in long term sustained operations**
- 5. Costly for host country to attract TNC**

Narrow View of CSR

Especially harmful are attempts, whether by governments or by businesses in the name of CSR and (so-called) 'global corporate citizenship', to regulate the world as a whole. When conditions differ widely across countries, as they do, imposing common international norms and standards restricts the scope for mutually beneficial trade and investment flows. It holds back the development of poor countries by suppressing employment opportunities though widely accepted social and environmental goals, and their willing compliance with social pressures whether these are reasonable or not.

David Henderson (former Chief Economist OECD) Journal of Corporate Citizenship, Greenleaf Publishers, No. 17, Spring, 2005, pp 30-32

MAIN ACTIONS?

MAIN ACTIONS

It could:

1. Simply say that it is focusing on profit maximisation for its shareholders and claim that development is none of its business.
2. Work on a partial approach such as with the UN Global Compact and support that process
3. Engage fully with its stakeholders and explore options for furthering development efforts while ensuring that the actions it takes are fully in line with preserving shareholder value

TEN POINT PROGRAMME FOR COMPANIES

Inside the company

1. Develop a CSR strategy and overall vision for the company's place in development.
2. Investigate whether the company is paying a 'living wage' within the company and that it is paying its main suppliers properly and on time.
3. Work with trade unions to ensure proper environmental and safety regimes within the company.
4. Monitor and evaluate the company's anti-corruption policy on a regular basis



TEN POINT PROGRAMME FOR COMPANIES (cont'd)

Outside the company

5. Work with the Government in host country at BOTH micro & macro levels. Work with local UN and NGO organisations to increase efficiency of development initiatives.
6. Be pro-active in lending in-house training skills to a wider public.
7. Assist the creation and improvement of SMEs through an advisory office and/or with NGO partners.
8. Be involved in mentoring budding entrepreneurs.
9. Invest so as to support wider development objectives of host country.
10. Ensure community or philanthropic company initiatives are sustainable in the development sense.



Conclusions

1. Failure of development efforts to date
2. New Route is private sector involvement, particularly TNCs
3. CSR provides a framework
4. There are benefits to TNC involvement in development as well as costs
5. There are benefits to LDCs of TNC involvement in development

BUT...is this enough?

WHAT do you think?

CONCLUSIONS TO DATE



FORMER PRESIDENT OF
WORLD BANK WOLFENSOHN

**“The proper governance of
companies will become as
crucial to the world economy
as the proper governance of
countries.”**



Can CSR pave the way for development?

THANK YOU

Prof. Dr. Michael Hopkins

**Chairman and CEO
MHC International Ltd.**

**Professor and Chair
International Centre for CSR
Middlesex University, London, UK**

