

Corporate Social Responsibility & International Development:

The business of business is business. So why should corporations be involved in development?

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Presentation DSA Conference, Cambridge University, June 18th

Corporate Social Responsibility & International Development: Is Business the Solution?

Presentation

- 1. Development Failure*
- 2. Companies are important...we gave them the floor*
- 3. Can CSR be the way ahead?*
- 4. What corporations are doing on development*
- 5. Why are corporations so involved?*
- 6. A critique of CSR and Development*
- 7. What more could companies do?*
- 8. Conclusions*

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Failure of Governments and United Nations

Main proposition of my presentation:

Governments and their international arms, the international agencies grouped under the umbrella of the United Nations 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, 2.65 billion, or nearly half the people on the planet, live on less than \$2 a day and the figures have grown over the past decade some of the poorest economies are going backwards’ (*World Bank Data*).

So, this leaves the private sector (and possibly NGOs). Can they do any better?

Real Aid Fell in 'Year of Africa'

- Aid to Africa up by 32% in 2005 (to \$106.8bn)
- But, Nigeria Debt Relief (US18bn) increased
- Aid, therefore, fell by 2.1% overall
- Gleneagles summit, rich countries agreed doubling aid to 2010
- But, since 2002 only debt relief and emergency have increased since 2002 (OECD figures)

Source: Financial Times, 6 Dec 2006

FUTURE CATASTROPHE

They cling precariously to the top of what is left of the ice floe, their fragile grip the perfect symbol of the tragedy of global warming

Daily Mail

1st February 2007



PRESENT CATASTROPHE



Exclusive Book Excerpt

How To End Poverty

- Eight million people die each year because they are too poor to stay alive. A provocative plan on how we can save them.

By JEFFREY D. SACHS

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QUOTES on DEVELOPMENT

‘Corporations are not responsible for all the world’s problems, nor do they have the resources to solve them all...but, a well run company can have a greater impact on social good than any other institution or philanthropic organisation’

[Michael Porter and Mark Kramer, Harvard Business Review, Dec., 2006]

‘... the UN’s **work on development and environment is often fragmented and weak**. Inefficient and ineffective governance and unpredictable funding have contributed to policy incoherence, duplication and operational ineffectiveness across the system.’

[Report of the UN Secretary General, High Level Panel, Nov 9, 2006]

United Nations is a relatively small organisation

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

- General Electric Market Cap. \$US350bn 2004
- Exxon Mobil profits \$US36bn in 2005, \$39.5bn 2006
- \$US100bn per year by US in Iraq in 2006

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

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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* ?
- A sub-issue is if development is so important for companies why go the CSR route?

CSR Definition

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.

Source: Michael Hopkins The Planetary Bargain: CSR Matters, Earthscan, 2003, UK



DEFINITIONS

The terms used in the attempt to convince corporations to become more attuned to their stakeholders know no upper bounds.

- Corporate sustainability
- Corporate citizenship
- Corporate social responsibility
- Corporate Responsibility
- Good corporate governance
- The ethical organization
- The inclusive organization
- The civil organisation

all terms that have been used by different commentators

CRITICS Results

**(Corporate Responsibility Index Through Internet
Consultation of Stakeholders)**

Shell	0.88
BT	0.87
Honeywell:	0.78
Kingfisher	0.69
Zurich Re-Insurance	0.60
ETB Telecommunications Colombia	0.49
ILO	0.49
UNDP	0.49
Rentokil	0.48
Twenty companies in Mauritius	0.41

Source: CRITICS www.mhcinternational.com

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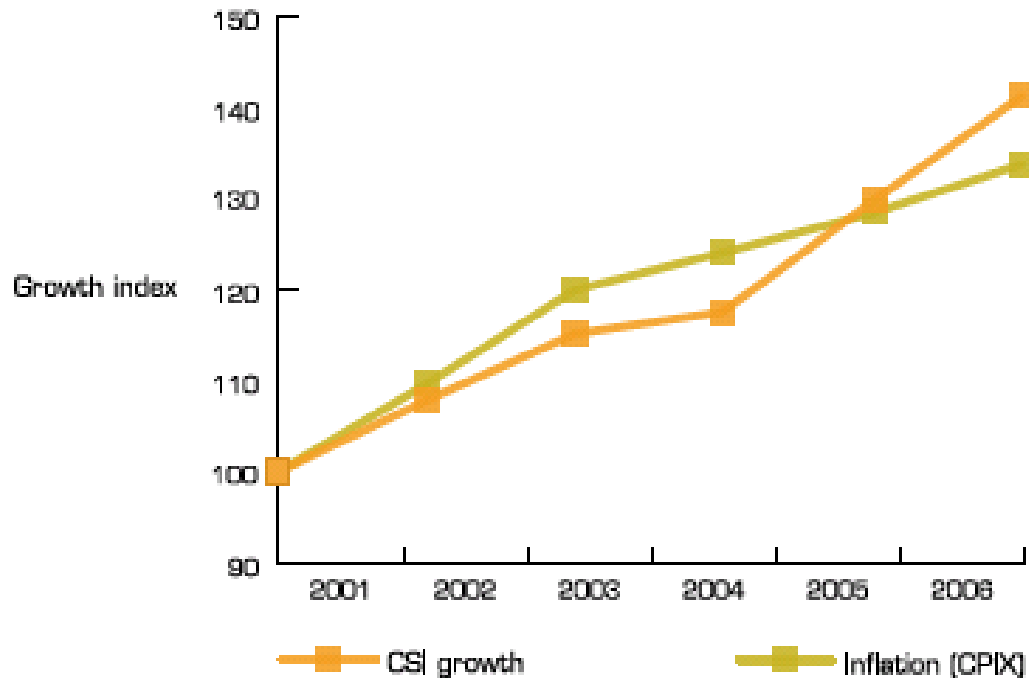
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Summary of existing CSR trends in emerging markets

Region	Current state of CR	Key drivers
Central & Eastern Europe	<ul style="list-style-type: none"> • Companies from Poland, Slovenia, Hungary and Czech show most evidence of incorporating CR approaches • Pockets of interest in many other states • Disclosure is increasing overall • Russia, Bulgaria and Estonia show least interest 	<ul style="list-style-type: none"> • Foreign ownership • Accession (or the goal of accession) to EU membership • Competitive advantage • Influence of corporate governance codes
Africa & Middle East	<ul style="list-style-type: none"> • South Africa has the most developed CR situation and SRI interest • Minimal interest in CR elsewhere 	<ul style="list-style-type: none"> • Domestic pressure for CR • Threat of regulation • Significant SRI market • Influence of corporate governance code
Latin America	<ul style="list-style-type: none"> • Most activity in Brazil, Mexico, Chile, Uruguay, Argentina • Focus is on CSI/philanthropy • Some SRI funds emerging 	<ul style="list-style-type: none"> • Nascent public interest and domestic inequalities • Regulatory pressures
Asia	<ul style="list-style-type: none"> • Companies from India and Malaysia beginning to incorporate CR • Pockets of interest elsewhere • China has especially low take-up of CR 	<ul style="list-style-type: none"> • Global pressures • Strategy for competitive advantage • Strong external investor interest in corporate governance and SRI in Asia

GROWTH IN TOTAL CSI BUDGET RELATIVE TO INFLATION: 2001 to 2006



Trialogue estimates that the total expenditure on corporate social investment in South Africa for 2006 amounted to R2.88 billion (\$US400mn)

www.trialogue.co.za

How does the development community approach development projects?

Is the project Type I, II or III?

- *Type I*: Charitable or philanthropic donation to a ‘good’ cause in a developing country,
- *Type II*: Development as a direct by-product of company actions,
- *Type III*: Activities that promote sustainable development and anti-poverty initiatives that might also be in addition to Type II

CSR is not the same as philanthropy

BAT: .. business may contribute responsibly to sustainable development [but] 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

Type I Example of Philanthropy (Not Recommended)

- The Akshaya Patra Foundation School Feeding Program
- private sector-led programme to address two most pressing problems facing India: hunger and education. provides free meals everyday to poverty stricken school children in India
- provides over 85,000 hygienic and nutritious meals every day
- seeks to serve over 10,00,000 children per day by 2010 for replication by other organizations across India
- For many children, the Akshaya Patra meal is only healthy meal
- Has produced dramatic improvements in enrollment, attendance and attention span at schools.

Type I Example of Philanthropy (Not Recommended)

Some of RasGas' most recent CSR activities include:



- Sponsoring the 2006 Qatar National Cancer Society's annual conference in Doha and holding a series of breast cancer awareness seminars in Al Khor Community
- Funding raising at the RasGas Pro-am Golf Tournament for Qatar Society for Rehabilitation of Special Needs
- Sponsoring an art and essay competition in junior schools
- Building a new sports venue for cricket in the Al Khor Community

<http://www.rasgas.com/rg/>

Type II Example Gone Wrong!

Paul Streeten on Canadian company Alcoa's investment in Jamaica.

'In a bid to be seen as a good corporate citizen, they paid high wages and made generous welfare provisions for their workers, including a football stadium, crèches and performance bonuses.'

'This wrought havoc with the Jamaican economy, by increasing the discontent of workers in other smaller, local companies, who wanted similar wages and facilities. The upshot was unrest, strikes and inflation.'

'..it would have been better both for the company and the community had they paid lower wages and higher taxes that could have bolstered the government's overall social expenditure. This would have benefited all workers and not just the select few, who were probably already well paid by local standards.'

Speech to Novartis Foundation, 2003

Type III Example

Micro-credit

BP, as part of its CSR programme to stimulate community involvement during work on the Baku-Tbilisi-Ceyhan (BTC) pipeline project, worked with **FINCA** – a micro-finance institution in Azerbaijan – to provide microcredit as an effective way of ensuring that small businesses could develop along the route of their pipeline. The repayment rate for the BTC-funded part of **FINCA's** portfolio has to date been 100 per cent amongst 4380 clients.

Washington Central Kitchen

Robert Egger: Begging for Change, 2004

*Michael and Robert,
Washington, Feb, 2007*



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Positive Impacts On TNCs from CSR & Development: Why TNCs interested? 1/2

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.
5. Better risk management can be achieved by in-depth analysis of relations with external stakeholders.

Positive Impacts On TNCs from CSR & Development: Why TNCs interested? 2/2

6. CSR positively helps in the building of relationships with host governments, communities and other stakeholders.
7. CSR gives a company a 'competitive' advantage over companies with poorer images.
8. Greater corporate social responsibility is linked to the heightened public debate on the benefits and shortcomings of globalisation and the perceived role of business in this process.
9. Growing consensus of a *Planetary Bargain* whereby beggar-thy-neighbour policies of companies through using the cheapest labour, the most polluting industries etc. are neither in the interests of the companies concerned nor their consumers.

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Heart of Gold Xposé for Voluntary Action

Voluntary initiatives litter the CSR landscape. Which voluntary agreement has been the best at preventing regulation, while actually making the smallest possible difference to the way business is run?

Nominees:

Supermarket Code of Practice - for getting businesses to write their own rules

Global Compact - for getting companies to sign up to an agreement they don't have to follow

OECD Guidelines for Multinational Enterprises - for imposing guidelines that governments can easily overlook.

Winner Announced 27th Sept 2005 at UK Labour Conference

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
6. Merely PR
7. Cannot be involved in development tasks like taxation, decentralisation, governance

Critique of CSR – 1

CRITIQUE of CSR - 1

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

Critique of CSR - 2

CRITIQUE of CSR -

1. CSR lacks a universal definition, everyone seems to have their own concept or definition.
2. CSR is just part of a public relations plan to bamboozle an increasingly sceptical public.
3. CSR is just another word for corporate philanthropy and the contribution that a business directly makes to the welfare of society (or 'the planet') is to be viewed as largely independent of its profitability.
- 2 4. CSR is misleading as it diverts attention from key issues, it is a curse rather than a cure.
5. CSR ignores development economics and its concerns with capitalism and neo-liberalism and it is just a way to introduce socialism through the backdoor.
6. The social responsibility of business begins and ends with increasing profits; CSR is an unnecessary distraction.
7. CSR is a sham because companies cannot be left to self-regulate.

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Main actions for a company

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

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Former President of the World Bank, Wolfensohn

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

Conclusions -1

Are corporations taking over from governments and the UN in terms of development?

- MNEs are very much involved in development.
- Will be even more involved in development than ever before in ways hard to imagine today.
- A real chance that MNEs with their wealth and global reach can do much more on development than the UN has achieved to date.
- The UN has become a political football.
- MNEs might, eventually, convince host governments that the UN is too important to fail.
- CSR will ensure that corporations will be involved in development
- MNEs will see that supporting the UN's development efforts will, also, be in their own best interest.

Conclusions - 2

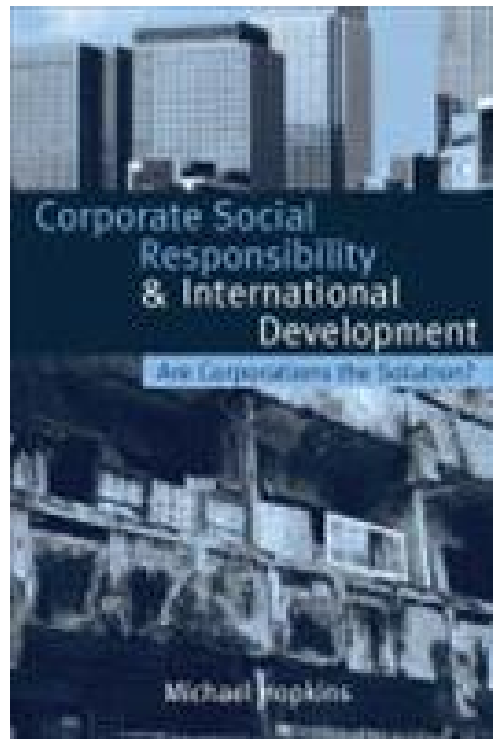
1. Failure of development efforts to date
2. New Route is private sector involvement, particularly TNCs
3. CSR provides a framework
4. There are benefits to TNC involvement in development as well as costs
5. There are benefits to LDCs of TNC involvement in development

Conclusions – 3

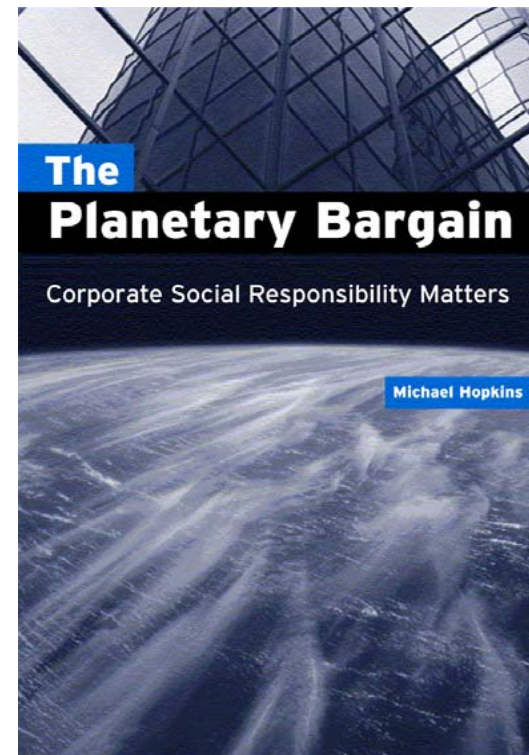
Prahalad's Bottom of the Pyramid

- 1. Main weakness is 'count, cost and supply'**
- 2. They forget about the 'demand' side**
- 3. Argue the 'virtue of technology' as a tremendous help..but we know it has limitations**
- 4. Identify key problem as 'creating capacity to consume' but smaller quantities only limited help and will increase the costs of the poor in terms of their time**
- 5. Old chestnut: if such a good idea why don't corporations do this anyway? [main reason – 68% of the world's population who are poor only consume 11% of its income – easier target are the rich who consume 89%and easierto reach!]**

Books on CSR by Michael Hopkins



2007



2003

Available LSE, Heffers, Amazon.com



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