

CSR: The Development Challenge

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*'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]*

'You cant contribute much to sustainable development unless you ensure that your own business is sustainable. CSR is the way to a sustainable future..' [Michael Prideaux, British American Tobacco, Speech at the World Tobacco Symposium, Kuming, China, 16th November, 2004]

1. Introduction

The business of business is business. So why should corporations be involved in development? The main proposition of the paper is that 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. So saying, as development has to take place and given that the private sector, particularly large corporations with their power and economic strength, has now been given its head, then should the private sector take much more responsibility for development than ever before?

The paper will develop the argument that CSR provides a platform for corporations to be involved in economic development in ways that can be much more powerful than has been thought of hitherto. Economic development means improving the well being of disadvantaged people wherever they may be. Most, of course, can be found in developing countries but many can also be found in developed countries or oil-rich countries – the deep south of the USA, the north west of England, the south of France around Marseille, the poor wretches in Turkmenistan, Uzbekistan; refugees in Saudi Arabia etc.

2. The Meaning of Development

'Development' itself is a much aligned term. Until the late nineteen sixties, development was considered by most economist to be the maximisation of economic growth. It was really only in 1969 that Dudley [Seers](#)² finally broke the growth fetishism of development theory. Development, he argued, was a social phenomenon that involved more than increasing per capita output. Development meant, in Seers's opinion, eliminating poverty, unemployment and inequality as well. Seers work at the University of Sussex was quickly followed by concerns

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² <http://cepa.newschool.edu/het/schools/develop.htm>

with structural issues such as dualism, population growth, inequality, urbanization, agricultural transformation, education, health, unemployment, basic needs, governance, corruption etc. and these all began to be reviewed on their own merits, and not merely as appendages to an underlying growth thesis³.

Despite Seers vigorous efforts, including the setting up of the influential Institute of Development Studies at the University of Sussex in the 1960s, Governments and their international arms, the international agencies grouped under the umbrella of the United Nations (which also includes the Bretton Wood's institutions the 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 backwards⁴.

3. Can corporations fill the gap?

Many corporations have adopted CSR, or variants thereof⁵. This adoption means that corporations are starting to address issues that, hitherto, they have ignored or, at best, paid lip service to

But, before addressing the issue of corporations and development, it is worth putting the power of corporations into context. Straddling the world, these large companies command immense power and reach – the biggest, in terms of revenues as of January 2005, is Wal Mart which is worth around \$US300bn and made \$US10.3bn in pre-tax profits in 2004. Most major Multi-National Enterprises (MNEs) are domiciled in the First World and are owned and controlled largely by citizens of these countries although ten of the world's top fifteen companies have their base in the USA (Table 1). There are Third World MNEs too, although numbers are small with only around 30 figuring in the Fortune 500 list of largest companies⁶.

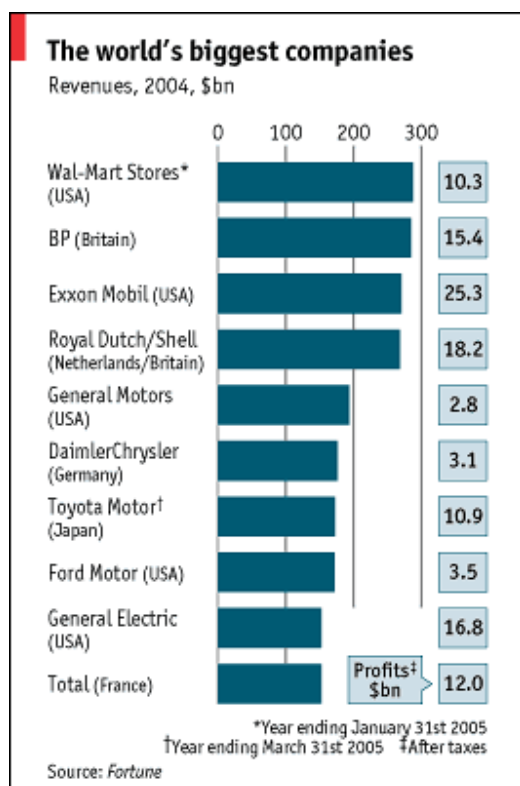
³ See for instance the discussion in Michael Hopkins and Rolph Van Der Hoeven Basic needs in Development Planning (Gower, UK, 1983)

⁴ Simon Caulkin, Sunday March 13, 2005, The Observer

⁵ Michael Hopkins CSR Matters in Development, (Earthscan, 2005, forthcoming)

⁶ Leslie Sklair & Peter T Robbins, 'Global Capitalism and Major Corporations from the Third World', *Third World Quarterly*, Vol 23, No 1, pp 81–100, 2002

Table 1: Size of top MNEs by country



These figures mean nothing on their own, of course, but note that the World Bank lends around \$US15-20bn a year while the annual budget of oft-cited UN agencies such as the ILO is only ¼ billion dollars. Either figure is microscopic compared with the power and wealth of the largest corporations.

However, there is no doubt that nation states will continue to be the power of last resort. Simply because they have the power to tax and allocate huge resources, they can veto MNEs more than the other way around (in industrialised countries at least) and they can pass laws that MNEs, at best, can only hope to influence but not create and implement. A further aspect is also worth re-iterating, and that is that one cannot compare revenues or sales of a company with the GDP (or GNP) of countries. Like with like must be compared. GDP is value added and the parallel with companies is revenue less costs. The main indicator of the latter is, of course, profits⁷. Yet even one company, Microsoft, made around \$US12 billion in fiscal 2005 on revenue of about \$US35bn – not far from what the World Bank lends in a year and dwarfing the development funds of the United Nations. Although when properly measured, even the GDP of Bangladesh which ranks about 50th by GDP, is actually bigger than General Motors⁸.

⁷ Not just profits since MNEs can allocate many 'costs' as they will – large payments to shareholders, director's remuneration, investment in assets both physical and human etc.

⁸ Michael Prideaux, op.cit.

A large portion of world trade – figures vary but some estimates put this at 40-50% – is conducted either within the walls of MNEs or at their behest. Their role in development has only recently been acknowledged since only until relatively recently corporations were thought to have as their main focus the maximisation of corporate profits. To date, corporations have been generous in philanthropic giving – witness the large amounts dedicated and raised for the victims of the Asian tsunami. Around \$US400 million was donated by corporations in the USA in only a few weeks in early 2005⁹. In the UK, according to the London Evening Standard, about \$US15mn was contributed by corporations – such as \$US3mn from the giant Swiss bank, UBS, which set up a UBS Tsunami Relief Fund to bring together individual contributions from staff and clients worldwide. In fact¹⁰ the 500 largest global corporations in 2004 took a record \$7.5 trillion in revenue and earned \$445.6 billion in profit. If MNEs (Multi National Enterprises) followed Governments and contributed even a modest amount on the lines of the 0.3% of net income this would have allocated \$13.37 billion for development. But why should they and anyway philanthropy is not the same as development – more on this below.

So size alone shows, based upon figures for 2004 alone, that MNEs can be a powerful engine for development if, of course, this can be shown to be in their interest *and* they have the wherewithal to go about development. Both these topics will be discussed below, the former under the business case for MNEs in development and the latter under CSR.

4. Really failed?

So far it has been stated that Governments and their main instruments such as the UN have failed in tackling under-development. Of course, the quick retort is that Governments should shape up along with the international organisations. There is a lot of truth in that argument but, unfortunately, it is one that has been attempted ever since the United Nations was set up in 1948. The UK/s approach, for instance, is still one of ‘accountability and transparency’¹¹, a mantra that no-one can dispute but one that has been going on for so long that the UN and its agencies have more and more difficulty in acting simply because every action is now double and triple checked. Paralysis cannot be far away.

⁹ According to tally on the Web site of The Chronicle of Philanthropy trade newspaper
¹⁰ Riva Krut: “Understanding Corporate Social Responsibility after the 2004 Pacific Tsunami: an argument for a financial target for MNE contributions”, Cameron Cole, New York, 2005

¹¹ When the Minister of State for Work and Pensions was pressed recently by the author to explain why the UK, along with the USA, had vetoed the ILO budget he explained that it was because there was a need for more ‘transparency and accountability’ because there was too much waste. In principle this sounds fine but in practice these simple ideas drive the organisations into the ground through giving more power to the bureaucrats to control and less to the innovative thinkers.

The assumption, especially after the Iraq 'oil for food' scandal is that the UN and its agencies cannot be trusted and, when they can, are inefficient. This does not mean that everything they have done is worthless. Far from it. It is just that the effort has been miniscule in comparison with the resources and technology required.

There is, however, a glimmer of hope that Governments may start to take development more seriously than ever before. The UK Government placed the problem of under-development as one of the two key issues in the G8 meeting held in Gleneagles in July, 2005. It has addressed at least one part of the problematique, that of impoverished nations having huge debts to pay. But the fact remains that the proportion of GDP going to development from the rich nations has been stuck at around 0.3% ever since the target of 1% was set.

The USA, for instance, only spends 0.16% of its GDP on development and much of that goes to Israel and Egypt. Curiously the US public are convinced, in general, that its Government spends 25% of its budget on development aid! When Mayor Giuliani was elected for the first time in New York a few years ago, he wanted to turn the UN building into an hotel. His aides pointed out very rapidly that if he did then the east side of New York would have to close many of the existing hotels and restaurants because the business from the UN was so important. Rough calculations show that for each dollar spent by the US on the UN, it receives \$US3 back from spending from all the conferences and international travel involved in the UN and its many meetings. Further, it was pointed out to Mayor Giuliani that the budget of the New York health department was bigger both in terms of people and expenditure than the United Nations overall budget serving over 200 countries around the world!

The sum proposed by Gordon Brown to settle the debts of some impoverished African countries was significant at \$US55bn. Under the deal, the World Bank, the International Monetary Fund and the African Development Fund will immediately write off 100% of the money owed to them by 18 nations - a total of \$40bn. UK Chancellor of the Exchequer Gordon Brown said up to 20 other countries could be eligible if they meet strict targets for good governance and tackling corruption. The total package - which needs to be approved by the lending institutions - could be worth more than US\$55bn. However, much of that is re-scheduling of debts and not much new money is available. It is also only 20% of the market capitalisation of General Electric..just one of hundreds of MNEs. Further, many banks and investment brokers have been earning large fees in lending this money to the third world and receiving interest when the less honest third world politicians and their cronies transfer their own profits to the banks and financial institutions abroad. There is certainly a smile on the face of Swiss bankers – shares of the largest Swiss bank UBS rose 5% over May to June 2005 – partly due at least to the fact that many of their African clients now have deposits but no debts!

5. New way could be CSR

Given the rise in prominence of CSR, is there now more mileage for corporations to be more involved in development than hitherto? There is more interest from corporations than even a decade or so ago in being involved in development. Although much of this interest to date has been in philanthropy (charitable giving) rather than development per se. And, as discussed next, development is a wider concept than purely philanthropy. Development projects are much more complicated than charitable donations that hand over cash directly for a school or hospital however welcome these seem to be. Development means working with local partners as well as the public institutions to create sustainable projects. Much of development, and probably the most effective albeit unsung, is purely creating capacity since the best development projects are those which help people to help themselves.

Clearly, corporations are not experts in 'development' and tend to make many of the mistakes that were made in the post-Second world war crusade against under-development by aid agencies. Stories are legion of companies providing direct grants to projects that are unsustainable or simply allow host Governments to feather the nests of the most corrupt among them. For instance Coca Cola funded an hospital in Mozambique, it was beautiful, modern, latest equipment etc. When Coca Coal executives returned to the site a few months later the hospital was being used as housing for the many homeless people and much of the equipment had been 'sold'.

Moreover, given the power and size of corporations, and the private sector, in general, coupled with the failure of public institutions, corporations *must* be involved in development. Clearly, to move the case forward, large corporations must also see that there is a business case to be involved in development. The business case for MNEs to be involved in CSR has been made¹². But involved in development too?

To suggest this case let's look at CSR in more detail. The attraction of CSR is that it is a systems approach, according to Clark *et al* (1975) which states that the problem is defined and the systems boundary delineated so that all important influences on resolving the problem are taken into consideration to the issue of business in society. Many of the criticisms, as will be seen, stem from problems with concepts and definitions. Now business, in general, is more concerned to stay in business and be profitable than to be concerned with such seemingly academic discussions. This is unusual, since business is usually a stickler for detail - a company can hardly prepare accounts, sell pharmaceuticals, computer software, copper tubing or whatever without knowing exactly the definition of the product they are selling.

¹² See for instance, Michael Hopkins and Roger Crowe *Corporate Social Responsibility: Is there a business case?*, ACCA, 2003 see http://www.accaglobal.com/pdfs/members_pdfs/publications/csr03.pdf

Yet, somehow, management concepts are manipulated at ease to fit in with one pre-conceived notion or other that will please the chairman or the companies' shareholders. This translates into a confusing set of definitions for the same concept. For instance, some define CSR as a systems approach taking into account both internal and external stakeholders, while others define it as purely voluntary. This confusion leads to a proliferation of terminology in the business in society area – corporate sustainability, corporate citizenship, corporate responsibility, business responsibility, business social responsibility, business reputation, the ethical corporation, and so on. However, without a common language we don't really know that our dialogue with companies is being heard and interpreted in a consistent way. These flaws lead some companies to consider CSR as purely corporate philanthropy while others dismiss the notion entirely. But there are some such as Shell, BP-Amoco, Co-operative Bank etc. that see CSR as a new corporate strategic framework.

The definition that is appealing is the stakeholder definition:

CSR is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. The aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for its stakeholders both within and outside the corporation¹³.

Indeed, this definition begs the question what is meant by 'ethical' and what is meant by 'stakeholder'. Without going into a long discourse on ethics, ethical behaviour is clearly in the eye of the beholder and, like beauty, we know it when we see it but find it difficult to define. Who are the stakeholders of a company has also sparked intense debate but, at minimum they include those *within* the company: the board of directors, shareholders, investors, managers and employees; and *outside* the company: suppliers, customers, the natural environment, Government, and local community.

The definition, of course, does not link directly into why corporations should be involved in development. Although it does note that the key stakeholders outside of a company – the Government, the environment, the community, its customers and suppliers - must be involved as much as its own employees or shareholders. So why should corporations be involved in development?

6. Corporations have always been involved in philanthropy (development?) so what's the difference with CSR?

Corporations have always been involved in one aspect of development, that of philanthropy. One of the leading thinkers in corporate strategy even believes that CSR is simply philanthropy. Michael Porter writes *Corporate philanthropy – or*

¹³ Michael Hopkins: *The Planetary Bargain: CSR Matters* (Earthscan, London, UK, 2003)

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. [Michael Porter, <http://www.ebfonline.com/debate/debate.asp>]. However, the view expressed here is that even Michael Porter is not on the right track. When even an internationally respected management guru mentions philanthropy and Corporate Social Responsibility as being the same, it is hardly surprising that business leaders, academics and politicians confuse them. Corporate social responsibility (CSR) is **NOT** the same as corporate philanthropy.

Moreover, BAT have noted¹⁴: *..some views about how business may contribute responsibly to sustainable development seem over-focused on philanthropy. If BAT has one key insight into CSR, it's about how you make your money, rather than how you spend it.'*

As stated above, CSR is a system-wide concept that touches all the stakeholders of a corporation. CSR, as defined here, does not concentrate on only one stakeholder whereas philanthropy, "the practice of performing charitable or benevolent actions" does. Most, if not all, philanthropy is devoted to items that Governments should be doing [health grants to developing countries, help to the handicapped, drugs for HIV/AIDS for example]. And their failure should not be the preserve of corporations. However since Government is one of the stakeholders of a corporation there is nothing to stop corporations offering their management and technical skills to Government to improve or introduce programmes to help vulnerable groups. Corporations exist to make profits. There is nothing wrong with that, only the way profits are made is the concern of CSR practitioners. Philanthropy does little or nothing to help companies make profits, while *all* CSR activities are linked to improving a company's bottom line.

CSR is before profit

One of the confusions over defining and acting upon corporate social responsibility (CSR), according to Professors Young-Chul Kang and Donna Wood of the Katz school of business in the USA, results from a flawed assumption that CSR is an *after-profit* obligation. This means that if companies are not profitable they do not have to behave responsibly!. They say *'in the extreme, if all firms are affected by severe economic turmoil or are run by lazy, short-sighted managers, then societies would have no choice but to accept pollution, discrimination, dangerous working conditions, child labour etc.'*

Embedding socially responsible principles in corporate management is what the two authors call a *'before-profit'* obligation. They cite corporations who embody these ideas and see the trend accelerating. For instance, in 1950 Sears' CEO listed four parties to any business in order of importance as 'customers, employees, community and stockholders'. For him, profit was a 'by-product of

¹⁴ Michael Prideaux, op.cit.

success in satisfying responsibly the legitimate needs and expectations of the corporations' primary stakeholder group'. By the 1980s, Levis even repurchased its stock in the public market under the rationale that stockholder's interests might limit the firm's effort to be a socially responsible organisation. And, Migros, of Switzerland, funds its cultural and social programmes not by profits, but by gross sales, so that profitability does not influence the firm's level of involvement.

CSR is sustainable, philanthropy is not

CSR is sustainable in that CSR actions become part and parcel of the way in which a company carries out its business. Its links to the bottom line of a company must be clearly laid out simply because, if it does not contribute to the bottom line, it will eventually be rejected by hard-nosed directors and shareholders.

Philanthropy is whimsical. It simply depends on the whims of the company directors at a particular time. Many NGOs receive their funds from corporations and carry out excellent work. Rather like Heineken beer, most NGOs carry out programmes that other programmes (mainly Government ones) can't reach. But NGO interventions are based on a scatter gun approach and are *spotty*. They can intervene wherever they like. Governments, on the other hand, have to intervene everywhere or nowhere. Better, much better, for a company to assist a Government in making its contributions either nationally, or internationally, more efficient and appropriate. This then ensures widespread, and even coverage.

Is sponsorship philanthropy?

Corporate sponsorship is different from corporate philanthropy. Sponsorship is a business tool used by companies as part of their communication, advertising or PR budgets to associate the corporation's products and services with dynamic images for their customers' consumption. Sponsorship usually requires a service, or action, in return for financial support, so this frequently has clear marketing benefits and is therefore directly linked to a company's bottom line. Sometimes, this may indeed be for good causes such as supporting UNICEF to associate the company's products with reducing child labour around the world. Philanthropy does not necessarily ask for a definite service or action in return and it is certainly not usually based on a business relationship or partnership. On a personal level, this is like responding favourably to the postal requests made by the major charities. Yet the line between philanthropy and sponsorship is difficult to draw and there are many grey areas – but better to have a clear sponsorship potential than a fuzzy charitable action that is more than likely to be unsustainable.

In concluding this section, here are some actions that could be considered:

1. Companies should abandon all philanthropy which is outside of a CSR framework.
2. Companies should work hand-in-hand with Governments to promote economic and social development.
3. Government should help those people who cannot be helped to help themselves through a subsidy. Government should look after vulnerable groups and not just await the whim of corporate philanthropy: if a charity fails because a company fails then this is a disaster for all the vulnerable groups and people concerned.

In the end, a company that is philanthropically generous but is not aware of, or engaged in, its broader CSR role will not be in business for very long. In this I agree fully with one point of Michael Porter:

If companies are just being good and donating a lot of money to social initiatives then they will be wasting shareholders' money. That is not sustainable in the long-run, and shareholders will quickly lose interest.

7. But why corporations and 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?

The subject is controversial and even supporters of CSR draw the line at companies being too greatly involved in development. Indeed, even prominent development experts such as Paul Streeten, argue that companies are best left to their own devices. Streeten says: *only companies operating under near monopoly conditions could accept social responsibilities and continue to remain in business, unless they were able to put sufficient pressure to bear on their suppliers, competitors and contractors to follow suit.* This view is supported by right wing think-tanks such as the Institute for Economic Affairs in the UK, and its Director General, John Blundell, wrote: *when it comes to issues vital to business, such as deregulation or liberalization, CSR advocates are uniformly silent, leaving one with the sense that the concept is nothing other than the ashes of the debunked and defunct view that the state should direct the economy*¹⁵.

As CSR gradually becomes embedded in large companies, the mixture of prediction and advocacy I made five years ago in my book *The Planetary Bargain* are gradually becoming achieved, much quicker than I could have imagined even those short years ago. In my book my thesis was that CSR represents the decent treatment of stakeholders by the company. Nothing revolutionary in that but the main point was that beggar thy neighbour policies by companies racing to the bottom to site their production in the location with the lowest common

¹⁵ John Blundell, 'Corporate Social Responsibility poisons market', IEA, London, 2004

denominator in terms of wages, worker conditions, shoddy products, outrageous demands on the environment, willy nilly corruption of local officials, disrespect for the human rights of its workers and local communities would simply be a poor strategy.

The obverse strategy where CSR was observed would mean that everyone would benefit – consumers would be able to earn adequate wages to purchase the products they produced, the environment would improve and create less drag on the company and its surrounds, improved governance would reduce transaction costs, human rights policies would provide dignity to workers and communities and improve productivity in local outlets and facilities etc. Thus companies who refused to follow the socially responsible path would be ‘outed’ by a massive response from the invisible hand of consumers all over the world. This response would be fuelled by globalising technologies and the spread of information whereby few secrets can be held for long, even in the remotest locations.

The CSR route can be attractive simply because the CSR movement has shown companies that their responsibilities do not lie simply in making profits, what is important is *how* profits are made. Once responsibility is accepted, the anticipation is that companies will move to *Corporate Social Development*. Such a concept is more action orientated than CSR per se, and includes social actions for all stakeholders. Note that my CSR definition has a wide definition of social that also includes environmental, financial, governance and economic concerns as well as those that are also normally considered ‘social’.

There are at least nine benefits from CSR that will both improve their bottom line *and* help to resolve the problem of under-development and poverty.

CSR benefits from corporations being involved in development are:

1. Reputation is improved since it is built around intangibles such as trust, reliability, quality, consistency, credibility, relationships and transparency, and tangibles such as investment in people, diversity and the environment.
2. Access to finance is greatly improved as socially responsible investment (SRI) becomes more and more important. The creation of new financial indexes is also supporting these trends for example FTSE4Good and the Dow Jones Sustainability Index (DJSI) are publicly ranking the major international companies according to their environmental and social performance.
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. Given that 80% of the value of many new economy companies is

now their intellectual capital its preservation through the positive treatment of internal stakeholders is becoming more and more necessary.

5. Better risk management can be achieved by in-depth analysis of relations with external stakeholders. Factors such as new technologies, changing societal, regulatory and market expectations, drive companies to take a broader perspective when analyzing the range of risks they may encounter.

6. CSR positively helps in the building of relationships with host governments, communities and other stakeholders and can be of vital importance should the company encounter future difficulties with regard to its investment decisions. 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 and the perceived role of business in this process. Those companies perceived to be socially responsible are, more and more, those companies of consumer choice.

8. The energy, technology and management skills learned and honed in large companies are increasingly being made available for the management of poverty alleviation through such instruments as the UN's Global Compact, Business in the Community, private and public partnerships etc.

9. There is a 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.

Of course, there are costs and limitations of the CSR approach and the idealisms behind the approach can also hinder its spread as hard-nosed businessmen try and squeeze every ounce out of cost cutting and profit maximization. But, as the classic study *Built to Last*¹⁶ has shown, CSR companies perform better for shareholders in financial and market terms, carry less debt, and are long stayers.

8. What are the main actions that corporations could take to enhance corporate social development?

There are actions both within the MNE itself touching its internal stakeholders and actions outside of the MNE reaching toward its external stakeholders. Most, if not all, of a MNE's actions affect development in some way. Some more than others, of course. For instance, good governance of a company written and applied in a code of conduct for boards of directors will impact on development more marginally than direct community level interventions. Although clearly, a company policy at board level to assist development would be no bad thing.

¹⁶ James Collins and Jerry Porras: *Built to Last*, Century, 1994.

A MNE looking at its involvement in development could approach the issue in one or more of three main ways. 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

The argument in this paper is that the third approach is in the long-term interest of MNEs and, of course, is crucial for development to move faster than it has to date.

So, what could the key areas of MNE involvement in development be?

8.1 Development actions inside the company

1. The adoption of a fully-fledged approach to CSR within a company has a number of benefits. The demonstration effect of good internal CSR policies should not be forgotten even though these are indirect and hard to measure. CSR policies inside a company can be a lightning rod for other companies both in the location where the MNE is based as well as its overseas locations. CSR also makes good business sense in multifarious ways. For instance, consumers develop a higher degree of identification with companies having good policies and practices..

2. Companies which maintain environmental and health standards; propagate transparent business practices; protect human rights at the workplace; and work against corruption are widely respected and appear as more attractive to shareholders, reduce the possibility of industrial action and maintain a working environment that leads to higher worker productivity.

3. A strong anti-corruption culture needs to be built within the organisation through active support from the senior management. Today, anti-corruption is widely discussed both inside companies and in their dealings with the outside world. Companies, too, see the overwhelming advantages of good governance in the countries where they work overseas and, in particular, the advantages of working with a Government that is implementing anti-corruption policies. Much corruption occurs between external sources of finance and the host Government. Thus it takes two to tango on the anti-corruption front. The line between corruption and accepting small gifts or hospitality is sometimes blurred. On the larger stage, many companies are almost forced to pay bribes or kick-backs to win contracts. And this is not only the case in developing countries,

industrialised countries have also not been blameless as we know with the Enron scandal, the Credit Lyonnais scandal affecting top Government officials in France, Volkswagen in Germany and so on. Even a single dubious payment can come back and haunt a company down the line. Just like payments to blackmailers, once started the web of deceit and intrigue can be hard to break. Thus, each company should have a set of guidelines and business principles which must be followed by all staff. This code of conduct needs to be followed at all national and international offices which the company may have. Local business practices and culture must not influence or change the organisation guidelines. The system of internal communication and training has to be strengthened to keep all staff aware of the policies and principles.

4. Create a vision statement on how the MNE can (and does) assist in development. This does not mean simply listing a number of philanthropic activities that the company intends to carry out. Development requires careful thought on how, once an injection of funds has been made, development initiatives can be sustainable i.e. continue without the requirement for additional funds. Too often, company development initiatives have been dominated by generic global initiatives that are not tailored to suit specific circumstances.

8.2 Development Actions outside the company¹⁷

1. Private Sector Participation for Poverty Alleviation: There is not an awful lot a company can do to reduce national poverty itself. However, working with National Governments to work out how best the private sector can stimulate economic growth for poor people is in the interest of both the Government and the company. In addition, public-private partnerships for tackling man-made or natural disasters can also speed-up reconstruction activities.

2. Improving people's skills in a myriad of ways is undoubtedly the best way to create development. Education, training, skill development, capacity development are all aspects of the same issue - improving human skills. MNEs with their wealth of experience in in-house training, have an enormous amount to contribute. At minimum MNEs could be involved in national training policy to ensure the private sector needs are incorporated in Government training plans. It may be surprising to some but many Government training schemes in developing countries have little contact with private sector needs. MNEs can also set up, perhaps in partnership with others, courses and organisations to create sorely needed skills.

¹⁷ Asia conference on MDGs under the framework of the UN Global Compact: GLOBAL COMPACT REGIONAL CONCLAVE, 8 March 2005, Jamshedpur, India
http://www.unglobalcompact.org/content/NewsEvents/mdg_bus/mdg_jamshed.pdf

3. Small & Medium Sized Enterprises (SMEs) are where most new employment occurs in developing countries. MNEs have a role to play either directly through assisting SMEs to improve their management, marketing, technological and financial skills. Or indirectly through ensuring that SMEs as suppliers are not subject to complex contractual paperwork and, once hired, are paid rapidly.

4. Helping people to help themselves is a key mantra to encourage development. Assisting budding entrepreneurs, or even existing ones through mentoring can help launch new businesses, improve existing ones or even assist Government departments to improve their efficiency.

5. Essential, of course, is to invest in developing countries and work toward allowing their exports to be freely imported into the rich countries – a huge and controversial issue that will play out for many decades to come. Will not these new imports hurt local markets in industrialised countries where the MNEs are located and many of their staff? Again, an issue that is being discussed vigorously in the development literature right now. The author's view is that the rich countries will innovate quicker than the LDCs simply because of their higher level of skills and continue to move into brain intensive knowledge industries. As the LDCs start to move into these markets too, the economic growth that is being created will allow room for many and there is no particular reason for unemployment to rise drastically, but that is another story.

6. To many, CSR is simply working with the local community. Clearly, improving local conditions is in the interest of MNEs to enhance reputation and preserve harmony. Assistance to local communities can also help to improve purchasing power that leads to an expansion in the market size. But these actions are not as easy as they seem on the surface. Three questions not easily answered are: Where does the role of the MNE start and stop vis a vis the local community? What are the key issues to be involved in? Should MNEs be involved in human rights and, if so as many think, what are the limits?

7. Philanthropy has always been a big part of MNEs actions in LDCs. But few philanthropic actions are sustainable – not to be confused with environmental sustainability - in the sense of once the project has finished will the project and its related activities continue? As discussed in above, this author is very skeptical of philanthropic activities. The test of a 'philanthropic' project is that the intervention must lead, as far as can be judged, to a sustainable i.e. developmental result.

8. Development assistance is key in many countries. This would best be done with existing development agencies such as the UNDP who have vast experience in development. Clearly, MNEs should not replace the UN nor Government's own efforts. Simply, the power and wealth of MNEs needs to be harnessed in positive development efforts. Should these efforts be in addition to the taxes that MNEs pay anyway? There is no easy answer. But many taxes that MNEs pay in developing countries are misused. A democratic Government

will tend to use tax revenue in ways that benefit its electorate so as to ensure re-election next time around. Yet most Governments in developing countries are not democratic. So should MNEs be involved in those countries and, if so, what should they do exactly? First, MNEs should evaluate their position based on existing relations with the Government. Clearly, if a host Government simply says how we use your taxes is none of your business then the MNE can decide whether to stay or leave. Second, where possible the MNE can, at least, assist the Government in ensuring that tax revenue is used effectively to promote development. MNEs have vast experience in tax issues and could well lend some of this experience to develop capacity (better governance) within Government. Third, when MNEs carry out their own development projects these should draw upon the development experience available in NGOs and local UN offices such as the UNDP. Fourth, MNEs are not the Government and obviously cannot, nor should not, carry out the major programmes of the Government such as education, health, security or employment systems. But MNEs can be involved as an agent of positive change through lending their expertise to improving efficiency in Government programme delivery. Fifth, if more than one MNE is involved in a developing country they should work together to ensure increased efficiency of development programmes in the host country.

9. But how much will all this cost? How much of its time and money should a MNE invest in any of the above-mentioned activities? There is no easy answer to this question. It is worth bearing in mind, however, that a MNE is involved in many of the above-mentioned processes as much as by default than a clearly thought out strategy. A MNE has to be continually involved with the host Government negotiating all sorts of deals from land acquisition to taxation to import and export. Often these discussions will influence Government policy and changes will be made. So what I am suggesting here, at least as a first step, is to place the myriad of discussions with Government in an overall development framework. The more transparency the better since the MNE will then be seen to be working in the country's best interest rather than colluding in smoke-filled darkened rooms. Thus, the MNE strategy in any particular country could be framed with a clear idea as to the benefits and costs of its intervention in terms of its own bottom line and, also, in terms of its benefit to development. Some of these are highlighted in the table below.

TABLE: Corporate Social Development in LDCs

Actions	Benefits to MNE	Disadvantages to MNE	Benefits to Development
1. Anti-corruption culture embedded throughout organisation	a. Reputation enhanced b. costs of delivery of services and products	More difficult to win contracts	Increased efficiency as poorly managed projects are eliminated and good projects properly monitored

	reduced		
2. New investment in LDC	<ol style="list-style-type: none"> 1. Take advantage of cheap labour 2. Closer to raw materials 	<ol style="list-style-type: none"> 1. Increased costs of ex-patriate managers and local training 2. Increased costs in management 3. Need to deal with host government and local institutions 	<ol style="list-style-type: none"> 1. Increased employment and incomes 2. Enhanced external trade position
3. Improving community relations	Reputation enhanced	<ol style="list-style-type: none"> 1. Increased costs 2. Increased criticism if badly designed 	Well designed projects can create sustainable development
4. Philanthropic actions	Reputation enhanced	<ol style="list-style-type: none"> 1. Increased costs 2. Will need to continue pay-offs if project design is non-sustainable 	One off actions are rarely sustainable
5. Development assistance	International reputation enhanced	<ol style="list-style-type: none"> 1. Accused of becoming a new United Nations 2. Entering unfamiliar territory 	<ol style="list-style-type: none"> 1. Obtain expertise from practical managers 2. More resources available than from international public sources 3. Less strings tied to development assistance
5. Capacity Development	Reputation enhanced	Few, if existing skills are used but there is management cost	Sustainable training can never be lost, essential for development

In a nutshell what could a ten point programme for MNEs involved in developing countries (and just about all MNEs are involved either directly or indirectly) be?

8.3 Inside the company

1. Develop a CSR strategy that includes an overall vision for the company's place in development. Decide what benefits and costs emanate from involvement in international initiatives such as the UN Global Compact, SA8000, ISO9000 etc.

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. If not, why not and then ask what steps should be taken to move toward this
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.

8.4 Outside the company

5. Work with the Government in host country to see how the Government's anti-policy policy can be enhanced. Work with local UN and NGO organisations to increase efficiency of development initiatives, including ensuring its tax contributions are used wisely.
6. Be pro-active in lending in-house training skills to a wider public.
7. Assist the creation and improvement of SMEs through the setting up of an advisory office and/or joining with other private sector or 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.

9. Concluding Remarks

So, can CSR pave the way for development? The short answer is yes. CSR has paved the way for corporations to examine their wider role in society in ways that have never been done before. CSR is a systems concept that touches every part of a company and has both positive and negative effects. The wide role of CSR coupled with the power and technological capacity of corporations coupled with the failure of most development efforts to date, provides additional impetus for corporations, and the private sector itself, to be more involved in development than ever before. Clearly, Governments will be the overall arbiter of development through the public purse. But their failure in many developing countries has provided an empty space that must be filled by another entity, and the only one around is the private sector and its champions, the large corporations. It is relatively easy to argue the obverse that corporations should stick to making profits and leave development for Governments. But this is a dance to the death, since the market left to purely profit maximisation has been unable to fulfil social roles such as reducing unemployment, creating primary and secondary education for all, tackling the major diseases of the Third World and so on. Only time will tell whether 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. But whether they will take on the wider challenge of development and how they will do this if they decide to go forward are still subjects of intense discussion.