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BUSINESS, CORPORATE RESPONSIBILITY, AND POVERTY

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background paper commissioned for the
UNRISD Flagship Report on Poverty

May 2008 ▪ Geneva

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1 INTRODUCTION

Are we asking too much to expect business to go beyond its conventional economic roles to become a more active, conscious, and accountable participant in the development process? Can business be a development agent, or by courting its involvement in areas such as poverty alleviation, are we extending an invitation we will later regret to a maverick element? What are the consequences both for business and wider society of the private sector becoming a development agent? Is it something to be welcomed for the additional resources and comparative strengths it gives access to, or is it something to be wary of because of how it might influence the development process, perhaps even the meaning of development itself? What does the field of 'corporate responsibility' have to offer in creating a bridge between conventional business agendas and poverty alleviation? Is it an effective way of reconsidering the private sector, and managing company strategies? What has been (or might be in future) its impact on the intended beneficiaries of international development efforts?

These are the key questions addressed in this chapter. Its starting point is not whether business has a role to play in economic growth, but whether business can be a development agent which consciously endeavours to deliver developmental outcomes (Section 2). To answer this, we need first to understand the different ways that business relates to poverty – as its cause, its victim, and its solution. The nature of that relationship affects business' response (what is required, and what is actually done), and I provide examples of private sector initiatives address different dimensions of the relationship, exploring both the achievements and limitations (Section 3). From this, determinants and characteristics of when and how business is managing poverty can be identified, and the impact of business' involvement can start to be understood (Section 4). What emerges from this mix of theoretical and empirical analysis are answers to what role business is playing in development, and more importantly the possibilities and limitations of that role in the future: the likelihood and circumstances under which business undertakes a developmental function, and – reemphasising a recurring theme of this book – is willing to be accountable for the outcomes (Section 5).

2 CONTEXT

2.1 Business as an agent of development

The subject of this chapter is how business interacts with poverty, and how that is affected by corporate responsibility. I use corporate responsibility in a broad sense, meaning quite simply the responsibilities private enterprise has towards society, including the economies, ecosystems, and institutions on which functional societies depend. It embraces both the defining of those responsibilities, and how they are acted upon, and hence includes corporate responsibility as an area of both social and management theory, and (as several examples in this chapter highlight) how these two fields interact and influence each other.

As we will see, business self-interest is a central part of defining responsibility. But for those liberal economic purists who advocate what is variously called the Washington Consensus and American Business Model, the very idea that companies should be mindful of their responsibilities to society is dangerous. It is argued companies exist to create value for shareholders, subject to legal constraints (Friedman 1962). By so doing, they contribute to the public good: creating jobs, supplying goods and services, and helping to fund necessary social institutions. Yes, companies have a social responsibility, but it is not something that needs special consideration because profit maximisation is a sufficient proxy for the various other contributions private enterprise can make.

Echoes of this argument can be heard in discussions about growth-driven development. If sustainable poverty alleviation depends on economic growth, then business as the primary creator of wealth has a central role to play. But should it be treated as a development agent, consciously striving to deliver and moreover be held to account for developmental outcomes? Or should it be considered a development tool, no more responsible for positive or negative outcomes than a hammer is for a carpenter's thumb?

When business acts as a development tool, the outcomes can be positive – creating jobs, generating wealth, meeting people's needs through the provision of goods and services. Two studies of Unilever's impact on the poor, and its economic footprint in Indonesia and South Africa respectively show the complex economic outcomes that can result from a multinational producing and marketing goods in developing countries (Clay 2005; Kapstein 2008). Simply by doing 'business-as-usual', the development tool may affect poverty more significantly than consciously attempting to engineer particular developmental outcomes (Newell & Frynas 2007). "*Whether it is altering the sustainability of local livelihoods or bringing cleaner production processes and improved technologies, displacing local industry or boosting it, fuelling war through investment in conflict zones or providing much needed resources to resolve such conflict, it is in the day-to-day management of the firm and through the taking of key investment decisions that development gains come to be realised or denied*" (ibid.: 674). However, the question is not whether business has an impact on poverty, but whether or not it can and should be accountable for causing, preventing, and alleviating poverty. For instance, the development tool might create jobs, but business as development agent takes responsibility for the number of jobs it creates, their location, and the quality. The development tool might make products available in poor countries, but the development agent makes products suited to the needs of and accessible to poor segments of the population.

In this chapter, we are interested in private enterprise as development agent: something that not only affects poverty, but is the subject of conscious actions undertaken because of poverty. The agent can be a company, an industry, an inter-company alliance, a multi-sector partnership, or any other entity where the actions of the private sector are influenced by an awareness of poverty. Our main interest will be company actions (e.g. by management or investors), but we will also explore how others such as international development agencies have influenced the private sector.

2.2 A brief history of business as a development agent

There is nothing new about companies being development agents. From the Dutch East India company in Indonesia to the British South Africa company in 1920s Zambia, private companies administered vast territories, and performed governmental alongside commercial functions. The expectations of companies shifts over time, and are shaped by all manner events. In Argentina, for example, what was good practice in the late 1990s, when increased foreign direct investment led to the widespread adoption of international social and environmental standards, came to be viewed as inadequate aping of Western practice in the wake of the 2001 financial crisis when local communities looked to companies to feed the hungry and invest in social development (Newell & Muro 2006). In Zambia, mining companies had operated within the framework of the racist 'colour bar system' to meet the social welfare needs of mining communities since at least 1929, but the responsibilities changed considerably with nationalisation of foreign-owned businesses in 1968. Nationalised mining firms and the new parastatals were given very clear social development mandates including job creation and subsidised services for the poor, but this changed again with the economic reforms of the 1980s (Noyoo 2007). In recent times, factors such as declining confidence in the state as a development agent, growth in private investment due to deregulation, the central role played by business in economic growth, and private sector delivery of developmental functions (e.g. utilities, health, education) have all served to broaden the array of expectations society has of business.

What these and other histories (e.g. Fig 2007, Robins 2007, Glover 2007) highlight is that while definitions of responsibility shift, the idea of companies having responsibility towards society remains constant. These shifts can create the impression that corporate responsibility is a fad. But more accurately they reflect the array of internal and external, local and international, social and economic, cultural and political factors that influence what constitutes the responsibilities of companies. One only has to consider the changing attitudes towards security of employment or corporate taxation to see how one era's expectations become controversial a generation later. While various overarching theories to define corporate responsibility have been proposed (e.g. Carroll 1999, Davies 1973, Berle & Means 1932), in reality the scope of corporate responsibility is set by, or negotiated within, the predominant political economic narratives of the age. At issue is not whether change happens, but how, and for whose benefit.

Despite the evidence that the responsibilities of corporations shift over time, corporate responsibility theory has failed to produce a substantive theory of change. The analysis other disciplines bring to business' relationship with society are not widely used in corporate responsibility theory (Levy & Newell 2002; Blowfield 2005). For instance, there is a considerable body of scholarship about business and international development, concerning areas such as corporate imperialism, and influence over newly independent post-colonial states (Newell & Frynas 2007), but it has not significantly influenced discussion about corporate responsibility and poverty.

There are exceptions such as Ruggie (2003) who draws on Polanyi's theory of embedded and disembedded economies to explain general shifts in the nature of the business-society relationship: "*[Corporate responsibility] may be seen as a voluntary effort to realign the efficiency of markets with the shared value and purposes that societies demand, and that markets themselves require to survive and thrive*." (cited in Nelson 2007, p 58) But more typically, the responsibilities of companies are presented as ahistorical and non-ideational. Shifts over time are treated as normative, and there is little attempt to explain why, for instance, the radical agendas of the 1930s have been replaced with something much less ambitious in recent times (Ireland & Pillay 2007). Absent any structural analysis of the business-poverty relationship, what we are left with is explanations of corporate responsibility as management practice wherein poverty is presented as a problem suited to technical, instrumental solutions.

2.3 Corporate responsibility as management practice

Khurana (2007) says that one of the most significant changes in business has been the role of the manager. He argues that the emergence of management theory as something to be taught in public universities was because of concerns that the relationship between business and society was being poorly and damagingly handled, and that managers needed to be educated to be arbitrators between the competing claims of different constituencies – what would now be called stakeholders. He goes on to say that this idea of management for the public good has been lost as managers have become “hired hands” serving the interests of investors.

When business is discussed as a development agent, and ascribed a role in combating poverty, this might be interpreted as a return to the idea of management for the public good. There are difficulties with this interpretation, not least that in important jurisdictions the corporate executive is legally obliged to prioritise the interests of owners. But setting these aside for the time-being, it is worth examining the challenges being assigned to management when it comes to business and poverty.

Kramer & Kania (2006) make the important distinction between ‘defensive’ and ‘offensive’ corporate responsibility. Defensive strategies are those intended to address a company’s vulnerabilities and external risks, help protect its reputation, and reduce its legal liabilities. The codes of practice used to manage issues from human rights to sustainable forestry are examples of defensive corporate responsibility. An important characteristic is that they address problems of business’ own making. Offensive strategies, by contrast, address issues where business is not necessarily being blamed. They involve companies in investing their resources and competencies, sometimes alone, sometimes in partnership with others. Funding the construction of a local school, or promoting the use of local entrepreneurs as suppliers are examples of offensive corporate responsibility. Defensive corporate responsibility is able to protect a company’s reputation, but does not distinguish it. Offensive corporate responsibility can distinguish that reputation, but does not protect it.

Most of the examples of corporate responsibility in practice used in this chapter can be described as either offensive or defensive. The four ways that business can affect poverty identified by Nelson (2007) - legal compliance; control of risks, liabilities, and negative impacts; charity and community investment; and creating new markets and social value – can be divided between these two categories, as can the options for engaging in poverty alleviation highlighted by the Center for Global Development (2007): compliance with standards, charitable giving, committing resources, fostering entrepreneurship, and advocating for development. However, there are limits to the usefulness of the offensive/defensive distinction. First, it explains why a company might want to respond (the instrumental value), but not what issues it should take responsibility for from anything other than a commercial perspective. Second, it does not adequately accommodate what we will see is a significant set of company responses where business is neither the cause of nor a solution to poverty, but where it is its victim (Section 3.3).

2.4 Business practice and theories of development

The distinction between defensive and offensive types of corporate responsibility tells us something about why companies choose particular approaches, but emphasis on the business rationale alone offers little insight into what business’ developmental role could or should be. The potential trap here is that the scope of companies’ responsibilities comes to be defined from within the framework of management theory, rather than that of development. Yet the development agent role can be constructed quite differently depending how we think about development. For example, Utting (2007) discusses the relationship between corporate responsibility and an equality/equity approach to development. If such an approach were used to inform business strategy, then the responsibilities of business would include aspects of social protection, rights, empowerment, and redistribution. Consequently, as part of a commitment to social protection, for instance, companies would exhibit responsibility in areas such as occupational health and safety, labour rights, security of employment, and social insurance. As part of a commitment to empowerment, companies would help mobilise the poor, and create opportunities for the poor to engage with business.

As later examples will show, current approaches to corporate responsibility as management practice are stronger in some areas than others. For example, for all the widespread adoption of core labour rights into the responsibility discourse, meaningful interventions have proved difficult, especially on issues such as freedom of association, and the rights of women. The redistribution element of equity is largely absent from corporate responsibility practice, even though returns to capital are outpacing returns to labour, and global demographic and climate trends make it imperative that issues such as economic opportunity, and social welfare are addressed (Utting 2007). Moreover, the role of business looks different again if one emphasises the rights-based, empowerment, or neo-liberal elements of development agendas. However, the distinct responses demanded by such differing ideas of development are often blurred in business-poverty discussions, something that can lead to unwarranted criticism and praise of the private sector's role (Bond 2006).

International agencies such as UNCTAD, UNDP, WTO, the World Bank, and OECD have set out various ways business can help alleviate poverty (Kolk & Tulder 2006). For example, the ILO highlights low wages and vulnerable employment as causes of poverty, OECD stresses the consequences of short-termism amongst multinational corporations, and their abuse of political and economic muscle, while UNCTAD concentrates on the importance of backward linkages, and embedding companies into local economies. UNIDO distinguishes between the substantive dimension to corporate responsibility (i.e. the particular issues that get addressed), and the process dimension (the ways business goes about addressing these issues, and identifying the boundaries of accountability) (Nelson 2007). Various international organisations emphasise the importance of this process dimension as a determinant of the effectiveness of poverty interventions, including support for the self-organisation of the poor at community level, a cognisance of local conditions, and cross-sector coordination (Kolk & Tulder 2006). For example, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy sets out both substantive issues (employment and security, education, health, and the general well-being of children), and process ones (helping the poor have a voice in their community and workplaces; respecting human dignity).

However, there is a mismatch between this kind of aspirational development agenda and what companies are actually doing as development agents. The array of substantive issues being addressed is incomplete, but is nonetheless more comprehensive than that of process ones which may not be included at all (ibid.). Various questions arise from this observation. Is it the case that business has an ad hoc poverty agenda, and if so how has that come about, and what are the likely outcomes? Can business be more effectively integrated into established agendas, and what would this take? Or is it that business is already part of an alternative poverty agenda, and what are the implications of this? We will explore these questions in the coming sections, but the distinctions are already evident in current debates. Easterly (2006) stresses the essential role business has to play in addressing poverty, but there are those who treat business' participation as a modification to established development models, and those who regard it as a distinct development approach. Government agencies such as Britain's DFID, for example, view corporate responsibility as a specific element of growth-oriented development, a way of ensuring that the benefits of private sector growth are more inclusive, equitable, and poverty reducing (Newell & Frynas 2007). In this interpretation, the private sector is one element whose role needs to be engineered, i.e. directed and controlled through a mix of incentives and regulation. However, business has also been portrayed as a developmental catalyst, and a determinant of the function of other institutions. For example, the World Business Council for Sustainable Development (2007) describes poverty in terms of lack of wealth, jobs, small enterprise, affordable education, economic success, and labour. Reflecting an ideological thread that runs from Hayek to Friedman to Easterly, WBCSD argues that business has a central role to play in providing the resources and technologies that will address these deficiencies, while the role of government should be to establish the framework conditions for business to play its role, and to enact policies whereby people can use the benefits of private enterprise involvement to create sustainable livelihoods.

3 THE BUSINESS-POVERTY FRAMEWORK

Irrespective of whether we consider business to be a development tool or a development agent, to have a bit-part or the starring role in tackling poverty, we need to understand that there are multiple facets to the business-poverty relationship. This is implicit in the distinction between the defensive and offensive approaches to managing corporate responsibility mentioned previously where companies adopt different strategies according to what they are trying to accomplish. However, if we look at business from the viewpoint of society, a two-dimensional model does not capture the variety of ways that business affects or is affected by poverty. To do this we need to give equal consideration to business as a cause of poverty, its victim, and a solution. In this section, I explore these three dimensions, examining the claims, and discussing examples of business as a development agent in consciously addressing the resultant poverty issues.

There is a fourth dimension that is not explored, but that is worth noting, i.e. that business is can be indifferent to poverty, seeing it as neither a threat nor an opportunity, but simply as something that is not factored into decisions. Thus, for instance, decisions about investment are not typically based on their impact on poverty, but what will bring the best return on investment. Sometimes poverty might be appraised as an opportunity in those deliberations (e.g. low labour costs), or it might be a barrier (e.g. weak