iied
International Institute for Environment and Development

OPINION
World Summit on Sustainable Development
FULL TEXT
2002

Corporate Citizenship - Revisiting the Relationship between Business, Good Governance and Sustainable Development

Halina Ward *IIED, UK* Nicola Borregaard *RIDES, Chile* Paul Kapelus *African Institute of Corporate Citizenship, South Africa*

Agenda 21 has not aged well. Today's agenda on business and sustainable development is both broader and deeper than that of the early 1990s. Eco-efficiency is still there, but 'corporate responsibility', 'corporate social responsibility' and 'corporate citizenship' have all become mainstream terms in sustainable development thinking. Specialist corporate citizenship organisations have blossomed; new management and accounting tools have been developed; and issues have emerged within the business and sustainable development agenda that were not there at the time of Rio - business and conflict; business and human rights; business and sustainable livelihoods.

In plenary session at the 1992 Rio Earth Summit, Stefan Schmidheiny, Chairman of the Business Council for Sustainable Development called for a bold new partnership between business and governments. '*Business must move beyond the traditional approach of back door lobbying: governments must move beyond traditional over-reliance on command-and-control regulations*'.[1]

Agenda 21, the non-binding policy document adopted at Rio, stressed the need for cleaner production and responsible entrepreneurship. The notion of eco-efficiency - producing more while using less - was hailed as the way forward for businesses that wanted to link environment and development.

No sector or business model has a monopoly on responsible corporate citizenship. Good practice can be found in the indigenous businesses of the world's poorer countries as much as in the rich North. Yet many of the drivers for change in today's international corporate citizenship agenda lie with the concerns of Northern consumers, multinational corporations, financial institutions, and international non-governmental organisations.

The basis for many of the ideas that we put forward in this paper is a bulletin board discussion that was hosted on the website of the Regional and International Networking Group between 18 February - 5 March 2002. A majority of the participants in the discussion reflected perspectives that drew on their experiences working with non-governmental organisations, communities and businesses in middle-income countries like South Africa, Chile and Pakistan. Most participants focused on the corporate citizenship practices of large companies.

We have drawn on the bulletin board participants' insights to outline some elements of an agenda for business and sustainable development in the South. We have not sought to offer consensus where there is none; but we see the forthcoming World Summit on Sustainable Development as an opportunity to take stock; to revisit the relationship between good governance, business and sustainable development; and to capture the best of the past decade's thinking on what a genuinely global partnership for sustainable development might achieve.

KEY CHALLENGES:

- **Create the space for a shift to a corporate citizenship agenda shaped more by Southern stakeholders**
- **Recognise that fostering social entrepreneurship is important for the well-being of societies**
- **Develop and disseminate of monitoring and measurement tools**
- **Arrive at locally appropriate definitions of the role of businesses as social actors**
- **Address the economic dimension of corporate citizenship by redistributing financial rewards along the production chain in key industry sectors**
- **Ensure that 'Type 2' commitments and corporate accountability are considered in a balanced way in WSSD**

Published by the ***International Institute for Environment and Development (IIED)*** *in collaboration with the* ***Regional and International Networking Group (RING).***
IIED's work in preparation for the World Summit on Sustainable Development (Johannesburg 2002) has been made possible by support from the ***Swedish International Development Co-operation Agency (Sida)****.*

The challenge of defining Corporate Social Responsibility

What is valued and defined as corporate social responsibility or corporate citizenship differs from one region or country to the next. The location of a particular operation and the socio political circumstances should always be taken into account in arriving at locally appropriate definitions. How companies engage in the social responsibility agenda is very much dependent on how they choose to define social responsibility. For example, many people argue that a business case must be made for corporate social responsibility, and that issues of regulation and compliance with law should not be considered part of the agenda.

> *Corporate social responsibility is the concept that an enterprise is accountable for its impact on all relevant stakeholders. It is the continuing commitment by business to behave fairly and responsibly and contribute to economic development while improving the quality of life of the work force and their families as well as of the local community and society at large*
>
> Khurram Naayab, bulletin board participant

From the business side, engagement with the corporate social responsibility agenda typically progresses through a number of stages (though not necessarily in a linear way). A first stage might be pure philanthropy, (sometimes equated with the term 'corporate social investment' in South Africa), when businesses support community-based activities through donations of money or 'in-kind' contributions to charities or civil society based groups. Among managers in Latin America [managers of what?], opposition to the term philanthropy and its association with charity has been reported: '*Charity is OK.. but it is something that belongs to the private behaviour of each individual, that is not part of the company's objectives, which are mainly the making of profits*'. And often, the term is associated with unwelcome paternalism as distinct from a more 'partnership-based' approach to engagement between companies and organisations that might otherwise be viewed simply as beneficiaries of philanthropy.

Beyond philanthropy - in a stage described as 'corporate social responsibility' by bulletin board participants from Chile and South Africa - companies may approach engagement with community development as a business activity that needs to be managed, for example by establishing a corporate foundation. Activities are then developed in a systematic way, and companies may begin to take on board principles of sustainable development and seek to secure partnerships with government agencies, NGOs and other civil society organisations. Monitoring and evaluation methodologies are integrated into community development programmes and consideration is given to the long-term sustainability of projects once company support has ended. These efforts, however remain within a framework of 'donor style' support to communities, without reference to the way the business itself is undertaken.

Beyond corporate social responsibility, (terminology that has itself now been rejected by some business people who stress the one-way implications of the word 'responsibility'), lies corporate citizenship. The practice of corporate citizenship involves recognition and strategic management of the full range of business functions with social or environmental dimensions. Making these links remains a challenge in many countries - and in many businesses, North and South.

> *It seems that the whole discussion about impacts on the community is environmentally-technically biased, leaving the 'fuzzy' social issues to voluntary initiatives.*
>
> Darinka Czischke, bulletin board participant

There is still a strong perception among many stakeholders that companies invest resources in the corporate citizenship agenda simply to influence public perceptions without really changing the way that they do business. The structural problems of power inequalities in the relationship between companies and their external stakeholders threaten genuine progress, as does the '*mistrust created by the appalling actions of a number of free riders*'. Mistrust in turn fuels a growing demand that companies should be more accountable to stakeholders, both internal and external, for their actions. How to achieve that accountability - whether through national or international law, company reporting on impacts, participatory management, or methods such as social auditing - is still a subject of hot debate.

> *..corporate social responsibility is not an alternative to profitability - or even necessarily in conflict with it. It is a WAY of doing business by which business managers 'internalize' externalities. When done well, this process generates greater profits - in the short term through innovation, in the medium term through reputation and in the longer term by creating new markets and anticipating new regulations*
>
> Faisal Shaheen, bulletin board participant

CSR Drivers

Understanding what drives corporate citizenship in different contexts is critically important to the future evolution of the agenda. Significant challenges remain in getting the right balance of incentives for business practice that make the best possible contribution to sustainable development.

Many advocates of corporate citizenship stress the need to make a business case for responsible behaviour, since businesses are likely to respond most quickly to incentives that sustain or enhance business success. Lack of clarity over the extent of the case for business success through corporate citizenship - or indeed its relevance to the agenda - is a significant threat to progress.

> *..there cannot be corporate responsibility without profit. We cannot negate the basis of a company's motivations. Its first responsibility is profits to its owners meaning most of the time shareholders and from there it can use corporate responsibility as another business tool. Corporate responsibility is related to profits as without them it cannot dedicate itself to corporate responsibility.*
>
> Ricardo Katz, Bulletin Board Participant
>
> *..various South African communities are very cynical about the 'do-good' announcements of companies whose primary goal is profit for their shareholders. For these rural (mining) and urban communities, the issue is about corporate accountability, in which these corporations must account to their workers and neighbouring communities for their actions - by providing access to information, access to justice, improved performance, and compensation for damages caused*
>
> Chris Albertyn, bulletin board participant

The table on the facing page highlights some of the other drivers that were addressed during the bulletin board discussion.

Risks and challenges

The practice of corporate citizenship has the potential to make a major contribution to sustainable development. But it also carries risks, some of which are particularly pronounced in developing countries. Others are common to the overall agenda and reflect the fact that it is still evolving.

Perhaps principal among the risks of the current corporate citizenship agenda is a failure to engage equitably with southern stakeholders. Very often, environment and sustainable development policies have been introduced to the South by multinational companies. When the take-up of these policies in developing country subsidiaries is nourished by head offices, biases towards home country, global or national concerns can result - at the expense of approaches that build directly on local considerations and priorities. The advocacy of international NGOs in international fora where local organisations are often missing has at times exacerbated these biases. Many stakeholders in the South feel that Northern NGOs have claimed and taken a leadership role for themselves, dictating terms without appropriate southern involvement. The engagement of developing country stakeholders in the development of the existing body of guidelines for responsible business behaviour has been limited.

Further challenges arise from the fact that the corporate citizenship agenda is itself uncertain. For example, little is still known about the real impacts of CSR practices on the ground. Development and dissemination of monitoring and measurement tools to accompany the contemporary corporate citizenship agenda remains an important challenge. Furthermore, the extent to which measurement tools such as social audits are useful is still unclear. Critically for advocates of voluntary approaches to corporate citizenship, the lack of measurement tools also holds back growth in support for voluntary approaches amongst NGOs and local communities.

> *I believe that the greatest challenge to the corporate responsibility movement is that it has not agreed on any methodology for evaluating success or failure*
>
> Elliot Schrage, bulletin board participant

If a large body of guidelines for 'responsible' business behaviour have been developed, few have acquired prominence in the markets that they seek to influence. In countries where adoption of systematic corporate citizenship practices is recent, companies are often not used to evaluating social and environmental aspects of their behaviour and independent studies are few and far between.

A second risk related to the inherent uncertainties of an immature agenda is more worrying. At the heart of the corporate citizenship agenda lies the task of defining and continuously re-defining the role of companies as social actors. The corporate citizenship agenda draws attention to unclear definitions of the role of business in society, and particularly the challenge of drawing boundaries around expectations of business engagement in civil society, government and industry.

CSR Driver	Significance to Developing Contexts
Personal ethics of individual entrepreneurs	In a number of instances it is the personal ethics of a CEO or another individual that drive the CSR agenda within a company. This alone cannot secure a sustainable organisational commitment to CSR since it depends on individual engagement.
Supply chain pressures from Northern trading partners	There is a greater move to adoption by companies of voluntary codes of conduct, driven by international financing requirements and head office reputation assurance. But there is yet to be a significant drive from southern companies to adoption of voluntary codes of conduct beyond a reaction to supply chain pressures from Northern trading partners.
Laws and regulations	Effectively enforced, law can be a significant driver of responsible behaviour. But although legal frameworks for environmental responsibility have been developed in much of the world, legal frameworks that require management of the social impact of business activities are comparatively undeveloped. In many developing countries, perceptions are strong that any kind of new regulation, standards or enforcement simply discourage foreign direct investment.
Public relations and reputation assurance	Public relations considerations and reputation management are among the strongest drivers for businesses engaging in CSR. On the one hand CSR is viewed by companies as a strategic tool for promotion of reputation and brand value. On the other hand, its potential to generate spin at the expense of real change is criticised.
Shareholder activism and investor relations	There is little experience of shareholder activism in the developing world. In the North, portfolio investors such as pension funds have traditionally been largely ignorant of environmental and social issues. Investors in the North are increasingly beginning to ask questions about the environmental and social practices of the companies that they invest in. Even so, even 'responsible' investors are still too reliant on limited voluntary company reporting and questionnaires filled in by companies themselves.
Social license to operate	The notion that businesses need to secure a 'social license to operate' from their stakeholders is widely touted as a significant driver for CSR. Increased time and expenditure in opening a new mine, demonstrable commitment to social advancement, and communication and co-operation with local stakeholders are among the requirements for businesses operating in the developing world.
Sustaining key aspects of the business	Enclave industries such as mining, tourism, plantations, and agriculture often view certain social investments as critical to the success of their businesses. Building clinics to treat workers, spraying to prevent malaria outbreaks, providing education and treating water are some of the social development projects that businesses undertake. Companies that undertake these activities may create 'islands of development'. But history has demonstrated that in many cases these islands are fundamentally unsustainable because they rest on the continued profitability and investment of the businesses that fund them.
Co-operation in development	There are increasing examples of co-operation, partnerships and legislation that promote opportunities for social development such as public-private partnerships, decentralisation and related policies such as Economic and Social Councils in Chile. It is becoming evident that so-called 'tri-sector partnerships' between businesses, NGOs and public institutions can promote more effective risk management and cost-sharing whilst contributing to CSR.
Improving the business as a whole	A recognition that adoption of CSR practices has the potential to add value to businesses operating in the South is critical. The business imperative to manage social issues in society such as HIV and AIDS needs to be recognised.

> *If we recognize the fact that governments and businesses are different types of institutions with different competencies and roles in society, I believe it would be a lot .. easier to define the boundaries.*
>
> Mokhethi Moshoeshoe, bulletin board participant

In most industrialised countries business activity takes place in the context of institutional and social networks that are, to a greater or lesser extent, well defined. Businesses are able to develop corporate citizenship practices within a well-defined social framework. In contrast, in many parts of the developing world businesses in general face weak public institutions and public policy frameworks, and a lack of financial resources. Poverty, limited training possibilities, and social organisations that are weak or very specific to their local context are common. Guidelines on corporate citizenship that are elaborated in industrialised country contexts cannot simply be transferred to these contexts.

Businesses need to arrive at a delicate balance between contributing to delivery of public goods and strengthening public institutions on the one hand, and taking over public functions on the other. Lack of strong local government structures and regulatory frameworks carry the risk that the corporate citizenship programmes of individual companies could drive out or become a substitute for public programmes to tackle social, environmental or economic issues. There is a risk too that public agencies in developing countries may view the privately financed construction of local health care facilities and corporate support for education and training as a substitute for public spending.

When companies interact with civil society based organisations, social responsibility has to be balanced carefully against the risks of civil society dependence on companies. Getting the right balance is only possible if all social actors are adequately empowered to participate independently in definition of local priorities and allocation of resources. In developing countries communities very often lack the level of organisation needed to have an impact on business practices. Support is required both to set up community organisations and to strengthen their voices as stakeholders. In this context it becomes absolutely essential for companies to build long-term relations with local stakeholders.

Power imbalances between companies and communities have to be tackled through public sector policies that, over time, foster the development of strong civil society. The Venezuelan corporate citizenship practitioner Yolanda de Venanzi puts it very clearly: '*Corporate citizenship initiatives should stress the promotion of programmes that fit the goals of enhancing productive social values and the participation of local stakeholders in social development*'.[2]

In many countries of the world, corporate citizenship has been pushed by non-profit organisations that have been set up by industry. Whilst these organisations have certainly contributed to promoting responsible business behaviour, it is important to differentiate them from the civil society based NGOs whose participation is vital for the monitoring and evaluation of CSR activities

Business leadership is certainly important in promoting the uptake of corporate citizenship practices in areas where they are not established. But an exaggerated emphasis on leaders bears the risk of creating a two-class business environment: businesses that practice corporate citizenship, and those that do not. The percentage of overall economic output from small and medium sized companies is extremely large in developing countries. Significant challenges remain to analyse what corporate citizenship means for small and medium sized companies in developing countries and to begin to apply the concept more systematically in this context. Corporate citizenship must not become restricted to business elites; it must not become an agenda that favours the interests of large corporations over smaller businesses that operate at the level of the 'human economy'.

Re-orienting the agenda

A corporate citizenship agenda that was shaped more by the insights and views of organisations in the South might look radically different. Creating the space for such a shift to take place will mean building the rights and the capacity of civil society and especially community-based organisations to engage more effectively with companies of all sectors and sizes even in the face of economic power imbalances. It will mean viewing poor people not as objects of corporate citizenship, but as key partners in its realisation. It means designing monitoring systems for the local community, not only for shareholders or international investment groups. It might mean rejecting the tendency to seek harmonisation in standards for responsible business behaviour beyond a minimum baseline below which no company anywhere in the world should be allowed to fall. Instead, the corporate citizenship agenda of the future could mean celebrating diversity in values and in regional distinctions in business practice.

There is a recognition too that fostering 'social entrepreneurs' and 'social entrepreneurship' is important to the overall health and well-being of societies. Social entrepreneurship can build shared values, rooted locally, that can in turn inform the business world, generating new models for sustainable entrepreneurship that reflect more directly the values of the communities in which they are based.

The economic globalisation agenda and its critics have themselves been major drivers of the contemporary corporate citizenship agenda. Economic liberalisation punishes uncompetitive 'sick' firms and sectors without placing any inherent value on indigenous entrepreneurial activity. Critics of economic liberalism argue that increasing the health of the domestic sector, rather than feeding the labour resource needs of foreign investors, should be a priority. For many stakeholders based in developing countries, these kinds of considerations - the architecture of economic liberalism - deserve to be centre stage. But the connections between the arguments of economic globalisation critics and the corporate citizenship agenda are often not made. The rhetoric of corporate citizenship is principally about encouraging best practice. Censorship of bad practice is considered taboo in many corporate citizenship circles.

Corporate citizenship - under the umbrella of sustainable development - has an environmental, a social and an economic dimension. The 'fourth pillar' of sustainable development - governance - underpins all of these. But so far the economic dimension of corporate citizenship has not received nearly as much attention as it deserves.

> *...What we also need to .. demand of TNCs is that they display that they are knowledgeable and sensitive to the indigenous needs of the market through their market penetration and development strategies. Otherwise, loan pushing and the project implementation of white elephant projects will continue.*
>
> Faisal Shaheen, bulletin board participant

The brand value that generates so much of the 'business case' for corporate citizenship often rests on the intermediaries in rich countries. Marketing and branding professionals in the North and the value added that their activities generate help to sustain the business case for responsible behaviour. Full recognition of the economic dimension of corporate citizenship might call for redistribution of financial rewards along the production chain.

Will Johannesburg be able to deliver the radical rethink that may be needed? The emphasis on so-called 'Type 2', partnership-based commitments for implementing the core themes of WSSD is an interesting innovation. But more difficult issues in the contribution of the private sector to sustainable development - such as the theme of corporate accountability - look set to be sidelined. Both need to be considered in a balanced way if WSSD is to deliver what it could deliver: a new deal that moves discussion on the corporate citizenship agenda and its links to economic globalisation to the South. ●

---

1 Cited in Timberlake, Lloyd 'Changing Business Attitudes', in IIED, Earth Summit '92, Regency Press Corporation, 1992

2 In a 'Special Issue on International Perspectives of Corporate Citizenship' in The Journal of Corporate Citizenship, Issue 5, Spring 2002

Contact: Tom Bigg, WSSD Coordinator, IIED
3 Endsleigh Street, London WC1H 0DD
Tel: 44 20 7388 2117 Fax: 44 20 7388 2826
Website: www.iied.org
Email: wssd@iied.org or info@iied.org