Development, **2004**, **47**(3), (29–36)

www.sidint.org/development

Corporate Social Responsibility and Development: In quest of an agenda

TOM FOX

ABSTRACT *The contemporary CSR agenda is skewed by the dogma that often limits it to voluntary business activities, by its domination by actors in the North, and its focus on large enterprises. Tom Fox argues there is an urgent need for a more development-oriented approach that focuses on the enabling environment for responsible business in the South and that brings the economic and equity aspects of sustainable development to the forefront of the agenda.*

KEYWORDS *enabling environment; responsible business; sustainable development*

The need for a renewed agenda on corporate social responsibility and development

The Corporate Social Responsibility (CSR) agenda has an ambiguous relationship with international development. It is regarded by some as a vehicle through which the private sector can contribute to poverty reduction and other social objectives, which will not be achieved by governments acting alone.[1] But the agenda has also attracted criticism for being insensitive to local priorities and potentially harming prospects for sustainable livelihoods in the South. Furthermore, some influential civil society players are increasingly frustrated with the limitations of an agenda that often defines CSR as a voluntary activity.[2] If this disquiet leads to a withdrawal from the agenda – arguably, just as it is maturing – it runs the risk of rejecting the notion that the private sector has a constructive role to play in achieving sustainable development at all. There is thus an urgent need to renew and reshape the agenda, through a more holistic and development-oriented approach to CSR.

Challenging the contemporary agenda

In order for such a shift to take place, three key characteristics of the contemporary debate must be challenged and overcome. First, the debate is hampered by the dogma that CSR is by definition voluntary, referring only to activities that go beyond compliance with legal requirements, adopted in response to a variety of market-based drivers. A prime example is the definition adopted by the European Commission in its 2002 Communication on CSR:

> [CSR is] a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (European Commission, 2002).

This is sometimes contrasted with calls to strengthen 'corporate accountability' through mandatory legislation. But this dividing line is unhelpful. Voluntary and regulatory approaches have too often been treated as exclusive to each other, rather than as options within a balanced approach to eradicating bad (socially irresponsible) behaviour while encouraging responsible activities. Indeed, CSR practice is often embedded within the legal and regulatory environment, particularly when adherence to (often unenforced) legal minima are treated as a baseline for good practice.[3] It is therefore more helpful to consider CSR as the enterprise's overall contribution (both positive and negative) to sustainable development, as reflected in the World Bank's working definition:

> Corporate Social Responsibility is the commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve the quality of life, in ways that are both good for business and good for development (Ward, 2004: 3).

Secondly, the current CSR agenda is overwhelmingly shaped by actors in the North. It emerged from the globalization debates of the 1990s, fuelled by revelations of environmental, labour and human rights abuses within the operations and supply chains of large, high-profile companies based in the North, but often operating in or sourcing from the South. There are of course exceptions, and distinctive local agendas are emerging, for example, in Brazil, South Africa, and the Philippines. But the international debate is yet to fully embrace and allow room for these 'indigenous' agendas, and it remains dominated by OECD-based non-governmental organizations (NGOs), investors, consumers, businesses and business associations.[4] The tools of the agenda (such as codes of conduct, supply chain standards and audits) are identified with international markets, adding to the sense that CSR is a potentially protectionist northern-driven agenda, which ignores local views of responsible enterprise and is irrelevant for companies producing for the domestic sector. The devaluation of the long tradition of philanthropy that exists in many developing countries as 'not real CSR' is a case in point, despite its significant contribution to development. There is a need to encourage diverse conceptions of CSR, with space for new themes and approaches that support local needs and integrated approaches to sustainable development.

Thirdly, the current agenda almost entirely focuses on large enterprises. The drivers of the debate, including NGOs, investors and regulatory authorities, naturally tend to focus on large, high profile companies. Where the debate does touch on small- and medium-sized enterprises (SMEs), this is usually in a reactive sense, either as suppliers to larger companies, or as beneficiaries of CSR initiatives. This is short-sighted – not only are SMEs the mainstay of most economies in terms of employment creation, but their cumulative social and environmental impacts are highly significant. This offers the potential for significant progress towards sustainable development if CSR can be made relevant and applicable for SMEs.

These three characteristics add up to an unbalanced CSR agenda, which has laid the ground for the current critique that CSR is little more than 'business as usual', hence calls for a comprehensive regulatory approach to corporate accountability.[5] But a regulatory approach is no silver bullet either, as reflected in the difficulties of implementing existing legislation around the world. A holistic agenda for CSR and development needs a pragmatic approach, which takes into account the pros and cons of voluntary and regulatory approaches, and finds ways to extend the agenda to all enterprises, whether large or small, based in the North or the South, and serving international or domestic markets.

Such an approach recognizes the inescapable reality that the 'business case' for responsible business is inherently uneven, and that it therefore needs to be created and sustained where it does not exist. Furthermore, it means recognizing where business activities are currently aligned with development goals, and applying a mixture of policy instruments and interventions to create this alignment where this is not the case. At the heart of such an approach is an understanding of the 'enabling environment' for responsible business practice, and its relationship with development priorities.

The enabling environment for responsible business

The enabling environment for CSR has three pillars – the drivers for responsible business; the human and institutional capacities necessary to generate and respond to the drivers; and the tools of CSR (RING, 2003).[6]

Drivers

There has been an almost fanatical quest to uncover the 'business case' for CSR, or to prove to disbelievers that it exists.[7] It is true that businesses face a series of internal and external drivers, which together may generate a business case for particular actions. These can include the pursuit of new business opportunities through social and environmental innovation, cost savings, staff recruitment and retention, reputational risk management, campaign pressure from NGOs or trade unions, media exposure, regulation and litigation. But the attempt to demonstrate a general business case for CSR as an undifferentiated whole has been misleading and counterproductive, for three reasons.

First, CSR is not monolithic. Acting as a responsible company involves countless individual decisions, each of which may have a positive or negative impact on the bottom line. Even if a company gains business benefits from responsible actions in one area of its activities, there is no reason that this will be the case across the board. The business case for CSR as a whole is therefore spurious.

Secondly, the business case for particular actions differs according to various factors including the company's visibility, location, size and ownership structure, and the sector and market segments in which it operates. At one extreme, a company operating in an area of high unemployment, with weak trade union representation, under-resourced or corrupt labour inspectorates, without an active civil society or media presence, and supplying low-profile companies within long, complex supply chains, is likely to see limited business benefit from paying decent wages or investing in reasonable working conditions.[8] Although it is impossible to generalize, it is clear that some drivers are less likely to be significant for companies operating in the South, particularly where enforcement of legislation and civil society scrutiny are both weak, and effective demand for responsibly produced products is low.

Thirdly, the business case literature often underemphasizes certain drivers. For example, adherence to legislation is often taken as a given, as many of the case studies relate to businesses operating within a strong regulatory environment. But where enforcement is weak, which is the case in many developing countries, compliance is in effect voluntary. Thus, regulation and its enforcement should be treated as a potential driver. Some drivers based on cultural norms, for example in relation to philanthropic or paternalistic activities, also tend to be ignored.

The implications for the development aspects of the CSR agenda are profound. These three factors have contributed to an almost exclusive focus on the business case for large, high profile companies operating (or with stakeholders) in the North, much of which is irrelevant for the majority of companies in the South. There is therefore an urgent need to develop a better understanding of not only where the drivers for responsible business exist in the South, but also ways to build, broaden and sustain them where they currently do not exist. This inevitably imply a strong role for the state, not simply in its conventional mandating capacity, but also as facilitator, partner, and endorser (Box 1).[9]

Capacities

The second pillar of the enabling environment for CSR is the human and institutional capacity to generate and respond to the drivers.. It is an unfortunate paradox that in many countries in the South, where the drivers for responsible business

Box 1. *Public sector roles in strengthening CSR*

Mandating – laws, regulations and penalties and associated public sector institutions that relate to the control of some aspect of business investment or operations.
Facilitating – setting clear overall policy frameworks and positions to guide business investment in CSR; development of non-binding guidance and labels or codes for application in the marketplace; laws and regulations that facilitate and incentivize business investment in CSR by mandating transparency or disclosure on various issues; tax incentives; investment in awareness raising and research; facilitating processes of stakeholder dialogue.
Partnering – combining public resources with those of business and other actors to leverage complementary skills and resources to tackle issues within the CSR agenda – whether as participants, convenors or catalysts.
Endorsing – showing public political support for particular kinds of CSR practice in the marketplace, or for individual companies; endorsing specific metrics, indicators, guidelines and standards or award schemes, and 'leading by example', for example through public procurement practices.

Source: Ward (2004), adapted from Fox *et al*. (2002)

are naturally weak, the capacity of public sector and civil society organizations to intervene to reinforce the drivers is also weak. This needs to be addressed at a number of levels, to build the capacity of:

- *Government agencies and public governance frameworks*, to strengthen the implementation of existing regulation and to understand and engage with the wider CSR agenda.
- *Businesses and business associations* such as chambers of commerce, progressive business leadership groups, or trade associations. There is a particular need to engage business organizations that can support good practice in SMEs and domestic businesses within developing countries.
- *Specialist local intermediary organizations* that can provide advice and support on CSR, not only to companies but also to governments and other actors. Such organizations can catalyse action and bring together companies and local stakeholders. They can also help to ensure that the CSR agenda is relevant and sensitive to the local context, rather than being imposed from elsewhere, with the associated risks of unintended negative consequences. There is a particular need to develop local capacity in the provision of services such as auditing and certification, which otherwise requires foreign expertise, often at prohibitive cost.
- *Civil society and workers' organizations* that can create local drivers of corporate responsibility. These include labour unions, universities, media organizations and other civil society groups that can gather and disseminate information on business activity and represent the interests of companies' stakeholders.[10]

Where possible, existing CSR initiatives should be linked to capacity building efforts. For example, private auditing regimes should be encouraged to work with public sector agencies and link their work with national legislation, thus leaving a legacy of capacity for the future. Such collaboration should not be viewed as foreign buyers taking over the role of poorly resourced public sector inspectorates. It is simply a pragmatic approach that recognizes the capacity of, and information available within, the private sector, and the potential value of directing this towards public policy goals, rather than being used solely for private ends.

Tools

The final pillar of the enabling environment is represented by the tools of the CSR agenda. These include legislation and regulation, labels and certificates, codes of conduct, partnerships, guidelines, management systems and awards. The priority here is to ensure that the tools are in line with the development needs of affected stakeholders in the South (Ward, 2004). One of the most challenging critiques of the current CSR agenda in terms of development is that these tools, particularly codes of conduct and supply chain standards, can exclude producers in developing countries from lucrative markets, thus harming livelihoods.

By applying a 'one-size-fits-all' model, the standards may include inappropriate expectations for companies in the South. But often it is the process of demonstrating adherence to the standards that is the barrier. Enterprises in the South may not have the necessary formal systems for measuring, recording and managing their impacts, and they may not have the capacity to deal with demanding paper trails. Where producers are required to pay for inspections or certification, the cost is often the same however large the company, so large producers can spread the cost of certification across their entire operations. Furthermore, as buyers adopt a CSR approach, they may prefer to rationalize their supply base, sourcing from a smaller number of larger suppliers in an effort to reduce the risk of social or environmental problems being uncovered within their supply chains, and the transaction costs of audits and inspections across more disparate supply bases.

The donor community recognizes the need to tackle this issue – but it is primarily doing so by helping producers in the South to become 'export ready'. For small producers, such approaches include group certification, which relies on institutional structures that allow internal coordination and control systems. Where cooperatives and other structures already exist, this can make the certification process viable. But bringing SMEs together in this way and building their capacity often requires huge investments, and can be politically challenging. Indeed, concerns are beginning to emerge that it is inappropriate to use public funds to help producers to meet private CSR standards, where much of the benefit of such standards accrues to the businesses (often in the North) that set them, in terms of enhanced reputation or reduced risk. New models that seek to minimize the cost of implementation for southern enterprises, and share that cost among all supply chain actors, are sorely needed.

Action is also needed at standard-setting level. A welcome contribution to this debate is the 'Code of Good Practice for Setting Social and Environmental Standards',[11] which sets a new benchmark for best practice that individual companies and other standard-setters should be encouraged to apply:

> Standard-setting organizations shall identify parties that will be directly affected by the standard and proactively seek their contributions (ISEAL Alliance, 2004: 9).
>
> Constraints on disadvantaged groups to participate effectively in standard development shall be addressed in the standard development process. Standard-setting organizations should consider how the influence of these groups can be increased, even if their participation rates cannot. Particular attention should be paid to the needs of developing countries and small and medium-sized enterprises (*ibid.*: 10).

A similar approach to stakeholder engagement more generally would significantly improve the development impact of the CSR agenda. Rather than producing glossy sustainability reports that speak to the concerns of civil society in the North, companies operating in the South should be encouraged to increase transparency at the local level, reporting in meaningful terms to local communities, employees and other directly affected stakeholders.

Development dimensions of the CSR agenda

Many core development issues are central to the CSR agenda, including labour standards, human rights, education, health, child labour, conflict and transparency in relation to government natural resource revenues. But new themes need to become more prominent in the agenda. Until recently, the business community has tended to shy away from tackling the poverty agenda head on. Where poverty has been addressed, the discussion has often been couched in terms of wealth creation, and the language of livelihoods has been adopted as a way to link business opportunities with the development agenda:

> The poverty agenda, as it is conventionally articulated, has very little resonance for business … The notion of creating sustainable livelihoods, by contrast, is music to managers' ears (Holme, 2000).

But this is starting to change. 'Bottom of the pyramid' thinking has led to an initiative by the World Business Council for Sustainable Development (WBCSD) entitled 'Sustainable Livelihoods', which has produced a set of case studies of WBCSD member companies that are 'doing business with the poor in ways that benefit the poor and benefit the company' (WBCSD, 2004: 6).[12] The UN Global Compact/UNDP 'Growing Sustainable Business (GSB) in Least Developed Countries' initiative takes a similar approach, through processes of dialogue and project development at country and sectoral level.[13]

Where they bring genuine benefits, these attempts to relate the business agenda to poverty reduction are to be welcomed, but further efforts are necessary to create a truly development-oriented CSR agenda. First, these initiatives still tend to focus only on the largest multinational enterprises. As we argued above, there is an urgent need to focus the CSR debate on SMEs, the informal sector, and the domestic private sector in the South. This could be achieved in part by encouraging the continued emergence of the 'business linkages' theme, which has been a particular focus of the GSB initiative. This relates to the use of local suppliers and outsourcing where possible, in order to maximize the transfer of assets and skills to local communities, and to create a multiplier effect that increases local business activity, employment and income. But this is only a start, and it is still mediated through multinational enterprises rather than directly relating to smaller, domestic companies.

Secondly, these initiatives only scratch the surface of what might be called the 'economic leg' of sustainable development. A development-oriented CSR agenda will need to examine how economic and market power is wielded within supply chains, including ensuring that standards are equitably set and implemented. The economic and equity aspects of corporate responsibility could also include transfer pricing, technology transfer and the terms of partnerships and other 'deals' between companies and local suppliers and communities.[14] A development-oriented agenda represents a challenge to those companies who adopt CSR practices on a tokenistic basis, as it is often the core business activities such as purchasing that have the greatest impacts, both positive and negative, on development outcomes.

The UN Commission on the Private Sector and Development has published a challenging set of recommendations for actions necessary to 'unleash entrepreneurship' and ensure that business works for the poor (Commission on the Private Sector and Development, 2004). This is a timely, high-profile recognition of the role that the private sector needs to play in tackling poverty. It stresses the need to build an enabling environment for business activity, and the crucial role of SMEs as engines of job creation. But it brings with it a risk that the business and development agenda will increasingly focus solely on investment climate basics and narrow measures of economic growth, ignoring the progress made within the CSR agenda in terms of a more nuanced balance of economic, social and environmental outcomes. As the business community starts to recognize the opportunities of doing business in low-income markets, advocates of the CSR agenda must seize the chance to ensure that this approach is genuinely supportive of broad-based development, rather than a smokescreen for increasing corporate dominance of as yet untapped markets.

Conclusion: shifting the CSR agenda to the South

The contemporary CSR agenda is failing to fulfil its potential contribution to development. It is skewed by the dogma that often limits it to voluntary business activities, by its domination by actors in the North, and its focus on large enterprises. A more balanced and pragmatic approach would recognize that the business case for responsible business action is patchy, and seek to build and sustain drivers that will bring business activities in line with development priorities. Creating an enabling environment for responsible business in the South also means building the human and institutional capacity to generate and to respond to these drivers, and bringing the tools of the agenda in line with development needs. Once such an enabling environment is created, new themes can be brought to the forefront of the agenda, including a more serious attempt to define how the economic and equity aspects of sustainable development can be translated into expectations of business activity. In the face of a critique that the CSR agenda is nothing but a fig leaf for business as usual, tinkering at the edges will not be enough. It will only be rehabilitated through a radical restructuring around the core principles of sustainable and equitable development.

Notes

1 For example, the UN Commission on the Private Sector and Development (2004: ii) notes that a 'coalition [of the major stakeholders, in the private and public sectors] is essential to unleashing the capacity of the private sector, to achieving the Millennium Development Goals (MDGs) and to alleviating poverty'. See also Nelson and Prescott (2003), which seeks to provide a framework for action on how companies and business coalitions can work with the UN system, governments and civil society organizations to help achieve the MDGs.
2 See, for example, the discussion fuelled by Christian Aid (2004).
3 Ward (2003) discusses the importance of factoring legal issues into CSR, pointing to numerous examples of interactions between CSR and law.
4 It is notable that the dominant international CSR agenda has emerged from a subset of even the OECD membership, predominantly the countries of Western Europe and North America.
5 See, for example, the activities of the CORE coalition at www.corporate-responsibility.org.
6 This framework was originally developed in the context of an examination of the development dimension of the UN Global Compact. However, its application in other contexts (cf. Ward, 2004) indicates its relevance in the wider agenda.
7 See, for example, SustainAbility (2001) and Holliday *et al.* (2002).
8 Kanji (2004) describes the need to strengthen business incentives for more responsible practice in the cashewnut processing industries in Mozambique and India, focusing on women's employment conditions, given similar conditions.
9 Fox *et al.* (2002) provide numerous examples of public sector activities that support CSR, many of which are in developing countries. Further discussion since developing this typology has suggested the possible value of adding a fifth role of 'demonstrating'.
10 These categories are adapted from Fox and Prescott (2004).
11 Developed by the International Social and Environmental Accreditation and Labelling (ISEAL) Alliance, a formal collaboration of leading international standard-setting and conformity assessment organizations www.isealalliance.org.
12 The 'bottom of the pyramid' refers to the emerging consumer market represented by the four billion people with a per capita income of less than US$ 1,500 (Prahalad, forthcoming).
13 This initiative aims to engage international and national companies, NGOs, labour groups, governments, UN agencies and others to promote the growth of sustainable business in the Least Developed Countries.
14 Mayers and Vermeulen (2002) draw out lessons from experience of company–community partnerships in the forestry sector, outlining principles and success factors for developing partnerships that deliver better returns to both sides.

References

Christian Aid (2004) *Behind the Mask – the Real Face of Corporate Social Responsibility*, London: Christian Aid.

Commission on the Private Sector and Development (2004) 'Unleashing Entrepreneurship: Making business work for the poor', Report to the Secretary-General of the United Nations, New York: UNDP.

European Commission (2002) *Communication from the Commission concerning Corporate Social Responsibility: A business contribution to sustainable development*, COM (2002) 347(01), July 2002, Brussels: European Commission.

Fox, T. and D. Prescott (2004) *Exploring the Role of Development Cooperation Agencies in Corporate Responsibility*, London: IIED/IBLF.

Fox, T., H. Ward and B. Howard (2002) *Public Sector Roles in Strengthening Corporate Social Responsibility: A baseline study*, Washington, D.C.: World Bank Group.

Holliday, C., S. Schmidheiny and P. Watts (2002) *Walking the Talk – The Business Case for Sustainable Development*, London: Greenleaf Publishing.

Holme, R. (2000) 'The Creation of Sustainable Livelihoods – The Business Contribution', *Sustainable Development International* 2: 43–45.

ISEAL Alliance (2004) *Code of Good Practice for Setting Social and Environmental Standards*, Bonn: ISEAL Alliance.

Kanji, N (2004) 'Corporate Responsibility and Women's Employment: The cashewnut case', *CRED Perspectives,* Number 2, March 2004, London: IIED.

Mayers, J. and S. Vermeulen (2002) *Company-community Forestry Partnerships: From raw deals to mutual gains?*, London: IIED.

Nelson, J. and D. Prescott (2003) *Business and the Millennium Development Goals: A framework for action*, London: IBLF.

Prahalad, C.K. (forthcoming) *The Fortune at the Bottom of the Pyramid: Eradicating poverty through profit*, Philadelphia PA Wharton School Publishing.

RING (2003) *The Development Dimensions of the UN Global Compact*, London: RING-Alliance.

SustainAbility (2001) *Buried Treasure: Uncovering the business case for corporate sustainability*, London: SustainAbility.

Ward, H. (2003) *Legal Issues in Corporate Citizenship*, Stockholm: Swedish Partnership for Global Responsibility.

Ward, H. (2004) *Public Sector Roles in Strengthening Corporate Social Responsibility: Taking stock*, Washington, D.C: World Bank Group.

WBCSD (2004) *Doing Business with the Poor: A field guide*, Geneva: WBCSD.