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Do More Good, Do Less Harm:

Development and the Private Sector

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No reasoned discussion of equitable growth, the attainment of rights, the effect of globalization on poor people, or the achievement of the Millennium Development Goals (MDGs) can properly take place without considering the role of the private sector. Yet it is surprising how much of the debate on poverty focuses on the roles and responsibilities of governments, NGOs, and international aid bodies. In such discussions, the world of business lurks in the shadows, acknowledged uneasily like a tattooed man at a tea party.

This selection of articles from a special issue of the journal *Development in Practice* (volume 15, numbers 3 and 4) examines some of the debates concerning the role of private business in the development process. These range from accusations that the corporate sector is part of the problem, to arguments that it can, or must, be part of the solution.

Companies are with us for the long haul. The debate over whether or not the private sector should be replaced by some other system of production and distribution has become marginal. Far from being consumed by their own internal contradictions, corporations are expanding and now exert influence on a global scale. The combined sales of the world's top 200 corporations are bigger than the combined economies of all but the 10 largest nations (Anderson and Cavanagh 2000). This vast economic might gives corporations immense political and social influence. While national governments and international institutions have failed to develop governance mechanisms appropriate to

a globalized economic system, companies have thrived in this planetary playground.

Today's debates are concerned with the place of companies and markets in society, and with how to control excesses and failures, rather than with the fundamental desirability or possible replacement of private capital. For developing countries, the policy challenge is to create an environment that encourages business growth, trade, and foreign direct investmen (FDI), while ensuring that social policies share the benefits of growth more equitably, in what Andrew Sumner (2005: 269) calls a "precarious trade-off between attracting FDI and maintaining policy instruments to extract the benefits."

This introductory chapter opens with an exploration of the nature of the private sector and its role in relation to economic growth and the distribution of benefits. It goes on to examine the detrimental effects that corporate activity can have on development, followed by a brief look at new forms of opposition to such activities. The business case for corporate social responsibility (CSR) is then outlined, leading into an account of various ways in which some private companies have sought either to mitigate the harmful effects or to enhance the impact of their activities on development. The penultimate section looks at the role of the private sector in achieving the MDGs, and the chapter concludes with some reflections on the need to redirect the dynamism and resources of the private sector to the benefit of humanity.

THE NATURE OF THE PRIVATE SECTOR

In discussing the private sector and development, it is tempting to concentrate entirely on the role of transnational corporations (TNCs) in developing countries. It is here that the most passionate exchanges take place about good and evil, and the humble versus the hegemonic, and where observations about the impact of such corporations have a stark clarity for both admirers and detractors.

In truth, however, most private-sector activity in any economy is small and domestic. The private sector includes the successful local conglomerates, small and medium-sized enterprises (SMEs), and women's cooperatives of the kind praised by those who may condemn larger companies, as well as the amorphous—and vital—informal economy. Even small local companies operate in the marketplace. They too are driven to maximize profit, and are capable of cutting exactly the

same corners on responsibility toward the environment or to their employees when they believe they can get away with it. In many respects, the distinction between the TNC and the microenterprise is only one of scale of influence and impact.

Even such apparently clear divisions as local versus foreign business become indistinct when one examines joint ventures, equity investment, licenses, franchises, and subcontracted production. In some cases, the private sector is largely controlled by itinerant members of the nation's diaspora. Trade, finance, and indirect investment do not require a company to put up a nameplate in a given country, but they certainly affect that country's economic development.

Economists differ over whether small or large companies make the greater contribution to national economic growth. Issues of unfair political influence and unwieldy economic impact are less likely to arise in relation to SMEs, though these account for some 90 percent of companies in most market economies, typically employing half the working population (International Finance Corporation 2004). SMEs tend to be favored by those concerned with development because they are usually labor-intensive and so create more employment—often at the lower end of the market, most suited to the poorest people, and in areas where no other job opportunities exist. Significant development assistance goes into fostering conditions to promote the growth of SMEs, and Julian Oram and Deborah Doane make the case in Chapter 7 for supporting these as a path to sustainable development. Moreover, as local companies, SMEs cannot so easily be accused of introducing alien values; indeed, Tim Coward and James Fathers (2005) have highlighted the role that industrial design can play in encouraging indigenous crafts.

SMEs are often more vulnerable than their larger corporate brethren to changes in policy or economic conditions. In Chapter 8, Linda Loebis and Hubert Schmitz offer the example of the furniture exporters of central Java and examine a range of problems facing these producers, along with some possible positive interventions. Turning to Timor-Leste, Ben Moxham warns in Chapter 9 that interventions intended to support the growth of SMEs are likely to fail if they are imposed in a top-down and hurried manner. In developing countries SMEs also face the problem of unequal access to credit, which in turn has given rise to the growing significance of microcredit within overall development spending. Begoña Gutiérrez Nieto (2005) reveals some of the issues surrounding an intervention designed to stimulate the smaller end of the private sector.

The private sector faces very different challenges in open economies than it does, for example, in those that are emerging from decades of central planning and are now pursuing economic liberalization policies. Private companies that are growing from the ground up confront problems that are distinct from those faced by companies attempting to transform state monopolies into private enterprises, in which some of the immediate growth gains may be characterized as catching up on unrealized economic potential that had been artificially restrained by previous systems of economic control. Similarly, some reform economies are simultaneously liberalizing political and social systems, building the political accountability and civil society so important for controlling the corruption, exploitation, and marginalization that economic liberalization can bring. Others retain centralized political power, which in turn raises questions about the assumed linkages between economic and political liberalization. Clearly, a range of policies is needed in order to draw developmental benefits from this complex diversity—and the policies chosen will in turn depend on the specific historical legacy and on the nature of the enterprise (Kuada and Sørensen 2005) or international partnership (Jeppesen 2005).

GROWTH AND DISTRIBUTION

Development, in the sense of alleviating widespread poverty and enabling the great majority of people to gain their rights, involves both the creation of wealth and its distribution.

All those concerned with such issues therefore look beyond the achievement of macroeconomic growth. Development in a fuller sense concerns the lives of all people, particularly the poorest, whose immediate survival is linked more to issues of access to productive resources and opportunities than to gross national product. Development involves the achievement of the rights of the whole population to livelihoods and services, and the creation of sustainable conditions that enable and furnish these.

There is compelling evidence that economic growth is a precondition for the sustainable alleviation of poverty. In market economies, the private sector is the main engine of that growth. Corporations play a key role in the creation of jobs, the contribution of tax revenue, the earning of foreign exchange, the generation of finance, the achievement of access to new markets, the transfer or development of technology and

administrative skills, and the provision of more, better, or cheaper goods and services.

Farmers, the informal economy, the self-employed, and remittances from migrant workers do certainly contribute to the creation of wealth in developing countries. But almost all significant cases of countries developing to the point where poverty is dramatically reduced have occurred in situations where larger companies have become a major part of the economy, and more generally, where such companies are involved in international trade and where the private sector has attracted substantial foreign investment.

Clearly, growth does not in itself lead automatically to the reduction of poverty. There are plenty of countries in which a wealthy elite enjoys the benefits of growth while millions live in terrible poverty. There are countries in which companies, particularly extractive industries, make fortunes over the heads of poor communities that see none of the benefits, or worse, are made poorer by the loss of land and the degradation of their surroundings (see Garvey and Newell's discussion of this in Chapter 4).

There is little evidence, though, that development can be achieved on the basis of a decentralized, non-industrial base, unlinked from international trade and investment (Kitching 1982). The most telling examples of countries that have raised impressive numbers of their people out of poverty since the 1950s, most notably in East Asia, have also experienced high growth rates attributable at least in part to the judicious encouragement of international trade and foreign investment. Some would argue that other factors, such as high levels of equitable social investment, provided the impetus for success. China and Vietnam did make such social investment, but while this was accompanied by policies of central planning, economic self-reliance, and market regulation, poverty levels remained unacceptably high. It was when these governments implemented market reforms in their domestic economies and opened the door to international trade and investment that poverty dropped dramatically (see Schaumburg-Müller 2005 for the case of Vietnam).

The contention that East Asian growth took place under conditions of protection and trade opportunities that can no longer be replicated deserves examination. Access to markets in developed countries is becoming easier as two-way trade is liberalized. The case for granting favorable trade terms for the least developed countries is acknowledged by all but the most fundamental free traders. It is now recognized,

however, that the types of import and export controls under which the economies of Hong Kong, Malaysia, and Vietnam saw high levels of growth were quite distinct from each other (Watkins 1998; Stiglitz 1996).

The wealth that corporations produce has the potential to propel national growth, but growth itself is not without its critics. Although not presenting a clearly articulated or broadly agreed alternative to business or the market, today's anticapitalist movement incorporates concepts from feminism and environmentalism in addition to socialism, to argue that putting the pursuit of economic growth above other goals is unnecessary and even harmful to the achievement of a just and sustainable society.

Certainly, growth may bring shifts in employment patterns and disrupt the fragile productive opportunities that poor people have managed to establish. People in traditional sectors, overtaken by change, unable to adjust, and facing the increased prices that often accompany growth, can be made still poorer in high-growth economies. The environment, and those who depend on vulnerable ecosystems for their livelihoods, can also fall victim to economic growth. Economic theorists may dismiss the difficulties encountered in rapidly changing economies as purely transitional problems or short-term adjustments. Poor people who face these short-term economic transitions might suggest a variation on Keynes' famous phrase: "in the short term, we are all dead"!

The terms governing the acceptance of foreign investment and trade will underpin the level of benefit they bring. And we look to governments to take measures, for example, through taxation, employment rules, investment rules, and social services, to ensure that growth is related to better distribution of wealth and opportunity, to benefit the whole population.

All this sounds fine: companies produce economic growth, while governments implement social legislation to ensure that the resulting wealth also benefits those most in need. But this scenario overlooks two issues. First, companies also do business in failed states, states at war, and states with weak, corrupt, or incompetent governments. Here, they may actively exploit the situation, bribing government officials, or fueling wars by paying military leaders for rights to minerals or other goods. Second, even where government is adequate, corporations are bound to use all means to shift external conditions in their favor.

Most criticisms of the private sector are concentrated on the unequal distribution of the benefits of growth. The issue for governments, then, is to balance macroeconomic growth with measures to

provide for those whose livelihoods are destroyed by the transitional impact of that growth.

THE HARMFUL POTENTIAL OF CORPORATE ACTIVITY ON DEVELOPMENT

Workers: Conditions, Rights, and Wages

Companies are of course criticized on the grounds that they exploit workers, including women and children, in their labor forces. Companies in industrialized countries, while still making a profit, do generally offer wages that provide a standard of living that goes beyond basic needs, enabling workers to participate in society and exercise their rights. In developing countries, people working for the private sector are commonly employed under conditions that fail to bring them adequate housing, health, nutrition, education services, security, and other rights.

Marxists would argue that exploitation takes place in all economies, representing a fundamental, insoluble contradiction between labor and capital. Incidences of growing disparity between ordinary wages and the engorged wealth of the director class, and growing gaps between rich and poor, even in wealthy countries, would seem to support a revival of good old class analysis. But the developmental issue is perhaps more usefully framed in terms of whether companies provide fair and decent wages and conditions rather than whether or not they are exploiting their employees. In addition to the ongoing work of the trade union movement, the ILO has a major program examining the concept of decent work (ILO 2000; Somavía 1999).

The trade union movement is the longest-standing oppositional force to the private sector, functioning in developed and developing countries alike with varying effectiveness. Understandably, unions have tended to focus on achieving improved wages and conditions for their members, and expanding their membership. In doing so, they have often faced repression from governments as well as the private sector.

Fundamental to the issue of workers' rights are the right to organize and freedom of association. However, the very attraction of the free-trade zones established precisely for the purpose of encouraging foreign investment has been the explicit curtailment of union rights within them. China, home to a massive proportion of light industrial

manufacturing worldwide, allows only the state-run official trade union. Workers' attempts to organize independent unions or to protest against poor conditions have been dealt with ruthlessly (Human Rights Watch 2002).

If development is viewed as an effort to make people's lives progressively better, then an assessment of the quality of employment must be set against the previous or alternative livelihoods open to workers in the private sector. For instance, conditions faced by rural migrants joining the factory workforce need to be compared to their lives in farms and villages. Despite poor wages, long hours, and poor living conditions, factory employment for young women can compare favorably to the economic and social disempowerment and male domination they experience in the rural household (Kabeer 2000). This is *not* an argument against the struggle to advance workers' rights, but it does suggest that migration in search of industrial employment is now a component of development.

Unfair Competition

Corporate competitiveness, particularly when it involves larger and more powerful companies, is not benign. We see this in many modern societies: big retail chains squeeze out individual local shops, and supermarket purchasing power makes it impossible for small farmers to compete, or for producers to bargain for fair prices.

In developing countries, the problem is a more acute life-and-death issue because the difference in size between big corporations and small producers is far more pronounced. Simply by competing legally within the market, big corporations can have a huge impact on small producers as well as on land and property prices, job opportunities, labor conditions, and migration. In other words, big companies have a profound impact on poor people. Transnational corporations, with all their extra resources, can destroy smaller local competitors and monopolize markets. Massive difference in size between competing firms or producers frequently results in market access being denied to the smallest.

In terms of international trade, as distinct from investment, companies are accused of destroying local business by selling cheap products to developing countries. The greatest criticism focuses on exports of subsidized products, particularly EU and US agricultural produce. But

even where products are not subsidized, there is a debate about the fairness of allowing huge foreign companies to compete with small local producers when the former enjoy vast advantages in terms of economy of scale, technology, marketing sophistication, and the reserves necessary to engage in price wars.

Lobbying for Primacy

As well as acting the playground bully, big corporations are capable of handing the shiniest apple to the teacher. Large companies have a successful track record of lobbying national governments and influencing laws, licenses, regulations, and international agreements to their advantage. When a charm offensive fails, companies are quite able to bully governments as well. Threats to transfer production elsewhere can bear such fruit as tax holidays, subsidized infrastructure, relaxed pollution rules, or anti-union legislation.

The power of corporate lobbying extends beyond national governments to international bodies such as the WTO, the IMF, and the World Bank, which can in turn impose trade rules or loan conditions on national governments. Companies also exert huge, often unseen, influence on less high-profile bodies that are engaged in scientific research. Food and pharmaceutical companies have, for instance, influenced the reports and recommendations of UN specialized agencies in ways that favor their sales. Oil and energy companies have sought to influence scientific opinion on the seriousness of global warming (Korten 1995; Oxfam et al. 2002).

When private business activities are shown to be causing environmental, health, safety, or other problems for workers and consumers, a recognizable sequence of responses appears by which companies seek to disrupt and delay any action on the issue:

- Ignoring the reports and speaking of other things
- Disputing the facts and seeking to discredit the research or the researcher
- Calling for further research
- Funding and influencing research bodies and researchers
- Setting up pro-industry advocacy organizations and coalitions
- Calling for voluntary self-regulation
- Lobbying for milder regulation

Such behavior has been witnessed in companies engaged in the production and marketing of pharmaceuticals, tobacco, chemicals, oil, food, automobiles, infant feeding formula, and alcohol, among others.

In some cases, the motivation for such slippery behavior involves fear of massive compensation claims, such as those faced by the asbestos and tobacco industries in Europe and North America. In developing countries, the corporations may be able to modify this strategy, confident that smokers or asbestos victims in the Third World lack the resources to sue successfully.

More encouragingly, we also find some companies taking further steps in their response to criticism, including the following:

- Engaging critics in dialogue about the issue and possible solutions
- Announcing new codes, strategies, engagement in research and innovation, membership of ethical coalitions, and changes to core corporate values
- Marketing a new "caring approach" aspect of the company's identity and products
- Mainstreaming socially responsible policies and practices throughout the supply and distribution chains

Environmental Destruction

Another major criticism of private-sector activity concerns destruction of the natural environment and pollution of the planet. TNCs face accusations of moving dirty, polluting processes to developing countries, where laws are lax or poorly enforced and public scrutiny is weak. That said, it should be recalled that by some measures, the world's most polluted countries lie in the former Soviet bloc. Of course, such pollution was a product of industrialization and not private-sector activity as such. However, since companies are now the unchallenged instruments of industrialization, they are today the cause of massive pollution. Issues of control and regulation are central to solving this problem, but so are debates about the shape and extent of industrialization overall, regardless of whether this involves state-owned or private industry.

For developing countries, the issue is one of competing demands and scarce resources. How far can the environment be allowed to deteriorate in a rush for growth before the human and ecological costs outweigh the benefits and even slow that growth? Should states develop to

the point where they can spend their way out of environmental trouble, or is this a huge, irreversible step off a precipice? Are developing countries making the same mistakes as the industrialized countries, but more rapidly? Or can advances in technology enable a more effective clean-up once the economy has grown and before irreversible damage is done? Can we hope that the private sector can become the instrument for solving pollution questions and cleaning up the environmental mess, just as is was the means by which pollution was driven to such levels?

Debt and the Private Sector

Campaigners against Third World debt note that much of the borrowing was encouraged by commercial banks. Many of the debt-relief initiatives involve loans from national governments or multilateral agencies such as the World Bank, while commercial banks have so far avoided much of the wrath of the anti-debt movement.

The financial sector is also attacked for facilitating low tax payments through the fostering of tax havens, including enabling complex corporate and financial structures that minimize tax liability. Financial companies are charged with exposing developing countries to huge risks by speculating aggressively on currencies, commodities, and share prices. The 1997 East Asian financial crisis was held responsible for a massive rise in poverty in countries such as Indonesia, wiping out years of social improvement. Many attacked international speculation and the financial institutions and structures for causing the problem.

Privatization of Vital Services

Worldwide, companies are increasingly contracted to deliver services formerly considered the responsibility of the state or local government. In developing countries, this may not necessarily be a response to the government's belief in the effectiveness of privatization, but to outside pressure to liberalize and deregulate the service sector. Regardless of the motives, the trend is toward private-sector involvement in water supply, education, transport, communications, and health care. As a result, the private sector is ever more involved in essential components of the development process, which can bring companies into direct dealings with poor people and needy communities.

When a commercial company is providing a service, it will often concentrate on those aspects offering the best returns. The desire to

make a profit may result in cutting back services to areas where people are less able to pay, and to more remote areas where overhead costs are higher. In both cases, this means reduced services to poor people (Tati 2005).

The privatization of service provision takes different forms. In some cases, the private sector becomes engaged in large-scale infrastructure development. In many cases, however, the newly privatized companies depend on foreign investment, a phenomenon that brings its own risks, as illustrated by Leopoldo Rodríguez-Boetsch in his detailed analysis of Argentina (Chapter 6). David Hall, Emanuele Lobina, and Robin de la Motte illustrate in Chapter 5 how civil society and political opposition have challenged top-down approaches to privatized water and sanitation utilities. Overall, experiences around the world have shown that the key to responsible privatization is, paradoxically, effective government involvement. Both the terms set out when services are privatized and the ongoing management of the activity by statutory regulatory bodies are equally crucial to the success of the privatization process.

The Social Impact of Products and Processes

For companies producing weapons or tobacco, the core business and main product can be said to have a negative impact on development. The campaign against the promotion of infant feeding formula in developing countries is the best-remembered example of targeting a product considered to have such an impact. But when the main product itself is intrinsically or potentially damaging, this raises fundamental questions about what corporate social responsibility (CSR) should look like for such companies.

In addition to environmental destruction, companies stand accused of destroying cultures, traditions, and ways of life as they rush about their business. The impact of extractive industries on the use or ownership of traditional lands is a controversial issue, as is the wider impact of the rapid opening up of remote areas on the indigenous people who live there.

The introduction and promotion of new products seek to alter people's tastes and styles. Older and more traditional societies, processes, and products can be particularly vulnerable to the aggressive marketing of new products, which are often targeted at women. Traditional garments, medicines, or foods and the practices associated with them often

embody important cultural and social values. Hence there may be far more at stake than simply the adoption of a modern replacement for an item that is rooted in culture.

More extreme is the social impact of companies doing deals with one of the warring factions in the context of armed conflict, for instance in order to gain mineral or other business rights. In such instances, companies have been accused of bankrolling violence and destruction.

PRESSURES FOR CHANGE

Shareholder Power

The old division of roles, in which companies concentrated purely on growth, within the law, while the government paid attention to questions of equity, through the law, is drawing to an end. Parallel to the growth of corporate power is a growth in demands and expectations that companies be accountable on a global scale for the impact of their actions on the environment, on labor, and on human rights.

Shareholders can be stakeholders, and different types of stakeholders can be shareholders (as illustrated, for instance, by Hayes and Walker 2005). A company's shareholders may now include the type of people who would willingly join a consumer boycott or choose a fair trade product (Simpson 2002). Such shareholders don't want to hear that their investment is harming the environment or exploiting children in the developing world.

The concentration of power and wealth represented by globalization is confronted by a growing opposition movement, which is also global in scope. High-profile protests are now focused on multilateral bodies such as the WTO, the World Bank, the OECD, the EU, and the G8 meetings. Protesters argue that these organizations are controlled by big business and use their global authority primarily in its interest (Juniper 1999; Newell 2000). The spectacular collapse of Enron and WorldCom due to financial dishonesty, and shareholder revolts in the UK against massive executive pay packages, have focused attention on the ethics and social responsibility of giant international corporations. The more radical critics view TNCs as an antisocial force that is responsible for pollution and poverty. Several popular campaigns target specific companies, such as those involved in the production of genetically modified (GM) seeds or branded sportswear produced by

poorly paid workers (Canadian Democracy and Corporate Accountability Commission 2002).

NGOS AND SOCIAL ACTIVISM

Many governments have come to believe that privatization, deregulation of markets, tax reduction, and looser environmental and labor laws are the only way to maintain international competitiveness (Marsden 2004). In developing countries, such deregulation was not necessarily a fondly embraced economic strategy, but was a condition for the receipt of much-needed assistance from the international financial institutions or to qualify for WTO membership. Whereas governments in the North may make the choice not to exert adequate controls over companies as a means of attracting investment, governments in the South often lack the capacity and the resources to play a more effective regulatory role, whether or not they wish to do to so.

Into the space left by less capable governments have stepped NGOs. Like the corporate sector, NGOs have grown in size and influence in the era of globalization. They have expanded their role into that of a countervailing force to unbridled corporate power. Through their capacity to influence the media and public opinion, and even to mobilize people on the streets, NGOs have exerted pressure on the corporate sector. Some believe they have gained the power to grant or withhold a "social licence" (Warhurst 2001) and represent a form of "civil regulation" (Bendell 2000), though others underline that an agency's integrity demands that it observe the standards demanded of companies (Frame 2005).

Social activism against corporate excesses has been aided by the rapid transformations in information technology. News of corporate malpractice reaches the public almost immediately, and those adversely affected can communicate and campaign internationally more easily and cheaply than ever before. With the intermediation of trade union structures or NGO networks, villagers who find the fish dying in a river due to upstream mining, or garment workers whose punch cards are confiscated before overtime begins, can bring their problems swiftly to the attention of industrialized-world consumers and fellow-workers at the head office.

The engagement of two upwardly mobile sectors of globalized society—TNCs and NGOs—on questions of equitable and sustainable

development carries profound significance for the fortunes of the development process as a whole. The resolution of this relationship will be a determining factor in achieving the goal of alleviating mass poverty in this interdependent world.

THE BUSINESS CASE FOR PRO-DEVELOPMENT ACTION

There are three broad areas in which companies can pay attention to their impact on the development process: core business activity, philanthropic programs, and policy advocacy (Nelson 1996). The most important and immediate of these involves changes to a company's core business activity, and much of the recent literature discusses the successes and failures of CSR programs.

The business case for corporate responsibility toward poverty and development is built on several pillars. First is the proposition that robust societies enable successful business. Any legal organization hoping to operate in the marketplace will benefit from stable, well-governed societies containing healthy, educated workers and consumers. There is a generalized interest in rule-based, open, and predictable financial and trading systems. Operating in a society with a decayed environment, high levels of disease, vulnerability to climate change, and poor security incurs increased personnel, security, and insurance costs. Business cannot boom in societies that are failing. The human waste and social conflict that result from poverty undermine market potential.

The problem with appealing to the private sector to invest in a society that would be conducive to its own success is that companies tend to behave like prisoners in the classical dilemma. They would love for every other company to pay high wages to their workers, who are their own potential customers, and to pay for a clean and healthy environment in which they could then operate. But to maximize their own profits, they would like to politely make their excuses, externalize as many costs as they can, and pay their workers the lowest possible wages. Improving society in general is a long-term investment, while so much business behavior is short-term.

A second aspect of the business case for CSR concerns reputational risk management. There are market and financial risks associated with operating in a society with poor labor, environmental, and social conditions. But there is also a reputational risk associated with making

profits and hiring cheap labor in a country in which parents cannot afford to send their children to school, and in which people are dying for lack of adequate medical attention, housing, or food. In an era of increased public scrutiny of corporate conduct, greater campaigning, and more effective media coverage of critical NGOs and trade unions, companies cannot so comfortably do business in poor countries without being seen to do so in a way that addresses inequality. As pressure grows for tighter controls over business conduct in developing countries, those who move voluntarily will gain "first mover" advantage. Companies that are forced to react to legislation or criticism risk greater costs and a poorer reputation. A company that is seen as part of the problem rather than part of the solution will suffer damage to its reputation or its brand, and this may turn off consumers.

A good reputation carries internal as well as external benefits. Companies that command public respect will find it easier to recruit and retain the best and brightest workforce and maintain buoyant morale. Workers and managers alike, the argument goes, are increasingly disinclined to separate their personal and professional morality.

Third, the development of products and services that address social and environmental challenges presents new business opportunities. As a market, poor people make up for their relative lack of spending power by their weight in numbers. Focusing on meeting the needs of poor people can, some would argue, both address important developmental needs and open up profitable new markets. For instance, Prahalad and Hart (2002) hold that business can discover lucrative new markets at "the bottom of the pyramid" among the poorest people in society (now renamed "the base of the pyramid" by the politically prudish). In their view, TNCs are particularly well placed to create the conditions for such markets as they have the resources, managerial skills, and knowledge necessary to build commercial infrastructure, and are the best positioned to unite NGOs, communities, local governments, and local entrepreneurs to meet the needs of the poorest sector of the market. In making these arguments, Prahalad and Hart challenge five fundamental corporate assumptions: the poor are not the corporate target; the poor cannot afford products; only developed markets will pay for new technology; the bottom of the market is not important for long-term corporate interests; and the intellectual excitement is in the developed markets (Waddell 2000).

An additional case for general social responsibility is that a company that is seen as having a beneficial effect in the South will be able

to increase sales to ethically aware consumers and attract ethically sensitive investors in the North. This is particularly true for clothing and sportswear brands that are selling image above utility, an argument presented by Carolina Quinteros in Chapter 11 as key to the survival of the Central American garment-manufacturing industry.

LIMITS TO THE BUSINESS CASE FOR CSR

Companies that do not deal directly with the public, or have a brand-name image to sell, are correspondingly less exposed to consumer scrutiny. The public does not usually buy machine tools, polystyrene granules, ships, or cattle feed. Similarly, many local companies and even TNCs based in developing countries where civil society and the media are less advanced may avoid the scale of scrutiny or criticism faced by Northern TNCs.

In certain sectors, at certain periods of corporate evolution, various elements of the business case for active responsibility toward developing countries may apply. But the business case for CSR goes only so far. Skeptical commentators suggest that most CSR activity is in fact motivated far more by the need to reduce risks than by the wish to enhance reputation. Some very hard-nosed cost-benefit analysis goes on before companies decide to pay out for improved environmental and social conduct, or even to abide by the law. If the penalty is less than the cost of installing cleaner equipment, companies have been known to pay the fine and carry on polluting.

Despite the many articulations of a business case for responsible corporate behavior, companies frequently face trade-offs between profits and ethics. There is money to be made by squeezing past, wriggling under, papering over, diverting attention from, minimizing, or simply flouting environmental, labor, and social standards. This is all the more easily done in less-developed countries where governments, trade unions, and consumer associations are all less able to discover and denounce transgressions.

Critics of market-based solutions to poverty are blunt: the logic of the market is immutable, and it is right to turn its back on Africa, and in fact on any poor, remote, underdeveloped area. The market will concentrate sales where customers are concentrated, accessible, and prosperous. The market will concentrate production where costs are cheapest in terms of appropriately skilled labor, raw materials, regulations, taxes,

and the necessary technical, managerial, and financial structures, or where production leads to better access to consumers. There may be some minor markets worth developing among the very poor, but these are limited. Endogenous accumulation and standard theories of capital accumulation do not apply to poor, remote, sparsely populated, disease-ridden parts of the planet (Sachs 2004). The market has never been the mechanism for addressing serious social problems, nor can it be.

Joel Bakan (2004) refers to corporations as institutional psychopaths, required by law to externalize as many of their costs as possible. As such, he argues that it is absurd to expect them voluntarily to give priority to social responsibility, or to behavior motivated by ethical concerns.

Skeptics of reform argue that any company that makes a move toward assuming more social responsibility will be viewed as inefficient and become susceptible to a takeover by companies skilled in mergers and acquisitions. As equity investments operate internationally, companies that invest in environmental and social concerns can be accused of inefficient management and gobbled up by ruthless raiders from over the horizon. Proponents of regulation argue that in these circumstances, it is only through the imposition of mandatory international standards that companies will become simultaneously socially responsible and profitable.

Ultimately, however, if the business or economic case for good corporate conduct is insufficient, citizens and their governments must continue to assert the moral, social, and political case for corporate responsibility.

CORPORATE INITIATIVES: DO MORE GOOD, DO LESS HARM

The impact of a company's operations involves both the goods and services it produces, and the labor, environmental, and social impact of the way it organizes itself to produce them. It is possible to conceive of a company producing cheap eyeglasses for the African market while polluting local rivers with heavy metals, or one that aggressively markets powdered baby milk in the Third World while maintaining an excellent record of labor relations and employee welfare.

Historically, philanthropy was the chief manifestation of corporate social concern, and this still plays a major role in the definition and analysis of CSR in the United States, where the philanthropic tradition

is strong. In recent years, major companies have recognized that social responsibility must first and foremost concern their core business, and must infuse the entire organization from boardroom to boiler room. To differentiate the philanthropic and internal dimensions of CSR from the more proactive social role companies can play as part of core strategy, some have proposed the terms "corporate social investment" and "corporate social leadership."

"Social entrepreneurship" is another area of growing interest. The definition of a social enterprise is far from fixed, but is in general an organization bearing some characteristics of both NGOs and businesses. A company with strongly articulated social values and a commitment to providing goods or services that contribute to the needs of a disadvantaged section of the community can be considered a social enterprise. So too can NGOs that are financed more through fees and sales than by grants, and that bear some of the organizational and managerial characteristics more common to the private sector. There is a great deal of energy and enthusiasm for this new approach to social progress, particularly in North America, and among NGOs rather than the corporate sector. Although there is clearly space for growth, the social enterprise movement has yet to meet challenges of scalability, entrenched economic and political interests, and the tendency of NGOs, let alone social enterprises, to put organizational financial health ahead of mission and values by equating and confusing the two.

The term "corporate social responsibility" remains a useful catchall for the requirement of corporations to pay heed to environmental and social issues. Among most of the massive TNCs, the debate about the form, extent, and sincerity of CSR remains vibrant and significant. When a major corporation makes an incremental change in its policies and practices, this has a more profound impact on the lives of more people than do the more spectacular stands of smaller companies that create a niche market based on their high-profile ethical approaches to producing or sourcing their products, such as Ben & Jerry's (which sells ice cream) or The Body Shop (which sells cosmetics). Such companies may nevertheless point the way, or provide inspiration that may one day be picked up by the oil majors.

For every keen exponent of CSR programs, however, there is a skeptical and articulate critic. Critics of the voluntary nature of CSR, and the dangers of this becoming shallow window-dressing, call for "corporate social accountability" emphasizing the need for externally determined standards, generally of a mandatory nature.

It is therefore necessary to review current thinking on the capacity of corporate philanthropy, codes of conduct, fair trade and ethical trade, and the case for regulation versus voluntarism.

Corporate Philanthropy

Although the current CSR debates center on the impact of core business practices, we should not discount the philanthropic contributions corporations can make to equitable development. Philanthropic and social programs are also beginning to reflect a greater awareness of the social and environmental impact that a company's main business might have. Certain car manufacturers and electricity-generating companies have introduced programs offsetting the carbon emissions of their activities and their products through funding of, for example, reforestation projects. Several mining companies have focused their health and environmental programs more directly on the communities affected by their mining.

Other companies, rather than donating funds to uncontroversial traditional charities, have realized that their philanthropy can reflect their particular skills and capacities. Telecom and information companies are increasingly making technical staff and equipment available to relief agencies. Pharmaceutical companies have earmarked manufacturing inventories for donation and have helped with relief agencies' contingency planning. Banks and other financial companies are looking at issues of microcredit for poor producers, remittances, and other pro-poor financial services as well as corruption-reducing transfer systems.

Codes of Conduct

Until the 1990s, CSR was considered to involve paying taxes, delivering a quality product, providing employment, and abiding by the law. Today, codes of conduct address an array of issues addressing corporate responsibility toward the environment, workers, and society as a whole. Codes have proliferated at various levels. Global initiatives include the UN Secretary-General's Global Compact and the OECD guidelines. Industry-wide initiatives include the timber and DIY industries' Forest Stewardship Council, and the Marine Stewardship Council covering fishing and seafood. Beyond these lie a multitude of individual in-house company codes.

The relationship of codes of conduct to development requires examination of the intended and the actual beneficiaries. As Sumi Dhanarajan shows in Chapter 10, codes with fine-sounding standards on the environment and working conditions do not necessarily directly address issues of fair wages, poverty, or inequality in the host country. Too often, suppliers pay for the implementation of environmental standards and workplace facilities in the code, and pass this extra cost on to the workforce in the form of lower wages. Even where the codes ensure the well-being of the employees in the company's factory or supply chain, these workers can come to represent an elite part of the workforce amidst widespread poverty.

It is easier for larger producers to meet the requirements of codes, just as it is far easier and more cost efficient for a buyer to audit and monitor larger producers. Even here, the cost of auditing is sometimes borne by the supplier. There are also economies of scale in such things as the safe handling and storage of materials, so that the costs of compliance again favor larger producers. There is a danger, therefore, that codes of conduct will lead to a concentration of production in larger supplier factories or bigger plantations. Small workshops, family farms, and homeworkers are likely to lose orders from companies with comprehensive, well-monitored codes of conduct. Yet they are among the very poorest workers, whom codes of conduct are designed to benefit.

It has been argued that codes are the creation of corporations based in industrialized countries, often overrepresenting the concerns of consumers, social activists, and more responsible company executives in those countries, rather than the needs expressed by the people they are intended to assist (Nelson et al. 2005). In Chapter 13, Anne Tallontire, Catherine Dolan, Sally Smith, and Stephanie Barrientos explore the impact of codes of conduct on the position of women, concluding that codes alone do not necessarily bring about the intended improvements, and that it is work in society, beyond the realm of corporate codes of conduct, that will improve women's employment situation. Jem Bendell suggests in Chapter 2 that stakeholder democracy offers a more representative approach to defining what constitutes socially responsible corporate behavior, and in Chapter 4 Niamh Garvey and Peter Newell examine the demand for corporate accountability and contend that more power should originate in the affected communities.

Although codes of conduct may not contain all the solutions, greater understanding and the growing adoption of codes signal changing perceptions of what constitutes acceptable corporate conduct.

Fair Trade and Ethical Trade

The fair trade movement has had more impact than most other recent initiatives to raise public awareness about injustices and inequalities in the trading system. It has also spearheaded a debate on fairer alternatives. The movement has managed to build up fair trade businesses to the point where they now compete with mainstream companies in certain products, such as coffee and chocolate. The movement is benefiting a growing number of small producers worldwide and increasing the commodities eligible for fair trade status. The importance of NGOs in advocating and publicizing fair trade among consumers is examined by April Linton in Chapter 12.

The movement faces several dilemmas and crucial choices, however, as it grows in scale and recognition. Do the trading arms of the fair trade movement want an ever larger share of the market, or should they seek greater influence over all trade? How significant is the danger that the growth and strengthening of fair trade companies will become an end in itself, obscuring the original mission of making all trade fairer?

The process of developing international standards for what constitutes fair trade in a given product is increasingly complex, requiring agreement between the many companies and NGOs that constitute the international fair trade body that arbitrates these standards. Once standards are defined, a process of training, auditing, and accreditation is required before that product can bear the fair trade mark. Both the development of standards and their implementation represent transaction costs for the fair trade movement. Even though producers often receive a preset, minimum guaranteed price for their products, a great deal of the premium charged to the final consumer of fair trade products needs to be earmarked to cover the costs necessary to ensure that proper standards are achieved and upheld. This is an awkward issue for a movement that speaks of cutting down on the intermediary costs of international trade.

Producers in the developing world invest in structures, knowledge, and facilities to enable them to gain certification as suppliers of fair trade products. On occasion, the market for such products is not big enough for all their output to be sold to fair trade organizations, especially at the guaranteed price. NGOs and fair trade companies alike received substantial grants and subsidies to cover the early development of the movement. Grant-making organizations still put a lot of money into helping producers raise standards to meet the fair trade criteria.

Fair trade NGOs, some engaging in trading and others promoting and publicizing the idea, are funded organizations rather than for-profit businesses. Some see this as pump priming for a sustainable market system, and others view it as a subsidy supporting the entire fair trade project. The bottom line, however, is whether these fair trade initiatives have improved the lives of ordinary people in the face of pressures such as debt, volatile commodity markets, and inadequate government services. In the case of Nicaraguan coffee producers, Karla Utting-Chamorro (2005) found that such constraints undermine the impact of even the best-designed initiatives.

Several major retailers worldwide, particularly those that have been the butt of critical campaigns such as garment, sportswear goods, and food retailers, are involved in initiatives with trade unions and NGOs to find ways to make their trading more ethical. Ethical trade activities aim to improve the labor rights of workers in the supply chain as well as the environmental and social impact of international trading activities. Learning from the policies, procedures, and standards of the fair trade movement, criteria for ethical trade usually represent targets and aspirations. Taking account of the current pressures and conditions confronting the major retailers, they confront practical questions such as "How do we move from where we are now to where we would like to be?" This work therefore seeks ways to advance and measure improvements with a view to making all mainstream trade more ethical.

Voluntarism versus Regulation

The encouragement of good behavior on a voluntary basis is not an alternative to national governments holding corporations to account, and international regulatory frameworks upheld by strong international institutions can also prevent the environmental and labor equivalent of tax havens. Voluntary codes are an immediate way of reducing environmental harm and the suffering caused by the negative social impact of business. But they are also a method of designing and testing the benchmarks, feasible ideas, norms, and standards for more ethical business conduct that will, in the future, inform the regulatory frameworks and mechanisms. There is too much at stake to pursue the long-term goal of better corporate regulation while harm continues to be caused, or to believe that voluntary approaches to these problems will lead to sustainable solutions. We do not have the luxury of choice; we must do both.

Peter Utting elaborates such a case for voluntary CSR and mandatory regulation of corporations in Chapter 3. Co-regulation, involving trade unions, NGOs, and companies in multisector initiatives to develop, implement, and measure CSR programs, lies somewhere between self-regulation and binding laws on corporate conduct.

There are other gray areas between voluntary and mandatory controls. Certain stock markets, and official business service agencies such as governmental export credit guarantee services, require adherence to international codes of practice. Although this is not mandatory regulation in the sense that a business could continue to operate without registering on a particular stock market or seeking certain government benefits, these initiatives certainly go beyond self-regulation.

There is a body of belief that companies leading the way in CSR will eventually be motivated to ally with NGOs and trade unions to lobby for mandatory codes of corporate conduct, a case argued by Peter Williams (2005). As market leaders in CSR deepen their own programs, they will develop an increasing aversion to losing business to rogue companies and free-riders who have failed to make the same kinds of social investment. If laws are introduced, the pioneering companies will have the advantages of first movers.

CORPORATIONS AND THE MILLENNIUM DEVELOPMENT GOALS

At the Millennium Summit in September 2000, political leaders from around the world established the MDGs. In many ways, these goals are a test of our collective humanity, our common morality, and our political will. They will stand or fall as milestones on the path toward genuine human civilization.

Virtually nobody could disagree with the intent of the MDGs. They aim to halve extreme poverty and hunger, achieve universal primary education, eliminate gender inequality in education, reduce child mortality by two thirds, reduce the maternal mortality rate by three quarters, reverse the spread of AIDS, reverse the incidence of malaria and other diseases, and halve the proportion of people without access to safe drinking water by 2015.

Although governments have committed to these goals, civil society—local and international NGOs—have embraced them as a concrete set

of targets to which they could contribute, and to which they could hold governments accountable.

The interim results are not good, even if you believe some of the dodgier state statistics from self-aggrandizing regimes. Governments and civil society are well behind target as the clock runs down. The goals will not be achieved without more participation and coordination by governments, civil society, and most importantly, an injection of energy, ideas, and support from the private sector.

Business can develop affordable and accessible products and services. Food companies can offer products that address nutritional deficiencies. Pharmaceutical companies can focus on basic medicines. Utilities can bring cleaner water and cheaper power to poor and remote communities. Programs to reduce child labor can get kids into school. Technology can foster education. Women can be employed and trained in ways that empower them (Nelson and Prescott 2003).

There is a perverse way in which governments sometimes seem to need wars to crystallize political will and bring them to their senses. Will corporations need more protests, more scandals, more collapses, and more Bhopals, before they realize the role they must play to earn a place at the table in a world aspiring to the MDGs? If we fall short of these goals in 2015, the community of ordinary people around the world who question the meaning of globalization will swell. Frustration and anger will grow at the failure to provide food, schooling, and health care for the children to whom we feel increasingly close—all the world's children. Our economic systems, political institutions, and social structures will be up for review in the eyes of a disillusioned population. People will point the finger of blame not only at political leaders, but also at the world's big companies.

ECONOMIC IMPACT AND BEYOND

The influence of companies on the development of our societies raises questions that extend into the heart of our behavior and our human relationships. Corporate culture cannot be defined simply as the imposition of the interests of a ruling class, or even some alpha-male managerial class, on the rest of us. Corporations have evolved their own behavioral norms and values irrespective of whether their owners are robber barons or trade union pension funds.

Is this the corporate culture we deserve—a reflection of the current state of human civilization, a manifestation of our cruder survival instincts? Or has it taken on a certain autonomy, driven by its non-human institutional imperatives? Put differently, are corporate needs shaping society, or is society able to shape corporate behavior? If the truth lies in the middle, with some kind of iterative process, how balanced is that reciprocity? Do we, in fact, want corporate culture to influence our personal culture at all?

Does the impulse to compete and to grow that essentially drives the market system necessarily limit our own imagination of a world where cooperation, modesty, and balance would play a dominant role? Has corporate culture dazzled us with a frenzied multiplicity, breadth, and diversity, leaving us unable to perceive the true narrowness of its purpose?

If corporations represent a worldview that the accumulation of wealth should reign supreme, can the lone individual possibly resist? Do trade unions, consumer groups, and the rest of civil society represent a robust, collective, and organized counterweight to corporate hegemony, or are they only capable of a desperate, token reaction?

Cultural identity is a potent motivating social force. The corporate world is fairly clumsy when it comes to its cultural footprint. Will the new opposition to corporate power come not from those necessarily economically impoverished or exploited by corporate action, but from those who also feel culturally or spiritually disenfranchised, marginalized, or humiliated by the changes to their lives most tangibly represented by the hegemonic marketing of the TNCs?

The challenge is to put companies in the service of society and create wealth for it, not to concentrate wealth. Private companies and development agencies have distinct motivations and functions, but it is possible to imagine new forms of ownership and control that retain the power and dynamism of corporations to innovate and mobilize resources efficiently without their need to adopt a ruthless character and attempt obscene concentrations of wealth. In the end, companies are programmable machines, and we the people, through our moral principles, expectations, demands, and laws, must write the program. We must ensure that we do not create machines with such a narrow mission on such an unwieldy scale that they trample on their creators, on the weak, and on the vulnerable. We must program them to operate in the service of us all, particularly those who are dying for their goods and services.

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