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From Corporate Social Responsibility to Corporate Accountability and Beyond

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Introduction

There is no single, universally accepted definition of Corporate Social Responsibility (CSR), but most definitions from public, private and civil society sources agree on key points. CSR involves companies assessing the social and environmental impacts of their work, voluntarily integrating practices and policies that address concerns about these impacts, and undertaking ongoing engagement with public stakeholders. Central to the idea of CSR is that companies have obligations to contribute to sustainable development in the wider community and that 'responsibility' means not only fulfilling legal obligations, but rather sticking to the 'triple bottom line' of 'People, Planet and Profit'. This paper examines how the various approaches to changing corporate behaviour, which fall under 'CSR', are evolving.

The debate on CSR has changed greatly in the last decade, moving from an initial focus on environmental and labour issues towards addressing broader questions on the role of business in poverty alleviation, development and good governance. While INTRAC research in 2000[1] investigated the relationship between NGOs and business, the current emphasis in civil society campaigns and academic debates is on the relationship between business and the state, and how to ensure genuine corporate accountability.

The extreme importance of questions about corporations' roles in global affairs and their capacity to contribute to social change is highlighted by the fact that out of the world's 100 most powerful economic entities, 51 are transnational corporations (TNCs), and only 49 nation-states[2]. There is a huge discrepancy between the financial resources wielded by the corporations and other international actors. In 2009, the revenue of Royal Dutch Shell was $458.4 billion, whilst the GDP of Tajikistan was only $5.13 billion, i.e. just over 1% of Shell's annual revenue. TNCs wield incomparably more financial resources than intergovernmental organisations – the budget of the UN is 0.5% of Shell's revenue. Furthermore, debates about the relationship between business and society are especially relevant when private financial flows constitute 83% of the developed countries engagement with the developing world[3].

These facts, which highlight the power of corporations, raise many questions. Does the entry of the private sector into the development field signify a future where business rather than

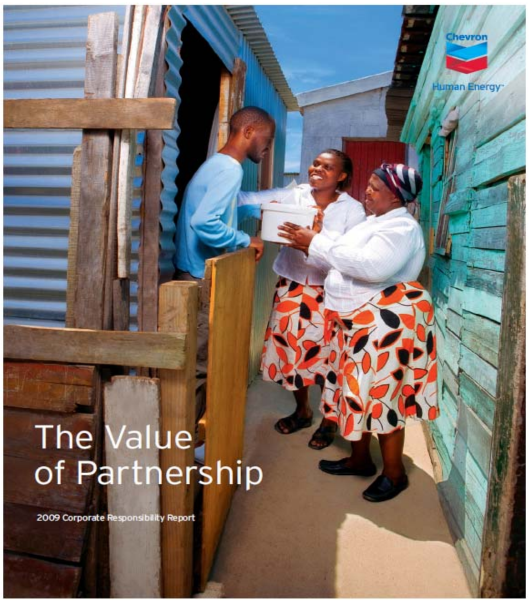
[1] S. Heap "NGOs Engaging With Business: A World of Difference and a Difference to the World" (2000)
[2] Dubkin and Vallianatos 1997
[3] Adelman 2009, 23. Private financial flows include philanthropy, remittances and private investment. For example, in the US, private philanthropy outstrips official development aid almost twofold and remittances outstrip it more than threefold. However, whilst the commitment of the private sector to development related goals is larger in absolute terms than that of the official donor states, the percentage of their profits constituted by their giving is less. In the UK the sum donated to charities in 1998-1999 was only 0.2 % of their profit which falls short of the UN goal of 0.7% of GDP for the states.

the state will be the main actor in development[4]? Can CSR make a real difference whilst existing alongside corporate lobbying for controversial social and labour policies? Is there a role for civil society and the state to demand not just corporate responsibility, but also corporate accountability, for example, in the areas of taxation and corruption? This briefing paper describes how NGOs have engaged with businesses in CSR; summarises the critical debates around the current understanding and practice of CSR; discusses the evolution of the debate from CSR to corporate accountability; and points to future developments in debates about how business can contribute positively to social change.

1. The rise of CSR

The debate on CSR dates back to the 1970s. However, it was not until mid-1990s, and the controversies surrounding Shell operations in Nigeria, that CSR became mainstream within the public domain. The ascendance of CSR in the public consciousness was largely brought about by the campaigning of civil society organisations, such as Greenpeace, Friends of the Earth and many others.

In the 1970s, Milton Friedman argued that the only social responsibility of business is ’to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engage in open and free competition without deception or fraud’[5]. Undoubtedly, the expectations of both the public and business have changed a great deal since then. In the late 1980s, when Nike was accused of poor working conditions in its Southern factories, it reacted by declaring that its sole social responsibility lay in the economic domain[6]. Now, Nike and many other corporations view social responsibility as an inherent part of their business, which is illustrated by the increase in the volumes of philanthropic giving, codes of conduct, and the involvement of corporations in community projects. Many corporations have adopted the language and imagery of the international development community, as the two report covers below from Nestle and Chevron show.



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However, on closer inspection, does Friedman’s statement still ring true? It seems that corporate social responsibility still operates within the basic tenets of businesses’ purpose – profit making, free trade, private property – what Blowfield calls the ‘parameters of

[4] Frynas 2005
[5] Friedman 1970
[6] Blowfield 2010

possibility'[7]. A recent study of major oil companies in Central Africa found that these corporations do not conceal the fact that profit making is the underlying reason behind their work[8]. Furthermore, mainstreaming of CSR has accompanied an unprecedented rise in the power of corporations. What does CSR demand of business? Are there limits to it? How can civil society best work to hold business accountable, and what for?

NGOs engagement with business

Following the pivotal role of NGOs in calling for more socially responsible business, it seems that when major TNCs started devoting more attention to the social and environmental aspects of their activities, the mode of interaction between NGOs and business shifted from being adversarial to neutral and even co-operative. Based on interviews with representatives of more than 200 NGOs, a report from the thinktank SustainAbility concluded that an increasing number of NGOs are now thinking strategically about ways of engaging with business, entering markets and making globalisation work for the poor rather than simply opposing it[9]. The following typology highlights some of the key differences in the ways NGOs interact with corporations:

	Polariser	**Integrator**
Non-discriminator	**SHARK** Ignores relative performance and attacks most targets	**SEA LION** Ignores relative performance and works with anyone
Discriminator	**KILLER WHALE** Scrutinises relative performance and attacks selected targets	**DOLPHIN** Scrutinises relative performance and selects appropriate partners

Types of NGOs and their interactions with business
Source: SustainAbility 1996, in Heap 2000: 18

Examples of 'dolphin' characteristics would be CARE, Plan International and Save The Children, who have received donations from corporations that they deem to be responsible. Many of these interactions seem to be forms of donorship, which meet the pressing need of NGOs for large, stable sources of income. Overall, child-protection INGOs appear to be further ahead than many NGOs in terms of fundraising and partnerships with corporate sources, perhaps in part due to the non-controversial nature of support for children's rights. For example, Save the Children GB receives support from businesses as diverse as Barclays, Marks and Spencer's and Tesco. These interactions signify the emergence of new donors who support established approaches to aid rather than the ascendance of socially responsible business in a more holistic sense. Whether accepting large donations hampers the ability of NGOs to be critical of these or other corporations is a question each organisation must wrestle with. However, there are also further-reaching forms of partnership between NGOs and the corporate world, such as this example from Concern Worldwide:

Concern Worldwide: opportunities for learning through corporate partnerships

There are signs of increasing learning on CSR across the two sectors as civil society organisations start to use skills and people from the corporate sector in their programming. One example is a Concern Worldwide programme focused on generating innovative ideas

[7]Unalienable rights and tenets underlying the existence of the companies including the right to make profit, universal good of free trade, supremacy of private property, commoditisation of things including labour, superiority of markets in determining price and value, privileging of companies as citizens and moral entities (Blowfield 2010).
[8] Kolk and Lenfant 2009
[9] SustainAbility 2003

to significantly improve known solutions in maternal, newborn and child health. To do this, Concern Worldwide ran geographically focused competitions for ideas, targeting non-health specialists, service users and those whose ideas rarely get listened to by health service planners. In designing and running such competitions, Concern had to deploy a range of skills that are not normally found in NGO workers in developing countries: management of call centres, hotlines, public marketing at a national level, customer care, training of idea assessors and judges.

Concern's existing relationship with Digicell, a mobile phone company, provided the opportunity for Digicell to second staff members who could provide specialist skills that Concern did not have. The programme is an example of emerging partnerships which seem more substantive, building on a skill base available in the private sector which might be of great value for NGOs.

The 'killer whale' NGOs, such as Oxfam GB or Christian Aid, have directed campaigns at selected corporations ranging from supermarket chains in Britain to the operations of British American Tobacco and Coca-Cola in the South[10]. It is important to emphasise that most mainstream development INGOs display both adversarial and cooperative approaches in their work with the corporate sector. For instance Oxfam Novib sees itself as an organisation which tries to cultivate a wide range of relationships with business, varying from dialogue, engagement and partnerships to critical campaigning. Plan has initiatives with Nokia and Barclays who support their programmes at multiple levels, but also releases vocal campaigning reports against child labour within the tobacco industry.

'Sharks' do not seem prominent within the civil society sector. Some environmental NGOs, such as Friends of the Earth, still take a more generally adversarial approach to business, but it appears that watchdogs, such as Corporate Watch, most fully comply with the definition of a 'shark'. They question contemporary CSR measures which do not target the nature of corporations, the profit making priority, or make demands on corporations' liability and legal status. Equally, publicly available examples of 'sea lion' NGOs are not widespread, but one example would be Nature Conservancy, which, as discussed below, seems to be providing 'greenwash' for corporate partners and their public faces.

A 'Sea-Lion' NGO? Nature Conservancy

Nature Conservancy, based in the USA, is the world's richest environmental NGO. It has made its name by pledging it is 'preserving nature, protecting life' and has created a distinct niche in the environmental movement: buying land. In 1955, it bought its first plot of land, and its 'bucks and acres' strategy of cash for land has proven successful. In the age of the economic liberalisation and corporate largess, the Conservancy's scope was transformed due to corporate donations, which rocketed from $1.8m in 1993 to $225m in 2002.

The Conservancy boasts 1,900 corporate sponsors and has institutionalised relations with many Fortune 500 corporations. Its 38-member Board of Governors has included past and present executives and directors of major industrial corporations, including oil companies, chemical producers, auto manufacturers, logging operations and coal burning electric utilities, for example, General Motors and American Electric Power Co.

The questionable nature of these close ties with business is illustrated in the Conservancy's relations with some of the US's biggest paper consumers: Georgia-Pacific Corp. and International Paper Co. Rather than insisting on pristine preservation of land, the Conservancy takes the approach of 'compatible development', allowing logging to continue on its land. Whilst the Conservancy defends this as a way to implement more conservation-

[10] For details see reports Christian Aid 2004; Oxfam 2004a; Oxfam 2004b

friendly approaches, The Dogwood Alliance, a coalition of 70 grassroots environmental groups, says the change in methods is superficial, and that considerable damage by corporations is merely 'greenwashed' by the Conservancy.

Another example is the Conservancy's choice to opt out of fierce battle between environmentalists and the oil industry over proposed oil drilling in the Arctic National Wildlife Refuge. This decision looks particularly compromising in light of the fact that two major oil companies that support the Alaska drilling – BP and Exxon Mobil – hold Conservancy leadership council seats. Exxon Mobil, one of the leading lobbyists against Kyoto, has donated $5 million to the Conservancy.

Criticism of the Conservancy has come from former insiders as well as outsiders, such the former head of the charity's land acquisition, who describes his part in pioneering corporate ties as 'the biggest mistake in my life'. Given that the Vice President of Eastman Kodak Co. described the Conservancy as a 'natural choice' for partnerships because there was 'no conflict potential', it is difficult to see how the Conservancy's partnerships with corporations transform businesses' role in society. Rather, this example points us to the potential of corporate–NGO partnerships to merely serve the 'reputational value' of big business[11].

With the increasing engagement around CSR, whilst on the whole NGOs try to balance their pressing fundraising needs with their desire to work on substantive CSR policies, there are still cautionary examples which raise questions around whether corporations engage with NGOs primarily for reputational gain, and around the fine balance facing NGOs who seek to engage with business without compromising their values.

Are corporations capable of social responsibility?

Whilst the adoption of CSR by many TNCs represents considerable progress, there are still critical voices. As the SustainAbility report puts it, 'though we see continuing convergence between the interests of some leading companies and some mainstream NGOs, we also see a continuing gulf between mainstream economic thinking and the emerging positions of the radical fringe elements of the civil society world'[12].

Some question whether corporations are actually capable of social responsibility at all[13]. It is argued that CSR as it currently is adopted by most corporations embraces issues such as environmental management and to a certain degree labour rights – understood as health and safety – whilst not questioning what are considered 'non-negotiable values' of business which create inequality[14]. Whether one agrees with this or not, there are several concrete arguments which question CSR that must be considered. We will now summarise some of these, and then consider some possible responses to the limitations of CSR, which are emerging both within the civil society and business sectors.

2. The limits of Corporate Social Responsibility

There are insistent criticisms which question the significance of CSR contribution to poverty alleviation and development, and ask whether CSR remains part of a broader 'business as usual' approach. The criticisms focus around several major themes. The first is that the CSR agenda does not take into account a wider societal understanding of poverty and global power relations, and ignores the complex, structurally rooted problems of underdevelopment

[11] Adapted from Ottaway and Stephens 2003
[12] Sustainability 2003, 50
[13] Corporate Watch 2006
[14] See footnote 7.

and the roles that TNCs play in exacerbating them[15]. Secondly, critics point out that there is limited evidence about the scope and substance of CSR impact on development processes and poverty alleviation. What is known at the moment is confined to micro-level assessments of individual corporations' particular projects. Finally, critics argue that CSR programmes are used by TNCs in an instrumental way, both as a marketing tool and to use CSR as a voluntary substitute for mandatory systems of regulation for TNCs.

Ignoring structural causes of poverty and the issue of corporate power

Criticisms from a broadly neo-Marxist angle argue that CSR cannot be a solution to the problem of poverty because it does not address structural factors behind it, silences the problem of corporate power, and legitimises the values of neoliberal capitalism[16]. With up to 50% of global GDP controlled by 800 TNCs, it is difficult to envision how CSR, if merely part of a status quo business model, can really address issues around rights, redistribution and social protection[17]. Critics say that CSR projects are based upon a misguided idea of simple solutions to the problem of poverty, which assumes that mitigating the effects of poverty, alongside free market approaches and the integration of small firms into global supply chains will lead to successful development. They also point out that CSR is promoted alongside staunch support for macroeconomic policies such as deregulation. It is argued that this is evidence that TNCs do not take social protection or socially responsible business seriously, given the impact of free trade and the preservation of special tax regimes in the countries of operation on large sections of developing countries' populations.

Even though CSR initiatives do alter some aspects of TNCs behaviour, most large companies have a strong interest in market liberalisation, privatised governance and self-regulation, 'often at the cost of labour rights, decent wages, employment security…state and trade union regulatory capacity'[18]. CSR does not question what TNCs see as the 'non-negotiable' values of business such as profit-making, private property, free trade, and commoditisation of labour[19]. For instance, a CSR approach to the impact of a mining corporation's activities may only take environmental and social effects into consideration, without questioning the right of a corporation to own land and resources.

The core of this argument is that: whilst presenting the 'moral dimensions of capitalism', which appeals to investors and consumers, CSR as it stands now does not answer the fundamental question 'for whom does business exist?'[20]. Several authors particularly criticise oil companies who have been happy to improve the ecological standard of their work, and undertake limited community level interventions, but have avoided engaging in more fundamental problems such as global trade relations; the decline of non-oil producing sectors of the economy; the relationship between oil extraction, conflict and human rights; TNCs' tax avoidance; and inequitable resource allocation[21].

Slim evidence of the actual impact of CSR

Critics also point out that the positive evidence for CSR is limited. This is especially so if one looks at some of the community-development projects of TNCs which are more eagerly adopted by business than harder, but more valuable, policies such as labour standards, anti-corruption measures and responsible taxation. Despite business literature emphasising the successes of CSR in terms of making contribution to poverty alleviation in particular spaces, reporting focuses on outputs of the community development programmes rather than

[15] Blowfield 2005b; Blowfield 2007; Frynas 2005; Frynas 2008; Ite 2004; Prieto-Carron et al. 2006; Utting and Ives 2006
[16] Blowfield 2007; Utting and Ives 2006
[17] Utting 2007
[18] Utting 2007, 709
[19] Blowfield 2007
[20] ibid
[21] Frynas 2005; Ite 2004; Kolk and Lenfant 2009; Utting and Ives 2006

outcomes. Reports from the practices of distinct TNCs in particular places do not give any indication of industry-wide improvements or any replication of good practices across TNCs' countries of operation[22].

The 'success' stories of CSR are based on case studies of poverty reduction at the micro level, or reports of TNC compliance with codes of conduct. Data about CSR impact on social well-being and justice in communities where TNCs operate is not reported[23]. There is little monitoring that can enable us to say more than 'CSR has some benefits in particular scenarios'[24]. On the one hand, this problem in reporting outcome and impact is common in the international development industry as well. However, some, such as Shell in Nigeria, have come under harsher criticism: a 2001 audit of Shell programmes in Nigeria concluded that many of Shell's reported CSR initiatives were not actively functioning in practice[25]. This was particularly the case with large infrastructure projects – such as the construction of health clinics without thinking about recruiting medical personnel. There have been indications of falsified reports, for instance in some TNCs based in China[26]. Thus, even where there are successful examples of individual schemes, often done in association with NGOs, these are limited to pockets, rather than providing any evidence of a change or of the overall impact of TNCs on social rights, labour market policies and environment[27].

Merely 'business as usual'?

CSR is discussed as a 'win-win' way of working, which can be explained by the fact that it is associated with improved financial performance. Margolis and Walsh found that, between 1972 and 2002, at least 127 empirical studies pointed to a positive relationship between financial gain and socially responsible behaviour [28]. This has been called 'the business case' for CSR in the literature. However, this lays TNCs open to the criticism that they only engage in CSR activities to maximise their profits rather than to make business truly socially responsible. Oil companies, in particular, have been criticised as engaging in CSR for primarily self-interested reasons, such as: to obtain competitive advantage, maintain a stable working environment, manage external perceptions, and keep employees happy[29]. One example of CSR being motivated by corporate interest rather than public good is Chevron Texaco's partnership with USAID and UNDP in Angola in early 2000s, which could be seen as part of attempt to get closer to policy decision makers at the time of a decision about the future of oil spills in Angola[30].

There have been particular accusations of the use of CSR as a PR strategy for TNCs. This was indicated in the case study of Nature Conservancy (see above). Furthermore critics suggest that Northern-origin TNCs may use CSR to boost their reputations in relation to other, including Southern, corporations[31]. For instance, the most visible issues on the CSR agenda have for a long time been those key to northern consumer sentiments – such as child labour and environmental issues – as opposed to issues that may be more important to citizens in these communities such as trade union rights and the rights of informal workers. If reputation is the primary motivation for CSR then the wider impacts of CSR policies may be ambivalent. There is evidence from Brazil that even when CSR leads to improved rights and conditions for some workers at the core enterprise, it can worsen conditions for other workers, who are laid off and become subcontracted casual workers[32]. On the other hand,

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[22] Blowfield 2007
[23] Blowfield 2007; Prieto-Carron et al. 2006
[24] Frynas 2008
[25] Frynas 2005, 587
[26] Blowfield 2007
[27] Frynas 2005; Utting and Ives 2006
[28] quoted in Frynas 2008, 278
[29] Frynas 2005
[30] Frynas, 2005: 584
[31] Blowfield 2007; Frynas 2005
[32] Prieto-Carron et al. 2006; Utting 2007

national governments in many contexts also back up the anti-trade union sentiments of local and international businesses in the hope of preserving their competitive advantage in the global economy. For instance, Oxfam's ALaRM campaign in Sri Lanka to raise wages of the workers to the minimum living standard was opposed by both the government and local manufacturers[33]. So critics state that CSR is at worst a cynical PR exercise and at best an instrument that offsets the social problems that come with neoliberal capitalism.

Even if one takes a positive view of the potentially powerful impacts of CSR, it is hard to deny that its voluntary nature gives it a limited scope. The argument here is that self regulation and the goodwill of TNCs is not enough. Only a few companies actually embrace CSR and those that do are some of the largest and most powerful[34] – arguably those who can afford it – scrupulously avoiding the question of mandatory limits on corporations, such as progressive taxation. The levels of bonuses paid to senior banking staff, exposed by the current financial crisis, dramatically illustrate some of these issues of corporate governance and accountability. With this in mind a new push for 'corporate accountability', beyond just 'responsibility', has arisen.

Whether one believes that the state should increase its reach over TNCs links to wider debates over whether the market or the state should have greater regulatory power. The literature summarised in this section mostly comes from a neo-Marxist perspective. In the next section on corporate accountability we move beyond the criticism of free markets to examine some of the solutions proposed by civil society. One of these is a call for compulsory corporate regulation which resonates not only with critics, but also with those who take a more moderate Keynesian perspective. In this view, the private sector is necessary and brings some social goods, such as employment and economic development, but should not be left unchecked. In the final section we look at some of the arguments which claim that the benefits of capitalism will solve poverty.

3. Towards corporate accountability

Realisation of the shortcomings of the voluntary approach to CSR has moved debates towards the idea of 'corporate accountability'. This approach gives increased emphasis on the centrality of the state in regulating corporations, leading to the emergence of new types of initiatives which aim to increase the transparency and accountability of major corporate bodies. This comes in part from the recognition that even though the economic power of TNCs exceeds that of many states, the sovereign state is still powerful and even the biggest corporations in the poorest countries are still subject to government permissions and regulations. National corporate legislation also has a strong impact on shaping the behaviour of Northern corporations in the South, as shown by the difference in behaviour of Nordic and North American corporations in the South[35].

In the light of increased awareness of the role of the state, civil society has become active in campaigning for change of the current approach to CSR whereby corporations themselves decide what and how to regulate. Critical elements of civil society argue that the voluntary nature of CSR has allowed firms to actively avoid and weaken mandatory systems of regulation, to retain their control and power to set the rules. They point out that TNCs partake in CSR, where they can 'consult stakeholders', whilst lobbying against compulsory regulation, which would strengthen checks upon them and potentially make them accountable to citizens[36]. Instead, they argue:

> Historically, progress associated with corporate social and environmental responsibility has been driven, to a large extent, by state regulation, collective

[33] Atkinson, Scurrah2009, 67-94
[34] Utting 2007
[35] ECCR 2010
[36] Corporate Watch 2006

bargaining and civil society activism. [However,] increasing reliance on voluntary initiatives may be undermining these drivers of corporate responsibility.' [37]

It is argued that voluntary CSR measures miss out issues such as 'corporate power, perverse fiscal, financial and pricing practices, corporate lobbying for macroeconomic policies that can have negative impact'[38]. For instance, according to a recent Christian Aid report, trade mispricing costs 'the developing world $160 billion dollars in lost tax revenues every year'[39]. An OECD report shows that, currently, corporate entities rather than the banking system are more likely to hide their assets and attempt to escape taxation. Furthermore, the same report holds that money laundering may well pertain to many large legally-registered entities rather than just shadowy criminal bodies[40]. This illustrates campaigners' arguments that CSR, premised on the idea of corporate self-regulation, has largely failed so far to touch on the areas which are key to corporate power.

Walmart and the failure of voluntary self-regulation

Walmart, which has been long known for its poor environmental and labour standards, has decided to 'go green' and devote a large amount of money to improve its environmental standards and move into organic food market. However, what Walmart has not reviewed is its labour practices. It continues to oppose unionisation, as part of a general suppression of wages, and has been reluctant to adopt decent social security schemes for its employees: almost half of the children of its US employees are not insured and have to be covered from tax-payer funded programmes. Thus, that Walmart invests resources into the environmental sphere can be explained by the fact that this does not require a sustained and long term policy change which may result in decreasing the profits of the company. Therefore, Walmart's CSR policy is arguably more about PR rather than substantive measures, illustrating the failure of the voluntary self-regulation to address the issues of social justice.[41]

For instance, Friends of the Earth UK (FoE) has argued that rather than relying on voluntary approaches, it is crucial 'to mainstream common standards on social and environmental performance' and to do so through introducing changes to legislation that 'would allow people to hold corporations to account for social and environmental wrongdoing – corporate accountability[42]. The Corporate Responsibility Coalition (CORE) in Britain has campaigned for an international treaty which could be incorporated into domestic legislation. In addition, it has campaigned for a new Companies Bill in Britain that would make environmental and social reporting mandatory, extend the duties of chief executives, and increase the liability of corporations to litigation from foreign nationals seeking redress for corporate abuses.

As a result of this campaign a new Companies Bill was adopted in 2006. Whilst this can be viewed as a step forward, Britain's adoption of this law lagged behind Nordic countries where this type of legislation is already in place. The Bill, however, also did not extend the liability of corporations to foreign nationals seeking redress for abuses committed by corporations overseas. This is a central concern of campaigners since many developing countries lack the institutional capacity to introduce legislation to hold TNCs accountable, and might not be willing to do so due to the fear of losing a competitive advantage in attracting investment. However, even if such legislation existed, it is argued that people whose rights have been abused by corporations should still have the right to seek redress in the domicile of the corporation, as there are serious 'jurisdictional limitations on *nationally* bounded systems of

[37] Utting in Corporate Watch 2006, 20
[38] UNRISD, quoted in Friends of the Earth 2005, 4
[39] Christian Aid 2009, 9
[40] OECD 2001, 21
[41] Adapted from Mattera 2006
[42] Friends of the Earth 2005, 4

redress that seek to govern *transnational* systems of corporate decision-making and power'[43].

The British Government argued that these issues should not be covered by the Companies Bill, not specifying, however, an alternative route to address the problem. Similarly, several years ago the CORE initiative to introduce international law on TNCs was objected by DFID on the grounds that an internationally legally binding agreement would 'divert attention and energy away from encouraging corporate social responsibility and towards legal process'[44]. This highlights one ongoing limitation of both the CSR and corporate accountability debates, the fact that they are counter-posed with one another. If voluntary and regulatory approaches are seen as alternative solutions, it detracts from encouraging complementarity between legal and self-regulatory frameworks in transforming business practices[45], and the role of the state in creating incentives for business rather than only stringent regulation. The false contrast between the notions of corporate responsibility and accountability also detracts from the necessity of complementing the national legislation of individual states with that of internationally binding treaties. Regulating transnational bodies with national legislation is hardly a viable solution for making business truly responsible: adopting radical measures in a one distinct place will only displace problems to places where legislation is non-existent.

4. Ways forward for the state, business and civil society

Civil society and transparency initiatives

Some of the most recent civil society campaigning in the field of CSR has been centred on transparency and accountability, which have become important concepts more generally in international development debates. 'Publish What You Pay' and the 'Extractive Industries Transparency Initiative' (EITI) are two interesting examples of this, widely considered a positive area of growth on the CSR agenda[46]. Corruption in particular is an issue on which civil society campaigning and business seem to have a mutual interested in addressing, given that corruption is associated with high transaction costs for business.

EITI, the most notable of such endeavours, is a multi-stakeholder initiative, with a 20-person board, comprised of five from each stakeholder group: supporting countries; implementing countries; private sector; and civil society. Importantly, this set-up enshrines a power of veto for any one group of stakeholders including civil society, and pushes the group towards working for consensus. The EITI is a positive example of the power of reputation. Both implementing countries and TNCs sign up to the EITI and consequently change their behaviour to comply with its standards due to reputational risk. Therefore, EITI is a positive example of the power of reputation in pushing corporations to change their behaviour. The use of reputation is given some solidity in that EITI is not purely voluntary, but rather is a hybrid voluntary–mandatory initiative. It is voluntary only at the state level: once the state joins it, all the companies operating in this country must comply with the scheme.

British Petroleum and the EITI in Azerbaijan

Azerbaijan is a post–Soviet state whose economy is largely based on revenues from oil and gas industry. Similarly to many other oil abundant states, Azerbaijan suffers from problems which can be labelled the 'resource curse': the underdevelopment of other sectors of the economy, corruption, a weak taxation system and high levels of social inequality. British Petroleum (BP) is attempting to move its CSR initiatives in Azerbaijan from micro-projects to addressing macro-issues. Azerbaijan agreed to be the first

[43] CORE 2009, 6
[44] DFID, quoted in Corporate Watch 2006, 13
[45] Utting and Ives 2006, 28
[46] Kolk and Lenfant 2009; Utting 2007

compliance country to the EITI. In this initiative oil companies are obliged to report what they pay, the government to disclose how much it receives and independent auditors to review the matching of this data. BP, supported by Statoil, took the lead on promoting this initiative which should supposedly help oil revenue benefit the country more greatly. Despite this positive attempt to close the gap in the issues CSR is willing to address, an obvious limitation of this initiative is failure to report on how money is **spent** and to trace the oil being traded through the **black market**. Thus, the impact of this initiative will be very limited if it is not accompanied by positive efforts to develop non-oil sectors of the economy, redistribute of oil revenues among the population, and formulate long-term social development plans[47].

A more elaborate initiative which tries to take into account the process of spending is the Chad-Cameroon Petroleum Development and Pipeline project, a huge private investment in sub-Saharan Africa by ExxonMobil, Petronas and ChevronTexaco. The World Bank manages funds set aside for development and the accountability dimensions of the investment. In terms of design and aims, this project represents the most ambitious and scrupulous attempt to address the complex issues of governance and macro-economic problems that can originate from the influx of oil money and volatility of prices. The project is implemented through a law which controls and monitors the use of oil revenues and specifies how these should be used[48]. The law distinguishes between direct revenues (royalties and dividends) and indirect revenues (taxes): direct revenues go to service Chad's external debt; indirect revenues to government expenditures – 10% go directly to the 'Fund for Future Generations,' 5% to Doba, the main oil producing region and 80% to poverty reduction in five key areas. However, there are some serious limitations since the law refers only to the three original oil fields, giving no guarantees for areas of future exploration; the revenue management law applies only to direct revenues which will be received at the early stage of the exploration of the project, leaving the later stage of the poverty reduction at stake[49]; no specific criteria have been set to assess poverty reduction spending, leading to serious concerns that this spending is only mitigating 'negative externalities' rather than taking a sustainable development approach seriously[50].

These two examples show that such initiatives can help to raise the standards of accountability and provide a basis for tackling corruption, but even the most elaborate interventions aimed at augmenting transparency are still faced with serious challenges. Transparency initiatives alone cannot bring about positive changes in the macroeconomic impact of extractive industries, or the structural incentives that perpetuate corruption and non-transparency. Addressing these problems and creating sustainable development requires good governance. It is questionable whether good governance can simply be transported either by NGO initiatives or CSR measures without the critical input of the state.

The governance debate and the role for the state

Under the present CSR model, individual corporations and the market have the right and responsibility to decide what, when and how to regulate[51]. In the late 1990s, in the context of the state 'rolling back', there was a fear that TNCs would wield too much power, especially in the South. Hence, there has been an increasing awareness of the role of the state in transforming corporate behaviour. It is being realised that national regulatory systems, legislation and policy play an important role in creating agreed standards for socially responsible business[52].

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[47] Adapted from Gulbrandsen and Moe 2007
[48] Pegg 2005
[49] 1/5 of bonus received by the government was diverted to military spending
[50] For instance, despite the scope of the project, it has failed in a number of areas: predicting the inflow of migrants and associated social and especially public health problems; underinvestment in the oil-producing region itself, local hospitals and infrastructure.
[51] Heap 2000
[52] Utting and Ives 2006

The importance of political and institutional factors in making CSR work can be illustrated by the fact that TNCs tend to abuse human rights in weak states, where legal frameworks and law enforcement is weak, and where a poor human rights record is the norm. However, companies from Scandinavian states which have the most progressive corporate legislation in the world display similarly ethical behaviour in the developing world and their countries of origin. This stands in contrast to the practice of many companies from North America and mainland Europe which, while maintaining high standards of operation in the country of domicile, appear to display less accountable behaviour elsewhere.

For instance, in 2008, a Colombian trade union accused Coca-Cola of being complicit with paramilitaries' abuse and murder of trade-unionists in order to suppress workers' rights. In response to investigative journalism[53] around the 'Sinaltrainal v The Coca-Cola Company' US Federal court case, Coca-Cola stated that 'The Coca-Cola Company recognizes that our business is only as healthy and sustainable as the communities where we operate'[54]. This statement reveals the weak response of many contemporary CSR endeavours to questions about negative social impacts of their work in situations of poor governance. This can be further seen in examples such as Shell in Nigeria, where social and environmental performance has been much worse than in the more regulated environments of its operation.

National regulatory frameworks are needed to ensure that TNCs meet certain standards when operating in domestic markets[55], but the existence of such legislation also plays a role in their performance abroad, most notably in countries marked by weak institutions and legal systems. For example, amongst corporations operating in Democratic Republic of Congo, Norwegian Statoil provides the most detailed data about revenues collected and disbursed, which is indicative of a strong record of Scandinavian states in transparency and accountability[56]. Illustrative in this respect is the difference between Shell and Statoil in how they implement community development projects. Whereas Shell has concentrated on large scale development projects without prior needs assessment or a long-term vision, Statoil started with a variety of small projects ranging from micro credit programmes to forest users groups and gradually developed a broader community programme. Furthermore, whereas Shell has tried to publicise its contribution to the projects, clearly indicating a PR campaign, Statoil avoided this[57].The role of the state in influencing corporate agendas and behaviour is also highlighted by the fact that European TNCs have embraced measures tackling climate change more willingly than their US counterparts[58].

The questions around corporate power and the idea that 'the state should regulate' are subject to ongoing debate and deserve further attention. Do TNCs represent a changed face of global governance? Is a powerful international entity necessary to ensure ethical corporate behaviour? Or does CSR represent the dominance of northern-origin TNCs over southern actors? How is the CSR debate playing out in relation to the increasingly important major corporate powers originating from China and India?

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[53] Thomas 2008
[54] Coca-Cola 2008
[55] The maltreatment by some British supermarkets, most notably Tesco, of their personnel as well as their local suppliers illustrates that voluntary measures adopted by selected corporations is not enough in order to ensure genuinely socially responsible business. For a detailed review of Tesco labour and trade policies see Friends of the Earth 2002.
[56] It is notable that Norway is the only Northern state that has joined the initiative, with the other members being predominantly fragile states in Africa. By joining EITI, Norway showed that it does not want to impose those regulations and procedures on developing countries to which it does not comply itself (O'Sullivan 2010).
[57]ECCR 2010
[58] Utting and Ives 2006

Philanthrocapitalism or social enterprise?

The idea that the private sector is key to solving the problems of poverty continues to be forcefully argued[59]. The new thinking around ‘philanthrocapitalism’, alongside the established understanding of CSR, lays great expectations on businesses’ capacity to contribute to development and change the nature of corporate activities through voluntary measures. This is concurrent with a view that the free market and trade liberalisation are major factors that generate growth in the developing world. Corporations are thus seen as providing a solution to poverty through using free market approaches, privatisation and integration of small firms into global supply chains[60]. In this view, state power over corporations can be a hindrance to the innovation and efficiency of corporations to effect social change. An influential article of Prahalad and Hammond holds that by integrating bottom million markets into the world economy, creating employment and pursuing self interests, TNCs can contribute to lowering global inequality and poverty alleviation. This view purports that the bottom of the pyramid market represent ‘a large untapped opportunity for companies to generate real growth and gain important advantages[61]. A similar idea has been recently espoused by Bill Gates’ argument for ‘creative capitalism’:

> Capitalism has improved the lives of billions of people… It is mainly corporations that have the skills to make technological innovations work for the poor. To make the most of those skills, we need a more creative capitalism: an attempt to stretch the reach of market forces so that more companies can benefit from doing work that makes more people better off. We need new ways to bring far more people into the system — capitalism — that has done so much good in the world[62].

It is difficult to deny that entrepreneurial activity and business bring benefits to developing countries, as many would argue from the vast number of people emerging from poverty due to economic growth in China and India, and conversely, the immense suffering caused by economic crises. The question is: how and for whom can different types of business contribute to empowering in the poorest countries of the world? The idea of ‘creative capitalism’ is largely based on the potential of new technology to bring about change.

However, this is done without discussing the details of technology transfer or knowledge sharing from the North to the South, or the stringent patent and intellectual property rights which exclude many developing countries from access to the fruit of ‘creative capitalism’. The vision espoused by Gates and Prahalad questions neither the long-term consequences of the expansion of Northern TNCs in developing countries – such as its impact on local business or the social life of communities – nor the dynamics of power imbalance and structural inequalities that underline the existence of underdevelopment in the South[63]. Critics hold that philanthrocapitalism should be scrutinised against the purposes with which multinationals enter developing country markets – whether it is to deliver public good or whether it is to use ‘poor people as a marketing opportunity’[64]. A more moderate view might be that whilst capitalism has helped to take advances forward, unfettered capitalism alone lacks enough transformative potential to bring about a more just society. According to Edwards[65], capitalism needs to be shaped and led by ‘governments committed to equality and justice, and social movements strong enough to force change through’, on issues such as civil rights, gender equality and environmentalism, which have always been the key to improving lives.

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[59] Adelman 2009; Gates 2008; Prahalad and Hammond 2002
[60] Prieto-Carron et al. 2006
[61] Prahalad and Hammond 2002
[62] Gates 2008
[63] Frynas 2008, 277
[64] Blowfield 2005a, 517
[65] Edwards 2008

Social enterprise is one area increasingly discussed in the third sector. Social enterprise is based on the idea of using market principles to serve an ethical purpose. What distinguishes a social enterprise from philanthrocapitalism is that the former does not only contribute to the public good as a result of its activity but rather puts it at the heart of the organisation, setting up and running its business in a way that distributes social and financial benefits on the basis of social values rather than primarily for the interest of its founders. Whilst this paper cannot address social enterprise comprehensively, it is important to note that it raises potential new questions as we think about the relationship between the private sector and social justice.[66]. One example of social enterprise is the Bangladeshi organisation BRAC. BRAC was established much like many other development organisations, but has moved over the years to becoming predominantly self-sufficient, creating livelihood opportunities through developing its own production chains, whose profits then fund developmental work such as education provision to girls. This example highlights that for innovation and efficiency to serve the public good, they must be implemented as cooperative enterprises, whose values remain firmly at the heart of the organisation and profit distribution. In the UK, civil society economic entities such as mutual societies have declined over the last 20 years, but will perhaps remerge in new forms with the rise of social enterprise[67]. Otherwise market principles will merely serve the major principle of capitalism –maximisation of shareholders' profit, rather than transforming the nature of the business itself. Given this, the key question to bear in mind regarding social enterprise is not whether it is the latest development solution – but rather how the social enterprise model can transform already powerful business groups.

Conclusion: what is the role of business in society?

Over the past decade, CSR has made remarkable progress in redefining the nature of corporate activities. However, current mainstream CSR policies have not fundamentally questioned the relationship between business and society. Thus, the contemporary CSR debate asks 'What can business do to be a more responsible element in society?', as opposed to the broader question of 'What are the rights and responsibilities of business?' or 'What is businesses' role in society?'[68]. If the primary role of business remains profit maximisation and accountability towards shareholders, it is clear that the role of the state should be to regulate business and set up appropriate legislation in areas as diverse as labour standards in supermarket chains to taxation of the banks. Thus, the idea of corporate accountability, rather than merely responsibility, becomes crucial, with civil society campaigning for stronger mandatory regulation mechanisms. Campaigns for internationally binding legislation to regulate transnational corporations are particularly pressing.

Overall, we see CSR as a positive step towards harder measures for compulsory corporate accountability, which should be complemented by the continued efforts of civil society to generate new solutions to development problems and to define the terms of its relationship with business. We believe that the raw forces of the market should be counterbalanced with a more active state and innovative civil society. One of the major challenges facing NGOs is to strike the balance between becoming too defensive or accepting unequal partnerships which relegate their input to providing 'simple solutions' for business, such as entering into certification schemes for corporate products. According to Blowfield[69], the future engagement of NGOs with business will depend on the ability of NGOs to maintain a critical eye and stay ahead of the corporate agenda. If NGOs pay attention to problems such as demographic change, unequal wealth distribution, climate change, and become 'guide dogs' for corporations, showing them ways in which changes to their behaviour can have a positive impact on such issues, NGOs might be able to be brokers of understanding between the world of business and civil society.

[66] Ridley-Duff, Bull, Seanor 2008,2
[67] Commission of Inquiry into the Future of Civil Society in the UK and Ireland 2010
[68] Blowfield, 2005b, 174
[69] Blowfield 2010

Finally, there question remains of whether business will evolve into a development agent which consciously strives to deliver and to be held to account for its development actions[70]. The increasing importance of business in the development sector and its role as a donor continues to raise questions around the fundamental responsibilities and impact of business in relation to generating development that encompasses equality and empowerment as well as increased income. In the situation where the majority of bilateral donors are cutting funding to NGOs and CSOs, corporate funding is bound to gain in importance and leverage. We would urge civil society to continue to campaign for development that goes beyond economic growth and improved access to services and goods, but rather touch on questions of equality and justice, power and wealth concentration, and even in the context of partnerships with corporations clearly remember its remit as 'the crucible of democratic politics and social transformation'. For as Edwards puts it:

> The best philanthropy does deliver tangible outputs like jobs, healthcare and houses, but more importantly it changes the social and political dynamics of places in ways that enable whole communities to share in the fruits of innovation and success. Key to these successes has been the determination to change power relations and the ownership of assets, and put poor and other marginalised people firmly in the driving seat, and that's no accident. This is why a particular form of civil society is vital for social transformation, and why the world needs more civil-society influence on business not the other way around - more cooperation not competition, more collective action not individualism, and a greater willingness to work together to change the fundamental structures that keep most people poor so that all of us can live more fulfilling lives. [71]

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[70] ibid
[71] Edwards 2008

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