
**Corporate Social Responsibility:
Implications for Small and Medium Enterprises in Developing
Countries**

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Foreword by Carlos Magariños

Director-General of UNIDO



The process of globalization has accentuated ongoing debates on equitably sharing the benefits of international investment, trade, growth and development. Global disparities are growing with industrially and technologically more advanced countries progressing well and others falling further behind.

Transnational corporations (TNCs) are among the key drivers of the globalization process and today account for the lion's share of international trade transactions. With their investment strategies, they can co-determine the economic prospects of entire regions and countries. Their objectives and practices can lean towards "earning a quick buck" or "being a responsible corporate citizen". There is plenty of evidence both ways.

These developments have triggered an intense debate on Corporate Social Responsibility (CSR) - a debate so far centered very much around TNCs and driven primarily by a Northern agenda set by different stakeholders, ranging from civil society organizations to donor agencies.

The present study takes this debate a step further and looks into the implications of CSR approaches for developing countries and, in particular, for small and medium enterprises (SMEs) in these countries which, further down the value chain, can be critically affected. What are the determining factors of CSR practice? What regional and sectoral patterns can be observed? How are developing-country SMEs affected? Is there a business case for smaller companies to adopt good CSR practices? Does it make sense for SMEs in developing countries to tackle the CSR challenge proactively rather than regarding it defensively as a threat, as a new development constraint? These are some of the issues that this study addresses.

It would seem to me that it is the task of the UN system to turn CSR from a Northern preoccupation into a truly global agenda; from a potential dividing force into a unifying framework for development. Generating wealth in a manner that is socially and environmentally responsible, and thus sustainable, must be a common goal of the international community.

UNIDO is ready to contribute to this noble cause. The present study should be seen as an exploratory piece of research towards this end; as a platform from which further work can be developed. For instance, the interface between voluntary initiatives and public policy will need to be reviewed. While it is clear that the former cannot replace the latter, the key question would appear to be what kind of incentives systems can be developed to further stimulate CSR practices by making them economically attractive.

I hope the present study will contribute to stimulating fruitful debates along the above lines, at the forthcoming World Summit on Sustainable Development.

A handwritten signature in black ink, which appears to read "C. Magariños". The signature is fluid and cursive, with a long horizontal line extending to the left.

Carlos Magariños

Contents

Foreword by Carlos Magariños	iii
Executive Summary	vii
1 Context.....	1
1.1 The Rise of Corporate Social Responsibility	1
1.2 The Importance of SMEs in Development	2
1.3 Corporate Social Responsibility and SMEs.....	3
1.4 Corporate Social Responsibility and UNIDO.....	4
2 The Dimensions and Rationale of Corporate Social Responsibility	5
2.1 Defining Corporate Social Responsibility.....	5
2.2 The Dimensions of Corporate Social Responsibility	5
2.2.1 Expanding Focus of Accountability	6
2.2.2 Increasingly Strategic Business Case	7
2.2.3 Deepening Levels of Engagement.....	10
2.2.4 Widening Degrees of Influence.....	10
2.3 Generations of Corporate Social Responsibility.....	11
2.4 The Case Against Corporate Social Responsibility.....	13
3 Trends in Corporate Social Responsibility.....	17
3.1 The Growth of Corporate Social Responsibility	17
3.2 Hot Issues.....	18
3.3 Sectoral Patterns.....	20
3.4 Regional Patterns	28
3.5 Corporate Social Responsibility by SMEs	34
4 Ways of Working: Corporate Social Responsibility and the TNC/SME Interface.....	37
4.1 Corporate Social Responsibility as a Condition of Business with TNCs	37
4.2 Business Links for SME Development.....	41
4.3 Community Investment.....	44
4.4 Market Shifting.	44
4.5 Public Policy Influence	47
5 Assessing the Impact of Corporate Social Responsibility on SMEs in Developing Countries.....	49
5.1 'Protectionism by the Backdoor'	49
5.2 The Burden of Monitoring and Auditing	49
5.3 The Corporate Social Responsibility Paradox	50
5.4 SME 'Business Case' Benefits.....	51
6 Market Shifting through Civil Governance and Public Policy.....	55
6.1 The Potential of Partnerships	55
6.2 The Role of Bilateral Donors	55
6.3 The UN and Corporate Social Responsibility	57
6.4 Recent UNIDO Business Partnerships: Selected examples.....	59
7 Conclusions.....	65
7.1 Towards 'Small Business Responsibility'	65
7.2 An Agenda for Action	65
7.3 Outlook.....	67
Bibliography	69
Endnotes	72

Boxes

Box 1: Why is Corporate Social Responsibility becoming so important?	1
Box 2: The European Commission, CSR and Sustainable Development.....	1
Box 3: The Ethical Trading Initiative, Sainsbury's and the Citizen CEO	7
Box 4: The Business Case: Some of the Evidence	8
Box 5: CEOs and Citizenship	12
Box 6: The Growth of CSR: An Overview of the Trends.....	18
Box 7: Emerging Hot Issues in Corporate Social Responsibility	19
Box 8: Sectoral Patterns: What the Surveys say.....	20
Box 9: CSR Accelerators	21
Box 10: CSR Resistors	21
Box 11: Sector Focus: Textiles and Apparel.....	24
Box 12: Sector Focus: Chemicals.....	25
Box 13: Sector Focus: Extraction	26
Box 14: Sector Focus: Food	27
Box 15: Sector Focus: Telecommunications.....	28
Box 16: Regional Patterns: An Overview of the Trends	29
Box 17: Comparing attitudes and approaches to CSR across Northern Europe.	29
Box 18: CSR in Developing Countries: An Overview.....	31
Box 19: CSR in India	31
Box 20: Broader effects of CSR on local business: The Business of Peace in Mindanao	33
Box 21: CSR in Chile	34
Box 22: CSR and SMEs in Europe	35
Box 23: CSR and SMEs: The Case of the Furniture Resource Centre, UK.....	36
Box 24: Emerging Global Standards	39
Box 25: Child Labour in the Football Stitching Industry	40
Box 26: Enterprise Development as a CSR Issue for Multinationals: Coca-Cola in China.....	42
Box 27: IBLF Business Links Programme: The Case of Viet Nam.....	43
Box 28: Supporting SME development: Richards Bay Minerals in South Africa	44
Box 29: Promoting Fair Trade: The Case of Traidcraft plc	45
Box 30: Remoulding the apparel sector: The Case of Gap Inc. and the Global Alliance for Workers and Communities	46
Box 31: Attitudes to CSR in Developing Countries	52
Box 32: Bilateral donors and CSR	56
Box 33: The UN Global Compact	58
Box 34: The CSR/SME Interface	65

Figures

Figure 1 The Dimensions of CSR.....	5
Figure 2: Mapping CSR: Issues and Stakeholders.	6
Figure 3: Balancing Short-term with Long-term Business Benefits	8
Figure 4: Levels of Corporate Engagement in Social and Environmental Issues	10
Figure 5: The Axis of Strategic Development	13
Figure 6: The Generations of CSR.....	17
Figure 7: CSR Impacts on SMEs	37
Figure 8. Partnership Network	60

Executive Summary

- **Corporate Social Responsibility is an increasingly important part of the business environment.** The past twenty years have seen a radical change in the relationship between business and society. Key drivers of this change have been the globalization of trade, the increased size and influence of companies, the repositioning of government and the rise in strategic importance of stakeholder relationships, knowledge and brand reputation. The relationship between companies and civil society organisations has moved on from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society. Corporate Social Responsibility (CSR), defined in terms of the responsiveness of businesses to stakeholders' legal, ethical, social and environmental expectations, is one outcome of these developments.
- **CSR has generally been a pragmatic response to consumer and civil society pressures.** These have mainly been focused on Trans-National Corporations (TNCs) serving Northern markets but often operating in Southern countries. Accusations by governments and civil society alike, of environmental pollution, human rights abuses, and exploitation of labour in supply chains, has pressured companies into becoming more environmentally and socially responsible. However, companies have quickly recognised the strategic value of being more responsible and are beginning to align products and business relationships, in particular through their supply chains, accordingly.
- **CSR is not a replacement for the rightful role of democratic governments to set regulatory frameworks for the benefit of society.** The polarisation of the debate as to whether voluntary or regulatory approaches are the most effective way to improve social and environmental performance is misplaced. It is more useful to understand when and how different approaches can create business and societal benefits. Often the two go hand in hand, as is the case with labour standards where both voluntary and regulatory approaches (codes of conduct, independent monitoring, and legislation) are in place. The key is to understand how they work together.
- **Ensuring that CSR supports, and does not undermine, SME development in developing countries is crucial to meeting its goal of improving the impact of business on society.** SMEs are essential to the 'path out of poverty' for many developing countries. If CSR demands are protectionist, culturally inappropriate or unreasonably bureaucratic the net effect will be to undermine livelihoods in the South. On the other hand the SME sector must not be allowed to become a loophole in which polluting, exploitative industries flourish. However, support for SME development can be an important part of the CSR commitment of big companies, and improvements in social and environmental impact can go hand in hand with improvements in quality and management.
- **CSR has focused around 'hot spots': key issues, sectors and regions that drive forward developments in CSR at different times.** CSR developments have been concentrated in industries that involve high health or environmental risks, activities covered by high levels of regulation, and industries that provide essential services or lifestyle products. The issue

focus has moved from bribery and corruption to environmental stewardship to social issues such as labour standards and human rights. Current emerging issues include product responsibility, responsible downsizing and corporate influence on public policy. Civil society and consumer campaigns and media attention have focused attention on major national and international brand names, however international standards are increasingly being developed to provide a global framework for CSR and overall sustainability management.

- **CSR must be underpinned by a strong business case that links social and environmental responsibility with financial success.** Business benefits include, operational cost savings through environmental efficiency measures; enhanced reputation through positive responses to stakeholder concerns; increased ability to recruit and retain staff; sharper anticipation and management of risk; and improved capacity to learn and innovate. However these business benefits will not be significant for all companies. For each company the business case needs to be carefully developed according to the product, industry, and/or service in question.
- **CSR imposes new demands on SMEs in developing countries.** Social and environmental standards are increasingly a precondition for doing business with TNCs. This takes the form of individual supply chain codes of conduct and sector wide certification systems. Market shifts can extend the impact of environmental and social concerns beyond those companies directly involved in trading with TNCs. This may happen through local competition, by strengthening mechanisms for ensuring compliance with local laws, by targeting investment, or through shifts in consumer demand.
- **Supporting enterprise development through long-term trading relationships and community investment is one of the most important ways that TNCs can contribute to the fight against poverty.** Some TNCs are actively forming trading links and development partnerships, which help SMEs in developing countries gain access to markets, finance, training and infrastructure. Where CSR is related to trading relationships in this way it becomes difficult to differentiate between 'CSR' and 'core business', however, the economic and social impacts of such strategies can go far beyond anything possible through social programmes. Community investment approaches can also help develop an enabling environment for entrepreneurship, by providing specific business development support, or more broadly, helping to create favourable conditions in which small businesses can grow and flourish.
- **There is a danger that CSR standards may undermine SMEs in developing countries.** The key concern is that CSR standards will act as a protectionist mechanism for retaining jobs, trade and investment in developed countries. The focus of issues and standards often reflects the concerns and priorities of consumers in the North as well as prevailing technologies and best practise in the countries where they were developed. The burden of monitoring and certification itself can be a significant expense, effectively barring developing country SMEs from some markets. Lack of access to technology, environmentally friendly materials, credit, information and training, can act as barriers to social and environmental improvements for these SMEs. Even when they are able to make improvements, Southern SMEs lack the valuable direct relationships with Northern consumers, which would enable them to reap reputational benefits.

- **It is crucial to understand the basis for viable, appropriate 'small business responsibility'.** The lessons and approaches of CSR cannot be simply transferred to SMEs. Many of the concerns underlying calls for CSR do not apply to SMEs, which lack the power to influence governments, dictate standards, or move across national boundaries in search of lighter regulation. At the same time, many SMEs already practise some kind of 'silent social responsibility'. SMEs generally have a greater understanding of local cultural and political contexts, more links with local civil society and a greater commitment to operating in a specific area. Family-owned companies in particular often exhibit strong ethical and philanthropic approaches. SMEs need to give a voice to their 'silent' social and environmental responsibility.
- **Some SMEs will be able to build a strong business case for improving and demonstrating their social responsibility.** Benefits might include better alignment with consumer concerns, partnership opportunities with TNCs, improvements in productivity and improved capacity for learning and innovation. However, these benefits will not be significant for every company. In the case of SMEs in developing countries, upgrading the quality of their technology, management, and marketing, are likely to be equally pressing concerns, which need to be addressed in parallel with social and environmental impacts. CSR boosterism in the form of donor led initiatives to promote SME-CSR would be misplaced except in industries and sectors where a clear business case can be demonstrated. In industries and sectors where a real business case is not yet apparent, it is more useful to work to strengthen the business case drivers. For example, it may be necessary for TNCs to provide incentives and support, in order to make compliance with stringent codes of conduct economically viable for their suppliers.
- **The United Nations has an important role in facilitating the development of TNC-SME relations to promote economic prosperity while improving social and environmental performance.** Through multi-stakeholder partnerships promoted by framework initiatives like the UN Global Compact and individual agencies such as UNIDO, the UN is well placed to support local SMEs in their engagement with socially responsible business practices. It can do this in a number of ways: development of broader partnerships (many of which are already under way) between TNCs, business associations, and civil society organisations; engagement in public policy debates to develop a framework for including business in the development process; and by practicing accountability itself through its own management practices and ethical procurement.
- **CSR needs to be integrated in core business strategies if it is to survive global recession or insecurity.** CSR has gained prominence against a backdrop of relative economic stability and growth. However, the trend of global economic cycles means that this pattern of growth will at some point slow down, and possibly go into recession. If any downturn is compounded by global insecurity as a result of increased political conflict, the further development of CSR may be seriously challenged. Where CSR is integrated within the core business strategy, it is likely to remain strong, whereas, CSR as a philanthropic add-on is vulnerable to cost cutting. Ultimately, the long-term success of CSR will be based on its ability to be positioned within the core of business strategy and development, thereby becoming part of 'business as usual'.

1 Context

1.1 The Rise of Corporate Social Responsibility¹

The last twenty years have seen a radical change in the private sector's relationship both with the state and civil society. Globalisation, deregulation, privatisation and a redrawing of the lines between state and market have changed the basis on which private enterprise is expected to contribute to the public good. Meanwhile, the relationship between companies and civil society has moved on from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society.

Box 1: Why is Corporate Social Responsibility becoming so important?

- Globalisation and the associated growth in competition;
- Increased size and influence of companies;
- Retrenchment or repositioning of government and its roles;
- War for talent; companies competing for expertise
- Growth of global civil society activism;
- Increased importance of intangible assets.

Source: Boston College Centre for Corporate Community Relations, *Making the Business Case: Determining the Value of Corporate Community Involvement*, 2000

These dynamics combined with the macro changes outlined in Box 1 have led to the emergence of a new approach to Corporate Social Responsibility (CSR), with companies recognizing that improving their own impacts and addressing wider social and environmental problems will be crucial in securing their long-term success. Increasingly, high profile companies are implementing CSR processes such as public commitment to standards, community investment, continuous improvement, stakeholder engagement and corporate reporting on social and environmental performance.

CSR is now being discussed and debated in the public policy sphere - the UK has a Minister for Corporate Social Responsibility (in the Department for Trade and Industry), the EU has recently published a Green Paper on the subject, 2005 has been designated the European year of CSR, and the UN Global Compact is bringing together companies and UN agencies to address Corporate Social Responsibility.

Box 2: The European Commission, CSR and Sustainable Development

"Public policy also has a key role in encouraging a greater sense of corporate social responsibility and in establishing a framework to ensure that business integrate environmental and social considerations into their activities...Business should be encouraged to take a pro-active approach to sustainable development in its operations both within the EU and elsewhere."

Source: European Commission's Communication on Sustainable Development, from EU Green Paper (2001) Promoting a European framework for Corporate Social Responsibility. Brussels, Commission of the European Communities.

The basic drivers of CSR consist of:²

1. *Values*; a value shift has taken place within businesses where they not only feel responsibility for wealth creation but also for social and environmental goods.
2. *Strategy*; being more socially and environmentally responsible is important for the strategic development of a company.
3. *Public Pressure*; pressure groups, consumers, media, the state and other public bodies are pressing companies to become more socially responsible.

Companies are often driven by one of the above but see a shift into other spheres over time. For example, for companies subject to high profile campaigns, such as Shell and Nike, the main driver for change has been public pressure. Over time CSR has gathered strength and strategic importance within the companies as it is seen as a way of creating sustainable value. However, in the main it has been public pressure centred on three key areas that has driven the CSR agenda. These comprise the environment, labour standards, and human rights, and it is no coincidence that these make up the nine principles of the UN Global Compact (see Box 33).

Although CSR has primarily been the concern of transnational corporations (TNCs) it is increasingly involving small and medium enterprises (SMEs), both as suppliers to international companies and markets and as recipients of support through donor-led programmes to encourage economic development.

1.2 The Importance of SMEs in Development

For developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the best way to overcome poverty and inequality. Crucial to this process is the development of a vibrant private sector, in which SMEs play a central part.

SMEs make up over 90 per cent of businesses worldwide and account for between 50 and 60 per cent of employment. However, their importance in the development process goes beyond their strength in number. There is a rich body of research on the development contribution of small enterprises. While not entirely without some controversial areas, there would appear to be widespread consensus on the following points:

- SMEs (partly because of the industrial sub-sectors and product groups covered by them) tend to employ more labour-intensive production processes than large enterprises. Accordingly, they contribute significantly to the provision of productive employment opportunities, the generation of income and ultimately, the reduction of poverty. It is through the promotion of small enterprises that individual countries and the international community at large can make progress towards reaching the global target of halving poverty levels by the year 2015.
- There is ample empirical evidence that countries with a high share of small industrial enterprises have succeeded in making the income distribution (both regionally and functionally) more equitable. This in turn is a key contribution to ensuring long-term social stability by reducing ex-post redistributive pressure and by reducing economic disparities between urban and rural areas.

- SMEs are key to the transition of agriculture-led to industrial economies as they provide simple opportunities for processing activities which can generate sustainable livelihoods. In this context, the predominant role of women is of particular importance.
- SMEs are a seedbed for entrepreneurship development, innovation and risk-taking behaviour and provide the foundation for long-term growth dynamics and the transition towards larger enterprises.
- SMEs support the building up of systemic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the creation of resilient economic systems in which small and large firms are interlinked.
- Such linkages are of increasing importance also for the attraction of foreign investment. Investing transnational corporations seek reliable domestic suppliers for their supply chains. There is thus a premium on the existence of domestic supporting industries in the competition for foreign investors.
- SMEs, as amply demonstrated in information and communication technologies, are a significant source of innovation, often producing goods in niche markets in a highly flexible and customized manner.

1.3 Corporate Social Responsibility and SMEs

CSR is clearly affecting SMEs in developing countries through direct supply chain relationships, as well as the development of legislation, and international standardization and certification. CSR represents not just a change to the commercial environment in which individual SMEs operate but also needs to be considered in terms of its *net effect* on society. If CSR, as some critics believe, introduces social and environmental clauses resulting in protectionism by the back door, imposes inappropriate cultural standards or unreasonably bureaucratic monitoring demands on small businesses, the net effect on the communities concerned will be a reduction in welfare. On the other hand, CSR offers opportunities for greater market access, cost savings, productivity and innovation to SMEs, as well as broader social benefits such as education and community development.

Thus the interaction between CSR and SMEs in developing countries is an important issue, not only for the SMEs and those supporting their development, but also for all the actors driving CSR forward: TNCs, civil society organisations (CSOs), governments, and multilateral bodies like the EU and UN, which have incorporated CSR within their strategies. It is critical that SMEs in the South are able to go beyond a compliance-based reactive mode to CSR to engage in the ongoing development of what effective, appropriate CSR means at all levels. CSR approaches are increasingly being seen alongside other development interventions, as a key way in which donor countries can assist in the development process. Without the incorporation of SMEs into the global 'social' value chain, the aim of CSR to contribute to International Development Targets will not be met.

1.4 Corporate Social Responsibility and UNIDO

The United Nations Industrial Development Organisation (UNIDO) has for many years been at the forefront of supporting the development of SMEs in developing countries and has recognized the increasing influence that TNCs now have on that development (see section 6.4). UNIDO's SME Branch has therefore initiated this study in order to provide a strategic analysis of:

- The current state and future directions of CSR globally;
- The implications of CSR for SME development;
- Strategies to support SMEs in responding to the demands of CSR;
- CSR approaches that support the role of small businesses in development.

2 The Dimensions and Rationale of Corporate Social Responsibility

2.1 Defining Corporate Social Responsibility

CSR is variously defined as:

“The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.” (World Business Council for Sustainable Development)³

“Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders.” (The European Commission)⁴

“Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business.” (Business for Social Responsibility)⁵

Corporate Social Responsibility can best be understood in terms of the changing relationship between business and society. Many people believe it is no longer enough for a company to say that their only concern is to make profits for their shareholders, when they are undertaking operations that can fundamentally affect (both negatively or positively) the lives of communities in countries throughout the world.

2.2 The Dimensions of Corporate Social Responsibility

It is impossible to draw up a definitive list of issues and policies, which constitute CSR. These will be different for different companies and can shift over time as changes in risk and regulation, challenges to reputation and developments in best practice redefine the boundaries of what is acceptable, possible and profitable for a company to do. Nevertheless it is possible to map out CSR in terms of a number of key interlocking dimensions, which can each range from the most narrow, compliance-based, reactive modes to the broadest, most strategic and potentially most significant in terms of addressing major social and environmental problems.

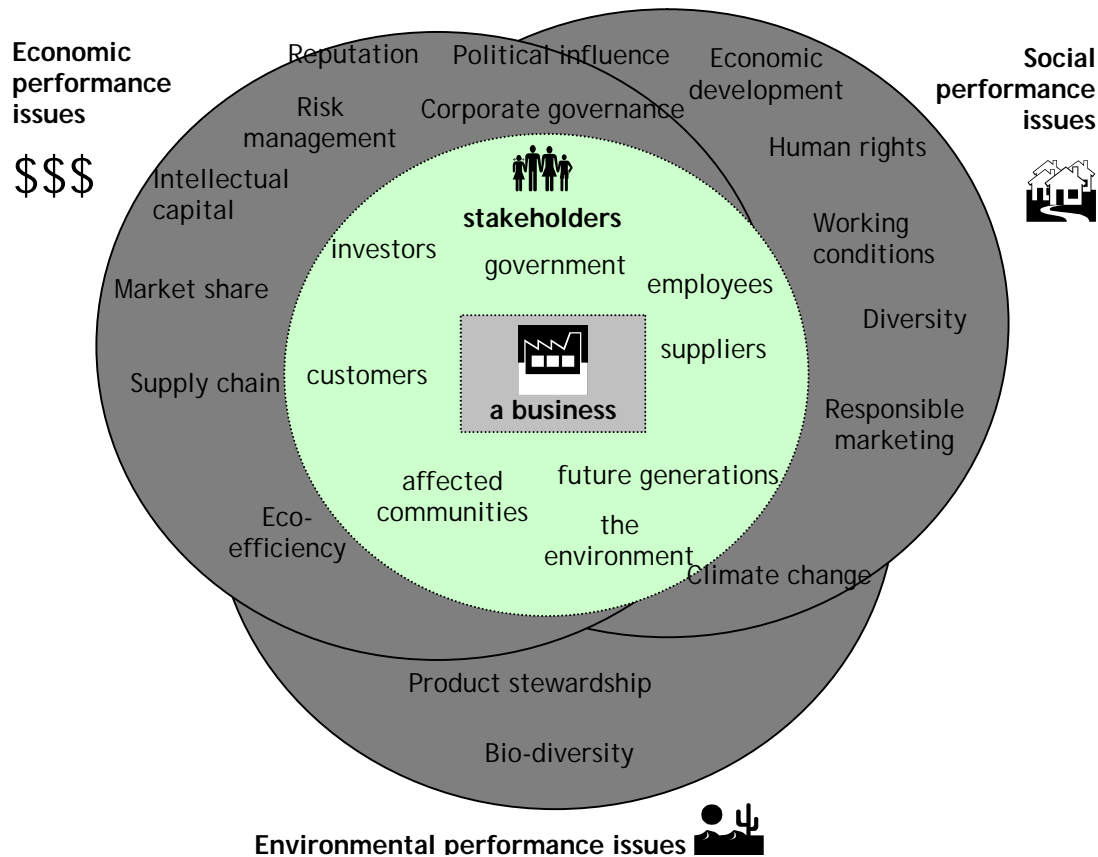
Figure 1 The Dimensions of CSR

Focus of accountability	<i>From</i>	Legal and traditional stakeholders	<i>to</i>	Direct stakeholders, short-term impacts	<i>to</i>	Broad range of stakeholders, long-term impact
Business case	<i>From</i>	Pain alleviation	<i>to</i>	Cost-benefit rationale	<i>to</i>	Strategic alignment
Level of engagement	<i>From</i>	Compliance with legal responsibilities	<i>to</i>	Harm minimisation	<i>to</i>	Social value creation
Degree of influence	<i>From</i>	Market actions	<i>to</i>	Market remoulding	<i>to</i>	Policy influence

2.2.1 Expanding Focus of Accountability

CSR can be understood in terms of different stakeholders and the issues that they are concerned with. These issues relate to the overlapping spheres of social, environmental and economic impact (See figure 2 below). The economic sphere concerns not simply the basics of financial returns but elements, which contribute to long-term financial success such as reputation and relationships and the broad economic impact of a company in terms of the multiplier effects of wages, investment and sourcing.

Figure 2: Mapping CSR: Issues and Stakeholders.



Globalization has opened new frontiers and brought with it new challenges and concerns. One of the primary drivers of CSR is the need for companies to protect and build their reputation and to manage risk across a diverse set of countries, cultures and socio-political situations. Therefore the set of stakeholders and issues which companies consider strategically important is expanding from those most closely associated with the business and protected by legal accountability to those further removed (such as employees of sub-contractors) and even future generations.

CSR therefore means balancing the interests of a wider group of stakeholders and strategically managing the interconnected social, environmental and economic impacts of business activities. This does not necessarily mean that all stakeholders of a company have an equal say in its strategic direction but it does mean that they affect, and are affected by, that direction and therefore must be considered.

2.2.2 Increasingly Strategic Business Case

There is a growing acceptance that profits and broader values and principles can go hand in hand:

“A coherent corporate social responsibility strategy based on integrity, sound values and a long-term approach, offers clear business benefits to companies and a positive contribution to the well-being of society”

[World Business Council for Sustainable Development⁶]

“We believe that our commitment to contribute to sustainable development holds the key to our long-term business success.” [Shell International⁷]

Box 3: The Ethical Trading Initiative, Sainsbury's and the Citizen CEO

The Sainsbury's group is one of the major UK food retailers, which sources products throughout the world. Sainsbury's was the most important company involved in the setting up of the Ethical Trading Initiative (ETI), a multi-sector partnership set up in the UK to explore the implementation of codes of conduct covering labour standards in global supply chains. At a critical stage a number of companies were threatening to withdraw from the process because of a perceived unacceptable level of legal risk. For Sainsbury's the 'spirit' of the ETI, one that was based upon collaborative learning rather than confrontation, compliance and legality, won the day. The then CEO, Dino Adriano made this critical decision based upon the prevailing culture of the company which had a history of public service and openness to working with partners from other sectors. Adriano was for many years a board member of Oxfam (UK) the most significant NGO in the ETI.

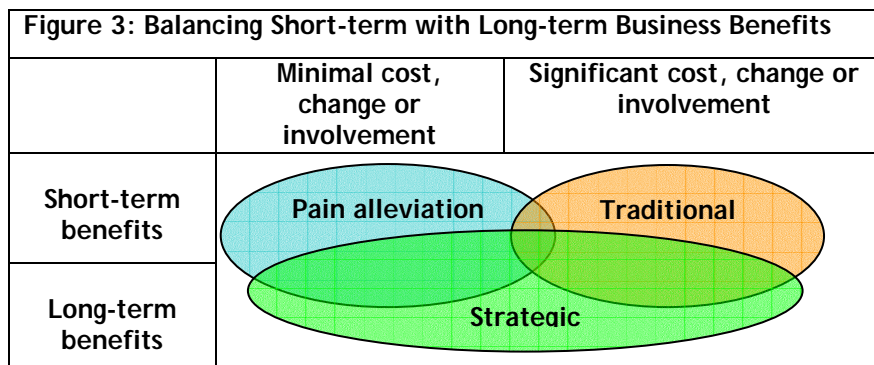
Source: Zadek, S with Raynard, P (2001). *The Strategic Dimensions of Corporate Citizenship*. Cambridge University Business and Environment Programme.

While corporate culture and individual leadership have been critical in pioneering CSR as the case of Sainsbury's in Box 3 highlights, this has been backed up by a business case which recognizes the opportunities for good social and environmental performance to be converted into good financial performance. This business case operates on three key levels:

1. *Pain alleviation/ Reputation protection*; Pressure from NGOs, consumers, media, the state and other public bodies leading to responsive action to avoid potential financial loss and protect brand image.
2. *Cost benefit*; Tangible financial gains, for example from improvements in productivity or reducing energy and material inefficiency, which can be offset against the costs involved.
3. *Strategic*; CSR as a core part of a company's development strategy, such as a fundamental shift in products, CSR as integral to brand identity or as a route for learning and innovation.⁸

As companies move through these three stages in the business case the potential benefits of CSR become greater. The companies therefore become willing to invest in more in-depth and long term approaches, which are not an add-on to the business but become part of the core business strategy. Research carried out for the SIGMA project in the UK, which is piloting sustainability management processes for companies, concluded that,

“Sustainability, for the time being is the only one option for most organizations - it is not imperative for short-term organisational survival. But it may be the key to long-term staying power.”⁹



Box 4: The Business Case: Some of the Evidence¹⁰

There is a wealth of studies and examples of the business benefits of individual elements that might form part of an approach to sustainability. These can be found in environmental management, social and environmental reporting, human resource management and community involvement as well as other areas. For example:

- **Operational cost savings.** Investment in environmental efficiency measures such as waste reduction and energy efficiency often yield rates of return through cost savings that compare favourably with most commercial investments.
 - *Xerox Corporation saves hundreds of millions of dollars each year through its remanufacturing and recycling programs. Easy disassembly, durability, reuse and recycling are incorporated into product design, so that 90 per cent of old machines can have their parts refurbished and reused in new machines.*¹¹
 - *3M achieved savings of c\$1215 million since 1975 through its 'Pollution Prevention Pays' programme.*¹²
- **Enhanced reputation.** Good company performance in relation to sustainability issues can both build reputation, while poor performance when exposed, can damage brand value. This is particularly important to companies with high-value retail brands, which are often the focus for media, activist and consumer pressure.
 - *In a survey by the UK-based Business in the Community, 86 per cent of consumers say that they have a more positive image of a company if they see that it is doing "something to make the world a better place".*¹³
 - *A press analysis of newspapers in the USA found that 25 per cent of coverage of IBM related to its corporate citizenship activities in the community, in education, and in the public interest.*¹⁴
- **Increased ability to recruit, develop and retain staff.** These can be direct effects of introducing 'family friendly' policies, using volunteering programmes to develop skills or may be an indirect effect such as improved morale and loyalty towards a company that employees feel proud to be a part of.
 - *Staff at Boots Plc's headquarters who took part in a volunteer tutoring programme with local school children reported improved self confidence, adaptability, creativity and patience and were able to apply new skills such as coaching and time-management in the workplace.*¹⁵

*The 1999 Business Ethics study found that employees are more likely to be loyal when they believe their workplace has ethical practices. Employees with negative views of workplace ethics are more likely to be trapped or at risk of defecting.*¹⁶

Box 4: The Business Case: Some of the Evidence (continued)

- **Better relations with government.** The formal and informal 'license to operate' is a key issue for many companies looking to extend their business or operating in politically unstable conditions. Diligence in meeting social and environmental concerns can result in a reduction in red tape and a more cooperative relationship with government departments.
 - *The British Airports Authority (BAA) is well aware of the interaction between community and government support. As Sir John Egan, CEO of BAA says: "To deny that our neighbours have a genuine stake in the company is to deny not only the reality of their lives, but also their ability to obstruct, delay and even stop the growth of our airports."*¹⁷
 - In the US, the Environmental Protection Agency's 'Project XL' rewards companies for 'excellence and Leadership' with more flexibility in granting permits.
- **Sharper anticipation and management of risk.** Managing risk in an increasingly complex market environment, with greater oversight and stakeholder scrutiny of corporate activities, is key to the success of companies. Listening to the concerns and perceptions of stakeholders, as well as those of scientific experts, is of crucial importance.
 - *Monsanto failed to engage with its critics and severely misjudged the level of public concern over genetically modified foods in Europe. The ensuing public relations firestorm so badly damaged the reputation of the company that the valuation of the biotechnology portion of the company entirely collapsed.*¹⁸
 - *Shell's perceived inadequate response to human rights abuses in Nigeria caused damage to the company's reputation. Today however it is seen as one of the leading companies in the field of Corporate Social Responsibility.*
- **Learning and innovation.** Learning and innovation is key to the success and survival of all companies, not just those in knowledge-intensive and rapidly developing industry sectors. Addressing sustainability necessitates interaction with a wide range of individuals and organizations outside of the traditional business relationships of a company.
 - *The DIY retailer, B&Q has established partnerships between its stores and local and national disability groups in order to address the specific needs of local disabled residents. This has enabled B&Q to develop products and services for this market, which is made up of 8.7 million adults and their families in the UK. In addition, wider customer care competency has been improved: "if we can get it right for disabled people then we can get it right for most people".*¹⁹
 - *Innovation through Partnership has analysed the impact of partnerships between businesses and local communities on learning and innovation. They found that dynamic and resilient relationships between a company and its stakeholders was at the core of innovation and suggest that several areas of potential benefit have been left unexplored.*²⁰

The business case for CSR is gaining ground in terms of empirical evidence across a number of companies spread across different sectors and countries. One of the most comprehensive analyses, carried out by Sustainability Ltd, concluded that when companies take a strategic approach to CSR it would have a positive effect on mainstream business performance.²¹ The research, however, also shows how business benefits go beyond the long-term intangible measures of success, to include direct financial measures, in particular in developing countries.

"Powerful revenue opportunities arise when companies invest in less-developed communities, either in their traditional markets or emerging economies. The opportunities are much greater than in more

developed communities, as there is a high level of potential demand. To minimise some of the risks and maximise the benefits, companies must be open to sharing knowledge and using local staff.”²²

Therefore the three ways in which companies engage in the business case, (pain alleviation, cost benefit, and strategic), all offer benefits to the business, whether in the long-term or short. The evidence is clear. However, those companies that take both a strategic, as well as more short-term approach will build a stronger business case for CSR. This means ‘*considering both financial results and underlying financial drivers.*’²³ To understand how these processes relate to the development of CSR in companies, one needs to look at the deepening levels of engagement.

2.2.3 Deepening Levels of Engagement

Corporate Social Responsibility operates at three key levels:

- Firstly, it includes compliance with legal responsibilities (e.g. tax, health and safety, workers rights, consumer rights, environmental regulations) and industry standards.
- Secondly, it concerns minimizing or eliminating the negative effects of business on society and managing risk (for example of human rights abuses and environmental pollution).
- Finally it involves increasing the positive effects of business and creating value through innovation, investment and partnership aligned towards social and environmental good (for example job creation, social and economic development and conflict resolution).

At each of these levels different tools and processes have been developed to enable Corporate Social Responsibility to be measured, rewarded and replicated.

Figure 4: Levels of Corporate Engagement in Social and Environmental Issues



2.2.4 Widening Degrees of Influence

Most CSR at present is concerned with in-market change, that is what a single company is able to do within the bounds of profitability. However it is important to understand the limits of ‘in-market’ change. The Director of the Centre for Social and Environmental Accounting Research at Glasgow University, Professor Rob Gray questions whether it is possible for companies to act with responsibility in a market focused on a shareholder model of governance. He argues that in some cases it may in fact be illegal to be seen not to act in the sole interests of shareholders:

"The system of capitalism will simply not permit corporate management to act with the principles of social justice as the centrepiece to their strategy. Such an organisation would probably be acting illegally, be outside its zone of competence and would, in all likelihood, be 'disciplined' most severely by the marketplace." ²⁴

There are limits to the effectiveness of actions that individual companies can profitably undertake on their own. At present there is a contradiction between what a company may wish to do in order to be more socially responsible and what the market, through institutional investors, tells it to do to be more financially profitable. As will be demonstrated below, there is a need therefore for remoulding markets and aligning public policy to make CSR a 'must do' for all companies. It will be shown that in many ways this will only come about through multi-sector partnerships and a clearer understanding of the role of business in society.

2.3 Generations of Corporate Social Responsibility

As CSR has developed and become more mainstream, leadership companies have become more ambitious in their approach to each of these dimensions; the focus of accountability, the business case, and the level of engagement and of influence. At each stage the restrictions and contradictions imposed by a limited approach to CSR has led them to become more ambitious in tackling issues in a more strategic and integrated way.

Simon Zadek describes the development of CSR in terms of three generations:²⁵

- **The first generation of CSR showed companies can be responsible in ways that do not detract from, and may contribute to commercial success.** This is the most traditional and widespread form of CSR, most often manifested as corporate philanthropy. This rose to new heights in the 1990s, with huge amounts of money being donated by such individuals as Ted Turner and Bill Gates. It is not part of the main business of the company but may add commercial value through reputation enhancement. Typically a company may donate computers to schools, staff may volunteer to work with local community groups, or the company simply funds a 'good cause'. Other approaches are concerned less with reputation enhancement than with reputation protection. As Chris Tuppen of British Telecom puts it: *"[it] is all about the things that keep you out of court, that make sure that you don't find yourself suddenly on the front page of the newspaper in the morning with some exposé of something happening in another part of the world because of the company's actions. You just keep your nose clean"* ²⁶
- **A Second Generation is now developing where companies, and whole industries, see CSR as an integral part of long-term business strategy.** This is where the companies taking a lead in the field of CSR are now positioned. As is shown in "The Business Case" section, there is a growing body of evidence that taking CSR seriously is good for business. Leadership by pioneering companies and business leaders, or as Elkington has termed them Citizen CEOs²⁷ has been crucial in moving companies towards second generation CSR. However, we are some way from realizing a total change in mindset on the part of CEOs as the results of the US-based Conference Board's survey on CEOs and Citizenship shows.

Box 5: CEOs and Citizenship

The US-based Conference Board carried out a global survey on the attitudes of CEOs to developments in citizenship. The highlights were:

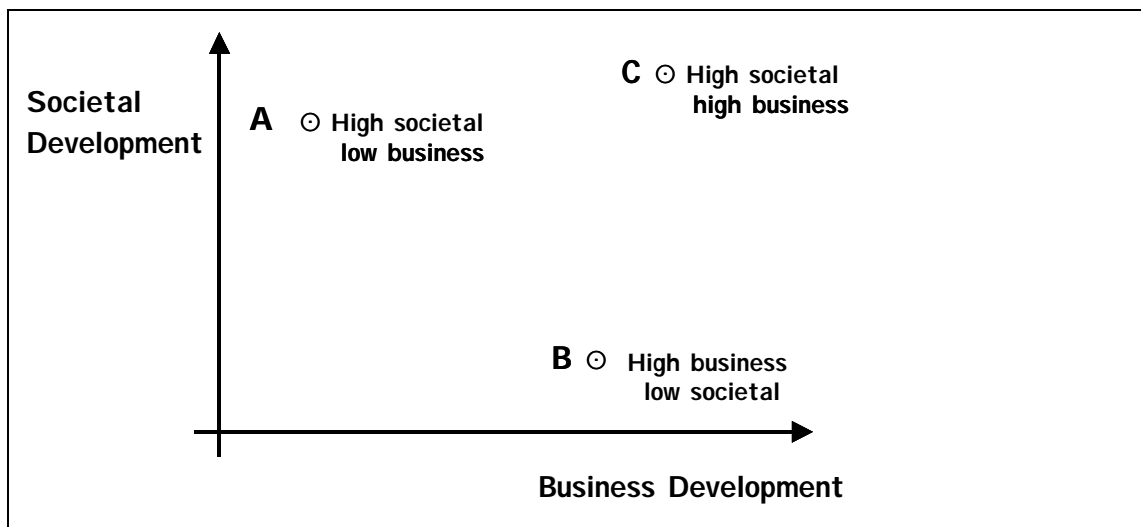
- Company traditions and values to act ethically and be a force for economic development are by far the most important drivers for corporate social investment throughout the world.
- There is however, also a clear commitment to a long-term investment to improve society, including expanding economic progress to underserved segments, which (it is felt) ultimately benefits the business.
- CEOs see an active role for their companies in assuring future business success through their citizenship programs, but are divided on whether their companies should be partners or leaders. Merely supporting the process is generally seen as somewhat less attractive.
- Among companies that opt not to lead the process, government is the clear choice for leadership, followed by business associations. This suggests considerable variation in outlook on where accountability should lie.
- CEOs in the US, Brazil and Europe say that their efforts to create future success through citizenship initiatives have only been 'somewhat' effective to date. In other regions, especially in the Asia-Pacific region, CEOs see their results as 'not very' effective.
- Asked what is needed to improve future business success, CEOs are split between internal and external factors:
 - Strong preferences for (1) better management of external involvements and for (2) creating industry led guidelines and collective corporate initiatives reflect a felt sense of accountability, but
 - External factors are also important, including, (1) clear leadership from government and (2) a clearer consensus in civil society about solutions to critical challenges.

Source: The Conference Board (2002) Executive Action. CEOs on Citizenship. New York, Conference Board.

- **A Third Generation of CSR is needed in order to make a significant contribution to addressing poverty, exclusion and environmental degradation.** This will go beyond voluntary approaches by individual companies and will involve leadership companies and organisations influencing the market in which they operate and how it is regulated to remould whole markets toward sustainability. This will need to involve both partnerships with civil society and changes in public policy, which both reward CSR and penalize poor performance. This could include changes to the corporate tax regime, mandatory social and environmental reporting and support for consumer education.

However, all of the above issues raise many contentious and unanswered questions regarding the parameters of responsibility of a company. Where should lines be drawn between corporate, public, and civil society actors in terms of their responsibility to deliver the 'public good'? Whether the market is able to shift in line with leading CSR companies, or whether these 'leading lights' will be priced out of a market. In this case, a market that is constrained by a shareholder model impeding any approach towards understanding the social, economic and environmental trade-offs required in decision-making to achieve sustainability, both for companies and society. In essence, what is required is an understanding of the pathway towards Third Generation CSR that achieves societal as well as business development, as shown in Figure 5 below.

Figure 5: The Axis of Strategic Development²⁸



To achieve mutual strategic development, a clearer understanding is required of the conditions upon which newly emerging partnerships, as that between the UN and business, are based and that they face up to the challenges brought by critics of CSR.

However, it must be concluded that at present third generation CSR is mostly a vision. For SMEs, what will be of most importance in terms of impact on them is the way in which strategic approaches to CSR, i.e. second generation, will be played out; whether such approaches will be used to rationalise suppliers, or whether they will assist in the further development of developing country SMEs. In order for the second generation to be a force for good, it is important to address some of the high-level criticisms of CSR.

2.4 The Case Against Corporate Social Responsibility

*"The role of well run companies is to make profits, not save the planet. Let them not make the error of confusing the two."*²⁹

CSR is a pragmatic response to balancing the negative and positive effects of modern capitalism, it is an attempt to counter the 'there is no alternative' school of thought through innovation and new alliances. It attracts critics (as well as advocates) from across the political spectrum. What lies at the heart of the debate is a definition of the parameters of a company's responsibility.

For neo-liberal economists, CSR is an aberration from efficient market economics, introducing barriers inimical to choice and enterprise and therefore to wealth creation. They believe in Milton Friedman's doctrine that *"there is one and only one responsibility of business - to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game."*³⁰ They contrast the 'nebulous' concepts of sustainable development, fair trade and environmentalism with the science of economics in which the '*invisible hand*' of the market ensures that what is good for business is good for society. A recent report by David Henderson put it as follows:

"Companies will best discharge the responsibilities which specifically belong to them by taking profitability as a guide, subject always to

*acting within the law, and that they should not go out of their way to define and promote wider self-chosen objectives."*³¹

Such arguments believe that companies do not have the huge influence that either CSR advocates or anti-globalisation protestors claim, and that it is the role of government to decide the parameters of a company's responsibility. It is ironic however, that there is a hint of contradiction in this view in that it also advocates a hands off approach by government to market regulation; i.e. the invisible hand.

For those groups such as anti-capitalist protestors, CSR is seen as a defence mechanism, driven by Public Relations and avoidance of more stringent regulation. Critics believe that however heartfelt a CEO's commitment to CSR may be, the dictates of the market will ensure a race to the bottom.

*"Corporations aren't allowed to be nice. Company directors are legally obliged to act in the best interests of their shareholders' investments - i.e. to make them as much money as possible. Genuine efforts to sacrifice profits in favour of human rights and environmental protection are off-limits. Even if a company's directors took the long view that environmental sustainability is ultimately essential for economic sustainability, their share price would drop and they would probably be swallowed up by competitors. This is why corporate social and environmental initiatives can't really get beyond the marketing and greenwash stage."*³²

Or as Stephen Viederman, ex-President of the Jessie Smith Noyes Foundation argues *"it will always be in the financial interests of companies to externalize costs until we establish laws that prevent this."*³³

Both sides question the development of universal standards of corporate performance because of their risk of being inappropriate to developing countries and because they are only advocated once developed countries have done their polluting and exploitation. This criticism is echoed by the concerns of developing country leaders such as Nelson Mandela, who fear that this is just a *'further burden'* to exports from the South.³⁴

In essence therefore, neo-liberal economists believe that CSR is both bad for companies and society, while those more antipathetic towards capitalism believe it to be good for companies but bad for society. Those on the right believe that the power of business is overstated while those on the left believe it is out of control. Critics on both side rally against what they see as the illegitimate influence of unaccountable organisations in what should be the role of democratically elected government.

Even CSR advocates agree that the growth in CSR activity does not automatically mean that the world is a better place, or even that business impact is more benign. As Oded Grajew of the Instituto Ethos in Brazil asks:

*"If business is so powerful, and is doing so much good: why is so much wrong with the world?"*³⁵

The criticisms of CSR are not simply the product of conflicting ideologies but help to illuminate the twin pitfalls for CSR:

- Imposing inappropriate standards which constrain the value creation role of business and lead to job losses, under-investment, lack of services and an ever widening gap between developed and developing countries.

- Distracting criticism and pressure for change away from human rights abuse, economic exploitation, environmental destruction and cultural imperialism while doing little to improve things.

In order to avoid these pitfalls, CSR initiatives, which aim to hold business to account, need to be:

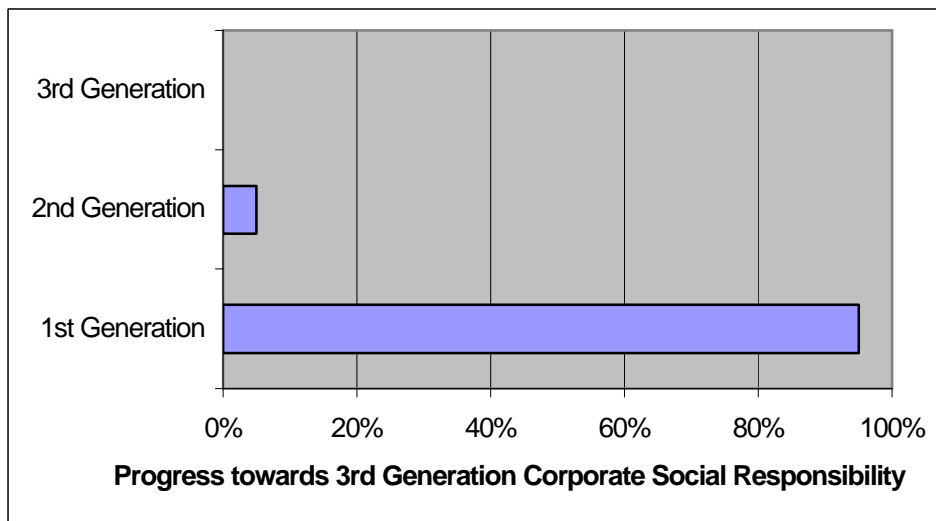
- Based on a legitimate standard-setting and oversight process that involves the diverse range of stakeholders from outside the business world. In particular this must include representative of developing country organisations, such as business associations.
- Backed up by robust processes of measurement and reporting. Measures that demonstrate the social, environmental and economic impact of a companies activities.
- Built on a strong business case, which aligns CSR with business success but that recognises the potential trade-offs between social, environmental and economic factors.
- Flexible enough to allow business to innovate, solve problems and develop opportunities.

It is crucial that CSR supporters focus resources in these areas, e.g. by influencing consumer choice in order to strengthen the business case and addressing the weaknesses in participation so far (most notably in involving businesses and CSOs in developing countries), rather than simply focusing on CSR boosterism based on wishful thinking.

3 Trends in Corporate Social Responsibility

How far does CSR go beyond the high profile examples we hear about so often, and how deep does it go into the strategic decision making of corporate leaders? Broadly as Figure 6 illustrates, in terms of take up by companies, much of the effort is still in the first generation (95 per cent). The second generation (some 5 per cent of the story) is moving the process forward and there are signs that markets and policy makers are shifting their attitude as a result of strategic concerns about CSR. Yet, as mentioned in Section 2.5, in order to move to the third generation, there is a need to go beyond individual company actions, to the development of public policy that remoulds markets.

Figure 6: The Generations of CSR



3.1 The Growth of Corporate Social Responsibility

Certainly, judging from the volume of writing on the subject, as well as the boom in specialist consultants and the emergence of CSR critics, it is clear that interest in CSR is growing and moving into the mainstream. While there is little in the way of comparable data which tracks the development of CSR over time, a number of surveys provide some proof that this is not just a growth industry infected with its own hype. As the above-mentioned, BiTC Omnibus survey on attitudes to CSR, says,

*“The survey provides vivid proof that CSR is not a passing, activist-driven fad but a legitimate and permanent feature of the business landscape ... CSR has shifted decisively from the realm of ‘nice to do’ to the realm of ‘need to do’ not just because it is a serious and sustained interest of consumers but also because opinion leaders recognize this fact and will act accordingly.”*³⁶

Nevertheless, looking beyond the largest companies, CSR is still generally equated with philanthropy and is not integrated within core business strategy.³⁷ Even within the larger companies, while there are growing numbers of social and environmental reports, few give robust performance measures and fewer still are independently verified.

Box 6: The Growth of CSR: An Overview of the Trends

Globally more companies are reporting on their social and environmental impact:

- Over half of the world's hundred largest firms ('the G100') produced Global Environmental Reports (50 per cent in 2000 - up from 44 per cent in 1999).
- 54 per cent of the G100 also report on their corporate social responsibility or corporate citizenship programs.
- In the UK, the number of FTSE 100 companies publishing specific reports on social policies rose from three in 1996 to 28 in 1999.
- A recent survey of 45 global and large companies operating in the EU showed that over 90 per cent of these reported on their mission, vision and values, workplace climate, community involvement, local economic development, marketplace and environmental impact.

Source: CSR Network (2000) The Global Reporters and DTI(2001) Developing corporate social responsibility in the UK, Business and Society, DTI, London.

Internationally, more people are interested in the social and environmental impact of companies:

- Two in three citizens want companies to contribute to broader societal goals that go beyond the historical role of making a profit, paying taxes, employing people and obeying the law.
- Over one in five consumers report that they have acted as ethical consumers, and almost as many again have considered doing so.
- Issues cited as important ranged from health and safety, equal opportunities, bribery and corruption, the environment, and child labour. All these came ahead of contributing to CSOs.

Source: Environics International Ltd. (1999) Millennium Poll on Corporate Social Responsibility. This covered 23 countries across 6 continents.

European opinion leader research indicates that public pressure for CSR is likely to increase significantly over the next few years:

- 66 per cent of opinion leaders surveyed in France, Germany and the UK agree strongly that corporate citizenship will be important in the future
- 64 per cent agree strongly that the health of a company's reputation will affect their own decisions as legislators, regulators, journalists, NGO leaders, etc.
- Opinion leaders define CSR primarily in terms of 'leadership that looks beyond the short term' (71 per cent) followed by 'treating employees with respect', 'environmental responsibility' and a 'commitment to local communities'. Only 5 per cent regard 'charitable donations' as important to CSR.

Source: Prince of Wales Business Leaders Forum (2001) The Responsible Century? An Opinion Leader Survey on Corporate Social Responsibility, Burson-Marsteller/ The Prince of Wales Business Leaders Forum.

3.2 Hot Issues

This growth in CSR activity has not been uniform, but has tended to focus around 'hot spots': key issues, sectors and regions that drive forward developments in CSR at different times. As Jenkins notes in relation to codes of conduct:

"it is striking how the adoption of corporate codes of conduct reflects such [external] pressures, both in terms of timing and content. ... the first wave of corporate codes of conduct in the late 1970s focused on bribery and questionable payments in the aftermath of investigations by the USA

Securities and Exchange Commission. More recently a number of environmental disasters, most notably that at Bhopal, prompted firms to adopt environmental codes, while revelations concerning child labour and working conditions have motivated firms to include labour issues.”³⁸

Box 7: Emerging Hot Issues in Corporate Social Responsibility

- **Increasing concentration on product responsibility.** The key areas of controversy are moving away from ‘side-effects’ such as how well a company treats its staff or how eco-efficient its production processes are, towards whether its products themselves and the way they are marketed are a ‘good thing’. Current issues include Genetically Modified foods, AIDS drugs, animal rights, tobacco, ‘junk food’ and arms production. However these issues are harder to deal with, since challenges go to the heart of the company’s core business. There are often no well-established international standards (as there are on labour rights for instance) and the issues are characterized by scientific uncertainty and seemingly intractable ideological differences between companies and their detractors. Some companies are realizing that the traditional response of defensiveness, philanthropy and risk management will not distract from their core product impact and are beginning to engage with this issue.
- **Emergence of ‘sustainability’ approaches.** There is a convergence of social, environmental and economic approaches into one that looks at overall sustainability. A number of initiatives including the Global Reporting Initiative (www.globalreporting.org) and The Sigma Project (www.projectsigma.org) are leading the development of integrated approaches to CSR. Often there is a practical overlap between social and environmental issues, for example in the case of health and safety of employees. However, there can also be conflicts between social and environmental imperatives. For companies it clearly makes sense for management and standards for social, environmental and economic impact to be integrated. This could release efficiency gains and make for better performance overall.³⁹
- **A greater focus on the quality of CSR management.** With a greater understanding of good practice and the search for a clear link between social and financial performance, there is increasing focus on the quality of management of CSR, rather than whether a company does it at all. CSR standards and quality management approaches are converging as each takes on aspects of the other. For example, the European Foundation for Quality Management (also known as Total Quality Management) now uses such terms as empowerment and values. It is clear that CSR must be driven by a clear business case approach, with outcomes aligned both to the business objectives and societal needs.
- **Fear about how CSR will survive recession and global insecurity.** Will companies ditch their social and environmental commitments when the going gets tough, or will they retain them, focusing on building reputation, attracting and retaining talent and cutting waste? Where CSR is integrated within the core business strategy it is likely to remain strong, however CSR as a philanthropic add-on is vulnerable to cost cutting. An important CSR issue will be how companies downsize, and what a reasonable values-driven approach to downsizing might be. While responsible downsizing may not bring immediate benefits to a company struggling with the economic climate, in the long term it is likely to help them to build their reputation. The French food company Danone, for example, was heavily criticised for closing plants, despite its highly developed social programmes to mitigate negative impacts. However the following year Danone had regained its place at the top of the poll of socially responsible employers.
- **Corporate influence as an increasingly high profile issue.** Political lobbying has remained shadowy and disconnected from more high profile social and environmental commitments. In many companies they are managed by completely separate departments, which appear to pursue unconnected agendas, with the company for example supporting fair-trade while remaining a member of an industry body with a protectionist lobbying agenda. With the increasing movement of CSR into core business, contradictions will become more apparent and the call for transparency and policy coherence ever more insistent.

Source: Mallen Baker outlines and gives his analysis of these and other emerging issues in BUSINESS RESPECT – CSR Dispatches#13/22-Sept-2001, <http://www.mallenbaker.net/csr>

Indeed, while codes of conduct and other CSR standards are only one manifestation of CSR, they provide a useful record of the changing focus of concern.

- A 1978 study of 174 codes found that more than half of them covered questionable payments while only 14 covered social issues.
- A 2000 study of 246 codes found that 60 per cent referred to labour standards and 59 per cent to environmental stewardship. Only 23 per cent of codes addressed the issue of bribery.⁴⁰

3.3 Sectoral Patterns

Clearly, the practice of CSR is not evenly distributed among industries. In addition various surveys yield conflicting evidence as shown by the different views of banks in the latter two surveys. A number of approaches can be seen in different sectors, with some sectors leading the way in developing innovative ways of linking business, social and environmental goals, while in others a convincing business case has yet to be developed. In many cases this can be directly linked to external pressure - it is no coincidence that the leading innovators of the CSR movement -Shell, Dow, Nike, RioTinto - have also been the subject of high profile campaigns for their alleged human rights abuse and environmental destruction. Beyond these well-known cases, the degree of CSR acceptance and practice in different sectors reflects the different underlying combinations of drivers, risks and industry structures associated with them.

Box 8: Sectoral Patterns: What the Surveys say

- An inventory of codes of conduct covering a wide range of social and environmental issues indicated that the leading sectors in terms of number of firms were trade, textiles, chemicals and extractive industries.

Source: Fleis, B. (1999) *Corporate Codes of Conduct: an inventory*, OECD, Working Party of the Trade Committee, May 1999.

- Codes of conduct covering labour standards are found in nearly all sectors. However they are most prominent in consumer products: textiles, clothing, leather and footwear, retail, food and beverage, and the chemical and toy industries.
- Health, Safety and environment standards are found most often in the chemical and forestry industries.

Source: ILO (1998) *Private Initiatives and Labour Standards: A Global Look*

- European opinion leader research ranked industry sectors with telecommunication, automotive and retailers considered the most responsible, and banks, petrochemicals and transport the least.⁴¹

Source: Prince of Wales Business Leaders Forum (2001) *The Responsible Century? An Opinion Leader Survey on Corporate Social Responsibility*, Burson-Marsteller/ The Prince of Wales Business Leaders Forum.

- The heaviest weighted sectors in the FTSE4Good Global index, which aims to identify CSR leaders, are banks, telecommunication, IT hardware, pharmaceuticals, and software and computer services. This represents a substantial over representation for telecommunications and software compared with the overall market.

Source: FTSE4Good.com

The tables below highlight the issues and industry and product characteristics that tend to accelerate or decelerate developments in CSR.

Box 9: CSR Accelerators	
<p>Issues</p> <ul style="list-style-type: none"> • Severe health hazards or concerns (particularly to consumers, but also to those involved in production) • Major environmental impacts in production or consumption • Major social disruption • Evidence of human rights abuse • High profile and emotive issues which resonate with consumers 	<p>Examples</p> <ul style="list-style-type: none"> Genetically modified foods; Chemical industry; tobacco industry Forestry; automotive industry; oil industry; chemical industry Mining; oil industry Mining; oil industry Child labour in manufacturing; animal welfare
<p>Industry structure</p> <ul style="list-style-type: none"> • Dominated by a small number of brand name companies • High level of regulation or threat of regulation • Ex-government monopolies and public-private partnerships • Highly visible production 	<p>Examples</p> <ul style="list-style-type: none"> Food retail; sportswear; oil Mining; chemicals Utilities; telecommunications; building Mining and oil industries; agriculture
<p>Product characteristics</p> <ul style="list-style-type: none"> • Emotion laden, lifestyle and identity products • Consumer brand clearly identifiable at production stage • Brand identity a major part of product characteristics, consumer choice not based on technical specifications. • Essential public service • Possibility of competitive advantage or product differentiation 	<p>Examples</p> <ul style="list-style-type: none"> Toys; clothing; sportswear; food; cosmetics Toys; clothing and sportswear Clothing and sportswear Water; food; pharmaceuticals Clothing; food; cosmetics

Box 10: CSR Resistors	
<p>Issues</p> <ul style="list-style-type: none"> • Scientific and political conflict over best course of action • Impact not clearly linked to company actions 	<p>Examples</p> <ul style="list-style-type: none"> Genetically Modified Organisms (GMOs); despotic regimes Banking; investment; insurance; media
<p>Industry structure</p> <ul style="list-style-type: none"> • No 'household names' involved in sector • Fragmented industry dominated by SMEs 	<p>Examples</p> <ul style="list-style-type: none"> Domestic Services Food; Leather and other raw materials
<p>Product characteristics</p> <ul style="list-style-type: none"> • Industries where core business is seen as the problem • Good reputation with no apparent problems • Product many steps removed from end consumer 	<p>Examples</p> <ul style="list-style-type: none"> Tobacco; arms trade Dotcom companies; new media SMEs in manufacturing supply chain, e.g. primary leather producers

Cutting across these industry trends are important overarching developments:

- Leadership companies within the sector, willing to break ranks with existing norms and make sustainability a competitive issue have been an important catalyst for change in many sectors. For example in the apparel sector it was Levi Strauss & Co. which introduced one of the first supplier codes of conduct and set up a model for others to follow. In the UK 'do-it-yourself' market, B&Q has led the way on a number of social and environmental issues, most notably sustainable forestry, combining forces with the environmental NGO WWF and other members of the industry to create the Forest Stewardship Council certification system.
- The New Economy is changing the basis of business relationships in sectors far beyond the ICT and new media industries. The new economy is an organisation revolution characterised by speed of change, the importance of knowledge, information and communication, and shifting proximity. It opens up new opportunities for creating economic wealth and social and environmental gains. Relationships with key stakeholders, and intangible assets such as reputation and intellectual capital are becoming increasingly important. Approaches to CSR that are part of the core business strategy can help companies meet the challenges that these changes present.⁴²
- Socially Responsible Investment (SRI) is becoming an increasingly mainstream force. This is evidenced in the growth in the amount of money invested in 'ethical policies', the launch of the global FTSE4Good and Dow Jones Sustainability indexes, and the UK government's introduction of compulsory reporting of social and environmental criteria by pension companies. This crosses over all sectors, and has moved away from its historical focus on excluding certain sectors (such as tobacco, arms and alcohol production) to a focus on identifying best practice within sectors.
- Knock-on Effect. Some sectors that do not appear to be under major external or strategic pressure are nevertheless beginning to take CSR issues on board. This can partly be seen as the knock-on effect (for example the focus on child labour in the football industry in Sialkot has also had an effect on Sialkot's other major export industry, surgical instruments, where NGOs and companies are trying to replicate their lessons of best practise). In other cases, large companies that impact on a number of industries are implementing CSR policies across the board (e.g. Unilever). The knock-on effect can also be seen between different issues. For example, concern centred on the high profile issue of child labour has been used to support more comprehensive approaches to labour standards covering the core ILO standards. Equally, concern over factory emissions has been tackled by looking at how to reduce resource wastage and introduce cleaner production across the whole production process.

The form that CSR takes differs between industries, partly as a reflection of the relative importance of different issues, but also as a reflection of industry structure. An important factor is the nature of the relationship between different parts of the value chain and the major brand owners that have both the power to influence CSR standards within the value chain and the vulnerability to reputation damage, which can drive this concern.

- In industries where there is an arm's-length relationship between brand owners and producers, such as in the case of agricultural commodities like coffee and chocolate, industry level initiatives tend to dominate. These mainly comprise product standards, and monitoring and certification systems

developed either for the whole industry or for niche markets within it. Examples of this approach include the industry protocol on child labour within the cocoa industry, and the fair trade and organic standards.

- In the buyer-driven value chains, which predominate in fast moving labour-intensive consumer goods such as garments, footwear, toys and homewares, brand owners have closer relationships with a smaller number of manufacturers. In these industries company level codes of conduct backed up by individual monitoring systems have predominated, reflecting the power of major brand name labels to influence their suppliers. However, economic forces and fashion changes mean that relationships between buyers and manufacturers are not static and a single supplier may produce for a number of different labels. This has caused problems of multiple codes of conduct and monitoring systems burdening suppliers. Therefore partnerships such as the Ethical Trading Initiative and the Fair Labour Association as well as the supplier product certification scheme SA8000 have been developed to ensure that codes of conduct are effective and manageable.
- In producer-driven value chains, producing consumer durables with a higher technology input such as automobiles and computers, relationships between brand owners and their suppliers are closer with major suppliers as essential partners in design, quality and customer service, often sharing sites and just-in-time production systems with the producer brand company. To an outside eye, the individual companies in the value chain are often indistinguishable. While companies such as Ford have issued supplier environmental requirements which are similar to a buyer-driven code of conduct approach, they also engage closely with their suppliers to ensure that standards are met. The focus is not so much on product-level standards as on company level management. Shared management systems, mentoring to reach ISO14000 certification standards, training, web-based support and strategic alliances are part of this approach. This may include changing the basis of the relationship from one of buying products to one of buying services, as with the agreement between Ford and DuPont to move from paying for volume of paint to paying for number of cars painted. In this case the economic incentive to reduce wastage and increase eco-efficiency is built into business relationships. So it was in DuPont's interest to work with Ford to use less paint. In foreign direct investment (FDI) ventures such as in the mining and oil industries, where the main social and environmental impacts are generated within the company itself, there has been less focus on value chain CSR and more focus on the conduct of the company itself. Wider influence on enterprise development is seen in terms of counteracting the honey-pot effect of major FDI ventures and through social and community investment, which is not directly linked to the corporate value chain.

The following sector surveys outline the way different combinations of these factors have combined in a range of industries.

Box 11: Sector Focus: Textiles and Apparel

Consumer brand-named products are particularly vulnerable to consumer, public, media and NGO pressure, especially where they are emotion laden and lifestyle products such as toys and sports team gear or where the product and brand are clearly identifiable at the production stage.

A number of key trends in the clothing industry have led to increasing demands for retailers to use their brand power to improve environmental and social conditions in their supply chains:

- Brand management - retailers increasingly aiming to win and sustain customer loyalty by placing greater emphasis on the brand value associated with their company's products
- Supply base rationalization - clothing retailers are rationalising their supply base in order to drive down costs and improve quality, innovation and timing. Cutting supplier numbers by up to a half while building stronger relationships with the remaining manufacturers, as C&A recently did, has not been unusual.
- International sourcing - The proportion of clothing sourced internationally continues to rise, with most of this coming from developing countries where garment manufacturing has tended to relocate due to lower labour costs, rapid advances in transportation and communications technology, and trade liberalization.
- Direct buying - Retailers are increasingly buying direct from suppliers rather than going through importers. This shortens the supply chain and complements the move towards closer relationships with a smaller number of suppliers.
- Increasing retailer power - textiles and garment manufacture is not location specific and tends to be one of the first industries for developing countries. This is a buyers' market in which fierce competition for contracts drives down the price to suppliers while branding enables retailers to extract high levels of profit from consumers.

Retailers have responded with a proliferation of individual company initiatives and programmes linked to brand differentiation and reputation. Both social and environmental issues are becoming important for manufacturers supplying these companies. On the environmental side, there has been a focus on reducing the use of toxic Azo dyes. This has been driven both by government regulations (for products sold into German and Dutch markets) as well as individual sourcing policies. Independent certification schemes have had some success, most notably the Oeko-Tex Standard scheme aimed at European consumers. On the social side, issues focus on factory labour conditions following high profile media attention and campaigns linking major clothing companies to child labour and other exploitative practices.

For manufacturers in global supply chains these buyer led initiatives have been the key driver for CSR. Even where the changes have been dictated by government regulation, as with the Azo dyes, many developing country manufacturers still rely on their clients as the primary source of information and advice. However in some cases this has backfired. In 1993, the proposed USA 'Harkin Bill' threatened an import ban on clothes produced by child labour. Under pressure from USA buyers, factory owners in Bangladesh rapidly fired child workers. Alternative arrangements for the children's welfare and education struggled to catch up with these rapid moves and many children ended up moving into less favourable and more dangerous jobs such as prostitution or brick-breaking.

The variety in buyer's codes of conduct and monitoring systems has created difficulties for suppliers that have to comply with a multitude of competing standards as well as a degree of confusion and distrust amongst consumers. A number of initiatives have been set up in the sector, both to provide assurance to consumers and to ensure that CSR motivated changes do not negatively effect the most vulnerable. (See Box 30: Remoulding the Apparel sector).

Source: Robins, N., and Humphreys (2000) L, *Sustaining the Rag Trade*, IIED, London. www.iied.org/scati

Box 12: Sector Focus: Chemicals

High risk, heavy industries such as the chemical industry have been branded environmental bogeymen and told to “change or be legislated out of existence”.⁴³ They have responded with company and sector level voluntary initiatives, which focus on environmental, health and safety issues. Where the issues do not represent an opportunity for positive brand differentiation they have often found it better to work together, for example the chemical industry’s ‘Responsible Care’ initiative which reflected the need to turn around a sector-wide bad reputation. While this has had some success, the International Council of Chemical Associations reports that only 66 per cent of USA Chemical Industry employees are aware of the Responsible Care initiative.

The industry is undergoing a period of strategic change, pulling back from competing by producing more and cheaper supplies of bulk chemicals in favour of higher margin speciality businesses, biotechnology, and selling services, not substances.

Chemical companies are now realising that a broader focus on social, environmental and economic sustainability (‘the triple bottom line’) issues can help them anticipate and manage risk, and avoid litigation and reputation damage. They are beginning to take actions comparable to the leading lights in the field of CSR.

BASF, DuPont and Dow Chemical are probably the most highly regarded and at the same time most vilified chemical companies. Dow topped the chart of leading chemical companies on the Dow Jones Sustainability Index for its social responsibility. Dow’s Public Report is one of the few sustainability reports in the chemical industry that has a clear section on social responsibility that goes beyond health and safety. BASF engages with stakeholders through Citizen’s Councils and Community Advisory Panels. Bayer AG, BASF and others have signed up to the UN Global Compact.

Many critics contend that while chemical companies may make the right noises about responsiveness to public concern, they remain defensive over controversial issues and their true colours are revealed by their lobbyists and their membership of anti-regulation lobby groups like the Global Climate Change Coalition (few chemical companies report on their political lobbying activities).

Their main trading relationship with SMEs in developing countries is as suppliers of chemical inputs for production. They can and do play a positive role in developing and promoting more environmentally friendly and safer products, and providing training and advice in product choice, use and storage. However, their role in the responsible marketing and use of chemicals, particularly in developing countries, remains an under-explored area of their overall Corporate Social Responsibility.

Source: Adapted from Raynard, P & Forstater, M (2001) Developing a Social Chemistry, Tomorrow Magazine, Numbers 5-6, Volume XI and http://www.tomorrow-web.com/sectorcer/sec_chemicals.html

Box 13: Sector Focus: Extraction

Mineral extraction has been one of the most high profile industries where human rights and property rights have been violated. Mining and oil extraction are large-scale, highly visible operations with a high environmental impact. As tighter regulations and diminishing reserves drive the industry from its traditional mining belts in Australia, Canada, and South Africa to search for seams around the world and in seabed sites, environmental and social issues become even more complex. These issues include:

- Reclamation and remediation
- Seepage and leaching of chemicals and heavy metals
- Air emissions, global warming and acid rain
- Land and water contamination
- Deforestation and erosion
- Ecological disturbance to plants and wildlife
- Health and safety, and emergency preparedness
- Land use conflicts, involuntary resettlement and indigenous peoples
- Human rights abuses
- Social impacts: migration, alcohol, violence, disease, prostitution, etc.⁴⁴

Companies have no influence over where deposits are located, which often leads them to work in countries with undemocratic governments and poor human rights records. Revenue from natural resource extraction encourages and supports these despotic governments. Unexploited mineral reserves are by definition located in underdeveloped areas; therefore extraction disrupts pristine environments and the lives of indigenous people. In this volatile setting extractive industry companies have become involved in aggressive security operations, bribery and environmental damage. They have also attracted attention because of their size, which often dwarfs that of the countries in which they operate (ExxonMobil's 1999 turnover was more than 4 times Nigeria's GDP and more than 100 times that of Chad). Oil companies have been a particular target for consumer and NGO campaigns and boycotts, since their global operations are represented by consumer brands in the form of service stations.⁴⁵

One of the most celebrated and controversial cases is Shell, which has at various times been put forward both as a leading light in the Corporate Social Responsibility movement and an abuser of human rights and the environment, first for its attempts to dispose of the Brent Spar oil platform at sea and then for its involvement with the Nigerian government in Ogoniland. Since the late 1990s Shell has made a serious commitment to sustainable development, which it sees as strategic to its business:

"Far from being a drag on our performance, such a commitment helps us understand the world better and improves our chances of success. Sustainable development is forward-looking, embodies the notion of progress and encourages liberating new ways of interpreting the world. Our business can best thrive by enthusiastically embracing this agenda and providing energy and other products in line with society's expectations for a sustainable future"

[Mark Moody Stuart in Shell's People Planet & Profits Report, 1999]

Shell's sustainable development reports document the considerable efforts the company makes to help the local population and limit environmental damage, and even its harshest critics such as Human Rights Watch admit that "development spending by the oil companies has also brought schools, clinics, and other infrastructure to remote parts of the country that might otherwise be far more marginalized by the Nigerian government."

Sector-wide guidelines have now been developed which require that companies include democratic and human rights conditions as part of their risk assessment that they ensure that security measures they take, or obtain from state security forces comply with international law and do not violate human rights. A number of voluntary codes have been set by the sector on a regional basis, from Australia's Greenhouse Challenge agreements to Zambia's copper belt 1998 Cleaner Production Programme. Some companies have set themselves targets for reducing their environmental impact, although others take advantage of lower levels of regulation in their worldwide operations and have refused to apply global social and environmental operating standards.⁴⁶

Box 14: Sector Focus: Food

Industries with an essential public service element have been motivated by consumer pressure and their relationship with government. The food industry has been caught up in society's debate as to how much profit and freedom should be allowed to companies producing essential goods. Consumer concern about the health, social and environmental impacts of the food we eat is running high, particularly in Europe. Food has an emotive and visceral grip on public interest, not least because of the potential health risks it can entail and the number of 'food scares' that have shaken public confidence in farming methods. Concern over the health and environmental effects of genetically modified organisms (GMOs) in the food chain have led to vociferous demands for crop segregation and labelling. While Monsanto continues to promote GMOs, a number of major retailers and restaurant chains have declared their own brands to be 'GMO-free'.

In the case of food, concerns about corporate social and environmental responsibility have advanced alongside consumer health and safety concerns. One example of this is the explosive growth in demand for organic produce; motivated variously by health concerns about consuming pesticide residues, environmental protection, animal welfare and support for small farmers. In the 1990s, organic markets have seen unprecedented growth (25 per cent per year in the USA, 40 per cent per year in the UK) and have moved from niche outlets into mainstream markets, which also demand more stringent quality standards. The world market for organic produce is currently estimated at US\$ 11 billion (1-2 per cent of the total food market), around half of which of which comes from developing countries.⁴⁷

Much of the pressure for social and environmental improvements is felt by the major brand owners, be they retailers, restaurant chains or global food brands such as Cadbury's and Nestle. Increasingly, environmental and social standards are included within their buying criteria. For instance, the Nature's Choice programme of the British supermarket chain Tesco covers environmental issues, worker conditions and good agricultural practice. However, while in some cases (as with fresh produce) consumer brand companies have close relationships with their suppliers and are able to work together to improve standards, in many cases companies are purchasing commodity products on global markets where their influence with suppliers is not as direct.

One key example is the issue of enforced child labour in West African cocoa plantations. While the confectionary industry is dominated by a handful of global brands, the supply chain is highly complex involving numerous intermediaries and processing stages. Therefore it is not a simple matter of stamping out enforced child labour by attaching individual codes of conduct to purchasing standards. Responsible companies have accepted the need to use their influence on an industry-wide basis and have drawn up an industry protocol as the basis for developing a system of baseline surveys, global standards, independent monitoring and certification on an industry wide basis.

Labelling and certification are increasingly significant in this sector, for example the Marine Stewardship Council has been set up to certify fisheries, while sales of Fairtrade food products including bananas and coffee are becoming increasingly significant.

But perhaps the biggest challenge for this industry is how to tackle the core issues of diet and nutrition both in terms of 'diseases of affluence' and third world hunger.

Box 15: Sector Focus: Telecommunications

Service industries such as the banking, insurance, retail and telecommunications industries are generally not perceived as corporate 'baddies', and have an image of modernity and clean business. Although their direct social and environmental footprint is often relatively small, their role as market gatekeepers means that they can have substantial influence. CSR leaders in these sectors tend to be motivated by the strategic need to innovate in fast moving industries as well the competitive 'war for talent'.

In the case of telecommunications companies the context is of an almost universal move from state-owned monopolies to competitive markets, and the emergence of powerful international companies. CSR and a strategic focus towards sustainable development is part of many telecommunications companies' response to this development. They focus on the potential of Information and Communication Technologies (ICTs) to empower - through enterprise development, educational opportunities and the capacity to respond to emergencies. Developments such as teleworking, telemedicine, telebanking and teletraining have the potential to save energy, paper and the need to travel, reducing air pollution, resource use and waste. They can contribute to development in regions disadvantaged by traditional infrastructure.

However, despite these opportunities, there are a number of more problematic issues:

- Tensions between the drive for efficiency and profitability and the need to meet legislated 'universal service obligations' to provide access for all.
- The emergence of a 'digital divide' between those who have access to educational, health and opportunities through ICTs and those who do not.
- The need to improve access amongst the SMEs to the new B2B methods and infrastructure, which will enable them to gain access into the global economy.
- Concerns about the environmental and health implications of new technologies.

Many companies in the sector are aligning themselves towards the commercial opportunities that sustainable development could offer the industry, by bringing services to those communities that are currently on the wrong side of the digital divide both in the South and within deprived areas in the North. As such, CSR is part of their core business strategy and is seen as a way of gaining a competitive edge over competitors.

As major buyers of business services, telecommunications companies also have a powerful supply chain position. However their suppliers are often major TNCs in their own right. Therefore value chain initiatives most often take the form of strategic partnerships and learning alliances rather than compliance orientated code of conduct approaches.

Sources: Zadek, S & Raynard, P (2001) *The Digital Divide*, London, British Telecom; and IBLF CSR Roadmap "CSR and the Telecommunications Sector", <http://www.iblf.org/csr/csrwebassist.nsf/content/a1d2a3a4.html>

3.4 Regional Patterns

Consumer and civil society pressures facing TNCs have primarily driven the CSR agenda. In almost all cases this pressure arises in their main mature markets in the North. However, many of the issues concern the impact of company operations and sourcing in the South. For Shell, it was the issue of Ogoni land rights in Nigeria, for BP their alleged involvement with security forces in Colombia, while for Nike and Gap it was the working conditions in which their shoes and clothes were produced. Thus the regional patterns in TNC-driven CSR depend on a combination of historical, political, economic and cultural factors at both ends of the value chain.

Box 16: Regional Patterns: An Overview of the Trends

- The millennium poll found that people were most interested in corporate social performance in Australia, Canada, the USA and the UK, while there was least concern in China, Nigeria, The Dominican Republic and Kazakhstan. Somewhere in between were Germany, Japan, Indonesia and South Africa.⁴⁸
- In the same poll respondents in North America and Oceania most often claimed to practice ethical consumerism: 67 per cent said they had punished or considered punishing a company for social wrongdoing. In Northern Europe this figure was 53 per cent, in Africa and Asia 38 per cent and in Eastern Europe and Latin America 31 per cent.⁴⁹
- The USA and the UK dominate the FTSE4Good Global Index with 41 per cent and 18 per cent of constituent companies respectively. This in part reflects the make up of the underlying index from which the FTSE4Good Index is compiled, but also reflects their lead in CSR.⁵⁰

Public interest and corporate activity in CSR is greatest in North America, Australia and Northern Europe, for it is here where the main global brands and TNCs are based. The Anglo-American model of CSR, which focuses on transparency, measurement and competitive corporate citizenship, contrasts with the institutionalised European social partnership model. However a number of continental European companies are adopting an Anglo-American approach to CSR in their overseas markets while maintaining their traditional approach at home.

Regional approaches also relate to the concerns of consumers and investors, the media, NGOs and governments in both home and export markets. National campaigns and media attention often focus on companies with a strong local identity and headquarters, for example the European Clean Clothes Campaign has focused on companies such as C&A, Hennes & Mauritz and Otto Versand, while American student campaigns have focused on USA sportswear labels such as Nike and Reebok.

Increasingly for large companies operating in a global context, the emerging international standards provide a framework for CSR, which attempts to provide a common framework for these regional approaches (see box 23).

Box 17: Comparing attitudes and approaches to CSR across Northern Europe.

France	Centralised government. Tendency towards formal procedures and frameworks for risk avoidance. Most large companies wholly or partly state owned. Social costs high with the government taking 45 per cent for health, social security and pensions. Some companies have relocated to avoid these taxes (e.g. Generale des Eaux, Elf Aquitaine and Rhone Poulenc). Many large companies believe they pay enough in taxes to discharge their social responsibility. Former state owned companies usually have more defined CSR policies. French consumers report less interest in CSR than other European consumers.
Germany	Long history of social involvement by enterprises in society. Strong social security system and labour market regulation in 'social market economy'. Interest in CSR low due to heavy involvement of the state in work and community life. Stakeholder involvement enshrined in 'two-tier' corporate governance structures involving labour unions. Strong environmental movement.

Box 17: Comparing attitudes and approaches to CSR across Northern Europe (continued)

Italy In the words of the Italian Government submission to the EU on CSR: "The terms "corporate social responsibility" are commonly meant in Italy as "to be loyal to stakeholders". As opposed to developments which have taken place in the Anglo-Saxon context, CSR has therefore no consolidated meaning." However they go on to emphasise that unlike with other innovations, the level of CSR in Italy among businesses is generally high although not systematically organized.

Until the Second World War, social investment in local housing, education, healthcare by companies was widespread. This "paternalismo" has gradually been reduced as industrial and social systems have come to be seen as the responsibility of the state.

Italy's economy contains a large number of SMEs, which traditionally have strong links with local communities. But also notable are large family-dominated firms (e.g. Benetton, FIAT, Del Vecchio and Pirelli). These family businesses have undertaken some social activities. Autocratic, hierarchical management style predominates. Corporate codes of ethics are rare. A rollback of the state and increasing involvement of TNCs has led to growth in CSR initiatives by Italian companies. Anti-corruption measures are now high on the agenda after high-profile scandals and investigations. A number of companies publish 'social balance' statements.

UK Traditionally less regulated and with fewer social protection measures than other European states. History of philanthropy and social responsibility by companies such as Rowntree's and Cadbury's, often with a religious background. The 1980s saw the most sweeping deregulation and privatization regime in Europe. Capital markets tend to discourage long-term investment. Due to language and regulatory similarities the UK economy is often seen to be more like the USA than continental Europe, with trends in employee loyalty, management, entrepreneurialism etc. reflecting USA norms. CSR has become a major issue, with four out of five of the FTSE 100 companies providing information on their social or environmental performance and high consumer awareness of CSR issues.

Netherlands Tradition of strong state, business and civil society support for social policy. Agreements between government and its 'social partners' have dominated the business environment (although are now declining in importance). Therefore there is a perception of little need for changes in CSR practice.

Source: Adapted from EU-INDIA(2001) Comparative Study on Corporate Social Responsibility, www.eias.org

Approaches to improving the impact of business on society have developed in some Southern countries independently of the formalised standards, measurement, reports and supporting organizations that characterize the predominantly Northern-driven phenomenon of CSR. These are most often philanthropic in nature, but are strategically aligned to company development in that they help to build the essential infrastructure and trained workforce needed for a healthy business. As such, they are comparable to the philanthropy of 19th century industrialists in Europe, who invested heavily in local welfare, health and housing, in the absence of effective state provision.

Box 18: CSR in Developing Countries: An Overview

The main evidence of current practice being developed in the South is in Latin America, South Africa, South Asia (mainly India), and pockets in the Far East (e.g. the Philippines). There are then a number of emerging examples from least developed countries where initiatives from bilateral and multilateral donors have focused attention on CSR as a mechanism for poverty alleviation. A workshop organised by UNRISD showed that in the case of Indonesia for example, "while concepts like Corporate Social Responsibility have become more fashionable there, they have essentially been introduced from abroad."⁵¹ However, one should not overlook the fact that because CSR is practiced by only a few firms in Southern countries, it doesn't mean that there is a comparative lack of social and environmental responsibility. 'Silent responsibility' that may take a less overt or reported approach and is more paternalistic in nature, is more characteristic of CSR in developing countries and more closely linked with how a business operates on a day-to-day basis.

- In Latin America, Empressa is a co-ordinating body that links CSR initiatives from Mexico to Argentina. Organizations such as Instituto Ethos in Brazil are amongst the leading organizations promoting CSR, and are instituting a number of projects such as an Ethical Portal in order to promote greater consumer concerns over company practice.
- In South Africa, companies such as South African Breweries and Land Bank have undertaken social accounting processes and published corporate citizenship reports. The African Institute for Corporate Citizenship has recently been set up and the first major African conference on the subject was held in Johannesburg in April 2002.
- Research carried out by the Resource Centre for Social Dimensions of Business Practice into the relationship between business and poverty has highlighted the significance of CSR approaches by national companies in countries such as India, Tanzania, and Uganda.
- Business Associations play an important part in promoting more responsible practice by companies. In the Philippines, the Philippine Business for Social Progress (PBSP) and Asian Institute of Management (AIM) have for a number of years developed and promoted CSR in the country, addressing such issues as micro-credit, disaster victims, corporate giving, and environmental stewardship.

As developing countries' markets are becoming increasingly integrated into the global economy, this is introducing new ideas and tools for CSR but also potentially undermining existing CSR approaches, as the example of Tata in India shows.

Box 19: CSR in India

Politicians from Gandhi onwards have stressed the role of business in development. As early as 1965 Prime Minister Lal Bahadur Shastri chaired a seminar for policy-makers, business leaders, thinkers and trade union leaders, which called for regular stakeholder dialogue, social accountability, openness and transparency, social audits and corporate governance.⁵²

The tradition of business involvement in social issues is reflected both in the family businesses which dominate the national industrial scene and the social economy sector. Businesses of every size have always seen social reform as part of their role in nation building. Often this is linked with local commitment and religious affiliation.

Indian Corporate Social Responsibility has traditionally been a matter of classical paternalistic philanthropy: financially supporting schools, hospitals, and cultural institutions. However, far from being an add-on motivated by altruism and personal glory, the philanthropic drive has been driven by business necessity. With minimal state welfare and infrastructure provision in many areas, companies had to ensure that their workforce had adequate housing, healthcare and education.

Box 19: CSR in India (continued)

One of the most celebrated companies in Indian CSR is the Tata Group. Its CSR practice started by providing employee accident compensation for its workers and funding higher education scholarships. This broadened to supporting the development of institutes for education and research institutes ranging from cancer to the performing arts. In the towns and villages near its steel plant in Bihar, Tata has a long-standing and comprehensive community development and social welfare programme which includes education, healthcare and infrastructure development.

India, like many other developing nations is rolling back its regulation and involvement in the economy in order to court foreign investment. With its sizeable skilled labour force India appears to be a winner from globalization. It is one of the world's fastest-growing economies and its share of foreign direct investment and world exports is rising. While India, along with China, is still home to the majority of the world's poor, the share of the population below the poverty line is falling.⁵³ Globalization has given rise to a number of trends in Indian CR:

- 'Western style' CSR is becoming increasingly influential. This is a move away from philanthropy towards measuring, managing and improving all aspects of companies' environmental, social and economic impact. This trend is seen to be embodied in formalized codes of conduct and guidelines that are increasingly becoming part of the terms of business for companies that trade with TNCs.
- The rise in power of global civil society and the internationalizing of civil society campaigns and lobbying has disturbed the comfortable relations between Indian NGOs and businesses, with more critical voices coming forward to highlight poor corporate performance
- Intense competition in the global market place is constraining the ability of many companies to do anything more than what is strictly necessitated by regulation, and many are being forced to restructure in ways that challenge their commitment to CSR.⁵⁴

While the commitment to *be mindful of its social and moral responsibilities to consumers, employees, shareholders, society and the local community* is enshrined in the Articles of Association of the Tata Group companies, the pressure of competition is undermining its traditional CSR practices. It is considering cutting its workforce and associated social provisions by half. However the company does not want to lose its good reputation or loyal workforce and is looking for ways of restructuring without withdrawing support from the 21 schools, 23,474 homes and healthcare for 600,000 people, which are currently dependent on Tata's social programmes. Possible alternatives include sub-contracting, or even handing over the responsibility and ownership for the running of schools, hospitals and other infrastructure developments, to the local state.

Companies, NGOs, regulators and an increasing number of organizations in India specialising in CSR are trying to develop an appropriate model of CSR, which builds on the best of Indian business practices and Western ideas of the triple bottom line while at the same time responding to the need for greater competitiveness.

Sources: The EU-India CSR project is a useful source of information on CSR in India. www.euindia-csr.com; Tata's website, www.tata.com/0_beyond_business/index.htm; and Kumar, R. Murphy, D, & Balsari, V (2001) Altered Images: the state of corporate responsibility in India poll. (New Delhi, Tata Energy Research Institute)

There is a potentially worrying trend of examples of CSR in developing countries seeming to be concentrated in more advanced nations and areas in the South such as Latin America, South Africa, India, and the Far East. It is ironic but no less surprising that CSR follows the pattern of globalization, and maybe the focus on business benefits has directed companies away from seeing a market opportunity in the most impoverished parts of the world. In essence, CSR is emerging in the more mature markets of Southern countries, and so far bypasses countries where the business case is less evident.

There are, however, pockets of evidence that this pattern may be changing. Examples from Uganda, Tanzania and Nepal are emerging whereby there is a greater understanding of how business can address issues of poverty. In what he terms, 'below the bottom line' Michigan business commentator C.K Prahalad believes there to be many business opportunities in the least developing countries. The Resource Centre for Socially Responsible Business in the UK is working 'to engage the business community more systematically in activities that contribute towards eliminating global poverty'. As their research has shown,

"The core business activities of a successful business can have a positive impact on poverty through the creation of employment, through employment benefits such as medical provision for employees and their families, and through the supply of products and services tailored to the needs and resources of poor customers." ⁵⁵

Other work by the International Business Leaders Forum in Mindanao (see Box 20 below) has shown the potentially heavy costs for companies operating in conflict zones when they have the ability to be a positive force. All of which points to the fact that business can operate and be a force for good in areas with endemic poverty as a result of conflict.

Box 20: Broader effects of CSR on local business: The Business of Peace in Mindanao

Companies operating in unstable, corrupt or repressive countries or in regions of conflict are increasingly realising that they cannot ignore their own role in these problems. They are faced with the dilemma - should they withdraw from these areas or should they stay and try to exert a positive influence, and how can they ensure that their own policies and practices do not exacerbate problems.⁵⁶

The International Business Leaders Forum (IBLF) has set up a partnership between the business member organisation and an international NGO has created the Business and Peace programme⁵⁷ which aims to promote the role of business in contributing to peace, and to help companies develop and implement practical policies towards this goal. Country-level initiatives are being developed in Azerbaijan, Indonesia and the Philippines, working with member companies to develop conflict sensitive corporate practices and engaging in capacity building with local partner organisations.

In the war-torn areas of Muslim Mindanao in the Philippines, it is working with the business association, Philippine Business for Social Progress, focusing on diversity and tolerance in the workplace as well as enterprise development. One part of this programme will create 'business links' to transfer business skills from TNCs and large companies to Muslim SMEs. Managers will provide free training and mentoring.

Examples of good practice include Lapanday Holdings, one of the country's largest producers of fresh fruit. CEO Luis Lorenzo Jr. has led the company in promoting peace and stability in Mindanao. He believes that poverty is the root cause of conflict in Mindanao, and that improving access to education and skills training is therefore the most effective way to promote long-term peace and development. Programmes include investment in healthcare, training and micro-finance for small business start-ups.

The company has long term plans to develop one of its plantations into an industrial park. In the current economic climate these plans have yet to be realized. However, the company is already running a Skills Training Centre which provides free training courses to employees, their families and local residents, so that in the long-term local people will be able to find work at the new site. They hope that these will not only enable individuals to find skilled work but more broadly contribute to private sector development in order to bring peace and prosperity to Mindanao.

Box 21: CSR in Chile

As in other developing countries, private sector enterprises in Chile have a history of contributing to social development through paternalistic social welfare, healthcare, housing, and education programmes. This has mainly been carried out through support of charitable and religious groups. However in recent years the idea of CSR has moved on from philanthropy to a more systematic corporate response.

The Chilean organisation *Acción Empresarial* aims to promote social awareness among businesses. It promotes exchange of experiences and joint ventures between its members as well as raising the general profile of CSR in Chile. A MORI poll commissioned by *Acción Empresarial* found that 50 per cent of consumers surveyed attach a significant value to ethical business practices.

"Month after month, Acción Empresarial has been able to ascertain a growing interest in CSR, the desire for better behaviour, and an awareness that we all must 'do good'. The challenge now is to get small to medium enterprises, which still have not recovered from the effects of the economic slowdown, to acknowledge the urgency of their participation in an area, which had hitherto been perceived as the preserve of bigger, wealthier entities. Specifically, our organization's goal is to affirm that CSR is not a luxury, but a way to achieve sustainability as 'a corporate citizen'."

UNDP has recently become involved in promoting CSR in Chile, bringing together industrialists, civil society leaders and government representatives to discuss the roles and responsibilities of business in development as a first stage towards greater partnership working.⁵⁸

Source: <http://www.accionempresarial.cl>

3.5 Corporate Social Responsibility by SMEs

*"The fact that small businesses have a heightened requirement for good, multi-skilled employees, strong personal relationships and successful local engagement means that small firms can be a good environment for corporate social responsibility to flourish."*⁵⁹

As shown above, larger companies have been the primary drivers of CSR for a number of reasons. However, this does not mean that CSR is irrelevant or not practiced by SMEs. It is worth noting that many of the pioneering practices that are now part of mainstream CSR were pioneered by SMEs and community enterprises driven by strong personal ethical commitments. For example early pioneers of social accounting included Ben & Jerry's (now part of Unilever), The Body Shop (no longer an SME) and the UK fairtrade company Traidcraft.⁶⁰ SMEs have also been active on the environmental side, demonstrating the financial viability of organic farming, recycling and wind power to name but a few innovations. The business writer Rosabeth Moss-Kanter calls the social enterprise sector the 'beta site' for business innovation, where enterprises motivated by social goals are able to prove there is a profitable market for products and services that mainstream businesses had not considered. One key example of this is the development of 'micro-credit' for small businesses⁶¹. The small 'green' clothing label Patagonia has worked with its textiles suppliers to develop more environmentally friendly coatings. The large textile companies are willing to work with this small company because the results of the collaborative work will eventually be able to be sold to a wider market.⁶²

In studies that compare the CSR of larger and smaller enterprises, SMEs generally 'score' less highly. But this may reflect a lack of formal policies and CSR language on

the part of SMEs, as much as actual differences in performance.⁶³ One study, which focused on environmental *performance indicators* as opposed to policies and processes, did not find the expected differences between small and large enterprises.⁶⁴ Certainly, some aspects of SME behaviour can be seen as examples of ‘silent Corporate Social Responsibility’:

- SMEs are less internationally mobile than TNCs; therefore they take a more long-term view of investment in an individual locality.
- Some family-owned companies exhibit strong religious/philanthropic approaches.
- SMEs have more links to the local civil and cultural environment and may be more aware of local risks and emerging issues than internationally managed companies.

Box 22: CSR and SMEs in Europe

Research on SMEs and CSR in Europe found that:

- SME policies and practice are generally more developed in relation to environmental impacts than to social and economic impacts. This reflects the greater degree of environmental public policy, public awareness and international standardization of certification and auditing processes.
- SMEs tend to prioritize CSR issues and concentrate on one or two key issues rather than cover the broad mix that larger enterprises are able to deal with.
- SMEs tend to focus to a greater extent on local issues and programmes.
- SMEs tend to be more active in CSR where they have greater networks of relations, increased focus on quality, links with foreign countries or were involved in production with high environmental impact or heavy use of intellectual capital.

Source: CERFE Group (2001) *Action Research on Corporate Citizenship among European Small and Medium Enterprises*, CERFE Laboratory.

A number of initiatives have now been set up to support SMEs develop appropriate, credible and viable approaches to CSR:

- www.goodcorporation.com is a self-assessment and third party certification tool aimed at measuring and communicating the social and environmental commitment of SMEs.
- The *Business Impact* handbook issued by Business in the Community is an attempt in the UK to represent and refine the CSR agenda to its essential core in a way that makes management both practicable and beneficial for every size of business.⁶⁵
- The UN Global Compact was essentially initiated as a partnership between the UN and big business. However it already includes a number of SMEs as member companies and has started a programme of outreach to SMEs.

While the focus on SMEs is welcomed and overdue, these and other initiatives take the approach of taking the essential elements of CSR as pioneered by larger companies. In so doing they try to streamline them to make them accessible, affordable and appropriate for SMEs. There is little analysis of the different dynamics, issues and pressures facing SMEs and their potential for influence, in particular for developing countries.

Box 23: CSR and SMEs: The Case of the Furniture Resource Centre, UK

The Furniture Resource Centre (FRC) is a UK-based organisation founded in 1988 with a small amount of funding and a few volunteers. It began by taking in second hand furniture and passing it on to local people referred by a range of support agencies.

FRC grew rapidly, but 1993/94 brought a change of direction when new fire regulations were introduced. This meant soft furnishings could no longer be donated, so FRC decided to strip down and rebuild old furniture and make brand new items for sale to the public. The FRC runs a furniture reclamation and restoration scheme with a "call for collection" service.

The business has a turnover of £6.6 million and employs 107 people, 41 of whom are on one-year training programmes. In 2000-2001, 98 per cent of its income was derived from sales of products, services, training and ideas.

The organisation manufactures its own three-piece suites, which it sells to social landlords and housing associations as part of a "one-stop-shop" furnishing service. It also re-upholsters donated furniture and provides training through an Intermediate Labour Market (ILM) strategy. Training to national standards is offered in furniture restoration, retail, business administration and Long Goods Vehicle driving.

FRC has its own high street retail outlet called "Revive" where new and refurbished furniture is sold to the general public. Revive also sells refurbished white goods from FRC's sister organisation CREATE. Through a partnership with the Citizens Advice Bureau (CAB), Revive runs a benefits advice service.

FRC publishes an annual independently verified social audit report, in which it is measured against its seven objectives: 1. To provide furniture to enable disadvantaged people to access accommodation; 2. To train and recruit long-term unemployed people; 3. To reuse, refurbish and recycle household items from the bulky household waste scheme; 4. To create a culture based on a fair and empowering working environment for employees; 5. To treat its customers and suppliers fairly; 6. To operate good environmental practices in the running of our business; 7. To influence and develop the shape of social policies relevant to the achievement of the Furniture Resource Centre's charitable purpose.

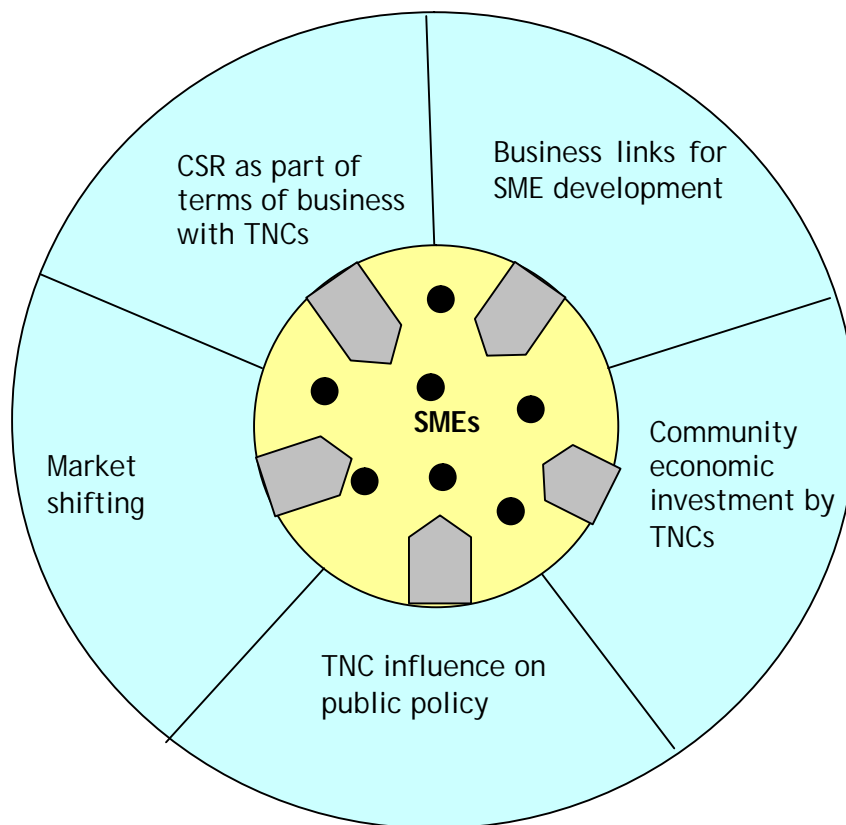
Source: www.furnitureresourcecentre.com

4 Ways of Working: Corporate Social Responsibility and the TNC/SME Interface

Small and Medium Enterprises in developing countries are critical to the development process. Although it is beyond the scope of this report to cover the myriad of mechanisms for private sector and SME development as a means of addressing issues of poverty and environmental degradation, nearly all of the literature acknowledges the importance of the SMEs and their role in development. From the UN, through to small non-governmental organisations, the message is clear: unless SMEs are able to access markets (be they local, national or international), developing countries will find it nigh on impossible to find a 'path out of poverty'.

Within this context, CSR developments by TNCs have direct and indirect influences on SMEs in the South and on the communities in which they operate bringing both benefits to SMEs as well as new demands.

Figure 7: CSR Impacts on SMEs



The following sections address how each of these key elements of the TNC/SME interface, have developed.

4.1 Corporate Social Responsibility as a Condition of Business with TNCs

Over the past decade, global brand name companies have been held responsible not just for their own operations but also for the standards in other parts of the 'global

value chains' supplying them. Part of the reason for this is that companies have now shifted from being producers to buyers and 'governors', thereby outsourcing much of their production processes to companies in the South. For SMEs in developing countries, relevant business relationships with TNCs include sub-contracting, licensing and joint ventures. The brand owners have always given priority to price, quality and service standards in these business relationships, but increasingly, they are including social and environmental criteria alongside these more traditional considerations.

Much of the focus of concern in recent years has been on *supply chain standards* or *codes of conduct* that relate to sub-contractors. These codes of conduct, particularly concerning environmental and labour standards have been one of the most visible aspects of CSR for SMEs in recent years.

In response there has been a flurry of initiatives, which move beyond the individual relationship between the retail brand company and its suppliers. Most notably:

- **Multi-stakeholder partnership approaches** in which industry sectors adopt a common code of conduct and work with civil society organisations and governments to develop an acceptable monitoring system. Examples include the Fair Labour Association in the US, the Ethical Trading Initiative and the Sialkot partnership (illustrated in the boxes below).
- **Certification systems** in which independent organizations set up a standard to which manufacturers are certified. These initiatives do not depend on individual supply chain relationships but provide a basis by which suppliers can demonstrate their social and environmental credentials. Examples include SA8000, ISO14000 and goodcorporation.com.
- **Business association and cluster approaches** by export-oriented companies. Some national level business associations, e.g. the Kenya Flower Council, have developed their own codes of conduct and certification systems in order to help their members meet the social and environmental demands of the international market.

Codes of conduct enable TNCs to improve the labour and environmental standards within their supply chains as a response to public pressure. However, they can also effectively push the costs of both compliance and monitoring down the supply chain to their suppliers, who are already operating in a highly competitive market. The coffee company Starbucks has instituted a 10-cents-per-pound premium above world market price for suppliers that meet its social, environmental and quality standards, but this appears to be an unusual move. A recent article on the Ethical Trading Initiative described the efforts of retailers and their suppliers to improve labour standards, including reducing working hours, paying for travel expenses, providing rent-free accommodation (where previously they had been paid by the employee) and engaging in collective bargaining. "All this has to be achieved without increasing the suppliers' cost prices, or else they risk losing the contract".⁶⁶ The challenge then is to improve the social and environmental performance of suppliers without increasing their costs and this is where the business case becomes crucial.

Box 24: Emerging Global Standards

The increase in prominence of corporate social responsibility globally has given rise to a proliferation in standards. This has been driven by a perceived need to institutionalize an area of corporate performance historically not included in more traditional accounting processes. Before adopting any single or multiple standards on offer, companies need to consider the following criteria: the ability of the standard to improve a company's relationship with stakeholders who can have a real influence on licence to operate; its ability to be integrated into existing management and accounting processes; and the extent to which it will add value to a company's bottom line (both tangibly and intangibly).

The emergence of standards is of particular concern to developing country suppliers as highlighted throughout this study. The following is a list of some of the main global standards currently being implemented and developed. These are generally based on the underlying principles embodied in the Universal Declaration of Human Rights and the ILO Tripartite Declaration on TNCs:

The Global Reporting Initiative: "The (GRI) is a long-term multi-stakeholder, international undertaking whose mission is to develop and disseminate globally applicable sustainability reporting guidelines for voluntary use by organizations reporting on the economic, environmental, and social dimensions of their activities, products and services." ⁶⁷ The GRI originated out of the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme.

SA8000: Social Accountability International developed a standard for workplace conditions and a system for independently verifying factories' compliance. The standard, Social Accountability 8000 (SA8000), and its verification system draw from established business strategies for ensuring quality (such as those used by the international standards organization for ISO 9000) and add several elements that international human rights experts have identified as essential to social auditing.

Ethical Trading Initiative (ETI) Base Code: The ETI Base Code is a global standard on employment and working conditions, linked directly to ILO Conventions and the UN Declaration of Human Rights and Rights of the Child. The Code is a partnership consisting of three types of members: companies, unions & NGOs according to specific membership criteria. Members of the ETI are expected to sign up to the Code. Member companies may stipulate the scope of application of the code provided that that scope is clearly indicated in the preamble of their code and that company publicity concerning the code also indicates the scope of application.

AA1000: AA1000 is an accountability standard developed by the Institute of Social and Ethical AccountAbility, focused on securing the quality of social and ethical accounting, auditing and reporting. It is a foundation standard, and as such can be used in two ways: a) as a common currency to underpin the quality of specialized accountability standards, existing and emergent; b) as a stand alone system and process for managing and communicating social and ethical accountability performance.

ISO (esp 14000 & 9000): The International Organisation for Standardization (ISO) is a world-wide federation of national standards bodies from 130 countries. ISO administers over 11,000 standards covering 97 categories (one of which covers management). The ISO standards mainly focus on customers, staff and suppliers in the delivery of 'quality' systems for product (ISO9000) and environmental (ISO14000) management.

The OECD Guidelines for Multinational Enterprises: The Guidelines are recommendations addressed by governments to multinational enterprises. They provide voluntary principles and standards for responsible business conduct consistent with applicable laws. The Guidelines aim to ensure that the operations of these enterprises are in harmony with government policies, to strengthen relations between enterprises and relevant societies, to help improve the foreign investment climate and to enhance their contribution to sustainable development. The Guidelines also form part of the OECD Declaration on International Investment and Multinational Enterprises, the other elements of which relate to national treatment, conflicting requirements on enterprises, and international investment incentives and disincentives.

Often suppliers complain about lack of support in the form of training, cost and time considerations and a level of commitment to long-term trading. A recent UNRISD report⁶⁸ showed that,

“Firms in developing countries, which produce for developed country markets, have a somewhat ambivalent attitude toward codes of conduct. On the one hand, where their customers require them to meet certain labour or environmental standards, they need to comply in order to keep their markets. On the other hand, they are likely to perceive such measures as increasing their costs, either directly or indirectly.”

This can lead to suppliers complying with the on-paper standards, but cutting corners elsewhere in ways that can be detrimental to the very people the standards are designed to protect. The cost of monitoring can be a particular problem in relation to small suppliers. There may be pressure to rationalize and centralize the supply base, dispensing with the smaller suppliers and denying them access to the export market. The box below shows one example of these dangers and the efforts made to avoid them.

Box 25: Child Labour in the Football Stitching Industry

In the 1990s child labour in the football industry in Sialkot, Pakistan came under the focus of the media, pressure groups and trade unions. Campaigners used the publicity around the Euro 96 Football championships to pressure major brand name companies to address the issue of child labour in their supply chains.

However, rather than simply pull out of the area or drop suppliers who were found to be using child labour, the companies agreed to work with their suppliers and with organizations such as Save the Children and UNICEF to develop a programme which would safeguard family livelihoods, protect viability of small businesses in the supply chain, and prevent children being forced into more dangerous work.

The resulting ‘Sialkot programme’ is a voluntary initiative, which now involves over 60 manufacturers in the area (accounting for nearly 90 per cent of production of export balls). Participating manufacturers agree that no children under 14 will work in them; this is monitored both by independent inspectors and in some cases by the brand name companies. The inspection system has been designed to avoid discriminating against small village and home based workshops (mainly employing women) and large factories.

This is backed up by an education, credit and awareness raising programme involving public, private and statutory sectors. Save the Children is also monitoring the impact of the programme. It estimates that that the education and credit programmes have benefited over 40,000 children and their families. They have also found, however, that while fewer children are stitching footballs, some have taken up hazardous work.

This programme has been lauded as an example of a multi-stakeholder effort to ensure that CSR has the intended beneficial effect, and, as a model for other industries. However, it is worth noting the large amount of donor funding from a number of sources has enabled the programme to take place. This includes the ILO carrying the cost of the inspection system rather than the individual production units, which would be likely to make it unviable for some smaller units. While nearly 9 out of 10 balls produced in Sialkot for export are produced under the programme, a sizeable rump of 52 manufacturers (presumably smaller, less productive and not producing for brand name companies) remain outside of the programme. It is not clear whether working conditions have changed in these companies.

Source: Save the Children Fund (2001) *Big Business, Small hands*, www.savethechildren.org.uk

4.2 Business Links for SME Development

Within the 'triple bottom line' of corporate performance, it is perhaps surprising that it has been *economic* performance, in its broadest sense, which has been the least well-understood element. It is now beginning to be integrated with other CSR issues by some large companies. One important element of this includes actively supporting SMEs through business links and social investment, as well as influence on the public policy agenda. This means taking a more holistic approach to CSR where linkages at different levels of business operations are part of an overall strategy for the support of SMEs.

This is an emerging CSR issue for TNCs that are beginning to recognize that forming trading links and development partnerships, which help SMEs gain access to markets, finance, training, physical infrastructure and business support services can be one of the key ways that they can have a positive impact on poverty. A number of individual company and industry sector 'business links' programmes have been developed in which TNCs contribute management expertise and training to boost the skill and standards of local companies and commit to stable trading relationships to help these businesses grow.

Where CSR is related to the business of business in this way rather than being a philanthropic addition, it is impossible to ring fence it as CSR. As a researcher into CSR in Uganda asked:

*"Do core business activities that directly promote economic development count as CSR? For example, a fisheries company which supports and grows local fishing capacity and a telecommunications company which provides services to remote geographies are both providing needed economic, and thus social, benefits whilst undertaking 'normal' business activities. In the OECD context, this would not be considered CSR. However many of the interviewees in Uganda argued it does for them. After all, they could be making money servicing wealthier sectors of the economy."*⁶⁹

The answer to the question, 'do core business activities that directly promote economic development count as CSR?' is a qualified yes. Yes, if the values and principles that CSR embodies, are used to inform and strategically manage the core business in a way that produces more social and environmental benefits. The answer is no, if CSR is simply used as a way of justifying '*business as usual*' while having no influence on core business decision-making.

The case of Coca-Cola in China (see below) illustrates how once multiplier effects are included, the economic impacts of core business activities are huge and can dwarf the impact of 'social programmes' and philanthropy. While some aspects of Coca-Cola's impact on the Chinese economy, such as endowing scholarships for underprivileged students and setting up an industry academy, come under classic definitions of CSR, others are clearly part of their 'normal' business activities. The Coca-Cola study aims to escape from this dilemma by not focusing on good intentions but on impacts, however its critics argue that it is not enough simply to count the number of jobs created without considering the working conditions and quality of employment.⁷⁰

Box 26: Enterprise Development as a CSR Issue for Multinationals: Coca-Cola in China

Coca-Cola is not a company renowned for its CSR, preferring to build its reputation on an all-American image of efficiency, modernity and fun. Nevertheless it is beginning to look at one area of CSR that is often ignored; local economic impact. Clearly it makes business sense for a company producing a bulky, low-value product made up of readily available ingredients to produce and source close to its markets, and Coca-Cola does not attempt or need to justify these decisions on the basis of CSR. However a Coca-Cola funded study by Chinese and American Universities was the first-ever attempt to assess the impact of a TNC on the Chinese economy, including its effects on local enterprises of all sizes.

The background to the study was the widespread concern that local Chinese companies will no longer be competitive once the Chinese market is fully open to international competition. As Professor Peter Nolan of Cambridge University fears: "The pace of progress in the business capabilities of the world's leading firms is so great that it is hard to imagine any strategy that could lead to a successful catch-up." While Coca-Cola recognizes that some companies will lose out to greater competition, it argues that a catch-up strategy is conceivable based on mutual gain from partnerships between international firms and local partners.

The study looked at different aspects of Coca-Cola's impact on the local economy:

- **Job creation.** 400,000 Chinese workers were associated with Coca-Cola - for each job directly in the bottling system there were 29 outside in supply and distribution.
- **Expertise and knowledge** Coca-Cola's investments in joint venture bottling plants bring with it competence and globally competitive standards of production, marketing, and management. Training extends to direct distributors and suppliers as to the entire soft drink industry through a national training institute.
- **Enterprise reform.** Many Coca-Cola bottling plants have undergone structural changes and technological upgrading from inefficient state owned enterprises to successful joint ventures. Management improvements in inventory, quality, and cost management, and in marketing and distribution have also been critical.

The study examined the connections between the Coca-Cola system and SMEs.

- **Distribution.** The distribution network involves partnerships with small-scale entrepreneurs such as retailers, wholesalers and distributors. Many small vendors selling Coca-Cola products had previously been unemployed before opening retail shops and restaurants, which depend heavily on Coca-Cola products to attract customers.
- **Supply.** Coca-Cola is localising its inputs with more than 98 per-cent of supplies purchased in China. In some cases this has meant working closely with local suppliers to improve quality. For example, in order to move away from imported bottles, Coca-Cola glass technologists advised former state-owned glass manufacturers on quality issues. The factories now export bottles as well as supplying Coca-Cola bottlers in China.
- **Enabling SMEs to grow.** As Coca-Cola has extended its geographic reach within China, a number of its suppliers have been able to expand production. For example, one company started supplying plastic bottles to Coca-Cola as a 20-person enterprise. As Coca-Cola has expanded it has built 36 plants employing 5,000 staff to meet demand and has begun to export. "Being a supplier to Coca-Cola gives a 'stamp of approval' on the ability of an enterprise to deliver a quality product, stimulating additional business for many suppliers."

The cluster approach developed by UNIDO is one way in which a TNC can create a multiplier effect in supporting the development of a cluster of SMEs from a particular industry or sector. Clustering allows for networking to take place amongst SMEs thereby sharing learning and increasing influence.

*"Networking offers an important route for individual SMEs to address their problems as well as to improve their competitive position...Joint work also encourages enterprises to learn from each other, exchange ideas and experience to improve product quality and take over more profitable market segments."*⁷¹

This type of approach applied to the sphere of social and environmental responsibility, mixed with the development of new partnerships, offers a potent force in scaling up CSR towards 3rd generation. Individual actions by companies alone will not change the basis of market relations, as reluctant companies will only engage when it affects their bottom line.

Box 27: IBLF Business Links Programme: The Case of Viet Nam

The Viet Nam Business Links Initiative (VBLI) programme is a multi-sector initiative led by the International Business Leaders Forum (IBLF). It involves sportswear companies such as Nike, Pentland and Adidas, international NGOs, the Viet Nam Chamber of Commerce and Industry (VCCI), the Viet Nam Leather and Footwear Association, and the governments of both Viet Nam and the UK. It combines the IBLF's Business Links model of TNCs supporting local enterprise development with the specific objective of enabling local shoe manufacturers to better meet local environmental and health and safety regulations as well as the requirements of TNCs' social and environmental purchasing criteria.

The Business Links model is a framework for practical action to improve the business environment in developing and transitional economies. It brings together TNCs and local enterprises in order to enable the transfer of business skills and knowledge, which meet the particular needs and priorities of the local SMEs.

The VBLI is working with the footwear industry in Viet Nam, to improve workplace conditions. In particular it is focusing on technical factors such as the choice and handling of chemicals and measures to reduce noise, fumes and dust, which are crucial in providing a healthy and safe environment for workers.

The programme was developed through a consultation process with the footwear industry, worker representatives, government departments, research bodies, multilateral agencies and health and safety organisations. The are made up of five main elements:

1. **Commitment to Good Practice;** a common health and safety code is being developed for all participating factories. It will incorporate standards from the codes of conduct and best practises of all the participating sportswear firms.
2. **Management Support System;** support materials including health and safety handbooks, management tools, information directories and other training material are being developed to assist factory managers in reviewing the conditions and practices in their workplaces and developing plans for improvement.
3. **Training Modules** are being developed to meet the specific training needs of the various stakeholders
4. **Monitoring and Inspection.** In the long term it is hoped that the Government will take responsibility for monitoring and inspecting factories.
5. **Research** is being carried out to help support the development of the programme and to determine its impact.

Initial pilot projects with a range of footwear factories are being carried out. Already various practical and low-cost solutions have been identified which could be more widely implemented. The VBLI is planning to create an exchange programme between factory managers to facilitate learning and innovation.

In the long term the aim is to build the capacity of local institutions to maintain a sustainable programme and to replicate this approach in other sectors and countries.

The VBLI is one example of the type of approach companies are taking to enterprise development that develops supply chains, builds local communities and supports marginalized groups. The IBLF has recently published a resource document that highlights examples from a number of developing countries.

Source: Brew, P & House, F (2002) The Business of Enterprise. Meeting the challenge of economic development through business and community partnerships. London, IBLF.

4.3 Community Investment

Companies can also support SMEs without having direct business relationships with them. Philanthropic, community involvement and partnership approaches by TNCs may help to develop education, infrastructure, finance and other enabling foundations for entrepreneurship. Companies are investing in technical, vocational and business training, donating premises and equipment, working with intermediary organizations to leverage capital for SME loans and investments, establishing incubator workshops for SMEs and providing funding for research and development. Others are working more broadly in conflict resolution, basic healthcare and education - these initiatives while not aimed specifically at SMEs help to create favourable conditions in which small businesses can grow and flourish.

Box 28: Supporting SME development: Richards Bay Minerals in South Africa

Richards Bay Minerals (RBM) is a South African mineral extraction company part owned by multinationals RTZ and Bilton Plc. Like many mining companies it occupies a newly developing rural area where infrastructure and facilities are poor. It has therefore set up a number of community partnerships focusing on education, healthcare, job creation and community development. These partnerships are based on five principles:

- Meaningful community involvement;
- Partnerships rather than benevolence;
- Development at the pace dictated by the community;
- Skills transfer;
- Ownership and self-sufficiency.

The company has supported SME development for over 15 years through its Small Business Advice Centre (SBAC). Elements of the programme include:

- **Management training.** The centre offers training, advice and counselling to over 2000 local entrepreneurs each year. Since the programme's inception the centre claims to have been instrumental in creating over 3,500 jobs
- **National Entrepreneurship education** The SBAC has worked with the department of education to introduce entrepreneurship education into the national school curriculum.
- **Informal Sector Development.** The SBAC has provided micro credit for vendors and hawkers, championed informal sector development with local authorities and has supported the development of informal sector trade associations.
- **Business links.** The SBAC promotes the development of sub-contracting relationships between large business and SMEs. RBM has developed, along with other corporations, a Business Linkage Centre and corporate development forum to promote affirmative procurement with local businesses.

Source: www.richardsbayminerals.co.za

4.4 Market Shifting.

Market shifting, in which the impact of CSR standards and initiatives moves beyond those directly involved in trading relations with TNCs, can happen at a number of levels:

- **Shifting local markets.** Where CSR initiatives, whether through supply chain relationships, foreign direct investment or fair trade bring in higher environmental and labour standards than prevailing local conditions, this may have broader effects of shifting local markets through competition for

government licenses, skilled staff and investment.⁷² A number of initiatives are explicitly aiming to shift local markets by encouraging the spread of best practice through local training and capacity building both for businesses and for NGO and government monitors.

Box 29: Promoting Fair Trade: The Case of Traidcraft plc

Traidcraft plc is a small organization based in the North-East of England. Its primary concern is the development of fair trade through the development of small-scale suppliers in food and textiles in developing countries. These partners are mainly community-based organizations that not only sell their products to Traidcraft on a fair trade basis but are also assisted in business management, access to credit and the incorporation of social and environmental considerations into their operations. The organization's own accountability is addressed through the publication of an annual externally verified set of social accounts based on the views of their various stakeholders.

Examples of Traidcraft's partners

Dezign Inc, Zimbabwe (textiles): this small company sells T-shirts that are made on a sound environmental basis. It uses unbleached cotton for many of its products, water rather than solvent based emulsions and hand operated printing equipment, which saves energy. In addition, it pays good wages and women are represented at all levels within the organisation. The company's involvement with Alternative Trading Organisations (ATOs) has meant it has been able to expand its exports, thereby doubling production and turnover on an annual basis.

Agrocel, India (food): Agrocel was set up in order to respond to the plight of the farmers of Kutch. The area is the most economically backward district of Gujarat, large areas of which are arid and affected by salinity. Since 1995, with a view to provide market support to the farmers for their agricultural produce, Agrocel started to take keen interest in fair trade business and export. One example of "environmentally friendly" methods being promoted by Agrocel is neem oil cake. Peanut farmers have started using it: "Neem oil cake is better because it is dual purpose. It controls disease and termites and is also a good organic fertiliser". It is not as expensive as chemical fertilizers and provided work for hundred of landless labourers in slack season (June, July) who collect the neem seeds for Agrocel to crush for oil and cake.

Source: www.traidcraft.co.uk

- **Shifting sector-wide standards.** A number of international initiatives are focusing on market shifting within particular industries. The Fair Labour Association aims to cover the USA apparel industry and is focusing on college team sportswear in particular; the Ethical Trading Initiative is made up of UK retailers along with NGO and trades unions while the SA8000 standard has had a high rate of take-up among the Chinese toy manufacturers. These emerging global standards aim to institutionalize and stabilize sector level improvements beyond the influence of individual companies.

Box 30: Remoulding the apparel sector: The Case of Gap Inc. and the Global Alliance for Workers and Communities

The clothing company Gap Inc. has been the high profile subject of campaigns to improve the working conditions of its sub-contractors' factories in Central America and South East Asia. It was one of the first companies to adopt a 'vendor code of conduct', covering issues such as child labour, pay rates, harassment, intimidation and corporal punishment. Many of the contractors are themselves foreign direct investment ventures, most notably by Korean companies.⁷³ Cultural and language differences therefore divide managers and workers who are often unskilled, rural young adults with no experience of the formal economy.

While much of the initial focus has been the development of monitoring systems to uncover non-compliance, there was less focus on how to improve standards beyond wielding the stick of withdrawal of business. As Gap Inc. states, *"For some manufacturers, our standards are too tough. These manufacturers either cannot satisfy our requirements or decide that compliance requires too much time, money and effort. When this occurs, we refuse to do business with them."* The company's vendor compliance programme includes provisions to work with suppliers to enable improvements over time. *"Some manufacturers try to comply but fall short of our expectations. When this happens, and we believe vendors are earnest in their efforts, we work with them to make improvements. We want vendors to acknowledge that problems exist, then identify solutions. If we pulled our business the moment we discovered a violation, we believe some vendors would be less inclined to openly discuss and reveal the challenges they are facing in complying with our Code."*

Given that many of the problems are deeply rooted in cultural attitudes and business practices, rather than simple physical or economic factors, Gap Inc. is now going beyond the 'magic bullet' of monitoring to engaging with workers and suppliers to make direct improvements. It is developing a vendor-training programme, which focuses on basic management, labour and compliance issues. It has also joined forces with Nike, the International Youth Foundation, the MacArthur Foundation and The World Bank to found *The Global Alliance For Workers and Communities*. This initiative goes further than the compliance orientation of most ethical sourcing programmes, which are driven by the concerns of Northern consumers. Instead it focuses on asking workers about their needs and hopes for the future and on putting in place programmes to help improve their lives, workplaces and communities.

As a result of workers' concerns about sexual harassment, workplace morale, and their supervisors' lack of effective communication skills, as well as requests from factory management for assistance in addressing these issues, the Alliance has developed management training programmes in Indonesia and Thailand. The training focuses on positive communications, stress management, problem solving, teamwork and leadership. It aims to create a culture of respect in the factory and to help supervisors to better manage and motivate workers without resorting to harassment.

There is a strong concentration on the business case for suppliers. Despite its size, at a factory level, GAP Inc. is only one of many customers, and therefore it is essential that this voluntary programme delivers overall business benefits to participating suppliers. Many studies highlight the link between improving people management skills and raising productivity and quality and lowering absenteeism and employee turnover. There has been anecdotal evidence from participating factories of improved discipline, quality and communication. The Alliance is in the process of developing benchmarks to measure these business benefits.

While the actions of the Global Alliance have been broadly welcomed, critics are however concerned that this initiative muddies the water between rigorous monitoring of labour standards and corporate community involvement and that it may be used to deflect criticism for labour rights violations, and to discredit more critical reports by local labour rights organizations.

Source: www.globalalliance.org

- **Labelling.** A number of attempts at market shifting do not depend on TNCs but link the producer and consumer more directly through labels, which communicate the social or environmental attributes of the product. The most widespread practice is related to eco-labels, of which there are many examples. Social labels

have also been introduced, most notably fairtrade labels, the Rugmark label and the new social label being developed by the Belgian government.

- **Investment.** Social and environmental criteria are increasingly being tied to investment funds, both through private ethical investment funds and through bilateral and international investors, most notably the World Bank and the International Finance Corporation. At the other end of the scale, micro-credit is increasingly being developed as a way of supporting the development of informal sector businesses as a route towards sustainable livelihoods.
- **Product demand shifts.** Market shifting can be particularly important for SMEs when it relates not simply to production methods but to the demand for their particular products. For example, while the need to convert to using more environmentally friendly dyes was an important issue for apparel producers, it caused greater problems for dye manufacturers and led to some restructuring of the industry. If more responsible marketing of cigarettes led to a drop in demand this would have huge consequences for tobacco farmers, on the other hand the rising demand for organic foods has been an opportunity for some farmers in developing countries to gain a price premium.

4.5 Public Policy Influence

Critics argue that the sub-contracting structure allows TNCs to pass cost and risk down through the production chain to those least able to defend themselves and that these competitive pressures undermine efforts to establish minimum labour standards resulting in a 'race to the bottom':

"The labour cost of a garment made in the United States or other developed countries typically amounts to ten percent of the retail price. That number, however, along with working conditions generally in the global apparel industry, is also being pushed down, as workers with higher standards are forced to compete against workers in countries where the systematic denial of their right to organise and bargain collectively condemns them to the poverty and deprivation that their jobs are supposed to allow them to overcome. It is a race to the bottom that will be stopped and reversed only when workers redress the imbalance of power between themselves and their employers." ⁷⁴

In order for CSR to make the transition to the 'third generation', in which it changes the basis on which business operates globally, there is a need for strong international standards, some of which may go beyond the current voluntary guidelines and need to be enshrined in robust civil regulation and public policy.

TNCs need to use their lobbying influence for good and it must be consistent with their public stance on CSR issues. In many cases the interests of TNCs are aligned with those of smaller companies. For example, weak institutions, corrupt courts and overcomplicated laws harm all legitimate businesses interests. However, TNCs in other instances lobby for regulatory measures antithetical to SME interests. Corporate power and lobbying is an emerging albeit underlying CSR issue. In some cases it may be better for TNCs to use their muscle with government than to force their SME suppliers to deal with issues over which they have no influence (e.g. the right to free association).

5 Assessing the Impact of Corporate Social Responsibility on SMEs in Developing Countries

The ways in which CSR affects SMEs as outlined in Section 4, have the potential for creating positive social, environmental but also importantly economic benefits; benefits that go beyond the SME itself, to include wider local and national communities in developing countries. However, there are also concerns that CSR will be a veil behind which TNCs may hide as they rationalise their suppliers or pass on costs for monitoring and auditing social and environmental performance; burdens that would increase poverty levels and not lead to positive development.

5.1 'Protectionism by the Backdoor'

The key concern most often voiced by both developing country governments and industrialists is that CSR standards are a mechanism for retaining jobs, trade and investment in developed countries at the expense of developing economies, which tend to compete through lower labour costs and less stringent environmental regulations. This has been most controversial in relation to moves to make CSR standards mandatory, or link them to trade agreements. However, as shown above, the boundary between voluntary and mandatory standards is becoming increasingly blurred and in some sectors CSR criteria are becoming industry standards. While voluntary eco-labels and other CSR initiatives have not been formally found to be 'Non-Tariff Technical Barriers to Trade' under WTO rules, concerns remain, that these standards are effectively protectionist in their impact, if not in intention.

Companies and NGOs based in the North have initiated a number of standards with little consultation with businesses, workers and other affected stakeholders in developing countries. The focus of issues and standards reflect the concerns and priorities of consumers in the North regardless of the relevance or importance of those issues in developing countries.⁷⁵ Standards often reflect prevailing technologies and best practise in the countries where they were developed and overlook relevant and acceptable methods of production elsewhere. For example one code of practice for cut-flower production in Kenya is based on best practice for the Dutch flower industry - where energy and pesticide usage levels are quite different due to the need for artificial lighting and the lower altitude.⁷⁶

However, increasingly, standards are based on internationally agreed UN conventions, which have been widely ratified and which represent an international consensus. Nevertheless, even where standards are based on internationally agreed norms they may put developing country industries at a disadvantage because they lack the stock of technology, environmental infrastructure (such as waste treatment plants) or a readily available supply of environmentally friendly input materials. Certification systems are often in their infancy and can prove prohibitively expensive if foreign consultants are required. Lack of credit, financial inputs, information and training on social and environmental management are further barriers.

5.2 The Burden of Monitoring and Auditing

As well as the direct costs of making improvements, monitoring compliance with CSR standards involves significant costs both in terms of the administrative burden and the costs of external auditing and certification. Independent auditors can be

expensive, particularly where they involve international professional services firms. This is sometimes paid for by the buying company (as with corporate codes of conduct) and sometimes by the manufacturer (as with certification systems such as SA8000 and eco-labels). Where firms are producing for a number of companies, each with their own social and environmental criteria, this can increase the burden, for example one firm in China reported being audited by teams from 40 customers in a single month.⁷⁷

For SMEs these costs can be prohibitively expensive in relation to their smaller outputs leading either to the SMEs themselves deciding that they cannot afford to be certified or to the larger companies rationalizing their supply chains to a smaller number of large suppliers that are easier to monitor. For many companies this has been the first stage in implementing an ethical sourcing policy, and is part of a wider trend of companies building closer links with strategic suppliers.

Some certification schemes such as the 'Smart Wood' scheme enable NGOs and local organizations to act as auditors of small businesses and producer cooperatives, allowing small businesses cheaper and easier access to certification.

5.3 The Corporate Social Responsibility Paradox

Pressure for greater CSR whether focusing on environmental, consumer or human rights issues often shares the common underlying concern that corporate influence is too great. By many critics, the corporate sector is charged with unaccountable power and influence, cultural imperialism, bleeding local economies dry and using the mobility of capital to force an international 'race to the bottom'.

Data identifying half of the world's largest economies as corporations, support the belief that TNCs cannot be regulated by national governments. The range of negotiated voluntary guidelines, partnerships and the emerging 'civil regulation' frameworks are a pragmatic response to this.

However the paradox is that it is easier for larger companies to respond and make commercial gain from their actions than it is for smaller companies, thereby tipping the scales further in favour of TNCs. This works on a number of levels:

- It is easier for large companies with their developed systems and economies of scale to deal with the demands for formal monitoring and standards. SMEs do not have the financial and human resources to invest heavily in CSR activities unless they bring immediate tangible benefits.
- Large companies can afford to spend time and effort developing relationships and partnerships with NGOs, governments and UN agencies.
- Global brands can outsource production and pass the costs of necessary improvements down the supply chain to their suppliers while gaining the reputational benefits for these improvements.
- Global brands and market leaders are then in the best position to make commercial gain from their CSR stance. Southern SMEs generally have a less direct relationship with Northern consumers, and therefore are unable to reap the reputational benefits.

- Large companies have more complex networks of relationships, which CSR can help to strengthen, manage and understand. In SMEs these relationships are more often invested in the personal interaction of the entrepreneur.
- CSR is the 'human face of globalization' and as such eases the entry of global companies into the home markets, high streets and sectors where SMEs have dominated.

Clearly SMEs will have to join the CSR fold, if the small business sector is not to become the loophole in which polluting, exploitative industries flourish. However, many of the concerns underlying calls for more CSR by TNCs do not apply to SMEs, which lack the power to influence governments, dictate standards or move between countries in search of lighter regulation. On the other hand, SMEs generally have a greater understanding of local cultural and political contexts, more links with local civil society and a greater commitment to operating in a specific area.

5.4 SME 'Business Case' Benefits

As section 2.4 shows, after more than a decade of intense CSR experimentation we are only now beginning to build a robust case for CSR for big business. Masses of research linking social, environmental and financial performance has concluded that doing good can be good for business⁷⁸. Nevertheless doing good is not the only way of doing business, or even a guarantee that you will necessarily stay in business. There are plenty of examples of companies that have taken the moral high ground and experienced financial difficulties.

What is important is to develop a business case that is relevant to SMEs. While building reputation is less of an issue for SMEs than for global companies whose logos alone are worth millions of dollars, key aspects of this business case for SMEs are likely to include:

- **Better alignment with current and emerging consumer concerns and access to new markets** - CSR can help companies gain specific contracts or trading relationships with TNCs or companies in Northern markets and communicate directly with consumers through environmental and social labels. However, export-oriented CSR can only succeed if it is matched by product quality and service, which meet international market standards.
- **Partnership opportunities** - SMEs can establish closer links with TNCs and Northern companies with which they share values but also through business associations and the closer involvement of multilateral organisations (see Section 6).
- **Operational cost savings** - These derive from environmental efficiency measures such as waste reduction and energy efficiency, reductions in absenteeism and staff turnover.
- **Improvements in productivity and quality** - Greater efficiency and better management encouraged by CSR can help companies to improve the quality and productivity of their output.
- **Enhanced relationships** - Even where companies do not have nationally or internationally recognised brands, their reputation and relationships with the local pool of staff, suppliers and customers and with local government can be enhanced by better social and environmental performance.

- **Learning and innovation** - CSR can help companies find new ways to work, develop skills, manage risks, seize opportunities and solve problems.

However a pick-and-mix bag of business benefits does not provide a compelling case that these benefits will be significant for every company, or in fact that they will not distract attention and resources away from other more pressing issues and lead to financial ruin. In the case of SMEs in developing countries, upgrading the quality of their technology, management and marketing are likely to be equally pressing priorities. One compelling explanation of the link between better management of sustainability issues and financial performance is that both reflect the underlying quality of management of the company, as suggested by Reto Ringger, President of Sustainability Asset Management⁷⁹:

“It is our thesis that companies which are better managed environmentally indicate more sophisticated management throughout the company...and good management is the single most important factor in corporate profitability, growth and future earnings.”

The SIGMA Project explains:

*Sustainability, for the time being, is only one option for most organizations - it is not imperative for short-term organizational survival. But it may be the key to long-term staying power.*⁸⁰

Consequently, there ultimately needs to be a parallel process of implementing greater social and environmental responsibility along with quality processes of management. This applies both to large companies and to SMEs. However, given the constraints faced by SMEs, it is of particular importance to them.

Box 31: Attitudes to CSR in Developing Countries

As part of this study a questionnaire was sent to a number of industry associations and companies working with UNIDO in developing countries, of which there were 27 responses (out of approximately 60). The organizations came from a range of developing countries including Thailand, Indonesia, Sri Lanka, Egypt, Nigeria, India, and Pakistan. A number of the respondents came from business associations (e.g. the Confederation of Indian Industry and the Manufacturers Association of Nigeria). There were also a number of individual company responses as well as two CSR consultancies and a TNC Foundation. The industrial sectors covered by the survey included, textiles, apparel, fisheries, furniture, mining, rubber and leather.

The Results

CSR is quite clearly on the radar screen of all of the organizations that either felt it to be important (13) or very important (14) to the sectors and regions in which they work. There was also an almost equal split between those who felt that CSR had some relevance (13) to their own work with SMEs and those who felt it to be very relevant (12). Only one respondent was not sure.

The respondents were then asked to highlight the key CSR issues in five areas: business principles (e.g. corruption); consumer issues, (e.g. product safety); community issues (e.g. human rights); labour standards (e.g. freedom of association); and environmental issues (e.g. energy efficiency).

Of the business principles it is clear that transparency and accountability are the key issues for the majority (17 and 18 respectively), with political involvement being of less importance (8). Product safety and responsible marketing were important consumer issues, as were job creation, economic development and community involvement in relation to

Box 31: Attitudes to CSR in Developing Countries (continued)

community issues. Human rights were also seen to be a key issue for twelve of the respondents across different sectors. Energy efficiency, pollution and waste were the most important environmental concerns, with a minority citing biodiversity and land use. Finally, health and safety were the only issues that more than half (17) of the respondents felt was a key labour issue, followed by working hours and child labour. Only four respondents cited discrimination as a key issue. Pollution and waste was the most cited (22) key issue for CSR overall. Of other issues cited, there were taxes (and tax evasion), cumbersome procedures, agricultural equipment innovation, tsetse fly menace, capacity building and basic amenities.

In terms of emerging CSR initiatives, only four were aware of the UN Global Compact (with only one involved in it), and just under half were aware of supply chain labour standards (ten were unaware). Similarly eleven and ten of the respondents respectively were aware of community involvement and social and environmental accounting initiatives. The TNC foundation and the environmental consultancy were amongst the few involved in such initiatives. One Thai garment industry association is involved in setting up a human rights standard and one of the companies from Sri Lanka has applied for the ECHO Textile standard certificate. Two of the respondents are involved in international standards development, including the Global Reporting Initiative, and ISO14001 and 9002. Two of the business associations mentioned codes of conduct in supply chains as being part of the manufacturing industry.

In terms of the threats of CSR to their work, 20 of the respondents felt barriers to markets and the burden of compliance and monitoring to be either important or very important. Those from Indonesia were unsure and two companies (from Thailand and Nigeria) felt barriers to international markets not to be important. A slight majority (16) felt the imposition of inappropriate CSR models to be a threat but three didn't and the same number were unsure. Other threats included the economic conditions of developing countries and social and political insecurity. One respondent felt that TNCs were a threat to local SMEs through the destruction of local markets, and another mentioned that the funding needs of SMEs was under threat because of a general downturn of the economy in Nigeria and high interest rates from the banks.

There were seen to be a number of important opportunities, such as access to markets (25), better alignment with consumer concerns (23), productivity and cost savings (23). SMEs as beneficiaries, was still seen to be an important opportunity but marginally less so (19), as was innovation (17).

One respondent summed up most of prevailing views when saying that there is a "need to develop public/private sector consensus for strategies to strengthen CSR. Need for a common understanding of the status of CSR in developing economies and to institute necessary mechanisms of regional exchange and co-ordination of CSR initiatives."

Conclusion

Overall, there seems to be a general awareness of CSR as a business issue, and that it is of relevance to SMEs. Many of the main CSR issues are seen to be important, in particular environmental concerns (pollution and waste), transparency and accountability. Although there is a low level of awareness of emerging international initiatives such as the UN Global Compact, a number of national and industry-specific initiatives are under way, in particular concerning codes of conduct. There is a general concern about the threats CSR may pose in creating a barrier to markets and the burden of compliance and monitoring. However, there were perceived to be a number of opportunities presented by CSR, including access to markets and better alignment to consumer concerns. In all, there seems to be a perception that CSR issues pose both threats and opportunities that will require a heightened awareness and careful management among industry associations and individual companies alike.

6 Market Shifting through Civil Governance and Public Policy

6.1 The Potential of Partnerships

The possibility of a third generation of CSR in which the private sector is able to address social and environmental issues with more than partial solutions, lies in the ability of leading companies and groups of companies not just to improve their own impact, and perhaps that of their direct suppliers, but to remould markets.

Potentially one of the most important factors in whether CSR will be a force for good is the emergence of multi-stakeholder partnerships to address social and environmental problems. New alliances are forming that result out of the shifting roles of responsibility between public, private, and non-profit sectors, producing hybrid governance structures (or what has also been termed civil governance⁸¹). Multi-sector initiatives such as the Fair Labor Association and the Ethical Trading Initiative are key examples of attempts to remould markets by creating a robustly monitored basic standard across a whole sector.

However, there is a limit to what market-mediated approaches can achieve. For example while the action of brand-named apparel manufacturers such as The Gap, Nike and Levis can improve working conditions in their own supply chains, and multi-sector initiatives can improve working conditions for an even greater number of people in global supply chains, these initiatives will not help those who are not working in export industries. Focusing on CSR and SMEs in developing countries allows for an opportunity to further scale-up the positive effect that CSR can have on a wider group of people.

There is a need then to bring in other actors in partnerships but also to create an enabling environment for CSR to flourish for the benefit of SMEs and development in general.

6.2 The Role of Bilateral Donors

As shown above, economic impacts and enterprise development are increasingly becoming part of the mainstream CSR agenda. As Lord Holme of Rio Tinto and the International Chamber of Commerce put it:

*"The 'poverty' agenda, as it is conventionally articulated, has very little resonance for business, and may even discourage companies from believing that they have any particular contribution to make to social cohesion, beyond the very necessary but intrinsic capability to create wealth, employment and tax resources. The relief of poverty sounds too much like the language of politicians and 'do gooders'. The notion of creating sustainable livelihoods, by contrast, is music to managers' ears. It instantly conjures up practical and achievable goals, to which the skills and objectives of the commercial world are well-matched and to the achievement of which the business manager can imagine himself making a particular contribution."*⁸²

The point is that the business and development communities have traditionally used different language and strategies for working in developing countries, for whatever reason. What must take place, and as seen below is increasingly happening, is a bringing together of the two parties. Therefore, from this start, driven by individual hot spots of controversy and public pressure, CSR is now seen as a development

intervention alongside aid, investment, capacity development and other more traditional strategies for donor countries to support the development process. What is now taking place is a greater involvement of those with a more direct experience of aid interventions working with and forming partnerships with business. These partnerships offer the opportunity of creating mutual learning and innovation.

At a recent donor roundtable on CSR held in London, The UK Secretary of State, Clare Short, gave an address in which she emphasized the need to think more deeply about the role of the private sector in development, noting that CSR is one entry point to this debate. Both bilateral donor agencies and development NGOs have formulated programmes to support and encourage CSR. In the main this has meant working with TNCs in advocating CSR, developing social programmes and monitoring compliance with standards. However a number of initiatives have begun where development agencies are supporting companies in developing countries to respond to CSR.

Box 32: Bilateral donors and CSR

The following examples give an idea of the range of activities bilateral donors are involved in to promote Corporate Social Responsibility.

Denmark: The Danish Industrialisation Fund for the Developing Countries is a non-profit fund that provides risk capital for investments in the developing countries by Danish enterprises in the form of share capital, loans and/or guarantees. All investments from the fund are subject to appraisal regarding social and environmental sustainability through the use of checklists on companies' code of conduct.

Germany: GTZ is currently implementing some 50 CSR-related projects within its Public Private Partnership programme. In this context, GTZ is working with both individual enterprises and business associations. From shoe manufacturing in India, via flower production throughout Africa, to coffee production in Mexico - GTZ and its private partners are planning, financing and implementing projects on a common basis, sharing both risks and opportunities. It is also setting up a programme to introduce acceptable social and environmental standards in business operations worldwide.

Netherlands: To encourage CSR in developing countries, the Ministry of Foreign Affairs focuses on initiating tripartite dialogues between companies, NGOs and government so that local and international companies can realize what is expected of them. In addition, the Ministries of Foreign Affairs and Economic Affairs have decided to make it mandatory for companies applying for specific governmental subsidies or contracts to sign a statement that they will try to act in their regular business operations in accordance with the OECD guidelines, introduced on 1 January 2002.

United Kingdom: The Socially Responsible Business Team at DfID has supported initiatives such as the Ethical Trading Initiative (ETI), Business Partners in Development (BPD), Business Links Asia and the Resource Centre for the Social Dimensions of Business Practice, which are successfully piloting, facilitating and disseminating the development of best practice of Socially Responsible Business tools. Other DfID departments lead on fair trade, social labelling, and business and the environment.

USA: USAID has set up the Global Development Alliance (GDA) in order to promote public-private alliances as an important business model for development assistance. A small unit in USAID/Washington, the Global Development Alliance Secretariat, is responsible for providing guidance and assistance to the Agency field missions and bureaux in seeking, negotiating and designing alliance activities.

Source: Development Agency Roundtable on Corporate Social Responsibility. Held at DFID, 28-29th January 2002

Beyond the initiatives that different bilateral donors are sponsoring and supporting, their role as policy-makers and influencers of policy (not necessarily regulation) in relation to CSR needs to be made clear. To date the debate is divided between those who believe governments should legislate more and those that say there should be less. For example, in responses to the EU Green Paper on CSR there is a dramatic divide between the NGOs who believe it should be the role of the EU to enact CSR legislation, and companies who feel the EU should be supportive of voluntary initiatives.⁸³ What is required is an understanding not of whether there should be legislation or not, but rather when and in what circumstances voluntary and mandatory initiatives are best introduced. For example, for many of the leading companies in CSR a certain level of mandatory social and environmental reporting would not be seen negatively. In fact CEOs such as Nike's Phil Knight have gone as far as to openly call for mandatory standards of social auditing of labour practices. Again, the key here is to understand how voluntary initiatives that have been taken up by a number of leading companies create a positive place in which legislation should be developed. Along with civil governance, this is another approach in which market-shifting can take place.

6.3 The UN and Corporate Social Responsibility

The United Nations itself is working with business in a variety of ways to address social and environmental problems, and there has been an ongoing debate concerning the nature of an overarching relationship with business. This came to the fore with the announcement by Kofi Annan in 1999 of the UN Global Compact that formalises a role for business in social development. Three bodies UNDP, ILO, and UNEP, are tasked with taking the Compact forward.

Although the Compact has faced some criticism, mainly from NGOs (some of whom have called it 'bluewash')⁸⁴ it has undoubtedly been a strong driver across the UN for a greater level of prominence and debate about CSR issues. Of those more critical of the emerging partnerships with the UN, UNRISD has been particularly sceptical of the role of business in development. Peter Utting of UNRISD has raised concerns that the UN's principles may be compromised by such partnerships, and that the UN is straining rather than strengthening relationships with an important sector of the NGO community.⁸⁵

Jane Nelson, author of a report to the UN General Assembly on Global Partnerships, recently summed up five key areas to which the United Nations can play a part in promoting CSR:⁸⁶

1. Focus on SME and micro-enterprise development;
2. Use its market power and put ethical criteria into its \$45 billion procurement process with business;
3. Assist companies to interpret UN conventions and translate them into company practices;
4. Work with subsidiaries and large local companies to solve local problems (e.g. UN and Coca-Cola agreement); and
5. Provide the space to develop a public policy framework that addresses such issues and foreign debt, GMOs, etc.

Box 33: The UN Global Compact

The Global Compact is rooted in Universal Declaration of Human Rights; the ILO's Fundamental Principles and Rights at Work; and the Earth Summit - Agenda 21 principles on the environment. The nine principles are:

Human Rights

The Secretary-General asked world business to:

1.

<http://www.unglobalcompact.org/un/gc/unweb.nsf/85256aef00564bcb852567d2008230f7/85256aef00564bcb852567f50060c5c4?OpenDocument> - principle1 Support and respect the protection of international human rights within their sphere of influence; and

2.

<http://www.unglobalcompact.org/un/gc/unweb.nsf/85256aef00564bcb852567d2008230f7/85256aef00564bcb852567f50060c5c4?OpenDocument> - principle2 Make sure their own corporations are not complicit in human rights abuses.

Labour

The Secretary-General asked world business to uphold:

3. Freedom of association and the effective recognition of the right to collective bargaining;
4. The elimination of all forms of forced and compulsory labour;
5. The effective abolition of child labour; and
6. The elimination of discrimination in respect of employment and occupation.

Environment

The Secretary-General asked world business to:

7. Support a precautionary approach to environmental challenges;
8. Undertake initiatives to promote greater environmental responsibility; and
9. Encourage the development and diffusion of environmentally friendly technologies

Participation in the Global Compact implies that a firm should:

Issue a clear statement of support and engage in public support for the Compact;

Post a concrete example of progress made and lessons learned on the Global Compact website (www.unglobalcompact.org) once a year;

Undertake activities that further the realization of the principles in partnership with UN organizations.

Source: www.unglobalcompact.org

Another study by Business for Social Responsibility, examined the potential of engagements between business and the UN.

"The research clearly indicates that such engagements are both extensive and growing, cutting across sectors, countries and regions, and approaches. Contrary to popular belief, many of these forms of collaboration are alive and well, difficult certainly, but providing tangible benefits to all sides." ⁸⁷

The relationship between the UN and business is at a critical stage in its development. This must not alienate the wider civil society constituency, while at the same time promoting wider responsible practice amongst TNCs. The UN Global Compact offers a valuable opportunity to do this, probably less because of what it

stands for but more for who stands by it. The BSR study believes there to be four challenges that need to be met in order to fulfil the potential of such partnerships.

1. Honest analysis and disclosure. The need for research to demonstrate what works and what does not work on the ground.
2. Risk-return analysis. The need for more coherent models of the risk-return potential for all parties.
3. Accountability. Clear accountability structures for all parties that will limit any potential risk factor.
4. Future-casting. The experience of present engagements needs to be set within an understanding of likely futures where the traditions that distinguish these types of institutions become almost unrecognisable.

Clearly therefore, there is still some work to be done in order to fulfil the potential of civil governance processes based upon partnerships directly aimed at addressing social and environmental issues. However, the research and practice to date, provides a sound basis for moving forward.

6.4 Recent UNIDO Business Partnerships: Selected examples

For the UN in general - and also in the case of UNIDO - entering into concrete operational partnerships with private business is a fairly new development. It is a new challenge requiring innovative approaches, openness to new ways of working and certainly time to evolve and mature. It is not business as usual. As a UNIDO Expert Meeting convened in October 2000 clearly showed, actors on both sides are still learning how to understand each other and how to ensure that different working cultures can meet to serve the ultimate goal of sustainable development.⁸⁸

Accordingly, a lot of time and effort is still being spent on creating awareness, ensuring commitment and identifying tools and mechanisms, in other words: on defining a proper and effective process of working together, as elaborated in greater detail in UNIDO's Partnership Guide published in 2002.⁸⁹ However, at the end of the day, what counts is the impact achieved: poverty reduced, employment increased, skills enhanced, competitiveness strengthened or markets accessed. While in many partnership projects, it is too early to fully measure such impact, this is the ultimate yardstick by which they have to be guided.

→ Automotive component industry in India

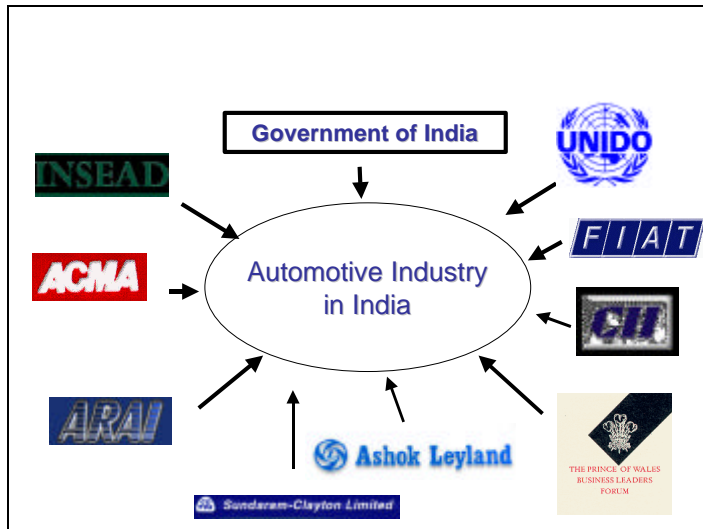
The Partnership Programme for the Automotive Components Industry in India, initiated with FIAT S.p.A. in 1999, involves a wide range of public and private sector participants from India and abroad. Figure 8 shows the network of partners. The programme provides small and medium-scale enterprises (SMEs) in the Indian automotive component sector with technical assistance delivered by a multidisciplinary team drawing on inputs from all partners.

A first impact assessment in 1999⁹⁰ concluded that the programme had resulted in:

- Substantial technical improvements and heightened awareness of modern manufacturing methods;
- More sophisticated marketing strategies capable of creating sourcing and joint venture opportunities; and

- The emergence of a culture of continuous improvement, which also fostered cooperation among enterprises.

Figure 8. Partnership Network



A second assessment in 2001 noted further improvements:

- The adoption of comprehensive strategies for achieving production targets, covering all relevant aspects of manufacturing operations and company management.
- Quality improvements of products and in production management, resulting in low customer returns and machine downtime.
- A higher share of multi-skilled staff and increased staff awareness of factory environment, management and product issues.
- Faster and more efficient production.

These improvements took place in spite of a downturn in the Indian economy, which affected most of the industry - at the time of the assessment, over one-third of the component manufacturers expected their sales to decrease during 2001. Not surprisingly, there was little investment in new technologies, or exploration of new markets and partnerships. One major area of progress, however, remained the same: a culture of continuous improvement is now firmly embedded in the companies.

This Partnership Programme has now started its second phase (in the Southern region of India), with increased emphasis on sustainability aspects.

→ **Eco-Efficiency Analysis: a UNIDO-BASF project**

Under the pressure of globalisation, many national and transnational corporations in developing and developed countries are pursuing global outsourcing strategies. These strategies are seen as having considerable potential for improvements of quality of products and services on the one hand and cost reduction on the other. Although there is great potential for SMEs in developing countries, to be integrated into those supply chains, the need to upgrade their technological and managerial competencies is imperative. Moreover, the requirements imposed on suppliers by large buyers not

only focus on quality, cost and delivery of the products, related services, and their consistency of performance, but increasingly include environmental considerations with regard to the products and production processes. However, the analysis of the eco-efficiency of products and production processes is costly and particularly complex. SMEs in developing countries lack the skills and often finance to undertake such analyses and thus may be excluded from supply chains and become increasingly marginalized.

In order to support SMEs in their endeavour to overcome these constraints, UNIDO is cooperating with BASF of Germany, the chemical transnational corporation, in a UN Global Compact project that will establish a comprehensive yet easy to apply eco-efficiency analysis tool for SMEs in developing countries. The ultimate goal is to help SMEs to assess and improve the environmental level of their products and processes with regard to international standards. This analysis and related services allow SMEs to prepare for the integration into local and global supply chains.

The eco-efficiency tool is applied through the UNIDO/UNEP network of National Cleaner Production Centres (NCPC). The centre in Morocco has agreed to participate in a pilot phase to develop jointly with BASF, UNIDO and participating local enterprises a customized version of the eco-efficiency tool. If the tool proves a useful addition to the services provided by the NCPC, it will be made available to all centres and will be added to the range of high quality services provided by the NCPCs to SMEs in more than 20 developing countries.

→ **Partnership programme for environmentally sound two- and three-wheeler vehicles in Nigeria**

Access to affordable transport for Nigeria's large SME sector is an important factor in the reconstruction of the country's economy. Nigeria has a domestic automotive industry, which however has been affected seriously by the country's prolonged overall economic and political problems.

The Government of Nigeria now wants to promote local production of two- and three-wheelers while limiting their environmental impact. India has a wealth of experience in this segment of the automotive industry and one of its large enterprises, Bajaj Auto Ltd., is a partner in this UNIDO programme. The programme is funded by Japan in an effort to promote South-South cooperation on development issues.

The first activity is an evaluation of the Nigerian market by a multinational team led by a senior Bajaj staff member, on the basis of which the firm will make decisions with regard to investment in Nigeria and working with local suppliers. The following steps will be a study tour and an international symposium on the subject. The objective is to strengthen technological capacities in local micro enterprises and SMEs, so that they can become part of the supply chain for simple but environmentally sound motor vehicles, produced in Nigeria.

→ **Electronic and mobile business for industrial development: a joint UNIDO-ERICSSON initiative**

Recent technological developments in the field of mobile devices and applications represent a major opportunity for the business community in developed as well in developing countries. First, these technologies can connect SMEs in developing countries in areas where there are no fixed landlines. Moreover, they are versatile and can offer complex information transfers at anytime, anywhere. The mobile

phone's advantages are no longer just its portability and its ability to reach business partners. It now becomes a portable "smart terminal".

In the context of a new knowledge partnership aimed at promoting the participation of SMEs in developing countries in global electronic and mobile business, UNIDO joined hands with L.M. ERICSSON, one of the world's largest telecommunication enterprises, with a specific know how in mobile Internet solutions, covering the whole spectrum of applications.

The project led to a series of recommendations for SMEs and policy makers in developing countries on how to successfully promote electronic and mobile commerce for small enterprises. The joint UNIDO-ERICSSON study *Industry at the Edge - Electronic and Mobile Business for Industrial Development* (<http://www.unido.org/doc/451682.htmls>) gives an overview of the action required so as to improve the access of SMEs to electronic communication and related services. In 2000, based on the findings of this report, UNIDO and ERICSSON signed a cooperation agreement to jointly develop capacity building initiatives and tailor-made information services for SMEs in developing countries.

→ **Electronic supply chain management for manufacturing SMEs**

The objective of this programme is to assist SME support agencies in their efforts to advise SMEs on preparing themselves for electronic business, in particular e-procurement. This will improve the competitiveness of the SME sector and its integration in international supply chains.

The programme has two main elements:

- Provision of tools to upgrade the capacity of SMEs to do e-business. The tools include a computer-based assessment and monitoring tool and a training package.
- Creation of partnerships between public and private sector institutions (SME associations and support agencies, banks, local and national governments, etc.) and TNCs. A group of actors will be formed, establishing a core group of companies and SME support institutions that will provide advice, sponsorship and general support to the programme.

→ **"Triple bottom line" support for developing country exporters in Asia**

Across the globe, an increasing number of major firms are committing themselves to the 'triple bottom line' (TBL) of shareholder value, social responsibility and environmental concern. In developing countries, most exporters fear they may not be able to meet social and environmental standards now becoming the international norm. Medium-scale enterprises operating in global supply chains find it particularly difficult to effect the necessary technical and managerial changes because of their limited capabilities.

The UNIDO TBL project is targeting enterprises in the textiles industry in four South and Southeast Asian countries: India, Pakistan, Sri Lanka and Thailand. The project is supported by the national Chambers of Commerce. The main local counterparts are providers of business advisory services with established skills in environmental and/or social matters. UNIDO is strengthening the capacity of these institutions with expertise and a software package, Responsible Entrepreneur Achievement Programme (REAP), to enable them to provide the targeted enterprises with better assistance in the following fields:

- Financial performance analysis;

- Cleaner production and environmental auditing/norms;
- Social auditing.

There is a keen interest on the part of exporting entrepreneurs in this project and several countries may be interested in adopting REAP. Additional benefits of the project will be (i) that the institutions will realize the need for team work in providing TBL services to enterprises; and (ii) that the consciousness and understanding of TBL issues in the countries selected will increase - the project can be seen as a demonstration project, with the final results to be made available to other local enterprises.

The results of the project are to be presented at the UN's World Summit on Sustainable Development in the Republic of South Africa, August/September 2002.

→ **Cleaner Production and Environmental Management**

UNIDO is seeking to build consensus on cost-effective environmental policies between the private sector, its representative bodies and appropriate political and administrative leaders. It advises on the formulation and implementation of policy, covering environmental management systems, voluntary compliance programmes, standard setting, regulation and monitoring. This is done, *inter alia*, through the UNIDO/UNEP network of National Cleaner Production Centres, which have been established in 23 developing countries and countries in transition with a focus on supporting cleaner production efforts of SMEs in various industrial sectors.

7 Conclusions

7.1 Towards 'Small Business Responsibility'

If CSR is truly going to become a strategic force in contributing to international development and eliminating the negative externalities of business, it must help to develop effective and viable approaches to Small Business Responsibility. It is crucial that:

- CSR supports the role of SMEs in development, and does not serve as a tool to undermine and disadvantage them.
- SMEs are not able to undercut universal CSR standards and become a blindspot in which exploitative and environmental destructive practises flourish.

Thus, the challenges are to reduce the barriers and threats while strengthening the opportunities and drivers in order to ensure that CSR has a wide and positive impact on SMEs.

Box 34: The CSR/SME Interface	
Threats	Opportunities
<ul style="list-style-type: none"> • Protectionism 'by the backdoor' • The burden of compliance and monitoring • The Corporate Social Responsibility paradox: Are SMEs unable to generate benefits from CSR? 	<ul style="list-style-type: none"> • 'Business case' benefits: better alignment with consumer concerns, cost savings, productivity, and innovation. • SMEs as beneficiaries of CSR initiatives • Broader benefits of CSR, e.g. lifelong learning, community development
Barriers	Drivers
<ul style="list-style-type: none"> • Lack of technology, expertise, training and investment necessary to make improvements. • Few CSR initiatives orientated towards SMEs. Little understanding of the SME business case. Supply chain initiatives rarely extend beyond first level suppliers. • More pressing need to upgrade the quality of technology, management and marketing. • Price competition and limited consumer pressure 	<ul style="list-style-type: none"> • Supply chain pressure from TNC codes of conduct and demand for certification. • Shifting markets, the need to align production towards changing consumer preferences, internationalization of standards. • Local pressure from regulation, public policy and civil society. • Strategic business case benefits.

7.2 An Agenda for Action

The interface between CSR and SMEs has important implications both for organizations that are engaged in promoting and developing CSR and those engaged in supporting SME development. They should:

Ensure that CSR standards are not protectionist or discriminatory either in intention or impact. Internationally agreed standards such as the Universal

Declaration of Human Rights and the Core ILO Conventions provide a basis for global CSR. What are now needed are management processes that are sensitive to the culture, environment, and size of SMEs.⁹¹ SMEs need to be brought into the process of developing CSR standards and tools through consultation, partnership and piloting at a local level. CSR initiatives which aim to find innovative solutions to reducing social 'bads' such as poverty, human rights abuse and environmental degradation, and increasing social 'goods' such as sustainable livelihoods, education and biodiversity, must include overall impact analysis as well as compliance monitoring. The influence of these CSR initiatives on SME development are an important component of their impact and should be measured, managed and evaluated as integral to their success.

Integrate tools to improve social and environmental impact with tools to improve quality management. This is beginning to happen at the cutting edge of CSR development in the North with the move from separate consideration of social, environmental and economic issues towards sustainability management and the increasing importance given to the business case. However, social and environmental pressure on suppliers tends to be piecemeal and unrelated to the business case.

Supply chain CSR initiatives should include support in quality management for SMEs and focus on the business case as well as on compliance mechanisms. As the Resource Centre for the Social Dimensions of Business Practise recently found in relation to their research in Tanzania,

*"Socially responsible business in the North should consider prioritizing their support to developing country supplier businesses in the form of management support and mentoring, which are of greater help than codes of practice."*⁹²

Equally, initiatives that focus on general business development, upgrading and training support for SMEs should integrate social and environmental management skills both in relation to entering into global value chains and serving local markets.

Develop a framework of 'Small Business Responsibility' to understand and promote the positive social impact of SMEs, and in particular how to value, communicate, reward and improve the 'silent social responsibility', which already prevails in many SMEs. This would integrate global supply chain pressures and linkages with business case benefits and local accountability and the importance of SMEs in development. It would recognize that the structures, processes and initiatives which have proved effective (or at least popular) for TNCs may not work for SMEs, even in a scaled down form, since they face different issues and environments, and - crucially - wield different levels of influence. Given the different environment of SMEs, effective and viable CSR approaches will look and work differently from the CSR approaches that work for TNCs. The key therefore is to understand the inter-relationship between the two. One way in which a framework can be developed is to carry out empirical research into what SMEs are doing already in terms of responsible business practice. How are they engaging with stakeholders, contributing to local communities, environmental efficiency measures, etc.

Strengthen the drivers for small business responsibility. CSR is already a 'must do' for TNCs but for many SMEs there simply is not yet a pressing business case to devote resources to CSR in this way. Clearly, social and environmental improvements can have financial benefits. However, this should go hand in hand with technical and

management upgrading, and be clearly linked to quality, productivity and consumer demand.

In some cases it may be necessary for TNCs to provide incentives and support, or change the nature of their buying relationship such as cost structures and turnaround times, in order to make compliance with their stringent codes of conduct economically viable for their suppliers.

CSR boosterism in the form of donor led initiatives to promote SME CSR in developing countries would therefore be misplaced, except in industries and sectors where a clear business case can be demonstrated. In other cases, what is crucial is to understand and encourage global CSR to go beyond the first and second generations (philanthropic and strategic) towards a third generation where leadership companies and sectors succeed in influencing both the market and public policy spheres to ensure that there is a real business case for CSR for all companies.

Promote enterprise development as a key CSR issue for TNCs. Enterprise development is a key area in which companies can contribute to 'value creation' as opposed to 'harm minimization' and compliance approaches to CSR. This goes beyond philanthropy into strategic alignment, community involvement, stakeholder dialogue, partnerships, investment, institution building, and public policy advocacy. While this has been picked up by a number of companies, it remains a low profile area of CSR where there has been relatively little development of initiatives, guidelines, research and standards compared to other areas of CSR. One reason for this may be the difficulty of distinguishing between what is 'CSR' and what is a 'profit driven' initiative in this area and the commercially confidential information involved. However, as all aspects of CSR move away from philanthropy and closer to core business, this is likely to be a common issue to be overcome. Strategies for supporting enterprise development within a CSR framework can learn from existing forms of support for SMEs such as cluster and network as promoted by UNIDO.⁹³ This gives SMEs extra leverage not only in their own development but also in their ability to influence CSR towards their own perspective. Most importantly, such strategies should have a particular focus on poverty alleviation and should not be drawn only towards SMEs in the more developed of Southern countries.

7.3 Outlook

CSR has gained prominence against a backdrop of relative economic stability and growth. However, the trend of global economic cycles means that this pattern of growth will at some point slow down, and possibly go into recession. If any downturn is compounded by global insecurity as a result of increased conflict, the further development of CSR will be seriously challenged, in particular its ability to go beyond being a philanthropic add-on and move into the core of business strategy.

CSR is a process that has been driven by globalization, deregulation and privatisation. For TNCs it is an outcome of public pressure arising from their operations in developing countries in relation to human rights, environmental pollution and labour issues. To date, CSR has been a Northern phenomenon in terms of its language and strategy. However, there is an abundance of evidence that 'silent' CSR is thriving in developing countries, albeit under a different name and with a different approach. There are some concerns that CSR has not focused enough on addressing issues of poverty, but the emergence of new partnerships with aid agencies, the UN and NGOs offers the opportunity to refocus that approach. In particular the role of business

associations, both mainstream and those from the CSR movement, have an important part to play in creating a multiplier effect.

For SMEs, the picture is still unclear and could go either way. What does seem clear is that CSR will be used as a way of rationalizing the supply chains of TNCs. This raises questions of the parameters of TNC responsibility in the areas in which they operate. If a company's strategy is to reduce the number of its suppliers or if its actions are putting many local SMEs out of business, then if CSR is to mean anything, the company must address the negative outcome of its interventions.

However, the key question is how to move into a third generation, even if the second generation is still in its infancy. The reason why jumping to this question is so important is that CSR will flounder when the expectations put upon companies, be they TNCs or SMEs, to solve such problems as poverty are not met. A parallel process needs to take place whereby CSR melds into core business strategy, while the external market and public policy environment is adapted in order to make real change. This can best be achieved through civil governance processes at all levels and the positive 'virus effect' that best practice CSR can have in shifting the market so that it is realigned to achieve sustainability.

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Endnotes

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- ⁸⁰ MacGillivray, A. and Doane, D. (2001) *op cit*
- ⁸¹ Zadek, S (2001) *op cit*.
- ⁸² Home, R (2001) *The Creation of Sustainable Livelihoods - The Business Contribution, Sustainable Development International*. www.icc.org
- ⁸³ For detailed Overview of main positions by important EU Actors on the Commission's Green Paper on CSR see Forces@Work, <http://www.euractiv.com/cgi-bin/cgint.exe/150003-78?714&1015=3&1014=csrforces>
- ⁸⁴ www.corpwatch.org
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