

Corporate social responsibility is widely supported by emerging countries (despite its ambiguity)

By **Michel Doucin**

Corporate social responsibility (CSR) has received widespread enthusiasm for some years. Groups of companies throughout the world abide by the United Nations Global Compact (launched by the United Nations Secretary-General, Kofi Annan in 1999) and today nearly 6,000 groups are engaged in CSR. In September 2010, the ISO 26000 standard on social responsibility was adopted with 93% of the 90 States participating voting in favour through standardization organizations. The United Nations Human Rights Council is currently adopting guidelines for human rights and companies, which are sure to receive a unanimous vote.

Such enthusiasm for social, environmental and human rights (which emerging countries have shared) is reassuring in a world that generally seems to be concerned mainly with profits.

But are we misinterpreting this apparent unanimous adherence to the concept? Is the definition generally used in Europe of the European Commission that considers CSR as an approach by which “companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis,” truly universal?

A number of indications lead us to doubt that there is a simple and universal conception of CSR.

In China, CSR is the subject of governmental directives for state-owned companies and export companies in order to create a “harmonious society” and improve the international image of the country. The Danish Government has stated on its website that CSR is a way of defining a collective quality label for national industry with the aim of conquering new foreign markets. In India, authorities encourage the use of CSR as an instrument for curbing threats of public unrest spurred by globalization, which widens social inequalities. Anglo-Saxon management schools see CSR as a new way to address consumers, shareholders, NGOs and others, which can help anticipate changes in their expectations. It also helps reduce risks of being the victim of smear campaigns and maximize long-term profits. We don't seem to be talking about the same thing. How can we figure out what CSR actually is? What drives emerging countries to support a concept that they previously feared posed a protectionist threat to them?

All such interpretations actually have a common core and each branch reflects the differences expressed by countries based on their social, economic and political backgrounds. It would be a good idea to explain the history behind the core so that it can be defined before identifying the different parties responsible, particularly in emerging countries, which all have slightly different interpretations of CSR.

Intellectual beginnings

Early writings on the CSR concept mention a few industrialists who, in the 1930s, then in the 1950s, supposedly suddenly decided to include societal well-being and the equity and happiness of their employees in their objectives relating to profits and satisfaction of their shareholders for ethical reasons rooted in their Christian faith. An economist named Howard R. Bowen is said to have come up with this theory in a very popular book entitled *Social Responsibilities of the Businessman* published in 1953. According to Bowen, the fact that large businesses “are vital centers of power and decision making and that the actions of these firms touched the lives of citizens” is a source of tension in society; “It [social

responsibility] refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society.”

Since *Social Responsibilities of the Businessman* was written at the request of the Federal Council of the Churches of Christ in America we could consider that the founders of CSR sought to ease the suffering in their soul caused by their religious beliefs. They were a wealthy minority living off the work of poor people. Any social work would therefore be for the purpose of easing their conscience.

This idea should however be viewed in less limited historical and geographical contexts.

First, we can see a certain relationship between CSR and the utopian movement that developed at the beginnings of capitalism (in Europe and North America) inspired by Enlightenment thinkers. After Claude Nicolas Ledoux’s experience (with the Royal Saltworks at Arc-et-Senans), Charles Fourier’s ideas, which were widely promoted in the United States by Albert Brisbane (author of the *Social Destiny of Man* published in 1840), inspired several dozens of experiences (4). A portion that would later be called CSR, namely the social redistribution dimension, was thus already established.

Badly viewed paternalism

CSR is also affiliated with paternalistic tradition. It is rooted in social Catholicism, marked by the encyclical, *Rerum Novarum* of 1891. This movement was very popular and can still be seen in Northern Europe (particularly in mining and metal industries) and in Latin America. Protestant religions would encourage a number of similar initiatives. In France, we can easily find this tradition in companies such as Michelin, Auchan, Leclerc and Oust-France, whose leaders are concerned with dialogue with their employees and eliminating the boundary between capital and labour with profit-sharing policy, at times bypassing the trade union intermediary.

This tradition can be seen in other cultures. In India, Jamsetji Tata explained in 1895 (21 years after the conglomerate that bears his name was founded) his vision as follows: “The interests of the shareholders, our own health and welfare of the employees are the sure foundation of our prosperity”. He introduced occupational health care and maternity leave for his employees and their families. He also built and funded schools, universities, museums and hospitals. These infrastructures were also accessible to populations located near his factories. Because “every company has a special continuing responsibility towards the people of the area in which it is located and in which its employees and their families live”.

A practicing Zoroastrian, Tata believed that charity was degrading for those who receive it and that it would therefore be better to create cooperatives fostering individual initiatives. He was educated in Great Britain where he was struck by the devastating social consequences of the Industrial Revolution and attracted to utopian ideas of the intellectual circles he frequented. This new industrial culture begun and cultivated by the Tata family and that can still be seen today, has significantly influenced all the industrial sectors in India.

Paternalism is today a relatively universal practice. Corporate foundations can be found on every continent. They offer their employees social services and fund social actions benefiting communities with which their companies work. For example in Brazil, programmes were assessed at €174 million in 2009 with priorities focusing on education, the development of local communities, health, sports, continuing education and illiteracy. In India, an Ernst & Young study published in June 2010 on 40 large companies indicates that 55% established foundations working on education (85%), health (67%), rural development and social support (57%).

This model is the most developed in countries that have opted for a market economy. Faced with a growing class struggle at the end of the 19th century, it was important to show that capitalism could be humane and provide social responses to address the consequences of poverty. The 1929 crisis spurred the first government interventions in the economy in the United States and with them a reaction of employers eager to prevent the New Deal from going too far in the socialization of the economy (we can see this ongoing issue in the accusations made by today's Tea Party participants against the Obama administration). Then when the Soviet economic boom of 1945-1950 generated a wave of nationalizations throughout the world, paternalistic companies sought to stress that their solutions had at least the same quality socially as state-owned companies. Tata was proud to have avoided nationalization in the 1950s because his workers, afraid of losing the social benefits they had gained, went on strike. Bowen's thinking was successful in this context. The history of CSR has progressed along with the world's major political and economic crises since the 19th century.

The impact of powerful transnational companies

However it was only in the 1970s and 1980s that the concept of CSR was truly developed and gained importance with respect to the paternalistic management vision. During this period we began to see private economic actors move beyond government control because of their economic weight and transnational nature. Foreign companies' conspiring with perpetrators of coups d'Etat in several countries at that time was brutal proof of this. The reticence of the Union Carbide Corporation to recognize its responsibility in the Bhopal disaster in India (that killed at least 20,000 people and left millions with chronic diseases in 1984) is another consequence. The Organisation for Economic Co-operation and Development took over a project for a Code of Good Conduct that failed at the United Nations and adopted the Guidelines for Multinational Enterprises in 1976. They state that the activities of multinational enterprises can "bring substantial benefits to home and host countries" and "can help enhance the economic and social progress in their host countries" and "resolve difficulties which may arise from their operations [related to their economic power]". A dual responsibility was therefore established by an intergovernmental organization: not to take advantage of power to act immorally and contribute to economic and social progress.

A non-owner management style seeking legitimacy

The financialization of the economy also occurred, which has translated into growing importance of shareholders and a separation between ownership and management. We now have to come up with new governance rules to organize the relationship between salaried management and the new owners, whose idea of partnership revolves around generating big profits.

The idea of societal expectations (beyond the shareholders) lead to the stakeholder theory. The economist Edward Freeman defined shareholders in 1984 as any group whose collective behaviour can directly affect the future of the organization, but is not under direct control.¹ Managers, who are different from owners, have to manage the complex relations of the company with a set of groups that sometimes have conflicting expectations. Under pressure from traditional economists, for whom "the business of business is business" (Milton Friedman), in other words for whom the company has no other purpose than to make profits, a CSR managerial vision is slowly being established on the basis of two notions: minimizing risks that are associated with an inaccurate assessment of stakeholders' expectations and optimizing overall performance, thanks to the intelligent integration of these expectations. Salaried managers are gaining new legitimacy, working as mediators between the various interests of stakeholders.

¹ N.d.T. Citation non trouvée, d'où la suppression des guillemets en anglais.

The CSR utilitarian approach

CSR has now emerged as a strategic way of managing a company anticipating the changes in consumer tastes and future social and environmental regulations, building workers creative motivation and preventing the company's reputation (and by extension, shareholder value) from being damaged. It gives responsible companies a comparative advantage. In this utilitarian approach to CSR, ethics hardly have any importance.

This idea has been popular, including in certain emerging countries. In China, Guidelines to the State-Owned Enterprises Directly under the Central Government on Fulfilling Corporate Social Responsibilities (promulgated in 2010 by the State) have eight methodological principles including constantly improving ability of making sustainable profits by advocating scientific and democratic decision-making, improving product quality and service to protect consumer interests, only in this way can companies establish a good image and promoting independent innovation and technological advancement by increasing investment in research and development. In 2007, the CSC 9000 standard T was designed for the Chinese textile industry as a method for preparing its necessary shift towards production sectors generating the highest value added. It explains to manufacturers how to stop using their archaic management methods and develop employees' taking initiative in terms of responsibility and training, which are sources of productivity gains. In Brazil, 300 sugar cane manufacturers pursued an objective to double their planted areas by 2020 with a CSR programme by introducing automation that would result in the firing of two-thirds of the sugar cane cutters. They offered cutters productivity bonuses, better housing, safety training, rehydration drinks, gym classes and retraining courses (for those who are made redundant). The company has likewise engaged in a programme to eliminate slash-and-burn agriculture and to protect forests.

With this utilitarian vision, there was a first move away from the paternalistic CSR core of the past: ethics and philanthropy slowly began to develop.

The CSR social risk management method

One of the CSR mentors in India, Arun Maira, member of the Planning Commission and a number of boards of directors, rounds out the utilitarian reasoning by adding a political dimension: "In India, industry is being given freedoms from governments regulations [...] but elected governments can continue to give industry more freedoms only if [...] people see the process of capitalist, market-based, economic development as a fair process." He established a relationship between the difficulties companies like Tata have come up against in order to purchase today the land needed to develop their industrial plants and the persistence of widespread poverty. Farmers would rather live off their small agricultural plots than join the idle and miserable growing masses of megacities. He advocates commitment from companies alongside public authorities in the provision of essential services to communities around them. Companies should consider that the entire social environment counts among their stakeholders in order to be granted a social license to operate (as some theorists say). This social environment faces the fatal threat of total rejection if the immediately accessible power, namely private entrepreneurs, does not provide social actions.

In the main emerging countries, those where double-digit growth produces a staggering growth of inequalities, the same approach can be observed. In China, the Guidelines for State-Owned Enterprises thus states that "Fulfilling CSR is not only their mission and responsibility, but also an ardent expectation and requirement of the public". China's development model used since Deng Xiaoping,

based on very low salaries that could not offset the disappearing social protection systems, caused strikes and social movements of tens of thousands of people every year. Feeling threatened and not wanting to suffer any setbacks in its rapid move towards capitalism, the Chinese Government sees CSR as a way out of its political dilemma: companies should take part in building safety nets to avoid the explosion that is feared. The Chinese Red Cross Foundation, associated with seven ministries, has organized a CSR Forum since 2007 that presents an award (broadcast on television) to companies whose generosity for humanitarian causes is considered exemplary.

Aware of the difference between philanthropy and utilitarianism, the ISO 26000 standard adopted in September 2010 opted for a convoluted wording: “Philanthropy (in this context understood as giving to charitable causes) can have a positive impact on society. However, it should not be used by an organization as a substitute for integrating social responsibility into the organization” and “social investments do not exclude philanthropy (for example, grants, volunteering and donations)”.

Stakeholder power

In addition to the conflicting philanthropic and utilitarian visions, another division has emerged in the interpretation of CSR managerial doctrine on the involvement of stakeholders. Edward Freeman proposed, as we have seen, to overhaul corporate strategy, basing it on stakeholders. They can be numerous: there are internal stakeholders (shareholders, employees) and external stakeholders, which can be institutional (public authorities, professional organizations), economic (suppliers, clients, bankers) and ethical (NGOs). Now, we must decide on the form and arrangements for working with the various stakeholders.

The ISO 26000 standard established a compromise based on the ambiguous word *engagement*. “Stakeholder engagement can take many forms (...). It can take place in either informal or formal meetings and can follow a wide variety of formats such as individual meetings, conferences, workshops, public hearings, round-table discussions, advisory committees, regular and structured information and consultation procedures, collective bargaining and web-based forums. Stakeholder engagement should be interactive”. There is a wide range of choices.

Although this document was adopted by a broad consensus, several delegations voiced their reservations about the expressions *interactive engagement* and *collective bargaining*. The problem is that employers’ authority is being challenged by a participative consensus-seeking management. The disagreement over this issue is exacerbated when the stakeholder in question is a union. European management has gradually accepted to hear social dialogue on various CSR issues as can be seen in 86 international framework agreements, most of which are European. However we have noted a massive rejection of union involvement outside Europe.

Sustainable development and the role of governments

The Earth Summit in Rio de Janeiro which will celebrate its 20th anniversary in 2012, affirmed in its final resolution that all categories of actors making up the human community also have a role to play to ensure the sustainability of our planet. This unanimous engagement recently showed its limitations, first at Copenhagen, then in Cancun. At the end of ISO 26000 negotiations, with the threat of certain emerging countries voting against it, a sentence was accepted that noted the existence of “societal, environmental, legal, cultural, political and organizational diversity, as well as differences in economic conditions” between countries in the struggle to save our biosphere.

This question about the role of different countries is related to the question of whether CSR needs to be monitored by public authorities. There was strong opposition to such monitoring in the last decades of the 20th century resulting from the famous Washington Consensus that attributed absolute regulatory capabilities to market forces. This dogma wrote off most of the duties performed by countries in the European model. But a number of major crises at the beginning of the third millennium, several of them due to overheating markets, led to the idea that governments may not have been totally illegitimate as regulators, including the area of CSR.

Monitoring the veracity of information provided by companies concerning their social and environmental behaviour that contributes to their financial value could, for instance, be of interest for the protection of shareholders. Setting up an oversight system for their potential negative impacts in countries with lax legislation could protect consumers. And although companies invite stakeholders to participate in dialogue, it will never be more than just their contemporaries, and future generations will always be missing. Governments are the ones that can best express the interests of future generations. The question of the regulating role of governments in CSR has basically caused a rift between welfare states or countries with state-run economies and liberal countries or countries with very little governance.

In the first category, we find a large number of European countries and countries like China and India. Governments of these last two countries have drafted governance standards for their public and private companies. The stock markets of Shanghai and Shenzhen, but also those of Kuala Lumpur, Singapore, Johannesburg and Sao Paolo, which are state-controlled institutions, require listed companies to publish extra-financial information. Judicial authorities in these countries also play their part. It is interesting to note a decision the High Court of Kerala handed down in 2005 that states: “Thus the State has got a duty to protect ground water against excessive exploitation, and the inaction of the State in this regard will tantamount to infringement of the right to life of the people of India, guaranteed under Article 21 of the Constitution of India.” The Dutch Government has stated on its CSR Netherlands website: “In the first instance corporate social responsibility appears to be the responsibility of the business community. But the government also has an important role to play. The government sets frameworks and stimulates developments and investments that contribute to sustainability, participation and social cohesion.”

In the second category of less interventionist countries, it is interesting to note the prudence of the National CSR Strategy adopted by the German Government on 6 October 2010. The aim of the strategy is “developing a framework that focuses on allowing market forces to develop and, at the same time, seeks to square freedom of action with the active assumption of responsibility.” It focuses on the purely incentive nature of its guidance.

This question leads us to another one. Although CSR has thus far been considered to be voluntary, hence soft law, shouldn't we consider there to be room for mandatory laws in its promotion as well, like those that France initiated with the legal obligation for social and environmental reporting for the biggest companies (later followed by Denmark, Malaysia and other countries)?

In reality, the boundary between voluntary action and constraint that has structured CSR discourse since its inception is being erased. Some governments (among the most important) have taken steps forward by presenting CSR as a combination of styles. The aforementioned Chinese Guidelines lay down a first requirement that it be practiced as a legal and honest way in complying with regulations and laws, and a seventh requirement to protect the legal rights of employees through the signature and respect of work contracts and the principle of non-discrimination and implementation of the employee representatives' convention system (these objectives can all be found in laws).

Disillusions of the end of an era

If at first glance socially corporate responsibility seems to be a simple concept, a more in-depth analysis reveals a number of ambiguities, not to mention contradictions. Utilitarianism focused on the short and medium term does not readily lend to sustainable development and philanthropy. Why has this concept been successful virtually all over the world? And why is it particularly popular in the major emerging countries that are usually wary about everything that comes from the North?

The answer is doubtless closely linked with the current moment in the history of humanity which some call the “crisis of capitalism”. Corporate social responsibility has been successful in a period marked by three events:

- The first of these events was the disappearance of most regimes with state-controlled economies (with the fall of the Berlin Wall and Deng Xiaoping’s reforms in China), which has led us to believe in the universal development of the market economy (even, as some have wanted to think, an end of an era);
- The second was the explosion of organized civil societies all over the world that demanded (and achieved) recognition of their role including in the definition of macro-social guidelines (conclusions of the final declaration of the Earth Summit held in Rio de Janeiro in 1992 which was largely based on NGO proposals is an example of this);
- The third event occurred at the end of the 2000s. The Breton Woods institutions gave up the Washington Consensus and engaged in poverty eradication programmes in which responsibility was given to governments, which revamped their economic role and were encouraged to collaborate with their civil societies.

These three events have shaped a new political framework that sends a strong message to companies. They are encouraged to fully take advantage of the new opportunities generated by the globalization of markets; while being careful not to abuse their power, because new social forces are emerging that exercise vigilance in the area. In addition, governments are seeking new governance (nationally and globally) that can offset any potentially perverse effects of a market to which they see no alternative. They consider the effective use of CSR that implements the stakeholder theory to be conducive to finding acceptable compromises.

From there, a new and last branch of CSR has emerged: the bottom up approach giving companies a responsibility alongside public authorities in poverty alleviation. One of the most well-known examples is the partnership between Danone and the Grameen Bank, in Bangladesh, to produce nutritional yogurt by small artisanal units and their distribution by a network of women taking on social duties at the same time for extremely poor people. The business case deficit due to the very low sale price should over the long term be compensated by income from Danone Communities (an investment company with variable share capital-SICAV). Another interesting example is significant shift towards the partnership with public authorities: in India, Edenred (e.g. Group Accor) is working free of charge with the Government of Maharashtra to create a forgery-proof biometric card that can ensure better distribution of food aid to poor people and end fraud (assessed at 40% of the total budget for this purpose). Comparable partnerships also exist in Brazil and other Latin American countries.

Public trust was considerably weakened by high unemployment, harsh evictions from housing bought on credit, the drop in the value of savings, etc. Widening inequalities in developing countries are explosive (as recent events in the Middle East have shown) and riots and Marxist uprisings in dozens of countries including India where the Naxalite insurgency spans nearly 20% of the territory, continue. With the exception of social economy enterprises, dialogue with stakeholders has rarely changed the direction of governance. Management always has the last word and is required to produce the financial

results expected from shareholders.

CSR with its diverse and diverging interpretations seems to be too uncertain to genuinely serve as an accurate and secure guide in the shift of capitalism that we are experiencing and whose final direction is unknown. It is quite amazing to see that a growing number of countries are establishing mandatory rules to govern private economic activity.

Bowen had predicted this disappointment over social responsibility mainly being conducted by companies. He came up with the idea that economic problems of our society (problems such as instability, insecurity, injustice and the lack of satisfaction) cannot be resolved by simply making companies responsible. He argued that therefore there is a need to develop a set of generally accepted standards or rules that business people should follow.²

The need for genuine international rules to shape a universal framework emerged in the 1970s, then received fresh support with the creation of the Global Compact proposed by the United Nations Secretary-General, Kofi Anan, at the World Economic Forum in Davos in 1999. It is gaining very substantial ground today with the National Contact Points for the OECD Guidelines for Multinational Enterprises. Two international negotiations are under way on this issue (at the United Nations Human Rights Council and the OECD) in the wake of the ISO 26000 standard. The challenge lies in the need for them to converge with existing international work (ILO, Global Compact, ISO, International Finance Corporation, GRI) and to build a balance between collective private self-regulation and government regulations.

France plays an important role in the fora where these negotiations are taking place and its diplomacy is recognized for its non-ideological position on an issue that is too often dealt with under this angle. France is largely responsible for the broad adherence to the ISO 26000 standard, including that of several major emerging countries. I am pleased to work on behalf of France in such negotiations. It is a large but exciting responsibility.

² N.d.T. Citation non trouvée, d'où la suppression des guillemets en anglais.