

Corporate Social Responsibility (CSR) in Developing Countries



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Outline of the presentation

- Purpose of the corporation: Profit maximization and stakeholder theory
- Responsibility concepts
- The New Market: Drivers for CSR
- The case of developing countries
- Situation of CSR in Latin America
- Closing remarks

Purpose of the Corporation

The business of business is business

Milton Friedman, 1962

Purpose of the corporation

- Corporate legislation in most countries
- Pursuit of self-interest (Adam Smith)
- Limited liability to owners
- Simple model, restrictive assumptions
 - Markets are perfect
 - Information flows freely at no cost
 - No transactions costs
 - Rational decision makers

Role of markets

- Market incentives:
 - Short term, short term, short term
 - Reported profits according to GAAP
 - Valuation of assets
 - Managerial incentives

Role of markets

- For the profit maximization to foster the public good:
 - Perfect competition
 - Social prices equal market prices
 - No externalities, or properly priced.
- Example of pollution

Role of markets

- Are the only resources used by the corporation financial resources?
- Does the corporation pay fair prices for the other resources it uses?
- Are the markets for all resources perfect markets?
- Are there any externalities?

Stakeholders

- **Shareholders and other funds providers**
- Employees
- Customers
- Suppliers
- Community
- Governments
- The Planet

Stakeholders

- Do all stakeholders have the same “rights”?
- Analogy with bankruptcy
- Private property vs. the right to use
 - The Economist
 - German Constitution
 - Papal pronouncements
- Accountability

Beyond Ethics and Philanthropy: CSR

- Ethics
- Philanthropy
- Corporate Governance
- Corporate Citizenship
- Strategic Philanthropy
- Corporate Social (and Environmental) Responsibility
- Sustainability

Major Concepts of Corporate Responsibility

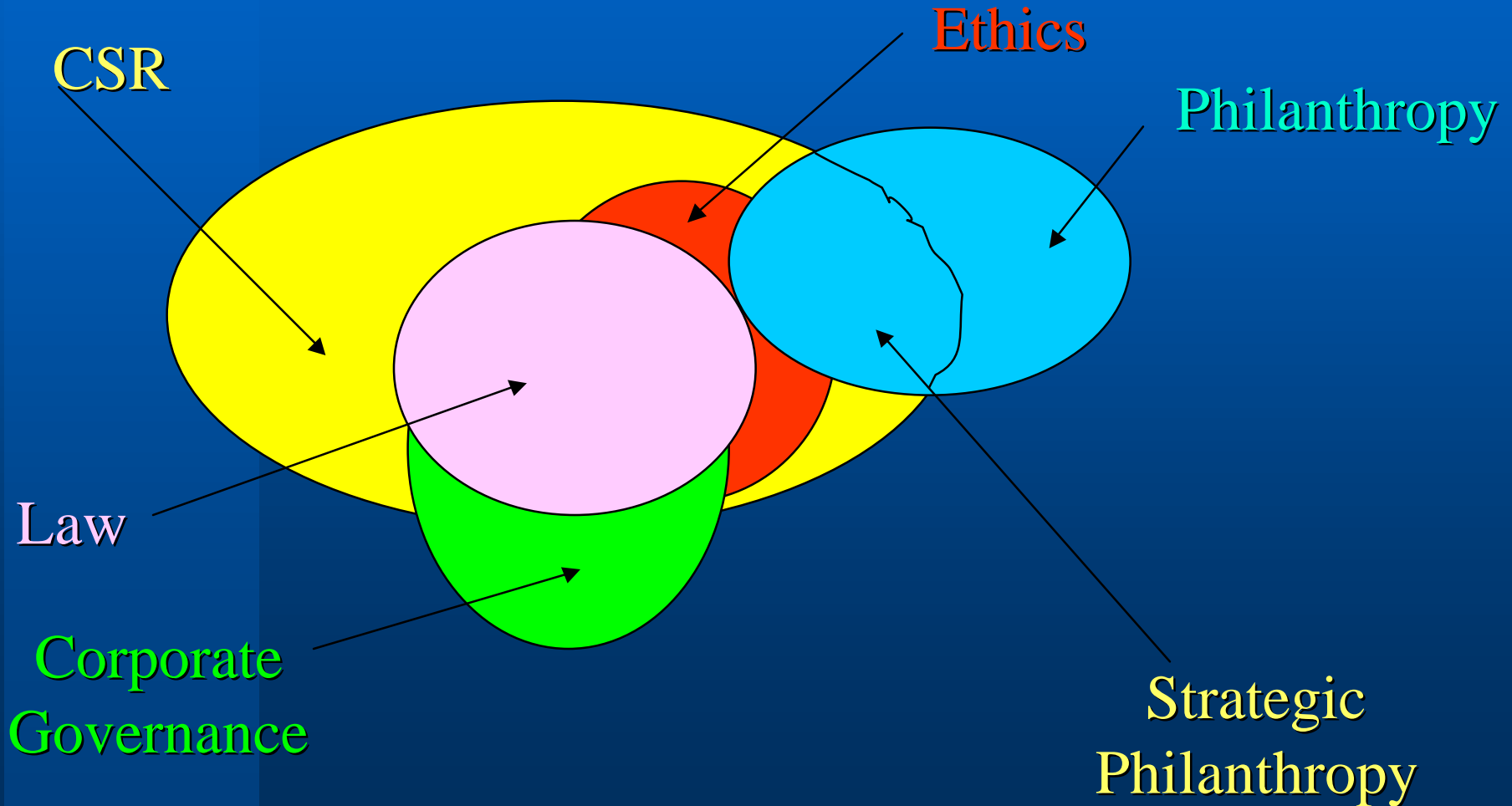
Concept

- Ethics
- Philanthropy
- Strategic Philanthropy
- Corporate Citizenship
- Corporate Governance
- Corporate Social Responsibility
- Sustainability

Focus (simplified)

- Corporate behavior
- Giving in general
- Giving to related parties
- Welfare of the community
- Shareholders
- Stakeholders
- Society and the planet

Different and Overlapping Concepts



Ethics, Philanthropy

- Pharmaceutical company produces a drug that cures what it says it does: **ethics** and law
- Sells expired drugs in developing countries: may be legal but not **ethical**.
- Donates a classroom to an elementary school in the community: **philanthropy**
- Donates its drugs to an NGO for distribution in low income communities: **strategic philanthropy**

Ethics, Philanthropy

- Discloses information on the financial impact of regulations of its drugs: **corporate governance**, and in some countries, **law**
- Devotes research funds to the production of effective and inexpensive drugs for low income communities in developing countries: **Corporate Social Responsibility (CSR)**

What is CSR?

- Responsibility towards **society**
(stakeholders, according to their “rights”)
- Business practices, **as part of corporate strategy**, complementary to the business, that avoid harm or do good for stakeholders (clients, employees, providers of funds, suppliers, community, environment), complying **and** going beyond the law.
- CSR does not replace the Government!
(CSR for Governments?)

What is CSR?

- According to the extreme right:
Responsibility to society insofar as it increases profits. Obey the law, but going beyond the law is **irresponsible**.
- The Economist: “The proper business of business is business. No apology required.”

What is CSR?

- According to the left: Responsibility to society and the planet, to all stakeholders, even if it means reducing profits. Corporation must pay a “tax” for the “license to operate”.
- Christian Aid: “Business, moreover, has consistently used CSR to block attempts to establish the mandatory international regulation of company’s activities.”

Who drives CSR?

- If a tree falls in the forest and there is nobody around, does it make a sound?
- Even The Economist recognizes that “Big successful business.....concern for the way they are judged by customer, suppliers and the world at large is a useful discipline. **If it were absent**, there would be no economic pressure on companies to behave decently”

The “new market”: The Ten Drivers of CSR

- ⑩ Enforcement of laws and regulations
- ⑩ Active Civil Society
- ⑩ Developed Financial Markets
- ⑩ Educated consumers and buyers
- ⑩ Activist media

The “new market”: The Ten Drivers of CSR

- ⑩ Monitoring and reporting institutions
- ⑩ Activist employees
- ⑩ Structure of the private sector (“capture” of the State)
- ⑩ Exposure to globalization and competition
- ⑩ Committed top management

The “new market”: Closer to perfect markets

- Informed shareholders
- Informed consumers
- Informed workers
- Media and civil society enforcement
- Enlightened Government
- Enlightened managers
- Enforced regulations
- Competition
- Accountability

..... and in less developed countries?

- Incentives for behavior will depend on the “new market” signals
- Are businesses exposed to global forces?
 - Large buyers
 - Activist employees
 - Educated consumers
 - Civil Society
 - Media
 - Monitoring and reporting organizations
 - Government regulation

Situation in LAC

- Evidence is circumstantial, scarce, and at times, contradictory
- Many examples of CSR, but still a tiny minority
- Philanthropy continues to dominate the scene, and in the best of cases, strategic philanthropy or corporate citizenship.
-but there is significant progress.

Situation in LAC

Table 1: The Adoption of Codes of Conduct in Latin America (as of March 2004)

Code/Country	Brazil	Argentina	Costa Rica	Chile	Total Latin America
SA8000	39	2	1	0	42
AA1000	0	0	0	0	0
GRI	5	1	3	2	11

Source: IADB, 2004

Situation in LAC

- Global Compact signatories:
 - 40 in Panama, 86 in Brazil, 3 in Mexico, 222 in Argentina.
- Study of internet hits searching for CSR (ex-Brazil)
 - First tier: Argentina, Chile y Mexico
 - Second tier: Bolivia, Colombia, Paraguay, Peru and Venezuela
 - Third tier: Cuba, Dominican Republic, Jamaica, T&T, Costa Rica, Nicaragua

Situation in LAC

- Publication **Creating Value** of the IFC, Ethos Institute and AccountAbility, has 61 CSR cases from LAC out of a total of 167 from 7 developing regions of the world
- Individual studies at the country level still find serious problems even in “advanced” countries like Chile, Brazil and Mexico.

Situation in LAC

- Corporate Responsibility Index of AccountAbility and the Copenhagen Centre:
 - Costa Rica and Panama above European Countries
 - Brazil in the middle and Bolivia above countries in Eastern Europe
- Evidence is contradictory and counter-intuitive
- Lacking a clear and uniform system of assessment

Situation in LAC

- In the last few years a lot of activity
- Conferences everywhere. Publications
- Business associations in most countries promoting adoption of CSR practices
- Increasing interest by civil society
- Activities moving beyond philanthropy
-but much, much, remains to be done.

Closing remarks

- CSR is a very broad concept, that properly applied can lead to an improvement in the quality of life: CSR is development
- To be adopted and sustained, business must believe that it is good for business
- Level of adoption depends on the extent of drivers.
- Properly understood there is no contradiction with markets

Closing remarks

- Must foster the drivers, must develop the new market
- In LAC, adoption of CSR practices is beginning, sparse and uneven, still dominated by philanthropy (not CSR)
- Slowly there is a realization of the importance of CSR for business competitiveness and for economic development

www.csramericas.org

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