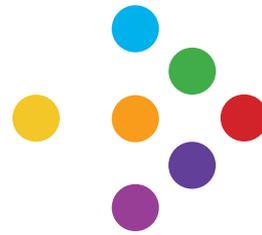


The Foreign Policy Centre

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Corporate Social Responsibility in Emerging Markets: The Role of Multinational Corporations

*An Initial Paper for the Launch of the Foreign Policy Centre
Project on "Corporate Responsibility in Emerging Markets"
(2008) in association with Coca-Cola Great Britain*

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Introduction

Amongst the many dramatic changes that have taken place in the business world since the 1990s, the rise of the corporate social responsibility (CSR) agenda is certainly one of the most noteworthy. As a recent special report in *The Economist* notes, “doing well by doing good” has become a popular business mantra—the idea that firms can be successful by acting in the broader interests of society as a whole even while they satisfy the narrow interests of shareholders.¹ But although virtually all big companies today have to come to terms with corporate social responsibility, the concept of CSR itself remains confusing. And although various firms have tried to place CSR at the core of their strategies, few seem to have figured out how an integrated business strategy incorporating the social agenda might be fashioned. In any case, there is still a gap between companies’ aspirations in CSR and their actions. One important reason for this discrepancy is our insufficient understanding of what exactly is required of today’s companies to simultaneously generate profits for shareholders and make a positive contribution to society.

With this in mind, the Foreign Policy Centre is launching a project on CSR in emerging markets in association with Coca-Cola Great Britain. The project seeks to explore issues surrounding CSR in emerging markets, focusing on the role of multinational corporations (MNCs). It will examine the impact of MNCs’ businesses on the workplace, the marketplace, and the environment, and explore how well-designed CSR practices can contribute to economic, social, and environmental progress in emerging economies.

The project comprises four seminars and two papers. Following the launch seminar which seeks to define the debate on CSR in emerging markets generally, three subsequent seminars will focus on the issues of labour standards, marketplace practices, and the environment respectively. The aim of this initial paper is to frame the background of CSR in emerging markets, inform the actual seminars, and prepare points for debate throughout the course of this project. The second paper will synthesize the findings of this project. We hope this project can be a step towards a better understanding of the various issues regarding CSR in emerging markets.

Some Definitional Issues

Although this project is intended to have a practical business focus,

some definitional problems nevertheless have to be solved before one can meaningfully discuss MNCs' CSR in emerging markets.

Emerging markets/economies. Emerging markets/economies refers to those countries that are starting to participate globally by implementing reform programmes and are undergoing economic improvement. The term 'emerging market' was originally coined by the International Finance Corporation (IFC) of The World Bank to describe a narrow list of middle-to-higher income economies amongst developing countries, with stock markets in which foreigners could buy securities. The term's meaning has since been expanded to include more or less all developing countries with a Gross National Income (GNI) per capita of \$9,265 or less.

MNC. We define MNC broadly as any corporation with operations in more than one country. It needs to be pointed out that by MNCs we do not just mean Western or Japanese MNCs, but also a growing number of MNCs from emerging economies in Asia, Africa, and Latin America. According to Fortune Magazine, amongst the 500 top global companies in 2007, seventy are from emerging economies, compared to 47 in 2005.

CSR. In recent years, a diverse array of terms has appeared to express the idea that business needs to make positive contributions to societal good, amongst them 'corporate social responsibility,' 'corporate responsibility,' 'corporate citizenship,' etc. This paper uses 'corporate social responsibility (CSR)' and 'corporate responsibility (CR)' interchangeably. It adopts the acronym CSR rather than CR because the former is the more widely accepted term in academic and business literature. One should note, however, that with the word 'social' the term CSR may seem somewhat narrow and CR in this sense may be more encompassing and potentially more useful.

CSR is a term that defies precise definition. But nearly everyone can agree that it is about the business contribution to sustainable development—how business can take into account the economic, social and environmental impact their operations will have on the society. The Centre for Business and Government of the Kennedy School of Government at Harvard University defines it as: "Corporate social responsibility encompasses not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance and addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy

realm.”²

CSR as a Local Concept

For a long time the concept of CSR has been questioned in terms of its validity and usefulness for profit-making companies. Milton Friedman, for example, famously asserted that “the social responsibility of business is to increase its profits.”³ Although one can still hear “the business of business is business” type of argument, the question for today is no longer *whether* companies should practice CSR, but *what*, specifically, and *how*. Ultimately, the concept of CSR itself may disappear, as a corporate social agenda will be an integral part of business strategy in the 21st century.

If one adopts a strategic vision for CSR, a vision that recognises the interdependence between business and society, then it becomes clear that CSR can both help companies make money and promote societal welfare. Strategic CSR realises the dynamic interdependence and the importance of forming a community of interests amongst the firm and its various stakeholders in society. Conceived in this way, “CSR can be much more than a cost, a constraint, or a charitable deed—it can be a source of opportunity, innovation, and competitive advantage.”⁴

Emerging markets present both opportunities and risks for MNCs. On the one hand, the almost 2 billion consumers in emerging markets represent a huge market opportunity for MNCs. Indeed, the best way now to generate both profits and create societal value is to focus on emerging markets. On the other hand, MNCs operating in these countries face challenging and difficult security, environment, health, and other risks. Doing business in emerging markets will be difficult because many of them are characterised by either bad or weak public governance and administration, lack of public transparency, high levels of bribery and corruption, poor records on human rights, inadequate environmental, safety and labour standards and high levels of poverty and inequality.⁵ How can MNCs better practise CSR in such volatile circumstances?

Obviously it is important first to understand what CSR means in the context of emerging economies. CSR should be seen as a local, not a universal, concept. The historical and national context of communities, especially their corporate and societal governance frameworks and business-society relations, impact on how CSR may

be practised in these areas.

The context can be the broad socio-cultural structures that many emerging markets now embody. Has the country adopted Western-style capitalism or its variants in Asia and Latin America? Asian capitalism, for example, can lead to different discourses of social responsibility from those in the West. What is the impact of the country's historical and cultural legacy on its business culture today? The compatibility of a country's cultural orientation with the business cultures MNCs embody will influence how easy or how difficult it is for them to practise CSR in that country. For example, many CSR efforts in the West, particularly those aiming to create universal standards or codes of conduct, have tried to cultivate a 'level playing field' in the world where the 'rules of the game' are the same for all companies. Yet, the validity, feasibility, and usefulness of the attempts to create certain universal standards must be critically examined against local contexts. There is first of all the question of whether such standards can ever usefully be applied. But even if they can, the question of implementation still remains.

The contexts can also be levels of political and economic development and their social consequences in different countries. What is the country's level of modernisation and economic development? The more developed a society is, the more prominent corporate responsibility discourse tends to be. What problems are particularly acute in the country, be they poverty, education, or corruption? Different problems that are perceived to be in particular need of addressing will affect the understanding and expectation of CSR in different countries.

Issues and Cases

These contextual issues need to be kept in mind when discussing CSR in emerging markets. In terms of specific issue areas that MNCs have to address, three are the most important.⁶ These are all areas where MNCs have encountered significant problems in the past, but also ones which can drive business innovation and create market opportunities.

WORKPLACE

Workplace issues cover a wide and expanding array of topics, the

most prominent being labour standards. In addition to traditional human resource areas, workplace issues now include HIV/AIDS, work-life balance, diversity, sexual harassment, employee privacy, downsizing, and organisational development issues related to overall workplace culture and work processes.

Nike. Nike's case in Southeast Asia in the 1990s illustrates how labour standards issues can damage a company's global image.⁷ At the same time it reveals the importance of the contextual variables for the meaning and practice of CSR. Nike in fact paid its workers in its Southeast Asian athletic footwear plants in accordance with local customs and practices. This is quite natural for MNCs: when a firm from a developed country does business in a less-developed one, it may establish a level of corporate virtue consistent with that of the host country. Yet this was exactly what opened Nike to charges of operating sweatshops.

Yet, although locals often find work in MNCs' 'sweatshops' gruelling and poorly paid, they usually say it is better than any alternative. There is no question that labour standards in such cases need to be improved. But the question remains as to under what context, to what degree, and at what cost. Sometimes improving labour standards or the environment from a global perspective may inadvertently damage the standard of living in local communities. One can argue that an uncritical application of CSR from a perspective not suited to the local context may undermine the very objective of corporate responsibility, as it leads to a lack of integration with the wider business objectives.

The more interesting aspect of the Nike case, as is true with so many other companies, is that intensive criticism and a negative reception can compel the company to rethink business strategy. Faced with a growing backlash against its labour and environmental practices, Nike turned to product stewardship strategies to recover its reputation and preserve its right to operate. It enacted a worldwide monitoring programme for all contract factories, using both internal and third-party auditors. Aside from taking action on the labour front, Nike also took environmental action. Its footwear designers started evaluating their new prototypes against a product stewardship scorecard, using life-cycle analysis. Nike also launched the 'Re-use-a-Shoe Project' to recycle old, unwanted footwear.⁸

The Coca-Cola Company. Since 2002, and following a significant activist campaign, alongside a realisation that the economic viability of the business itself was threatened, the

Coca-Cola Company in Africa in partnership with its bottling partners, has been implementing a programme to tackle HIV/AIDS in its workplaces across the continent.⁹ With a clear and formal HIV/AIDS policy in place, the company recognises that HIV/AIDS is a public health emergency and acknowledges the role of the workplace in limiting the spread and effects of the epidemic. But it also realised early on that the company and its bottling partners alone would not be able to deliver a wide-ranging prevention and treatment programme for all its employees and associates. Therefore it decided to build strong partnerships with healthcare management organisations, pharmaceutical companies, medical treatment providers, and NGOs for prevention, awareness, orphan care, and voluntary counselling and testing.

Today this programme is one of the largest of its kind in Africa, covering around 60,000 'Coca-Cola' system employees as well as their spouses and children. It includes a prevention and awareness course (including free condoms) and confidential voluntary counselling and testing for employees and their dependants. Antiretroviral drugs are also made freely available to all employees who need them and in many cases to their dependents. The company has also built partnerships with Dance4Life, the African Network for Children Orphaned and at Risk, and the African Broadcast Media Partnership to extend its HIV/AIDS programme into communities. In 2006, the company expanded its HIV/AIDS workplace programmes to China, India, and Russia. In all of these geographies, the challenge, as in the wider society, of stigma and thus often low take-up of the programmes remains.

Thus, working with a range of international and local partners, Coca-Cola has been engaged in a variety of cooperative efforts to build in-country capacity in Africa. Many of these initiatives have helped to address systemic gaps and capacity constraints in African communities. It is also noteworthy that starting from 2007 the governance of its HIV/AIDS workplace programmes moved from The Coca-Cola Africa Foundation to the Human Resources Department of The Coca-Cola Company in Africa and its bottling partners, thus signalling the company's recognition that these programmes must now be at the centre of its business operations. This is but one demonstration that CSR will increasingly be incorporated into companies' overall business strategies.

MARKETPLACE

Marketplace issues extend across a wide range of business activities that define a company's relationship with its customers. These activities may be grouped into six categories: (1) integrity of product manufacturing and quality; (2) disclosure, labelling and packaging; (3) marketing and advertising; (4) selling practices; (5) pricing; and (6) distribution and access. Emerging issues include obesity and nutrition; integrity of the food chain, privacy and technology, drug pricing for the poor and elderly, marketing to children, heightened expectations for product safety, and extended product responsibility.

HLL and Unilever. Unilever is a company that has traditionally been good at identifying new products and markets in low-income communities around the world. Here the example of its subsidiary, Hindustan Lever, Ltd. (HLL), is illustrative.¹⁰ For more than 50 years, HLL served a small elite population in India with the income to buy its products. Then in the 1990s HLL noted that an Indian firm, Nirma, was offering detergent products for poor consumers; in fact, Nirma had created an entirely new business system designed to meet the needs of under-served consumers, mostly from poor, rural areas.

With this stimulus, HLL drastically altered its traditional business model in 1995 to develop new products for rural markets. Its new detergent product, Wheel, was reformulated substantially to reduce the ratio of oil to water, responding to the fact that the poor often wash clothes in rivers and other public water systems. Most raw materials were sourced from local suppliers. Production, marketing, and distribution were all decentralised to leverage the large labour pool in rural India, quickly creating selling channels through the thousands of small outlets where poor people shop. HLL also changed the cost structure of its detergent business so it could introduce Wheel at a low price point. Today, rural markets account for more than half of HLL's total revenues—and profits.

This example demonstrates that low-income communities can be a very profitable market, especially if MNCs change their business models. HLL registered a 20 percent growth in revenues per year and a 25 percent growth in profits per year for 1993-1999. Its parent company, Unilever, has also benefited from its subsidiary's experience in India. Unilever used HLL's business principles to create a new detergent market among the poor in Brazil. But even more importantly, Unilever has adopted the low-income market as a corporate strategic priority. Indeed, by 2006, that market accounted

for more than 20 percent of Unilever's sales on a global basis.

Vodafone. The Vodacom Group, of which Vodafone owns a 50% stake, is the largest cellular operators in South Africa. Since 1994, it has created a community phone service programme in South Africa to meet the communication needs of the country.¹¹ Inadequate access to telecommunications was one of the many legacies of apartheid. The advent of mobile technology in the mid-1990s offered an opportunity to extend massively national communication networks. But the costs were prohibitive for individuals from disadvantaged communities, hence the government was keen to encourage the private sector to identify systems for improving provision in disadvantaged areas.

Vodacom responded to the regulatory demand by creating a Community Service Programme whose delivery team had a budget of R5 million (US\$778,731). Research was carried out within communities in order to identify the best way forward in terms of providing the phone service. It was decided that access to phones could best be provided via phone shop franchises. In this way individuals from disadvantaged communities could be empowered as entrepreneurs while Vodacom's management responsibilities were reduced. Working with Running Business Today as a partner, Vodacom provided the entrepreneurs with initial training and support.

The results that this programme has achieved are impressive. By mid-2003 1,800 entrepreneurs owned over 4,400 phone shops. Many people are able to make regular phone calls for the first time in their life. Families are able to stay in contact (especially with migrant workers) and also manage family affairs more effectively. Phones are used to pay bills and to access services such as doctors and utility providers. Approximately 20,000 jobs have been created through the programme so far. The programme has also demonstrated an effective *modus operandi* for government-business relations. In this case the government has set quantifiable, ambitious but attainable social objectives which businesses can fulfill utilising their management capacities. For Vodacom the programme has simultaneously created public value and expanded its market.

THE ENVIRONMENT

Although developed countries' economies have become more information and service intensive, globally, the unsustainable use of raw material and fossil energy has exploded during the past 50 years, with dire consequences for the world environment. Approximately

60% of the ecosystem services that support life on Earth—such as fresh water, oceans, soils, and climate—are being degraded or used unsustainably. In the past two decades, corporate environmental responsibility has evolved and expanded to cover substantially more than legal compliance, waste minimisation, and pollution prevention. Companies have embraced a variety of environmental initiatives while integrating environmental responsibility at all levels of their operations. Indeed, it is argued that companies need to go ‘beyond greening’ from today’s pollution prevention and product stewardship towards tomorrow’s clean technology and sustainability vision. Over the next decade or so, sustainable development will constitute one of the biggest opportunities in the history of commerce.¹²

Virgin Atlantic. The aviation industry has long been criticised for generating greenhouse gas emissions and contributing to global warming. Although the amount of emissions from aircraft compared with other vehicles is relatively small (roughly 3 percent of the world’s total), it has a major impact on climate because these emissions are released higher in the atmosphere. These environmental concerns, coupled with recent surges in oil prices, have compelled industry to search for cleaner, cheaper alternatives. One of the most promising alternatives is biofuel.

On February 24, 2008, Virgin Atlantic became the first commercial aeroplane operator to fly a plane partially powered by biofuels. A Boeing 747 flew more than 200 miles (320 kilometers) from London to Amsterdam, with one of its four engines burning a blend of 20 percent coconut and babassu oils mixed with regular petroleum-based jet fuel. In the coming months, Virgin will unveil a \$400 million investment to build one of the world’s largest bioethanol refineries in the U.S.

Can biofuels curb global warming? The answer remains controversial, and recent scientific studies have actually concluded that biofuels can make global warming worse. In jet engines, for instance, biofuels do not burn any cleaner than kerosene. Its main benefit is in its production from sustainable sources. Proponents say it can reduce total environmental damage by 20 percent because it is less harmful to produce than crude oil. But even that 20 percent entails costs—it means higher food prices and damage to farmland and biodiversity. Nevertheless, Virgin’s innovation in biofuels is an important step forward. Though clearly no panacea, biofuels are one of the few viable options for replacing the liquid fuels derived from petroleum.

It also has important implications for emerging economies. Rising

energy consumption, skyrocketing oil prices, and environmental damage make biofuels an attractive alternative energy source in these countries. They may also see biofuels as a way to stimulate rural development, create jobs, and save foreign exchange. Indeed some of these countries have favourable climate conditions and large areas of unused, marginal land for producing biofuels. Brazil, for example, is the world's biggest biofuels producer. Ethanol provides roughly 40 percent of Brazil's non-diesel fuel. How to realise the full potential of biofuels in emerging markets, however, will remain a challenge for years to come.

General Motors. By the early 21st century, all major car companies had initiated clean technology (fuel cell or alternative) vehicle programmes. The most famous so far is perhaps Toyota's Prius, the hybrid electric/gasoline vehicle which has produced competitive advantage and environmental benefits. However, most of these programmes still envisioned the product in conventional terms: a heavy metal chassis and body with thousands of component parts. But in the early 21st century fuel cells were still many times more expensive to produce than internal-combustion engines. Thus, when a fuel cell (with an electric motor) is seen as a simple replacement for the internal-combustion engine, the result is an overpriced product that few consumers would ever consider buying.

In 2002, General Motors launched the AUTOnomy project, a bold \$1 billion initiative to reinvent the automobile around hydrogen fuel cell technology.¹³ Unlike its competitors, GM has taken a clean-sheet approach not only to vehicle design, but to the entire manufacturing system. Rather than thinking of the fuel cell as a simple replacement for the engine, the design team devised a way to build a fuel cell that doubles as the vehicle's chassis—a fuel cell 'skateboard' with four small electric motors to power each of the four wheels independently. Moreover, GM has moved to simplify the vehicle's design radically. Apart from the electric motors and the wheels, there are virtually no moving parts. The steering and all the vehicle's functions are controlled electronically using wireless technology. GM hopes this simplification can compensate for the higher cost of the fuel cell with much lower sourcing and production costs.

GM hopes to launch the AUTOnomy in 2010. Although it is too early to tell whether this model will be successful in the marketplace, its environment-friendly and cost-efficient design represents the future direction of the automobile industry. Indeed, preventing pollution through process or product redesign can save money, reduce risk, and improve products for many firms. And technological

innovation through 'creative destruction', as GM has been doing with AUTOnomy, can offer unprecedented business opportunities.

Conclusion

This paper has given an overview of the many issues surrounding CSR in emerging markets. It is meant to be suggestive, as a background briefing for more substantive and detailed discussions during the actual seminars. This project will now give an opportunity for a wide range of stakeholders to enter into the debate on CSR in emerging markets. The findings and insights it generates will inform the final paper of this project, due to be produced in summer 2008.

¹ "Just Good Business: A Special Report on Corporate Social Responsibility," *The Economist*, January 19th 2008.

² http://www.ksg.harvard.edu/m-rcbg/CSRI/init_define.html (accessed October 5, 2007).

³ Milton Friedman, "The Social Responsibility of business is to increase its profits," *New York Times Magazine*, September 13, 1970.

⁴ Michael E. Porter and Mark R. Kramer, "Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility," *Harvard Business Review* (December 2006), p. 80.

⁵ Jane Nelson, "Leadership, Accountability, and Partnership: Critical Trends and Issues in Corporate Social Responsibility," Report of the CSR Initiative Launch Event, Corporate Social Responsibility Initiative, Report No. 1 (Cambridge, Mass.: Kennedy School of Government, Harvard University, 2004), p. 31.

⁶ I consulted the Business for Social Responsibility website (www.bsr.org) for the following three issue briefs.

⁷ The Nike example is drawn from Daniel Litvin, *Empires of Profit: Commerce, Conquest and Corporate Responsibility* (New York: TEXERE, 2003).

⁸ Heather McDonald, Ted London, and Stuart Hart, *Expanding the Playing Field: Nike's World Shoe Project* (Washington, D.C.: World Resources Institute, 2002).

⁹ The Coca-Cola example is drawn from various reports at http://www.thecoca-colacompany.com/citizenship/hiv_aids.html

¹⁰ The HLL example is drawn from Stuart L. Hart, *Capitalism at the Crossroads: Aligning Business, Earth, and Humanity* (Upper Saddle River, N.J.: Wharton School Publishing, 2007).

¹¹ The Vodacom example is drawn from Ian W. Jones, Michael G. Pollitt, and David Bek, *Multinationals in their Communities: A Social Capital Approach to Corporate Citizenship Projects* (Basingstoke: Palgrave Macmillan, 2007).

¹² Stuart L. Hart, "Beyond Greening: Strategies for a Sustainable World," *Harvard Business Review* (January-February 1997).

¹³ The GM example is drawn from Hart, *Capitalism at the Crossroads*.