An introduction to governance for corporate responsibility

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In July 2014, a draft set of Sustainable Development Goals (SDGs) was delivered by the UN Open Working Group (UN OWG, 2014). In January 2016, the SDGs replaced the UN Millennium Development Goals (MDGs) which constituted the international community’s most ambitious push against poverty so far. This does not mean that the MDGs were achieved. Rather, progress across the various MDGs is reported to be very uneven (United Nations, 2013, 2014). For instance, while the number of people has been halved that live in extreme poverty and that have no sustainable access to improved sources of drinking water; one in eight people worldwide remain hungry and global greenhouse gas emissions are on the rise. In addition, progress towards the MDGs is uneven among and within countries. Hence, there is still a significant way to go in order to meet today’s most severe development as well as environment challenges.

Three types of actors play a specific role in addressing these challenges: traditionally, contributing to sustainable development targets would be a task assigned to actors involved in development cooperation – both state agencies that distribute Official Development Assistance (ODA) and civil society organizations involved in development cooperation. Recently, businesses have come more into the focus (Adelman, 2003; Fengler & Kharas, 2010): they feature as a relevant component in new ‘aid landscapes’ (Greenhill, Prizon, & Rogerson, 2013; Nunnenkamp, 2004; Thrane, Johansen, & Jakobsen, 2006). The increasing role of corporate aid is due, among others, to the complex nature of many sustainable development challenges (ODI, 2011; Voß & Kemp, 2006), the shortcomings of traditional foreign aid (Doucouliagos & Paldam, 2009, 2011; Easterly & Williamson, 2011; C. R. Williamson, 2010) and increasing involvement of multinational corporations (MNCs) in so-called developing countries (UNCTAD, 2011) – motivated, among others, by the opportunity to exploit lower production costs (due to cheap labour, weak regulatory environments etc.). Since the 1990s, the worldwide liberalisation of trade and investment has boosted the opportunities for MNCs to operate in developing countries: in 2012, for the first time ever, foreign direct investment (FDI) flows to developing economies exceeded

1 Notwithstanding this, a number of companies has been involved in development cooperation for a long time.
those to developed countries (UNCTAD, 2013b). Corporate aid is typically linked with a commercial presence (i.e., FDI) of the company in the recipient country, and characterised by a commercial self-interest (Metzger, Nunnenkamp, & Mahmoud, 2010).

The significant FDI by multinational corporations into developing economies calls for a new responsibility of the business sector for welfare and sustainability in the Global South, however, the role of MNCs in developing and emerging economies is generally controversial: are they problem solvers or rather problem creators with regard to sustainable development? One the one hand, corporations invest in foreign countries, provide jobs, and thus generate formalised labour relations and income. They make available products and services and may promote education and training as well as health services or similar public goods (Jamali, 2010a). They buy products and services themselves (B2B), thus furthering specialized suppliers. Their tax payments contribute to the provision of public services and to poverty alleviation (de Mello, 1999; Kirchgeorg & Winn, 2006; Moran & Ghoshal, 1999; Ray, 1998). Finally, MNCs may employ explicit “responsible” business practices: these include public policy dialogue, advocacy and institution building for a more sustainable development (Nelson, 2006); philanthropy and community projects in host countries (Jamali, 2007, 2010b; Leisinger, 2007; Muthuri, Moon, & Idemudia, 2012); the rendering more socially or ecologically responsible core business operations and value chains (Dobers & Halme, 2009; Kolk & Van Tulder, 2010; Rondinelli & Berry, 2000; Visser, 2008); as well as the development of new business models for solving social and environmental problems (Kolk & Van Tulder, 2006a; Kourula & Halme, 2001; Nelson, Ishikawa, & Geaneotes, 2009). The latter comprises, among others, doing business with the poor (“inclusive business”, UNDP, 2008), marketing affordable and/or livelihood-improving products and services to millions of poor consumers (i.e., to the “bottom of the pyramid”, Prahalad, 2004), re-investing profits to help the poor (“social business”, Yunus, 2008) or enhancing corporate competitiveness while at the same time creating an economic and societal value-added (“shared value”, Porter & Kramer, 2006) in the communities in which the companies operate.

On the other hand, MNCs have received substantial criticism: among other things, they are accused of supporting exploitative employment conditions and human rights abuses (e.g., Jonassen, 2008; Kinley & Joseph, 2002), causing environmental deterioration (Adeola, 2001) and creating ‘pollution havens’ (Neumayer, 2001), ‘crowding out’ local competitors (Kolk & van Tulder, 2006a), engaging in tax evasion (e.g. through transfer pricing) and other illicit financial transfers from poor to rich countries (Dobers & Halme, 2009), or furthering corruption and clientelism (Mauro, 2008). Also, critics suggest that multinational corporations ex- or implicitly pressurize host governments to not strengthen, or even to lower their regulatory standards in exchange for investment, resulting in a ‘regulatory freeze’ (Madsen, 2009). Furthermore, there is the fear that a global race-to-the-bottom will result when goods produced under less stringent regulatory standards outcompete goods produced in more regulated environments (e.g., Gugler & Shi, 2008). With regard to Corporate Social Responsibility, MNCs have been criticised for failing to mainstream responsible conduct in developing countries (Banerjee, 2012; Blowfield, 2004) and for ‘cherry-picking’ the issues they address (Barkemeyer, 2009): they tend to focus on topics promising a business case (Frynas, 2008) or at least on topics of concern to their

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2 These different dimensions have been listed in an order of increasing intensity of integration within the company.
stakeholders in the North, rather than to their host countries (Husted & Allen, 2006; Jenkins, 2005) and local communities (Jamali & Sidani, 2011).

Institutions and the actor networks that support them provide a starting point for rectifying the described shortcomings: when designed in a way to promote corporate responsibility, they set limits or incentives for specific forms of corporate conduct and increase the taken-for-granted quality of the desired practices. In this paper, we introduce the concept of “systems of governance for corporate responsibility” as institutional arrangements that exist outside companies, at international as well as national levels. Systems of governance are issue-specific (i.e., focussed on individual sustainable development goals (MDGs, SDGs) such as the fight against poverty, on human rights, transparency, biodiversity or climate change). They can be developed and sustained by governments or private actors such as industry associations or civil society organisations, or jointly by various of these actors. Systems of governance for corporate responsibility are based on hierarchical steering, market mechanisms/incentives, negotiations and solidarity within networks, or a combination of such modes. In this paper, we develop a conceptual framework for analyzing whether and how these issue-specific, systems of governance for corporate responsibility affect the impact MNCs on sustainable development within developing and emerging economies, and how they affect the complementarity of business activities and aid efforts.

Our point of departure is that MNCs are always embedded in institutional arrangements. However, these are not necessarily coherent with such systems of governance that explicitly aim at corporate responsibility. Nor are such systems of governance necessarily effective, or in turn coherent with the co-existing aid systems (ODA, civil society-run aid). For instance, at international level, a host of norms, rules and instruments aim to promote corporate practices relevant to the achievement of the MDGs and future SDGs – such as the core labour standards by ILO, the UN Guiding Principles on Business and Human Rights or private sustainability certification schemes. However, they are voluntary and non-binding, hence are taken-up only by a fraction of MNCs and typically do not involve sanctions in case of violations. Attempts within the UN system, undertaken since the 1970s, to create mandatory standards for corporate conduct and thus subject MNCs directly to international law have failed so far (De Jonge, 2011; Ruggie, 2007). Furthermore, systems of governance for corporate responsibility co-exist with governance structures that may discourage MNCs’ responsibility: for instance, bi- and multilateral policies aiming to promote trade with and investment in foreign countries often do not consider social and environmental concerns within developing countries (UNCTAD, 2013a). Specific investment agreements allow firms or individuals to initiate arbitration proceedings against member states (UNCTAD, 2014), creating a new source of power of private business over state authority that can be used to pressurize for low social and environmental standards. At the national and local level of the host country, a range of developing countries have been described as “soft” or “weak”, partly even “failed” states with deficiencies in regulation, compliance and enforcement (Myrdal, 1968; see

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3 Note that we do not address (company-internal) structures of corporate governance here.
4 E.g., the draft UN Code of Conduct on Transnational Corporations (UN Doc. E/1990/94) or the UN draft Norms on Transnational Corporations and Other Business Enterprises (UN Doc. E/CN.4/Sub.2/2003/12/Rev.2).
5 including the North American Free Trade Agreement (NAFTA) and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention).
6 For instance, Chapter 11 of NAFTA accords companies the right to sue states for compensation not only in cases of expropriation but also for measures “tantamount to expropriation” and this may arguably involve environmental or health measures.

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also the concept of “limited statehood”, Risse, 2013). Per definition, such states do not uphold strong regulatory regimes, including those to foster sustainable development. This is assumed to hold especially if regulation affects production costs. Finally, very few governance mechanisms exist so far at the international or national level to enable complementarity between business activities and Official Development Assistance (ODA) and/or civil society organisation (CSO)’s aid programmes as a means to enhance development agendas. Exceptions are development-related partnerships (including PPPs) or mechanisms such as “blended finance” programmes (e.g., IFC, 2012).

Against this background, we argue that systems of governance for corporate responsibility provide one important driver of MNC’s sustainability impact in the Global South. We assume that this holds particularly when the system of governance creates complementarity between responsible business practices with development cooperation. By “complementarity” we mean the absence of any form of clashes, disparities or inefficiencies between the development cooperation systems of state, business and civil society on the way to achieve the MDGs or other global goals associated with sustainable development (Rech, Meyer, & Meyer, 2014). In addition, we expect that systems of governance are particularly effective in promoting responsible business practices when they also help improving a company’s and the host country’s drivers of competitiveness and when they are not hampered by other (incoherent) institutional arrangements.

Based on this framework we will carry out nine empirical case studies in which we will address the following research questions:

1. **(How) Do systems of governance for corporate responsibility lead to changes in MNC’s practices?**

   We are interested in changes of MNC’s practices with regard to a) public policy dialogue, advocacy and institution building; b) philanthropy, c) integrated CSR and d) more inclusive business models.

2. **(How) Do the respective changes in corporate behaviour influence the MNC’s impact on sustainable development in host countries?**

   We will focus on impact pertaining to selected social issues (poverty / MDG1, human rights, health and working conditions, transparency and anti-corruption); environmental issues (environmental sustainability / MDG7), and economic issues (country-level competitiveness).

3. **What factors influence whether the systems of governance succeed or fail in inducing behavioural change and sustainable development impact?**

   With regard to this question, we will focus on three factors: the extent to which the respective responsible business practices are complementary with development cooperation activities; the degree to which the responsible business practices are linked to drivers of firm- and host-country

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7 (Memo: What in general are drivers of behavioural change towards sustainable development? How does the SoG support drivers of the company’s behavioural changes? How does the SoG prevent some expected changes from occurring?)
competitiveness; and the coherence of the system of governance with its wider implementation context.

4. What are gaps/deficits exist in the analysed systems of governance? (How) do MNCs or other stakeholders address these?

References


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