The private sector and the fight against poverty

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The fight against poverty is inextricably bound up with ecological issues. There is no shortage of global threats, from the environmental and social effects of climate warming to the decline in available freshwater per person or the growing scarcity of natural resources (fossil energy reserves, of course, but also rare earths and metals). Not everybody on this planet can, or will ever be able to, live their lives according to the American or European model. For example, strategic minerals like copper, tin, silver, chrome and zinc will be mined out within less than twenty years. Meanwhile, demographic growth is stepping up the pressure on our finite resources. Our collective ability to respond to new challenges is in doubt. Fighting poverty means transforming our ways of life in the North, as well as sharing our collective wealth more equitably. It means looking for another kind of growth, using indicators that focus on the social value created by economic activity, and not solely on GDP.

What makes the challenge even greater is that the globalization of people, goods, services and capital goes hand-in-hand with a dual political crisis: on one side, the failure of representative democracies centered on the short term; on the other, very weak global governance, currently combined with a renewed affirmation of state sovereignty and a shift towards bilateral co-management of the global system by the USA and China. In this context, the weight of economic actors—and increasingly of those from the South—is a determining factor. Most of the fastest-growing companies in recent years have been Asian.1

Large corporations therefore have new responsibilities as stakeholders in this global governance. They are interrogated about their contribution to wealth creation, to employment, to the search for new industrial and economic models, and to the development of the countries of the South. The subprime crisis has clearly shown the limits of shareholder capitalism and of financial markets disconnected from the real economy. We see now the vital importance of promoting sustainable development, and the convergence between short-term financial logic and long-term social and environmental logic.

Insisting on the responsibility of private actors in the fight against poverty makes sense today on a number of different levels: for some, it follows on from a diagnosis of current developments in the political and economic organization of the world, and a pragmatic realization of the need to include business, and especially multinational companies, in the search for global solutions. But it can be taken further: one can try to define standards and rules that outline the responsibilities of private actors. That is the position that I advocate. It is based on the recognition that the economy—which, etymologically, is about organizing our shared home—aims to create and redistribute wealth, and therefore depends on a social project, which in turn depends on the kosmos in which it is embedded. From this viewpoint, the purpose of the economy is a social one; and the purpose of the company is not, first and foremost, to make a profit. Profit is a necessary means to achieving the social end, which involves giving a voice to all of the stakeholders, and not just to the shareholders.2 Interestingly, a recent draft bill in the State of California1 extends the social scope of companies, by defining “flexible purpose corporations”, to counteract the hypertrophy of shareholder value. I propose here to distinguish between four main types of corporate responsibility, fully compatible with the quest for sustainable development and the fight against poverty. The examples I will draw upon are taken from surveys conducted in a number of African and Asian countries to assess the contribution made by major industrial groups to local development. Using the specific case of the oil industry in Nigeria, I will outline some of the priority ethical and political issues surrounding governance, and surrounding the measurement of social/societal performance.

1 What are companies responsible for?

Four main responsibilities are distinguished here, corresponding to the different stakeholders and dimensions of

Footnotes:
1 The Boston Consulting Group (BCG) list of the world’s top value-creating companies between 2005 and 2009 includes five Chinese firms (equipment and construction, consumer goods), two from Hong Kong (technology and telecommunications), one from South Korea, and one from Indonesia (local authority services).
2 On this point, Daniel Hurstel’s proposal to reformulate Article 1832 of France’s Civil Code would embody this perspective in French law. The proposed rewording is: “A firm is established by two or several persons which agree by a contract to appropriate property or their industry for a common venture with a view either to sharing the benefit or profiting from the saving which may result therefrom, or to financing or developing an activity that meets a social need” [proposed modifications in italics]. La nouvelle économiesociale pour réformer le capitalisme, Odile Jacob, 2009, p.100.
3 Corporate Flexibility Act, Senate Bill 201, 2011
business: economic and financial; social; societal and environmental; and political. To which are added two less direct responsibilities: extraordinary responsibility, evoked in emergency situations, and “supererogatory” responsibility, which concerns philanthropy.

The ethical and legal dimensions cut across each of these responsibilities: one must examine, from a normative moral standpoint, the criteria governing the responsibility that the company assumes with regard to its various stakeholders; at the same time we must reflect on the best way—through incentives or regulatory pressure—to encourage the implementation of these responsibilities.

2 Economic and financial responsibility.

This, the first, responsibility corresponds to the idea that the company must above all ensure its own long-term survival, which should not be assimilated with the maximization of profit: in that respect, this responsibility involves the return on the investments made by shareholders. The requirement placed on companies to generate an ROE (return on equity) of 15%, or even of 20% or more, is open to criticism on two accounts: firstly, the share allocated to the shareholders is liable to reduce the share for the employees and other stakeholders of the business. Secondly, companies may sometimes have been forced to abandon long-term investments that would not have yielded high returns quickly enough, or driven to take risks which, as we saw in the financial crisis of 2008, can jeopardize the whole future of the business (Giraud & Renouard, 2009).

Alongside the question of a fair return on equity, economic and financial responsibility also involves thinking about the way in which a business contributes to the community through the taxes it pays. The criteria of responsible taxation are, in my view, a key element in CSR, and one that has been largely ignored in the managerial literature on CSR, with some notable exceptions (e.g. Reed, 1999). The Friedman paradigm (the social responsibility of business is to increase its profits within the framework of the law) implies vigilance in combating tax fraud and any other illegal financial practices (Friedman, 1970). That is already something. But in the context of globalization and the multinationalization of economic activity, some legal practices merit closer scrutiny: especially the area of business-to-business exchanges and the practice of transfer pricing (Chanterac & Renouard, 2009), by which multinationals go in for “fiscal optimization”. Legal it may be, but it is also arguably illegitimate with regard to the interests of the public authorities and government agencies in the countries concerned, because it reduces their tax revenues and deprives them of resources that could be used to extend and improve their public policies, thereby contributing to the fight against poverty. The “arm’s length principle” defined by the OECD to calculate transfer pricing (OECD, 1995) is, in many cases, not applicable, or not applied (Borkowski, 1997,2001), notably because the major groups have various means at their disposal—brand specificity, for instance—to define the prices of the goods and services exchanged: in their eyes, a product of the company’s own brand is in no way comparable quality-wise with a product from a competitor… and any attempt to compare transfer pricing to a market is dismissed as impossible. Moreover, the tax authority of the state where the subsidiary is being audited has no way of investigating the accounts of the subsidiary on the other end of the
transaction, and there is no way of proving that the two subsidiaries have been distorting their prices. And on top of the tax question comes the issue of accounting for intangible services between subsidiaries and with the parent company (sale and use of patents, licenses, know-how, research and development, etc.). The transfer prices for these services are subject to no checks or controls. For this reason, an analysis of how the profits generated by a firm’s economic activity are distributed, as well as the taxes paid by its various subsidiaries, should be systematically included in the CSR approach.

Another criterion that should be treated as an integral part of economic responsibility is the effort made by companies to produce goods and services appropriate to poor populations. Many groups, for example, have committed to “Base of Pyramid” or “BoP” strategies (Prahalad, 2005), to facilitate access for the poorest in society to basic goods and services of good quality. Unilever, for instance, sells iodized salt and vitamin-rich soup in India and in Ghana; Essilor, low-cost eyeglasses in India; Danone, very cheap yoghurts in South Africa… Energy companies are looking into strategies for providing access to electricity or gas for the poorest in the South and maintaining access for economically insecure groups in the North. The cost structure is revised, with companies gaining in volume what they lose in margins. This approach is a promising one in as much as these policies concern the company’s core business. However, several aspects need to be underlined, which raise questions as to whether these BoP strategies are always the right way to promote development. Firstly, some of the products sold are not products that bring a significant improvement in quality of life; rather, they help to turn the poor into consumers of brand products (for example, detergents), thereby competing with local producers, and perhaps creating new superfluous needs of no real benefit to the poor (Renouard, 2007). We should therefore, I suggest, analyze BoP initiatives on a case-by-case basis to see which ones make an effective contribution and which are simply a commercial ploy. Secondly, these strategies do not question the conventional capitalist economic model and do not address the issue, raised earlier, of how to share economic value fairly. Finally, the participation of private enterprise in the supply of essential goods presupposes political control and/or guidance, which is far from always the case. The implementation of these innovative programs should therefore be accompanied by an examination of the fiscal responsibility of companies, and of the other forms of responsibility—social, societal and political—that I outline below.

3 Social responsibility towards employees.

The company’s second direct responsibility is towards its own employees. This “social” responsibility is based on protecting the dignity of every person in the workplace (Bowie, 1998, 1999). It entails examining the employees’ conditions of work and pay, and their quality of life, and also the extent to which the company plays its part in maintaining the quality of their living conditions through vocational training programs or, indeed, by anticipating redundancy plans and providing appropriate support. Improving the working conditions and social protection of employees is a key element in the contribution that business can make to development. One of the greatest challenges comes from the “race to the bottom” in terms of employment conditions between the companies (and countries) of the South, and the way Western multinationals have also aligned themselves with lower social standards, through offshoring. In this respect, advocating higher social standards in every country is a way of promoting the fight against poverty in the South as well as improving the employment situation in the North. Indeed some companies, such as the distribution group Carrefour, have taken a clear stance in favor of the establishment of binding international rules, in order to level the playing field. Another aspect of social responsibility involves taking account of the particular ethos of a given society, which in turn invites us to analyze potential conflicts and synergies between the corporate culture and the local culture (d’Iribarne, 2003). The importance placed on the “social climate”—on the quality of industrial relations—is evident in this focus on the specificity, even the singularity, of situations encountered in the workplace: in Kenya, for example, the Lafarge group gives its staff several day’s leave following the death of a close kinsperson, in order to respect certain local customs.

4 Societal and environmental responsibility.

The third form of responsibility concerns relations between the enterprise and various stakeholders in the society where it operates. This dovetails with a number of analyses (cf. Preston & Post, 1975) regarding the “Public Responsibility Principle”: “Businesses are responsible for outcomes related to their primary and secondary areas of involvement with society” (Wood, 1991). The primary area involves their responsibility to their consumers and customers, which is a way of assessing the quality, and social utility, of the goods and services provided (Holley, 1998). The secondary area concerns their responsibility to their subcontractors or suppliers; as regards the subcontractors, this responsibility is sometimes virtually equivalent to their responsibility to their employees, notably in cases where major groups outsource a large proportion of the functions that they see as marginal, or as good candidates for cutbacks. From one day to the next, workers in some factories can find that they are employees of subcontractors, not entitled to the same benefits as the group’s employees, although they work in the same geographic and industrial environment (Renouard, 2007). Companies—recognizing the threat to their reputation posed by the risk of their subcontractors violating the principles of the ILO or human rights—are increasingly vigilant: witness the example of Nike. After being stigmatized by the media and by militant NGOs for having allowed some of their subcontractors’ factories to employ children to make footballs for the 1998 World Cup, Nike set up a body to monitor employment conditions at its subcontractors and, since 2004, has published the list of their geographical locations (Arnold, 2004; Locke, 2006).

Regarding local communities and the populations that live near production sites, it must be said that, in the past, the criteria of social responsibility have been very fuzzy. A clear
distinction needs to be made between that which comes under the direct responsibility of businesses and that which comes under the category of charitable donations, via philanthropy. Societal responsibility is about the way a company guarantees its social utility for the groups concerned by its presence, and reduces the negative impacts that might accompany its activity. From this point of view, societal responsibility has a positive and a negative application. The negative application corresponds to the principle “do not cause harm”. To understand how this criterion applies, we can usefully adopt the “doctrine of double effect” used in the framework of “just war” theory, transposed to the world of business (Bomann-Larsen & Wiggen, 2004; Renouard, 2007). For the company, this involves carrying out an *ex ante* study of the direct and indirect impacts that it will have on its natural and human environment, then assessing whether the adverse affects and other forms of “collateral damage” are, or are not, proportional to the benefits expected from the business, and, finally, doing all it can to prevent or minimize the damage and to repair it, possibly in collaboration with other actors. The advantages of applying this principle are twofold: one, it delimits the scope of the company’s societal commitment, by not saddling the company with responsibilities that are unrelated to its core business; two, it defines the different impacts of the company’s activity on its stakeholders, by drawing up a detailed map of the direct and indirect damage that they sustain as a result.

The positive application of societal responsibility consists in evaluating the positive externalities that can be engendered by the company, contributing to local socio-economic development while avoiding giving support to paternalistic and clientelist networks, which ultimately have negative consequences both for local populations and for business. The example of the oil industry well illustrates the challenges faced by businesses that have a heavy socio-economic, environmental and political impact on their environment; they have tended to focus defensively on sporadic philanthropic actions that have proved, over the years, to be counterproductive (Renouard, 2007; Idemudia, 2009).

5 Political responsibility.

The fourth responsibility of business is in the political domain; there is some overlap with societal responsibility in so far as the term “political” refers to life in the public sphere. Business plays a political role, not by “playing politics”, but as an actor in the public sphere whose impact on its stakeholders changes their living conditions, sometimes substantially. We should remember that companies might sometimes operate in countries that are non-democratic, or where human rights abuses are attested. From this point of view, the company’s political responsibility is to take measures to ensure that it is not complicit, actively or passively, in human rights abuses within its sphere of influence (Ruggie, 2008). The other aspect of political responsibility concerns corporate governance, and decisions affecting the functioning of the board of directors, the renumeration of senior managers, and the company’s anti-corruption strategies.

6 Supererogatory and extraordinary responsibility.

These two final forms of responsibility are less direct. The first is “supererogatory” responsibility, or philanthropy, by which I mean the voluntary contribution that the company makes to projects for local communities or for specific groups or causes, with no necessary connection to its core business. I believe it is essential to distinguish this component of CSR (in the broad sense) from its more central element, namely societal responsibility. For three main reasons: firstly, we need to ensure that philanthropic practices designed to promote development and the fight against poverty do not become counter-productive, helping to sustain relationships of dependency, as has often been the case in the past (Herman, 2002; Isieh, 2003). Also, while companies have, and must accept, a number of very direct responsibilities with regard to the various groups with which they interact, it is not their role to substitute for the authorities in determining local development projects: these are political decisions. Companies that have become involved in charitable projects have sometimes exceeded their role as economic actors; they should not take the place of the citizens and public agencies concerned by these projects. Finally, societal responsibility implies a willingness to internalize the negative externalities of the business, whereas philanthropy obeys a different logic: it is about giving back to society a part of what was gained in the context of a system whose workings are unquestioned. If I insist so much on the distinction between societal responsibility and philanthropy, it is because businesses have so often blurred the boundaries, by not supplying precise criteria on their responsibility towards their environment and thus, deliberately or otherwise, diverting attention by lumping societal actions together with contributions that are useful but not directly related to their core business. From the ethical standpoint advocated in these pages, philanthropy is no substitute for the determined implementation of principles such as the doctrine of double effect.

The final form of responsibility incumbent on economic actors is the duty to assist people in danger. This “extraordinary responsibility” applies to emergency situations (Herman, 2002): when companies mobilize in the wake of natural disasters to save lives, by supplying the authorities with material, organizational and human resources, as they did, for example, after the tsunami of 2005 in Thailand and Indonesia.

7 The case of the oil industry in Nigeria

The oil industry illustrates the need for articulation between the different forms of responsibility, in order to fight poverty effectively. From the viewpoint of economic and financial, as well as political, responsibility, the question of the taxes and other duties that the oil companies pay to the authorities appears to be decisive, as does the issue of the fight against corruption. Two channels are currently being explored: since 2003, businesses and governments have been encouraged to sign up to the Extractive Industry Transparency Initiative (EITI), under which the former publish the payments they make to host countries, while the latter publish what they
receive from extractive companies. There is also the 2010 Dodd-Frank Act, which obliges U.S. extractive companies to declare the taxes they pay, country by country. Similar legislation is being studied within the EU. All of this represents a major step forward. In the Nigerian context, however, corruption is so rife that it makes the benefits of the country’s oil windfall invisible at the local level.

One of the difficulties in countries like Nigeria, from a social and societal viewpoint, is the colossal difference between the salaries paid by the oil companies and average salaries in other sectors of the economy (with the exception of banking). This disparity calls for the imposition of taxes on high incomes, but such measures are currently non-existent. There is also the question of the conditions for social and intercultural dialogue in multinational groups, and the issue of the quality of relations between oil company employees and the rest of the population—a key factor for fostering a better climate within the broader society. Oil companies are actively looking for a new model, one that prioritizes socio-economic development projects over aid distribution programs. In the present situation, however, marked by ever-wider inequalities between the oil companies’ zones of influence and the zones neglected by the public authorities, and above all between rich and poor on the national scale, societal projects seem unlikely to have much impact, unless they are backed by new forms of governance, and efforts to thwart the benefit captors and reduce inequalities.

Governance is about the way companies envisage and construct relationships with their environment. When we reflect on the contribution a company makes to the fight against poverty, or to development, we should recognize that the company is involved, not as a philanthropic organization, but through its core business. This calls for a transformation in societal policy: priority should be given not only to the aim of contributing to local development, but also to the best means for implementing it, given the specific features of the company’s business. In Ghana (Renouard, 2008) the authorities have signed a three-year agreement with Rio Tinto Alcan and the NGO SNV, detailing the firms’ contribution to achieving the MDGs in the district where it operates: the aim is, on the one hand, to minimize damage to the natural environment and, on the other, to contribute to local development by leveraging skills specific to the company that can be made available to local populations, notably through support for the creation of small businesses. By contrast, certain infrastructure projects—which, after all, are primarily a government responsibility—are abandoned. This approach seems well suited to counteracting the unintended consequences of unfocused corporate engagement with local communities, which is common practice in the extractive industry and often goes along with disengagement by the state: the Nigerian

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1 The minimum civil service salary (equivalent to 90 euros a month) whereas the country’s MPs recently awarded themselves a monthly remuneration package in the region of €75,000. Sagay I., 2010, ‘Our lawmakers are selfish’; (http://234next.com/csp/cms/sites/Next/News/Metro/Politics/5599745-147/our_lawmakers_are_selfish_says_sagay.csp), July 2010.
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